A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2011

A1. Basis of accounting and changes in accounting policies

a) Basis of accounting

The consolidated interim financial statements of K-Star Sports Limited (the "Company" or "K-Star") and its subsidiary company ("the Group") for the quarter and the financial year ended ("FYE") 31 December 2011 are unaudited and have been prepared in accordance with Singapore Financial Reporting Standards and Appendix 9B of the Bursa Malaysia Securities Berhad ("Bursa Securities") Main Market Listing Requirements.

The unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Group for the FYE 31 December 2010. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the FYE 31 December 2010.

Changes in accounting policies

The accounting policies and presentation adopted by the Group for the interim financial statements are consistent with those adopted for the Group's audited consolidated financial statements for the FYE 31 December 2010.

b) Basis of consolidation

The consolidated financial statements of the Group have been prepared using the historical cost method similar to the "pooling-of-interest" as acquisition of subsidiary is accounted for as reconstructions of businesses. Under the historical cost method, the acquired assets and liabilities are recorded at their existing carrying amounts.

The consolidated financial statements include the results of operations, and the assets and liabilities of the pooled enterprises as part of the Group for the whole of the current period.

Other than accounting of subsidiary company using the historical cost method as disclosed above, the results of the subsidiary companies acquired during the financial year, if any, are included in the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

Subsequent acquisitions of subsidiary companies, if any, are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Where accounting policies of a subsidiary do not conform with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiary companies acquired or disposed of during the financial year are included or excluded from the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

c) Functional currency and translation to presentation currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi, which is also the functional currency of the Group.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of transactions. Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates when the fair values are determined.

(iii) Group companies

The results and financial positions of all entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

(1) Assets and liabilities are translated at the closing exchange rate at the end of reporting period;

(2) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting currency translation differences are recognised in the currency translation reserve in equity.

A2. Audit report of the Group's preceding annual financial statements

The Group's audited consolidated financial statements for the FYE 31 December 2010 were not subject to any audit qualification.

A3. Seasonal or cyclical factors

There are no seasonal or cyclical factors which materially affect the Group during the quarter under review.

A4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and financial year-to-date.

A5. Material changes in estimates

There were no changes in estimates of amounts reported in prior financial year that have a material effect on the results of the current quarter under review.

A6. Changes in share capital and debts

There were no issuance, cancellations, repurchase, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury shares and resale of treasury shares for the current financial period to date.

A7. Subsequent material events

There are no other material events as at the date of this announcement that will affect the results in the financial period under review.

A8. Financial instruments with off-balance sheet risks

There were no financial instruments with off-balance sheet risks as at the date of this report.

A9. Segment information

a) Operating segments

The Group has only one operating segment, which is the design, manufacture and sale of sports footwear, sports apparel and accessories.

However, the breakdown of the Group revenue by product type is as follows:

	For the FYE 31 December 2011	
	RMB'000	RM'000
Sale of sports footwear	597,508	300,845
Sale of sports apparel and accessories	55,045	27,715
	652,553	328,560

	For the FYE 31 December 2010	
	RMB'000	**RM'000**
Sale of sports footwear	641,390	322,940
Sale of sports apparel and accessories	29,478	14,842
	670,868	337,782

b) Geographical segments

The Group operates predominantly in the People's Republic of China ("PRC"). Accordingly, no separate business and geographical segment information is presented.

A10. Property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendment from the Company's audited consolidated financial statements for the FYE 31 December 2010.

A11. Status of corporate exercise

a) Save for the announcement made by the Company on 16 December 2011 pertaining to the acquisition of the entire issued and paid-up share capital of Jinjiang Saifeite Shoes Plastics Co., Ltd by Fujian Jinjiang Dixing Shoes Plastics Co. Ltd. ("Dixing"), a wholly-owned subsidiary company of K-Star ("Acquisition"), there was no other corporate proposal announced but not completed as at 21 February 2012, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report. Barring any unforeseen circumstances, the Acquisition is expected to be completed within 9 months from the date of this report.

b) Utilisation of proceeds

The total gross proceeds from the Public Issue amounting to approximately RM32.94 million have been fully utilised for our core business since the second quarter ended 30 June 2011.

A12. Contingent liabilities

There were no material changes in the contingent liabilities or contingent assets since the last annual statement of financial position ended 31 December 2010.

A13. Capital commitments

There is no capital commitment as at 31 December 2011.

A14. Changes in the composition of the Group

There were no other changes in the composition of the Group during the financial period under review.

A15. Reserves

a) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiary company of K-Star established in the PRC are required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulation of the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of these subsidiaries, subject to the approval from the PRC authorities, and are not available for dividend distribution to the shareholders.

b) Merger reserve

The merger reserve arises from the difference between the cost of investment of subsidiary and the share capital of the subsidiary acquired under the pooling-of-interest method of accounting.

A16. Related party transactions

There were no related party transactions during the current quarter and the financial year to date.

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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS

B1. Review of performance

The Group recorded revenue of RMB 126.72 million for the current quarter three (3) months ended 31 December 2011 ("4Q2011"), representing a decrease of approximately 20.88% as compared to the preceding year corresponding quarter three (3) months ended 31 December 2010 ("4Q2010").

The second half of the current financial year ("2H2011") has been challenging for the sport industry in China where the industry is increasingly competitive with the declining profit margin. Raw material such as fabric and rubber used in the manufacturing of sport footwear has experienced a price hike. Besides, labour cost is increasingly expensive to add further pressure to the profit margin of the business.

Further, the sales and distribution expenses incurred in 4Q2011 was RMB 34.98 million, standing approximately 578.36% higher as compared to 4Q2010 of RMB 5.16 million. This was mainly due to the Group has invested extensively in advertising and marketing activities since 2H2011 which has resulted in higher advertising and provision of subsidy to retail outlets totaling approximately RMB 27.23 million in 4Q2011. In addition, approximately RMB 4.76 million was incurred for research and development activities ("R&D") in 4Q2011. This has further affected the bottom line profit of the Group for the 4Q2011 and resulted in a loss before taxation ("LBT") of RMB 21.48 million as compared to a profit before taxation ("PBT") of RMB 31.01 in 4Q2010.

For the FYE 31 December 2011, the Group's revenue was RMB 652.55 million, marginally down by 2.73% from RMB 670.87 recorded in the FYE 31 December 2010. The sales of original equipment manufacturer ("OEM") products which accounted for approximately 10.66% of the total footwear revenue were lowered by 64.23% for as compared to the preceding year. This has, however, moderated by a 10.47% growth in the sales of the Group's products under its proprietary brand, which accounted for approximately 89.34% of the total footwear revenue for the FYE 31 December 2011. Moreover, an improvement was also noted from the sales of sports apparel and accessories which accounted for approximately 86.73% growth as compared to the FYE 31 December 2010.

The marginal decrease in the Group's revenues for FYE 31 December 2011 was depressed by the weaker performance in the 2H2011 where the overall economy slowdown due to inflation has continue to undermine the China economy as well as the Group's businesses.

The gross profit margin for the FYE 31 December 2011 was also affected, standing 2.52% lower as compared to the FYE 31 December 2010. This was mainly due to higher production costs arising from the rising cost of raw materials and labour.

In the FYE 31 December 2011, the Group has invested extensively in R&D, advertising and marketing activities to further enhance the Group's distribution network, product design and development to maintain our competitive edge. These have resulted in the sales and distribution expenses incurred in the FYE 31 December 2011 to be higher by approximately 184.88% as compared to the FYE 31 December 2010.

However, the Group's administrative expenses for the FYE 31 December 2011 was lowered by approximately 23.02% as compared the FYE 31 December 2010. This was mainly due to the prior year listing expenses pertaining to the Group's initial public offering exercise of approximately RMB10.1 million.

Due to the decrease in revenue, gross profit margin and the increase in overall expense ratio, the overall profitability of the Group for the FYE 31 December 2011 declined, which resulted in a decrease in PBT and profit after taxation ("PAT") of approximately 48.78% and 49.85% respectively as compared to the FYE 31 December 2010.

The Group's PBT is arrived at after charging/(crediting) amongst others, the following:

	Individual quarter ended		Individual quarter ended	
	31 December 2011 RMB '000	31 December 2010 RMB '000	31 December 2011 RM '000	31 December 2010 RM '000
Interest income	(227)	(103)	(114)	(52)
Other income including investment income	-	(9)	-	(5)
Interest expense	403	230	203	116
Depreciation	1,453	2,198	732	1,107
Amortisation	188	191	95	96
Provision for doubtful debts	*1	*1	*1	*1
Bad debts written off	*1	*1	*1	*1
Provision for slow moving inventory	*2	*2	*2	*2
Inventory written off	*2	*2	*2	*2
(Gain)/ Loss on disposal of quoted or unquoted investments or properties	N/A	N/A	N/A	N/A
Impairment of assets	*3	*3	*3	*3
(Gain)/Loss on foreign exchange	(1,152)	441	(580)	222
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

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	For the FYE 31 December		For the FYE 31 December	
	2011 RMB '000	2010 RMB '000	2011 RM '000	2010 RM '000
Interest income	(752)	(329)	(379)	(166)
Other income including investment income	-	(29)	-	(15)
Interest expense	1,125	731	566	368
Depreciation	5,473	4,209	2,756	2,119
Amortisation	754	474	380	239
Provision for doubtful debts	*1	*1	*1	*1
Bad debts written off	*1	*1	*1	*1
Provision for slow moving inventory	*2	*2	*2	*2
Inventory written off	*2	*2	*2	*2
(Gain)/ Loss on disposal of quoted or unquoted investments or properties	N/A	N/A	N/A	N/A
Impairment of assets	*3	*3	*3	*3
(Gain)/Loss on foreign exchange	(183)	1,806	(92)	909
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

*1 *The Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no bad debts to be written off and no allowance for doubtful debts was required.*

*2 *The Directors are not aware of any circumstances which would render it necessary to write off any inventory or to make any allowance for slow moving inventory as at the date of this report.*

*3 *The Directors are not aware of any indication of impairment.*

N/A *Not applicable as the Group does not have any quoted or unquoted investments or properties, derivatives and exceptional items as at the date of this report.*

B2. Variation of results against immediate preceding quarter

	Current quarter ended 31 December 2011 RMB '000	Preceding quarter ended 30 September 2011 RMB '000
Revenue	126,718	169,595
(Loss)/Profit before taxation	(21,481)	15,347
(Loss)/ Profit after taxation and total comprehensive income for the period	(18,470)	11,136

	Current quarter ended 31 December 2011 RM '000	Preceding quarter ended 30 September 2011 RM '000
Revenue	63,803	85,391
(Loss)/ Profit before taxation	(10,815)	7,727
(Loss)/ Profit after taxation and total comprehensive income for the period	(9,299)	5,607

For 4Q2011, the Group reported lower revenue and LBT of RMB 126.72 million and RMB 21.48 million respectively as compared to the revenue of RMB 169.60 and PBT of RMB 15.35 in the preceding quarter three (3) months ended 30 September 2011 ("3Q2011").

The lower sales and gross profit margin in 4Q2011 as compared to 3Q2011 were due to the economic condition in China where the slowdown in domestic consumer spending is eroding the business and the industry has continue experiencing a price hike on raw material and labour. Repeating orders were slower, particularly from the overseas brand OEM customers. Besides, lower revenue contribution was recorded in the month of October in conjunction with the October Golden Week holiday in China.

In the 4Q2011, the sales and distribution expenses was RMB 34.98 million, standing approximately 82.85% higher as compared to 3Q2011 of RM 19.13 million. This was mainly due to higher advertising and provision of subsidy to retail outlets totaling approximately RMB 27.23 million and R&D expenses of RMB 4.76 incurred in 4Q2011 as discussed in Section B1 above. This has further affected the bottom line profit of the Group for the 4Q2011 and resulted in a LBT and loss after taxation of RMB21.48 million and RMB 18.47 million respectively.

B3. Prospects for the financial year ending 31 December 2012

The Group remains optimistic on the long term potential growth of the sports industry in China following the implementation of the China 12th Five Year Plan (2011-2015) and the National Fitness Plan (2011-2015) which continued to promote and provide momentum to the sports industry in China. In spite of the recent trend in the sports industry in China over the past couple of months has been unfavourable due to the slowdown of economy, souring costs of raw material and labour which remain the challenging fundamentals of the industry, the Group managed to secure an order in hand of approximately RMB 237.58 million based on the concluded sales fair held in October 2011.

The Group perceived the rising costs of labour and raw material may deliver pressure on our profit margin. Accordingly, the Group will continue its focused effort tending toward in enhancing operational efficiency and effectiveness. On the other hand, we will continue to focus on the Group's product design and development, strengthening and expanding our sale and distribution network to maintain our competitive edge.

The Board of Directors of K-Star ("Board") believes that the Group's prospects for the financial year ending 31 December 2012 would remain positive. Barring any unforeseen circumstances, the Group expects to continue to record satisfactory performance for the financial year ending 31 December 2012.

B4. Profit forecast and profit guarantee

The Group has not provided any profit forecast or profit guarantee in any public document for the current financial quarter.

B5. Taxation

Taxation comprises the following:

	Current Quarter RMB '000	Current year to date RMB '000
PRC income tax	(963)	(22,946)
Overprovision in current year	2,389	2,389
Deferred taxation	1,585	1,585
	3,011	(18,972)

	Current Quarter RM '000	Current year to date RM '000
PRC income tax	(485)	(11,553)
Overprovision in current year	1,203	1,203
Deferred taxation	798	798
	1,516	(9,552)

The effective tax rates of the Group for the current year to date was 30.01% as compared to the applicable tax rate of 25%. The difference of effective tax rate and the applicable tax rate was mainly due to losses of the Company not allowable for group relief.

B6. Group borrowings

The Group's borrowings as at 31 December 2011 were as follows:

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	7,300	3,675
Unsecured	17,680	8,902
	24,980	12,577

B7. Changes in material litigation

As at the date of this report, there is no litigation or arbitration, which has a material effect on the financial position of the Group and the Board is not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

B8. Dividend

On 25 February 2011, the Board proposed a first and final tax exempt dividend of 1.6 sen per share in respect of the FYE 31 December 2010 amounting to approximately RM4.3 million, of which the shareholders of K-Star have approved at the 2011 Annual General Meeting held on 24 June 2011. The securities of the Company were traded and quoted Ex-Dividend from 22 August 2011 and the dividend was paid on 23 September 2011.

The aforesaid tax exempt dividend proposed for the FYE 31 December 2010 represented approximately 10.3% of the net profit attributable to the shareholders of K-Star.

There were no dividends declared by the Company for the current quarter ended 31 December 2011.

B9. Earnings/(Loss) per share

a) Basic earnings/(loss) per share

	Individual quarter ended		Individual quarter ended	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
(Loss)/Profit attributable to equity holders of the Company (RMB'000)	(18,470)	22,581	(9,299)	11,370
Weighted average number of ordinary shares in issue ('000)	266,400	266,400	266,400	266,400
Basic (loss)/earnings per share (RMB cents/RM sen)	(6.93)	8.48	(3.49)	4.27

	For the FYE 31 December		For the FYE 31 December	
	2011	2010	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	44,257	88,247	22,284	44,432
Weighted average number of ordinary shares in issue ('000)	266,400	240,066	266,400	240,066
Basic earnings per share (RMB cents/RM sen)	16.61	36.76	8.36	18.51

b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares as at the respective balance sheet dates.

B10. Realised and unrealised profits/(losses)

	For the FYE 31 December 2011 RMB '000	For the FYE 31 December 2010 RMB '000	For the FYE 31 December 2011 RM '000	For the FYE 31 December 2010 RM '000
Realised	319,889	293,293	161,064	147,673
Unrealised	117	(1,819)	59	(916)
Total retained profits	320,006	291,474	161,123	146,757

	Preceding quarter ended 30 September 2011 RMB '000	Preceding quarter ended 30 September 2011 RM '000
Realised	344,955	173,685
Unrealised	117	59
Total retained profits	345,072	173,744

By Order of the Board

Ding Jianping
Executive Chairman and
Chief Executive Officer
28 February 2012