K-STAR SPORTS LIMITED

(Incorporated in Singapore under the Companies Act (Chapter 50) of Singapore)(Company Registration Number 200820976H)
(Registered as a foreign company in Malaysia under the Companies Act 1965 of Malaysia)
(Malaysian Branch Registration Number 995214-D)

A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2012

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 companies ("the Group") for the quarter ended 31 December 2012 are unaudited and have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") 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 financial year ended ("FYE") 31 December 2011. 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 2011.

In the current financial year, the Company has adopted all the new or amended FRS and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for the current financial year.
The adoption of these new or revised FRS and INT FRS did not result in substantial changes to the Group's and the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

At the date of authorisation of this report, the following FRS were issued but not yet effective for the current financial year under review:

No.	Title	Effective date - Annual periods commencing on or after
FRS 27	Amendments to FRS 27 - Separate Financial Statements	1.1.2014
FRS 28	Amendments to FRS 28 - Investments in Associates and Joint Ventures	1.1.2014 1.1.2014
FRS 32	Amendments to FRS 32 - Offsetting Financial Assets and Financial Liabilities	
FRS 110	Consolidated Financial Statements	1.1.2014
FRS 111	Joint Arrangements	1.1.2014
FRS 112	Disclosure of Interests in Other Entities	1.1.2014

The Directors do not anticipate that the adoption of these FRS (including sequential amendments), where relevant to the Company, in future periods will have a material impact on the financial statements of the Company in the period of their initial adoption.

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 2011.

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 2011 were not subject to any audit qualification.

A3. Seasonal or cyclical factors

There were no seasonal or cyclical factors which will 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:

	FYE31 December 2012	
	RMB'000	**RM'000**
Sale of sports footwear	435,415	213,658
Sale of sports apparel and accessories	62,305	30,573
	497,720	244,231

	FYE31 December 2011	
	RMB'000	RM'000
Sale of sports footwear	597,508	293,197
Sale of sports apparel and accessories	55,045	27,011
	652,553	320,208

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 2011.

A11. Status of corporate exercise

There were no other corporate proposal announced but not completed as at 18 February 2013, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

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 2011.

A13. Capital commitments

There is no capital commitment as at 31 December 2012.

A14. Changes in the composition of the Group

With effective from 30 November 2012, Jinjinag Saifeite Shoes Plastics Co. Ltd. has become a wholly-owned subsidiary of Fujian Jinjiang Dixing Shoes Plastics Co., Ltd which in turn is a wholly-owned subsidiary of the Company.

Save as disclosed above, 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 this subsidiary, 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 total revenue of RMB 119.75 million for the current quarter three (3) months ended 31 December 2012 ("4Q2012"), representing a decrease of approximately 5.50% as compared to the preceding year corresponding quarter three (3) months ended 31 December 2011 ("4Q2011") as retail sales growth was decelerated by weaker end-market demand and the downtrend in the overall economy has continued to curb the Group's earnings.

In the FYE 31 December 2012, the sales of original equipment manufacturer ("OEM") footwear and the Group's proprietary brand footwear were lowered by 10.74% and 29.08% respectively as compared to the FYE 31 December 2011. The decrease was mainly due to the adjustments on orders booked and delays in forward orders as distributors and retailers were confined with inventory overstock. In addition, the average selling price had reduced by approximately 3.38% in the FYE 31 December 2012 due to tougher market competition.

On the other hand, the sales of sports apparel and accessories has continued to show consistent improvement with approximately 13.19% growth as compared to the preceding financial year.

Overall, the Group's total revenue for the FYE 31 December 2012 fell by 23.73% as compared to the preceding financial year, amid concern on the slowdown in major economies, uncertainties on recovery of Europe's fiscal crisis and intensified competition has continue to undermine the sportswear market as well as the Group's businesses. While competition in the market remained stiff, the Group has lowered its average selling price of footwear and apparel by 3.38% and 11.96% respectively to encourage and to boost more sales order from the distributors.

The gross profit margin for the FYE 31 December 2012 was recorded approximately 3.08% lower as compared to the preceding financial year. This was mainly attributable to the decrease in average footwear selling price as discussed above as well as certain production cost components such as wages and raw materials have continued experiencing a price hike.

The sales and distribution expenses incurred in the FYE 31 December 2012 was RMB 98.72 million, standing approximately 40.65% higher as compared to the preceding financial year of RMB 70.18 million. This was mainly attributable to the sales rebates amounting to approximately RMB 53.31 million were extended to the distributors in the third quarter of 2012 as an incentive to support and maintain long term sustainability of the distributors and the retailers amid unfavorable market condition. On the other hand, subsidies in the current financial year was 88.09% lower as compared to the preceding financial year as the sales rebates were extended to the distributors as an alternative incentive to aid the distributors and the retailers as well as to benefit the group cash flows.

The Group's administrative expenses for the FYE 31 December 2012 were recorded lower by approximately 7.61% as compared the preceding financial year. This was due to cost savings arising from the acquisition of a wholly-owned subsidiary company, Jinjiang Saifeite Shoes Plastics Co. Ltd ("Saifeite") whereby the tenancy with Saifeite has expired since the end of the previous financial year. Depreciation expenses remained higher while other general administrative expenses have been tightening as part of the management's effort towards cost savings measures.

Comparing to the preceding financial year, the Group reported loss before taxation ("LBT") and loss after taxation ("PAT") resulting from lower sales, rebates and shrinking gross profit margin.

The Group's profit/(loss) before taxation is arrived at after charging/(crediting) amongst others, the following:

	Individual quarter ended		**Individual quarter ended**	
	31 December 2012 RMB '000	**31 December 2011 RMB '000**	**31 December 2012 RM '000**	**31 December 2011 RM '000**
Interest income	(147)	(227)	(72)	(111)
Other income including investment income	(5)	-	(2)	-
Interest expense	388	403	190	198
Depreciation	1,887	1,453	926	713
Amortisation	145	188	71	92
Provision for doubtful	*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 goodwill	2,939	-	1,442	-
(Gain)/Loss on foreign exchange	(66)	(1,152)	(32)	(565)
(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.*

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.*

	Current year to date ended		Preceding year to date ended	
	31 December 2012 RMB '000	31 December 2011 RMB '000	31 December 2012 RM '000	31 December 2011 RM '000
Interest income	(905)	(752)	(444)	(369)
Other income including investment income	(10)	-	(5)	-
Interest expense	2,066	1,125	1,014	552
Depreciation	7,407	5,473	3,635	2,686
Amortisation	943	754	463	370
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 goodwill	2,939	-	1,442	-
(Gain)/Loss on foreign exchange	15	(183)	7	(90)
(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.*

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 2012 RMB ’000	**Preceding quarter ended 30 September 2012 RMB ’000**
Revenue	119,751	130,796
Loss before taxation	(14,137)	(34,263)
Loss after taxation and total comprehensive income for the period	(15,722)	(34,263)

	Current quarter ended 31 December 2012 RM ’000	**Preceding quarter ended 30 September 2012 RM ’000**
Revenue	58,762	64,182
Loss before taxation	(6,936)	(16,813)
Loss after taxation and total comprehensive income for the period	(7,714)	(16,813)

In the 4Q2012, the Group reported lower revenue of RMB 119.75 million, representing a decrease of approximately 8.44% as compared to the preceding quarter three (3) months ended 30 September 2012 (“3Q2012”).

The sales of Dixing brand footwear which accounted for 83.74% of the current quarter footwear revenue was lower by 10.78% while the sales of OEM footwear representing 16.26% of the current quarter footwear revenue grew by 56.65% as compared to 3Q2012.

In the 4Q2012, gross profit margin fell by 7.47% from 21.80% recorded in the 3Q2012 as the major cost components such as wages, fabric and rubber have further increased while the average selling price has further reduced by 0.56%. The current quarter’s losses were largely affected by lower sales and lower profit margin, additional subsidies and R&D expenses amounted to RMB 3.61 million and RMB 6.31 million respectively, impairment loss on goodwill arising from acquisition of Saifeite as well as higher staff costs incurred.

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B3. Prospects for the financial year ending 31 December 2013

The overall economic development in China was stable in 2012 albeit faced with complicated and volatile economic environment in China and globally. China's gross domestic product has seen rebounded to 7.9% in the fourth quarter of 2012, indicating that the Chinese government is aiding efforts to reverse an economic slowdown and to maintain sustainable economic development.

The Group remains optimistic on the long term potential growth and sustainability 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 outlined the Government's determination and continuing effort to promote and provide momentum to the sports industry in China.

The Group remains cautions on the uncertainty of the global economic recovery and perceived that the competition within China's sporting goods industry will remain intense. The Group will undertake necessary measures by extending discounts, rebate or subsidies to the distributors as an incentive to support and maintain their business profitability amid the current market environment continues to be challenging.

In addition, the rising costs of labour and raw material will persist to further add pressure on the profit margin of the Group. 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 product branding, advertising, design and development, strengthening and expanding our sale and distribution network to maintain our competitive edge and to reinforce long term sustainability.

The Board of Directors of K-Star ("Board") believes that the Group's prospects for the financial year ending 31 December 2013 would be favourable in view of the recovery in 2013 are expected to be modest along with increasing urbanisation and steady increase in disposable income among urban residents will continue to boost domestic consumer spending. Barring any unforeseen circumstances, the Group expects to continue to record satisfactory performance for the financial year ending 31 December 2013.

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.

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B5. Taxation

Taxation comprises the following:

	Current Quarter RMB ’000	Current year to date RMB ’000
PRC income tax	-	8,297
Deferred income tax	1,585	1,585
	1,585	9,882

	Current Quarter RM ’000	Current year to date RM ’000
PRC income tax	-	4,071
Deferred income tax	778	778
	778	4,849

There were no provision for taxation for the current quarter as the Group has incurred losses.

The provision for taxation for the current year to date was in respect of actual tax incurred on the Group’s chargeable income for first half of the FYE 31 December 2012.

B6. Group borrowings

The Group’s borrowings as at 31 December 2012 were as follows:

	Total RMB’000	Total RM’000
Short-term bank borrowings:		
Secured	9,100	4,465
Unsecured	14,230	6,983
	23,330	11,448

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

There were no dividends declared by the Company for the current quarter ended 31 December 2012.

B9. (Loss)/Earnings per share

a) Basic (loss)/earnings per share

	Individual quarter ended		Individual quarter ended	
	31 December 2012 RMB'000	31 December 2011 RM'000	31 December 2012 RMB'000	31 December 2011 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(15,722)	(18,470)	(7,714)	(9,063)
Weighted average number of ordinary shares in issue ('000)	266,400	266,400	266,400	266,400
Basic loss per share (RMB cents/RM sen)	(5.90)	(6.93)	(2.90)	(3.40)

	For the FYE 31 December		For the FYE 31 December	
	2012 RMB'000	2011 RM'000	2012 RMB'000	2011 RM'000
(Loss)/Profit attributable to equity holders of the Company (RMB'000)	(26,605)	44,257	(13,055)	21,717
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)	(9.99)	16.61	(4.90)	8.15

b) Diluted (loss)/earnings per share

The diluted (loss)/earnings per share is the same as the basic (loss)/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		For the FYE 31 December	
	2012 RMB '000	2011 RMB '000	2012 RM '000	2011 RM '000
Realised	293,434	319,889	143,988	156,970
Unrealised	(33)	117	(16)	57
Total retained profits	293,401	320,006	143,972	157,027

	Preceding quarter ended 30 September 2012	
	RMB '000	RM '000
Realised	309,144	151,697
Unrealised	(21)	(10)
Total retained profits	309,123	151,687

By Order of the Board

Ding Jianping
Executive Chairman and
Chief Executive Officer
25 February 2013