A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 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 and the financial year ended ("FYE") 31 December 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 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 19	Amendments to FRS 19 – Defined Benefit Plans: Employee Contributions	1.7.2.14
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 39	Amendments to FRS 39 – Novation of Derivatives and Continuation of Hedge Accounting	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) and INT FRS, 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 December 2013	
	RMB'000	**RM'000**
Sale of sports footwear	298,322	161,571
Sale of sports apparel and accessories	30,753	16,656
	329,075	178,227

	FYE 31 December 2012	
	RMB'000	**RM'000**
Sale of sports footwear	435,415	235,821
Sale of sports apparel and accessories	62,305	33,744
	497,720	269,565

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 19 February 2014, 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 December 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 79.32 million for the current quarter three (3) months ended 31 December 2013 ("4Q2013"), representing a decrease of approximately 33.76% as compared to the preceding year corresponding quarter three (3) months ended 31 December 2012 ("4Q2012") 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 FYE 31 December 2013, the sales of the Group's proprietary brand footwear ("Dixing") and the sales of sports apparels and accessories were lowered by 42.36% and 50.64% respectively as compared to the FYE 31 December 2012.

In view of the persistent issue of excessive inventory in China's sportswear industry, the management had taken proactive measures to minimise the retailers' inventory risks by implementing guidelines and prudent controls when placing and accepting orders. The impact of these short-term controls was inevitable to have put pressure on the Group's revenue and as a result, sales were relatively lower to compensate against the reduced risk of inventory and credit control management. In addition, the average selling price of Dixing footwear has encountered a slight contraction of approximately 1.27% in the FPE 31 December 2013 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 40.99% as compared to the preceding year.

Overall, the total Group's revenue for the FPE 31 December 2013 fell by 33.88% as compared to the preceding year, amid concern on the slowdown and prolonged uncertainties in the economy as well as intensified competition has continue to undermine the sportswear market and the Group's businesses.

The gross profit margin for the current financial year was 9.57%, fell 11.25% as compared to the gross profit margin of 20.81% recorded in the preceding year. This was mainly attributable to the escalating costs from both internal 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 current financial year was RMB 92.44 million, stood approximately 6.36% lower as compared to the preceding year corresponding period of RMB 98.72 million. This was mainly due to, amongst others, reduction in sales rebates, retail renovation subsidy as well as significant cost cutting in sales related travelling, meeting and entertainment expenses on a year-to-year basis.

The Group's administrative expenses for the FYE 31 December 2013 was fairly consistent with a slight increase of 1.36% as compared the preceding year.

Comparing to the preceding year, the Group reported a higher loss before taxation ("LBT") and loss after taxation ("LAT") resulting mainly 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 31 December		**Individual quarter ended 31 December**	
	2013 RMB'000	**2012 RMB'000**	**2013 RM'000**	**2012 RM'000**
Interest income	(184)	(147)	(100)	(80)
Other income including investment income	-	(5)	-	(3)
Interest expense	375	388	203	210
Depreciation	1,991	1,887	1,078	1,022
Amortisation	956	145	518	79
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	-	1,592
(Gain)/Loss on foreign exchange	2	(66)	1	(36)
(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 31 December		Preceding year to date ended 31 December	
	2013	**2012**	**2013**	**2012**
	RMB '000	**RMB '000**	**RM '000**	**RM '000**
Interest income	(480)	(905)	(260)	(490)
Other income including investment income	-	(10)	-	(5)
Interest expense	1,186	2,066	642	1,119
Depreciation	7,929	7,407	4,294	4,012
Amortisation	2,909	943	1,576	511
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	-	1,592
(Gain)/Loss on foreign exchange	(9)	15	(5)	8
(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 2013 RMB'000	Preceding quarter ended 30 September 2013 RMB'000
Revenue	79,320	75,220
Loss before taxation	(14,064)	(61,580)
Loss after taxation and total comprehensive expense for the year	(14,064)	(61,580)

	Current quarter ended 31 December 2013 RM'000	Preceding quarter ended 30 September 2013 RM'000
Revenue	42,960	40,739
Loss before taxation	(7,616)	(33,352)
Loss after taxation and total comprehensive expense for the year	(7,616)	(33,352)

The Group reported higher revenue of RMB 79.32 million for the 4Q2013, representing an increase of approximately 5.45% as compared to the preceding quarter three (3) months ended 30 September 2013 ("3Q2013").

Comparing the 3Q2013, the sales of footwear and apparel were recorded higher by 2.30% and 56.17% respectively. The average selling price of the apparel has increased by approximately 45.02% in conjunction with the sales of winter season garment.

In the 4Q2013, gross profit margin dropped marginally by 1.80% from 8.69% reported in 3Q2013. This was mainly due to the reduced average selling price of footwear. After taking into consideration of the sales rebates incurred in the 3Q2013, the current quarter's loss was mainly attributable to the lower profit margin, additional retail renovation subsidy, provision of staff performance bonuses, factory maintenance, trade fair related expenses and R&D expenses.

B3. Prospects for the financial year ending 31 December 2014

The sports footwear and apparel market in China has reached a certain level of maturity and has entered a phase of stabilised growth after a period of rapid expansion with double digit growth rate from 2008 to 2010. Thereafter, it had undergone a prolonged downturn since 2011 due to intense industry rivalry resulting in oversupply of sports apparel and footwear. In addition, consistent high level of inflationary pressure has also affected the consumer sentiment, hindering the overall market growth as well as the Group performance.

However, the Group remains optimistic on the long term potential and sustainability of the sports industry in China witnessed by a combination of government supports which include promotion of public sporting programmes, hosting of international events and increasing media exposure.

The Group remains cautious on the uncertainty of the 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 rebate or subsidies to the retail channel as an incentive to support and sustain their business profitability amid the current market environment continues to be faced with numerous challenges.

In addition, consistent 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 in enhancing operational efficiency and effectiveness, brand positioning and rationalising sale and distribution channel to maintain our competitive edge and to reinforce long term sustainability.

The Board of Directors of K-Star ("Board") envisages that the Group's prospects for the financial year ending 31 December 2014 would be less favourable in view of the rationalisation of sportswear industry in China are expected to continue in the short term. In view of the softening market, the Group will seize all the opportunities and focus more on OEM sales to maintain its overall performance.

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
	-	172

	Current Quarter RM '000	Current year to date RM '000
PRC income tax	-	91
Under provision in prior year	-	2
	-	93

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 31 December 2013 were as follows:

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	8,250	4,928
Unsecured	15,750	8,070
	24,000	12,998

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 2013.

B9. Loss per share

a) Basic loss per share

	Individual quarter ended 31 December		Individual quarter ended 31 December	
	2013	**2012**	**2013**	**2012**
Loss attributable to equity holders of the Company (RMB'000)	(14,064)	(15,722)	(7,616)	(8,515)
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)	(5.28)	(5.90)	(2.86)	(3.20)

	FYE 31 December		FYE 31 December	
	2013	**2012**	**2013**	**2012**
Loss attributable to equity holders of the Company (RMB'000)	(82,561)	(26,605)	(44,715)	(14,409)
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)	(30.99)	(9.99)	(16.78)	(5.41)

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		For the FYE 31 December	
	2013	2012	2013	2012
	RMB'000	RMB'000	RM'000	RM'000
Realised	210,832	293,434	114,187	158,924
Unrealised	8	(33)	4	(18)
Total retained profits	210,840	293,401	114,191	158,906

	Preceding quarter ended 30 September 2013	
	RMB'000	RM'000
Realised	224,894	121,803
Unrealised	10	5
Total retained profits	224,904	121,808

By Order of the Board

Ding Jianping
Executive Chairman and
Chief Executive Officer
26 February 2014