A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2013

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 March 2013 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 2012. 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 2012.

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 2012.

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 ("RMB"), 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 2012 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:

	FYE 31 March 2013	
	RMB'000	RM'000
Sale of sports footwear	75,962	37,837
Sale of sports apparel and accessories	9,630	4,797
	85,592	42,634

	FYE 31 March 2012	
	RMB'000	**RM'000**
Sale of sports footwear	96,198	47,916
Sale of sports apparel and accessories	11,912	5,934
	108,110	53,850

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 2012.

A11. Status of corporate exercise

There were no other corporate proposal announced but not completed as at 15 May 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 2012.

A13. Capital commitments

There is no capital commitment as at 31 March 2013.

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.

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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 85.59 million for the current quarter three (3) months ended 31 March 2013 ("1Q2013"), representing a decrease of approximately 20.83% as compared to the preceding year corresponding quarter three (3) months ended 31 March 2012 ("1Q2012") 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 1Q2013, the sales of the Group's proprietary brand footwear ("Dixing") and the sales of sports apparels and accessories were lowered by 33.82% and 19.16% respectively as compared to the 1Q2012. The decrease was mainly due to the delays in forward orders as distributors and retailers were confined with inventory overstock. In addition, the average selling price of Dixing footwear has encountered a slight contraction of approximately 1.51% in the 1Q2013 due to tougher market competition.

While the softening domestic demand has continued to drag down the domestic sales, the Group has broadened its overseas brand OEM operation to maintain its overall sales performance and profit margins. The production and delivery of new OEM footwear which has commenced since December 2012 has reflected a notable increase in OEM sales by 82.22% as compared to the 1Q2012.

The gross profit margin for the 1Q2013 was recorded approximately 13.94% lower as compared to the 1Q2012. This was mainly attributable escalating costs from both internal production and outsourced production arising from the surging cost of raw materials and labour since the previous financial year.

The sales and distribution expenses incurred in the 1Q2013 was RMB 4.36 million, standing approximately 47.08% lower as compared to the 1Q2012 of RMB 8.23 million. This was mainly due to the cut down in advertising expenses by approximately 47.42% as compared to the 1Q2012.

The Group's administrative expenses for the 1Q2013 remained consistent with a marginal increase of 3.70% as compared to the 1Q2012.

Comparing to the 1Q2012, the Group's profit before taxation ("PBT") and profit after taxation ("PAT") were lower as a result of lower sales and shrinking gross profit margin.

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

	Individual quarter/ Year to date ended 31 March		Individual quarter/ Year to date ended 31 March	
	2013	2012	2013	2012
	RMB'000	RMB'000	RM'000	RM'000
Interest income	(116)	(290)	(58)	(144)
Other income including investment income	-	(3)	-	(1)
Interest expense	359	617	179	307
Depreciation	1,992	1,843	992	918
Amortisation	407	189	203	94
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
(Gain)/Loss on foreign exchange	(4)	2	(2)	1
(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 March 2013 RMB'000	Preceding quarter ended 31 December 2012 RMB'000
Revenue	85,592	119,751
Profit/(Loss) before taxation	322	(14,137)
Profit/(Loss) after taxation and total comprehensive income/(expense) for the period	154	(15,722)

	Current quarter ended 31 March 2013 RM'000	Preceding quarter ended 31 December 2012 RM'000
Revenue	42,634	59,648
Profit/(Loss) before taxation	161	(7,042)
Profit/(Loss) after taxation and total comprehensive income/(expense) for the period	77	(7,831)

Given the continuing difficult market conditions, the Group has reported a lower revenue of RMB 85.59 million in the 1Q2013, representing a decrease of approximately 28.53% as compared to the preceding quarter three (3) months ended 31 December 2012 ("4Q2012"). In addition, the first quarter was characterised by the Chinese New Year festive season where sales were fairly sluggish in the month of February.

The sales of Dixing brand footwear which accounted for 74.57% of the current quarter footwear revenue was lower by 38.45% whilst the average selling price remained consistent. Contrary, the sales of OEM footwear representing 25.43% of the current quarter footwear revenue grew by 8.09% as compared to the 4Q2012. This was mainly due to the commencement and delivery of new OEM footwear since December 2012.

In the 1Q2013, gross profit margin fell slightly by 3.12% from 14.33% recorded in the 4Q2012 as the average selling price of apparels has reduced by 36.95% seasonally at the end of the winter season. The current quarter's profit was recovering and rebounded from a loss making position recorded in the 4Q2012. This was mainly due to the subsidies and R&D expenses amounted to RMB 3.61 million and RMB 6.31 million respectively, and the impairment loss on goodwill were expensed off in the 4Q2012.

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. In the 1Q2013, China's economic recovery was unexpectedly stumbled with slowing factory output and investment spending, recorded a slower GDP growth of 7.7% as compared to 7.9% in the fourth quarter of 2012.

However, 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.

B5. Taxation

Taxation comprises the following:

	Current Quarter/ Current year to date ended 31 March 2013 RMB'000	Current Quarter/ Current year to date ended 31 March 2013 RMB'000
PRC income tax	168	84

The effective tax rate of the Group for the current year to date was 52.22% 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 and a subsidiary company not allowable for group relief.

B6. Group borrowings

The Group's borrowings as at 31 March 2013 were as follows:

	Total RMB'000	**Total RM'000**
Short-term bank borrowings:		
Secured	9,100	4,533
Unsecured	11,619	5,787
	20,719	10,320

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 March 2013.

B9. Earnings per share

a) Basic earnings per share

	Individual quarter/ Year to date ended 31 March		**Individual quarter/ Year to date ended 31 March**	
	2013 RMB'000	**2012 RM'000**	**2013 RMB'000**	**2012 RM'000**
Profit attributable to equity holders of the Company (RMB'000)	154	10,555	77	5,258
Weighted average number of ordinary shares in issue ('000)	266,400	266,400	266,400	266,400
Basic earnings per share (RMB cents/RM sen)	0.06	3.96	0.03	1.97

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)

	Cumulative quarter three (3) months ended 31 March		Cumulative quarter three (3) months ended 31 March	
	2013 RMB'000	2012 RMB'000	2013 RM'000	2012 RM'000
Realised	293,551	330,563	146,218	164,653
Unrealised	4	(2)	2	(1)
Total retained profits	293,555	330,561	146,220	164,652

	Preceding quarter ended 31 December 2012	
	RMB'000	RM'000
Realised	293,434	146,159
Unrealised	(33)	(16)
Total retained profits	293,401	146,143

By Order of the Board

Ding Jianping
Executive Chairman and
Chief Executive Officer
22 May 2013