

K-Star

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 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 December 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 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 July 2014
Various	Improvements to FRS (January 2014)	1 July 2014
Various	Improvements to FRS (February 2014)	1 July 2014
FRS 114	Regulatory Deferral Accounts	1 January 2016
FRS 27	Amendments to FRS 27: Equity Method in Separated Financial Statements	1 January 2016
FRS 16, FRS 38	Amendments to FRS 16 and FRS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
FRS 16, FRS 41	Amendments to FRS 16 and FRS 41: Agriculture: Bearer Plants	1 January 2016
FRS 111	Amendments to FRS 111: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
FRS 115	Revenue from Contracts with Customers Illustrative Examples	1 January 2017
FRS 110, FRS 28	Amendments to FRS 110 and FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016

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Various	Improvements to FRSs (November 2014)	1 January 2016
FRS 109	Financial Instruments	1 January 2018
	Illustrative Examples	
	Implementation Guidance	
	Amendments to Guidance on Other Standards	
FRS 1	Amendments to FRS 1: Disclosure Initiative	1 January 2016
FRS 110, FRS 112, FRS 28	Amendments to FRS 110, FRS 112 and FRS 28: Investment Entities: Applying the Consolidation Exception	1 January 2016

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.

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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.

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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 year 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:

	FYE 31 December 2014	
	RMB'000	RM'000
Sale of sports footwear	286,105	161,249
Sale of sports apparel and accessories	14,624	8,242
	<u>300,729</u>	<u>169,491</u>

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	FYE 31 December 2013	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	298,322	168,134
Sale of sports apparel and accessories	30,753	17,332
	<u>329,075</u>	<u>185,466</u>

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 19 February 2015, 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

There is no capital commitment as at 31 December 2014.

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 72.49 million for the current quarter three (3) months ended 31 December 2014 (“4Q2014”), representing a decrease of approximately 8.61% as compared to the preceding year corresponding quarter three (3) months ended 31 December 2013 (“4Q2013”). The decrease was mainly arising from the temporary cessation of the apparel segment during the financial quarter in view of its decelerating growth, unfavourable operating performance and increasing fierce competition in the sports apparel industry. Meanwhile, the sales of footwear remained consistent with a marginal increase of approximately 1.00%.

Despite having temporary closure of the higher margin apparel segment, the overall gross profit margin has recorded an improvement of 0.82% contributed from an upright adjustment of approximately 1.54% in the footwear average selling price which is more than offset the impact on the reduction in the high margin apparel sales. Selling and distribution expenses remained consistent as compared to 4Q2013. The Group loss before taxation has reduced to RMB 13.22 million as compared to the preceding year corresponding quarter of RMB 14.06 million mainly arising from tight cost discipline in controlling certain administrative expenses.

For the financial year ended (“FYE”) 31 December 2014, the Group revenue has decreased by approximately 8.61% as compared to the FYE 31 December 2013. This was mainly attributable to the temporary cessation of the sport apparel segment in the 4th quarter of 2014 and the weaker sales in the OEM segment during the financial year. The lower sales in apparel segment which carried higher profit margin has negative impact on the overall gross profit margin. As a result, the overall gross profit margin has fell 1.88% from 9.57% recorded in the previous financial year.

The sales and distribution expenses incurred in the current financial year was RMB 42.72 million, representing a decrease of 53.78% as compared to the preceding year corresponding period of RMB 92.44 million. The significant reduce in the sales and distribution expenses was mainly due to the Group has reached a consensus with the distributors that there were no sales rebates to be made for the current financial year. Meanwhile, the Group will continue to explore alternative incentive packages to support the distributors depending on market assessment and practice. Advertising and promotional expenses stood approximately 12.44% higher as compared to the preceding year corresponding period and remained the largest expenses in sales and distribution to build and promote our distinct brand in this highly competitive industry.

The Group’s administrative expenses for the FYE 31 December 2014 was fairly consistent, stood approximately 1.83% higher as compared the preceding financial year.

Comparing to the preceding year corresponding period, the Group reported loss before taxation (“LBT”) and loss after taxation (“LAT”) were narrowed substantially mainly arising from the exception on sales rebates to the distributors during the current financial year.

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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	
	2014 RMB'000	2013 RMB'000	2014 RM'000	2013 RM'000
Interest income	(43)	(184)	(24)	(104)
Other income including investment income	-	-	-	-
Interest expense	354	375	199	211
Depreciation	1,823	1,991	1,027	1,122
Amortisation	1,507	956	849	539
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	(7)	2	(4)	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.*

*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.*

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	Current year to date ended 31 December		Current year to date ended 31 December	
	2014 RMB'000	2013 RMB'000	2014 RM'000	2013 RM'000
Interest income	(249)	(480)	(140)	(271)
Other income including investment income	-	-	-	-
Interest expense	1,471	1,186	829	688
Depreciation	7,740	7,929	4,362	4,469
Amortisation	4,927	2,909	2,777	1,640
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	(23)	(9)	(13)	(5)
(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.*

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B2. Variation of results against immediate preceding quarter

	Current quarter ended 31 December 2014 RMB'000	Preceding quarter ended 30 September 2014 RMB'000
Revenue	72,492	81,003
Loss before taxation	(13,222)	(10,267)
Loss after taxation and total comprehensive loss for the period	(13,222)	(10,267)

	Current quarter ended 31 December 2014 RM'000	Preceding quarter ended 30 September 2014 RM'000
Revenue	40,857	45,653
Loss before taxation	(7,452)	(5,786)
Loss after taxation and total comprehensive loss for the period	(7,452)	(5,786)

The Group revenue has decreased by 10.51% as compared to the preceding quarter three (3) months ended 30 September 2014 (“3Q2014”). The sales of Dixing brand footwear which accounted for 81.56% was reported lower by 10.06% while the OEM segment representing 18.44% of the total footwear sales was recorded higher by approximately 12.46%.

There were no revenue recorded for the sports apparel which contributed higher gross profit margin as the Group has temporary ceased the apparel division amid stiff competition in the apparel market and less favourable operating performance in recent years. As a result, the current quarter’s gross profit margin fell marginally by 0.32% as compared to the 3Q2014.

The current quarter’s losses were reported higher as compared to the 3Q2014, mainly arising lower profit margin, provision of staff performance bonuses and higher R&D expenditures.

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B3. Prospects for the financial year ending 31 December 2015

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's 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's support 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 oversupply situation in the sportswear industry in China will ease over time, however challenges on offline channels from online channels is inevitable. While the distributors are still focusing on rationalising its retail channel and improving profitability, the Group as the brand owner will undertake necessary measures by extending mix of incentives to support and ensure the sustainability of the distributors' business amid the current market environment will continue to be faced with numerous challenges.

The Board of Directors of K-Star ("Board") envisages that the Group's prospects for the financial year ending 31 December 2015 would be favourable in view of the oversupply situation in the sportswear industry in China is expected to ease over time. However, the Group is expected to extend some sales rebates in 2015 to support the distributors which may affect the profitability of the Group in the financial year ending 2015.

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.

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B6. Group borrowings

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

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	9,950	5,608
Unsecured	13,950	7,862
	<u>23,900</u>	<u>13,470</u>

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 2014.

B9. Loss per share

a) Basic loss per share

	Individual quarter ended 31 December		Individual quarter ended 31 December	
	2014 RMB'000	2013 RMB'000	2014 RM'000	2013 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(13,222)	(14,064)	(7,452)	(7,926)
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)	<u>(2.17)</u>	<u>(5.28)</u>	<u>(1.22)</u>	<u>(2.98)</u>

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	FYE 31 December		FYE 31 December	
	2014	2013	2014	2013
	RMB'000	RMB'000	RM'000	RM'000
Loss attributable to equity holders of the Company (RMB'000)	(41,885)	(82,561)	(23,607)	(46,531)
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)	(15.75)	(30.99)	(8.88)	(17.47)

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)

	Current quarter ended		Current quarter ended	
	31 December	31 December	31 December	31 December
	2014	2013	2014	2013
	RMB'000	RMB'000	RM'000	RM'000
Realised	168,963	210,832	95,227	118,825
Unrealised	(8)	8	(5)	5
Total retained profits	168,955	210,840	95,222	118,830

	Preceding quarter ended	
	30 September 2014	30 September 2014
	RMB'000	RM'000
Realised	182,185	102,679
Unrealised	(8)	(5)
Total retained profits	182,177	102,674

By Order of the Board

Ding Jianping
Executive Chairman and
Chief Executive Officer
26 February 2015