A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 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 30 June 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
FRS 32	Amendments to FRS 32 - Offsetting Financial Assets and Financial Liabilities	1.1.2014
FRS 36	Amendments to FRS 36 - Recoverable Amount Disclosures for Non-Financial Assets	1.1.2014
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:

	Six (6) months ended 30 June 2013	
	RMB'000	**RM'000**
Sale of sports footwear	155,060	79,809
Sale of sports apparel and accessories	19,475	10,024
	174,535	89,833

	Six (6) months ended 30 June 2012	
	RMB'000	**RM'000**
Sale of sports footwear	214,610	110,460
Sale of sports apparel and accessories	32,563	16,760
	247,173	127,220

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 21 August 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

Save as disclosed below, there is no capital commitment as at 30 June 2013:

	RMB'000	**RM'000**
Contracted for:		
Advertisement	3,900	2,007
Patent rights	2,200	1,132

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 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 88.94 million for the current quarter three (3) months ended 30 June 2013 ("2Q2013"), representing a decrease of approximately 36.04% as compared to the preceding year corresponding quarter three (3) months ended 30 June 2012 ("2Q2012") 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.

For the six (6) months financial period ended ("FPE") 30 June 2013 ("1H2013"), the sales of the Group's proprietary brand footwear ("Dixing") and the sales of sports apparels and accessories were lowered by 41.42% and 40.19% respectively as compared to the FPE 30 June 2012 ("1H2012"). 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 2.63% in the 1H2013 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 51.51% as compared to the 1H2012.

The gross profit margin for the 1H2013 was 11.16%, fell by 12.27% as compared to the gross profit margin of 23.43% recorded in the 1H2012. 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 1H2013 was RMB 16.39 million, stood approximately 6.00% lower as compared to the 1H2012 of RMB 17.43 million. This was mainly due to the cut down in advertising expenses by approximately 6.30% as compared to the 1H2012.

The Group's administrative expenses for the 1H2013 was higher by approximately 14.66% as compared the preceding year corresponding period. This was mainly arising from, amongst others, higher costs of entertainment expenses, salaries, amortisation of land use rights and patent rights.

Comparing to the 1H2012, the Group reported a loss before taxation ("LBT") and loss after taxation ("LAT") resulting from lower sales 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 30 June		**Individual quarter ended 30 June**	
	2013	**2012**	**2013**	**2012**
	RMB'000	**RMB'000**	**RM'000**	**RM'000**
Interest income	(115)	(287)	(59)	(148)
Other income including investment income	-	(2)	-	(1)
Interest expense	285	550	147	283
Depreciation	1,982	1,831	1,020	942
Amortisation	589	231	303	119
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	(8)	19	(4)	10
(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.*

	Current year to date ended 30 June		Preceding year to date ended 30 June	
	2013	**2012**	**2013**	**2012**
	RMB '000	**RMB '000**	**RM '000**	**RM '000**
Interest income	(235)	(577)	(121)	(297)
Other income including investment income	-	(5)	-	(3)
Interest expense	644	1,167	331	601
Depreciation	3,974	3,674	2,045	1,891
Amortisation	996	420	512	216
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	(12)	21	(6)	11
(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 30 June 2013 RMB'000	Preceding quarter ended 31 March 2013 RMB'000
Revenue	88,943	85,592
(Loss)/Profit before taxation	(7,067)	322
(Loss)/Profit after taxation and total comprehensive (expense)/income for the period	(7,071)	154

	Current quarter ended 30 June 2013 RM'000	Preceding quarter ended 31 March 2013 RM'000
Revenue	45,779	44,054
(Loss)/Profit before taxation	(3,638)	116
(Loss)/Profit after taxation and total comprehensive (expense)/income for the period	(3,640)	79

The Group reported higher revenue of RMB 88.94 million for the 2Q2013, representing an increase of approximately 3.92% as compared to the preceding quarter three (3) months ended 31 March 2013 ("1Q2013").

The sales of Dixing brand footwear which accounted for 64.62% of the current quarter footwear revenue was lower by 9.77% and the average selling price dropped approximately 3.96%. Contrary, as the Group has continued broadened its overseas brand OEM operation to keep the sales and profit margins intact, the sales of OEM footwear representing 35.38% of the current quarter footwear revenue has achieved a notable growth of 44.88% as compared to the 1Q2013.

In the 2Q2013, gross profit margin remained fairly consistent at 11.10%. The current quarter's loss was mainly attributable to the annual recurrent nature of the advertising expenses incurred in 2Q2013.

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 2Q2013, China's economic recovery was unexpectedly stumbled with slowing factory output and investment spending, recorded a slower GDP growth of 7.50% as compared to 7.70% in the first quarter of 2013.

The sports footwear and apparel market in China had undergone a prolonged downturn since 2011. Due to the changing fashion trends and intense industry rivalry resulting in oversupply of sports apparel and footwear, the overall market growth as well as the Group performance were adversely affected.

However, the Group remains optimistic on the long term potential 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 continue to intensify. 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 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 RMB '000	Current year to date RMB '000
PRC income tax	-	168
Under provision in prior year	4	4
	4	172

	Current Quarter RM '000	Current year to date RM '000
PRC income tax	-	87
Under provision in prior year	2	2
	2	89

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 quarter of the FYE 31 December 2013.

B6. Group borrowings

The Group's borrowings as at 30 June 2013 were as follows:

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	9,100	4,684
Unsecured	6,849	3,525
	15,949	8,209

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 30 June 2013.

B9. Earnings per share

a) Basic earnings per share

	Individual quarter ended		**Individual quarter ended**	
	30 June 2013	**30 June 2012**	**30 June 2013**	**30 June 2012**
(Loss)/Profit attributable to equity holders of the Company (RMB'000)	(7,071)	12,825	(3,640)	6,601
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)	(2.65)	4.81	(1.36)	2.48

	Cumulative six (6) months ended		**Cumulative six (6) months ended**	
	30 June 2013	**30 June 2012**	**30 June 2013**	**30 June 2012**
(Loss)/Profit attributable to equity holders of the Company (RMB'000)	(6,917)	23,380	(3,560)	12,034
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)	(2.60)	8.78	(1.34)	4.52

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 six (6) months ended 30 June		Cumulative quarter six (6) months ended 30 June	
	2013 RMB'000	2012 RMB'000	2013 RM'000	2012 RM'000
Realised	286,473	343,407	147,447	176,752
Unrealised	11	(21)	6	(11)
Total retained profits	286,484	343,386	147,453	176,741

	Preceding quarter ended 31 March 2013	
	RMB'000	RM'000
Realised	293,551	151,091
Unrealised	4	2
Total retained profits	293,555	151,093

By Order of the Board

Ding Jianping
Executive Chairman and
Chief Executive Officer
28 August 2013