A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2014

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 2014 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 2013. 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 2013.

In the current financial period, 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 ending 31 December 2014.

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 was issued but not yet effective for the current financial period under review:

No.	Title	Effective date - Annual periods commencing on or after
FRS 19	Amendments to FRS 19 – Defined Benefit Plans: Employee Contributions	1 July 2014
Various	Improvements to FRS (January 2014)	1 July 2014
Various	Improvements to FRS (February 2014)	1 July 2014

The Directors do not anticipate that the adoption of this 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 2013.

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 2013 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.

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

	Three (3) months ended 31 March 2014	
	RMB'000	**RM'000**
Sale of sports footwear	63,074	33,044
Sale of sports apparel and accessories	5,250	2,751
	68,324	35,795

	Three (3) months ended 31 March 2013	
	RMB'000	**RM'000**
Sale of sports footwear	75,962	39,797
Sale of sports apparel and accessories	9,630	5,045
	85,592	44,842

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 2013.

A11. Status of corporate exercise

There were no other corporate proposal announced but not completed as at 12 May 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 2013.

A13. Capital commitments

Save as disclosed below, there is no capital commitment as at 31 March 2014:

	RMB'000	RM'000
Contracted for:		
Advertisement	17,400	9,116

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.

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

B1. Review of performance

The Group recorded total revenue of RMB 68.32 million for the current quarter three (3) months ended 31 March 2014 (“1Q2014”), representing a decrease of approximately 20.17% as compared to the preceding year corresponding quarter three (3) months ended 31 March 2013 (“1Q2013”) 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 financial period ended (“FPE”) 31 March 2014, the sales of sports footwear and sports apparel were lowered by 16.97% and 45.48% respectively as compared to the FPE 31 March 2013.

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 on-going retail rationalisation exercise has caused the retreat of some 93 outlets since the 2nd half of 2013 and has brought down the sales orders from our distributors.

The gross profit margin for the current financial period was 7.31%, fell 3.90% as compared to the gross profit margin of 11.21% recorded in the preceding year corresponding period. This was mainly attributable to higher fixed manufacturing overhead costs per unit whilst the cost of raw materials and labour remained high.

The sales and distribution expenses incurred in the current financial year was RMB 7.09 million, stood approximately 62.67% higher as compared to the preceding year corresponding period of RMB 4.36 million. This was mainly due to higher advertising expenditure arising from the renewal of advertising contracts during the 2nd and 3rd quarter of the financial year 2013.

The Group’s administrative expenses for the FPE 31 March 2014 was fairly consistent as compared the preceding year corresponding period.

Comparing to the preceding year corresponding period, the Group reported a loss before taxation (“LBT”) and loss after taxation (“LAT”) resulting mainly from lower sales, shrinking gross profit margin and higher advertising expenditure.

The Group's profit/loss before taxation 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**	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RM'000**	**RM'000**
Interest income	(77)	(116)	(40)	(61)
Other income including investment income	-	-	-	-
Interest expense	363	359	190	188
Depreciation	2,009	1,992	1,053	1,044
Amortisation	957	407	501	213
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	(15)	(4)	(8)	(2)
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

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

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

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

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

B2. Variation of results against immediate preceding quarter

	Current quarter ended 31 March 2014 RMB'000	Preceding quarter ended 31 December 2013 RMB'000
Revenue	68,324	79,320
Loss before taxation	(7,036)	(14,064)
Loss after taxation and total comprehensive loss for the year	(7,036)	(14,064)

	Current quarter ended 31 March 2014 RM'000	Preceding quarter ended 31 December 2013 RM'000
Revenue	35,795	41,556
Loss before taxation	(3,687)	(7,368)
Loss after taxation and total comprehensive loss for the year	(3,687)	(7,368)

The Group reported lower revenue of RMB 68.32 million for the 1Q2014, representing a decrease of approximately 13.86% as compared to the preceding quarter three (3) months ended 31 December 2013 ("4Q2013").

As competition gets stiffer, the sales of footwear and apparel were recorded lower by 12.93% and 23.64% respectively as compared to 4Q2013. The average selling price of the apparel has decreased by approximately 12.44% while the average selling price of the footwear has increased by approximately 57.29%.

In the 1Q2014, gross profit margin has improved marginally by 0.41% from 6.90% reported in 4Q2013. This was mainly due to the improvement in the average selling price of footwear. In spite of the fact that the Group has trimmed down on retail renovation subsidy, provision of staff performance bonuses, factory maintenance, trade fair related expenses and R&D expenses as compared to 4Q2013, the current quarter's loss was mainly attributable to the lower sales, shrinking gross profit margin and higher advertising expenditure.

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 the market. Accordingly, many distributors and retailers have to reduce the inventories and relieve the dilemma through shutting down shops, industrial promotion and channel transformation. 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. It is envisaged that the sportswear industry in China will still encounter the oversupply, shrinking demand and challenges on offline channels from online channels. While the retailers are still focusing on clearing its high inventory level and improving profitability, the Group as the brand owner 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 will continue 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 is expected to continue in the short term.

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

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

B6. Group borrowings

The Group's borrowings as at 31 March 2014 were as follows:

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	10,050	5,265
Unsecured	11,950	6,261
	22,000	11,526

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 2014.

B9. Loss per share

a) Basic loss per share

	Individual quarter/ Year to date ended 31 March		Individual quarter/ Year to date ended 31 March	
	2014	2013	2014	2013
Loss attributable to equity holders of the Company (RMB'000)	(7,036)	154	(3,687)	81
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)	(2.64)	0.06	(1.38)	0.03

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	
	2014 RMB'000	**2013 RMB'000**	**2014 RM'000**	**2013 RM'000**
Realised	203,811	293,551	106,776	153,791
Unrealised	(7)	4	(4)	2
Total retained profits	203,804	293,555	106,772	153,793

	Preceding quarter ended 31 December 2013	
	RMB'000	**RM'000**
Realised	210,832	110,455
Unrealised	8	4
Total retained profits	210,840	110,459

By Order of the Board

Ding Jianping
Executive Chairman and
Chief Executive Officer
19 May 2014