CORPORATE GOVERNANCE STATEMENT

The Board of Directors of K-Star Sports Limited recognises the importance of adopting good corporate governance. The statement below sets out how the Group has applied the principles and recommendations of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012").

This corporate governance statement ("Statement") sets out how the Company has applied the principles set out in the MCCG 2012 and observed the 26 Recommendations supporting the Principles during the financial year. The Company also has stated any specific Recommendation of the MCCG 2012 that has not been observed during the financial year under review.

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Board should establish clear functions reserved for Board and those to delegated to management

The Board understands the importance of the roles and responsibilities between the Board and the management. The Board has established a Board Charter to document these roles and responsibilities to ensure accountability of both parties. The Board Charter is reviewed by the Board annually to ensure the charter remains consistent with the Board's objectives and responsibilities, and relevant laws, regulations, guidelines and standards of corporate governance.

As part of its efforts to ensure the effective discharge of its duties, the Board has delegated certain functions to certain Committees with each operating within it is clearly defined terms of reference. The Chairman of each Committee will report to the Board on the outcome of the Committee's meetings which also include the key issues deliberated at the Committee's meetings. Minutes of the Committees' meetings are a permanent agenda of the Board's meeting and these are circulated at the Board's meeting for notation.

1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions

<u>Reviewing and adopting a strategic plan for the company</u>

During each quarterly meeting, the Board discussed with the management on the strategic plan for the Company. The Board also noted and learned from the management the industry that the Company operates in and the challenges facing the domestic shoe industry in China. The Executive Chairman would share with the Board on the competitive operating environment and the strategy adopted by the Company from time to time.

On an annual basis and on the review of the Fourth quarterly report, the Executive Chairman shared with the Board the outlook of the industry and revealed the proposed strategic plan of the Company for the following financial year.

The strategic plan encompassed the performance targets and long term goals of the Company to be met by the Executive Chairman.

The Board is satisfied with the strategic plan of the Company as presented by the Executive Chairman. The Board would continue to review the strategic plan to ensure its implementation.

<u>Overseeing the conduct of the Company's business</u>

The Executive Chairman is responsible for the day-to-day financial management of the business and operations of the Company and Group. He is supported by an Executive Director and a management team to ensure the operations are carried out smoothly.

At each quarterly meeting, the Board assessed the performance of the Company and Group in line with its plans and reviewed the debtors' ageing reports. The Board participated actively in the discussion of the performance of the Company and Group and the shoe industry as a whole.

The Remuneration Committee in line with its terms of reference reviewed the performance of the Executive Chairman and Executive Director and the same was reported to the Board. The Board upon the recommendation of the Remuneration Committee had discussed the performance of the Executive Chairman and Executive Director in line with the plans and the issues affecting the shoe industry in China.

CORPORATE GOVERNANCE STATEMENT (cont'd)

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (cont'd)

1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions (cont'd)

<u>Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures</u>

The Company has in place a Risk Management Framework. The Risk Management Committee adopted the Risk Management Framework as approved by the Board. The Risk Management Committee assisted the Audit Committee and Board to identify the principal risks and ensure the implementation of the appropriate internal controls and mitigation measures.

The details of the Risk Management Framework are set out in the Risk Management and Internal Control Statement in this Annual Report.

<u>Succession planning</u>

The Nomination Committee in line with its terms of reference assessed the Executive Chairman and Executive Director of the Company on an annual basis. The Nomination Committee also discussed the succession planning for the Executive Chairman. As the Executive Director is the son of the Executive Chairman, there is a clear line of succession planning in the Company. Across the Group, the management had planned for succession planning for the key posts.

<u>Overseeing the development and implementation of a shareholder communications policy for the company</u>

The Company has a website to ensure that the shareholders are able to communicate with the Company.

<u>Reviewing the adequacy and the integrity of the management information and internal controls system of the company</u>

The Board is responsible for the adequacy and the integrity of the management information and internal controls system of the Company. The details of the Internal Control systems are set out in the Risk Management and Internal Control Statement in this Annual Report.

1.3 Formalise ethical standards through a code of conduct and ensure its compliance

The Board has in place a Code of Conduct for the Directors and employees. The Code of Conduct includes amongst others the respect for the individual, create a culture of open and honest communication, set tone at the top, uphold the law, avoid conflicts of interest, set metrics and report results accurately.

1.4 Ensure the Company's strategy promote sustainability

The Board promotes sustainability in the Company and Group as this would enhance the performance of the Company and Group.

The details of the sustainability efforts are set out in the Corporate Sustainability Statement in this Annual Report.

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (cont'd)

1.5 Procedures to allow Directors access to information and advice

The Board has access to reports, papers on specific issues, information on major financial and operational matters. The management supplied accurate and complete information to the Board in a timely manner to enable the Board to discharge its duties effectively. In this way the Board has full access to all information on the Company's affairs to enable the proper discharge of duties.

The Board can access to the services of the Company Secretaries for information and advice.

The Board Committees are allowed under its terms of reference to seek independent professional advice at the Company's expense.

1.6 Ensure Board is supported by suitably qualified and competent company secretary

The Board is supported by suitably qualified and competent company secretaries who are members of a professional body. In addition, the Company is registered as a foreign branch in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Board is also supported by suitably qualified and competent company secretaries who are members of professional bodies. The company secretaries keep the Board abreast with the latest regulatory updates. The Board was briefed amongst others the Corporate Disclosure Guide Second Edition and the amendments to the Main Market Listing Requirements of Bursa Securities ("Listing Requirements").

The Board has ready and unrestricted access to the advice and services of the company secretaries, who are considered capable of carrying out the duties to which the post entails.

1.7 Formalise periodically review and make public the Board Charter

The Board Charter is published in the Company's website. The Board Charter sets out the Board structure, tenure of directors, change of company secretary, Board Committees, relationship with shareholders, roles and responsibilities of Board and Board processes. The Board Charter shall be reviewed by the Board annually to ensure they remain consistent with the Board's objectives and responsibilities, and relevant laws, regulations, guidelines and standards of corporate governance.

PRINCIPLE 2 – STRENGTHEN COMPOSITION

2.1 Establish a Nomination Committee comprising exclusively non-executive directors, with majority independent

The Nomination Committee of the Company comprises wholly of Independent Non-Executive Directors. Being a Board with a relatively small number of Directors, the Board feels that it is not necessary to identify a Senior Independent Non-Executive Director of the Board in the Annual Report to whom concerns may be conveyed. Any concerns from the shareholders can be conveyed to any of the Independent Non-Executive Directors. The Nomination Committee meets at least once a year or whenever the need arises.

The terms of reference of the Nomination Committee provided that the Nomination Committee shall be appointed by the Board and shall consist of not less than two (2) members of which comprising exclusively non-executive directors, the majority of whom shall be independent directors. The terms of reference of the Nomination Committee also outlined the responsibilities and duties in relation to selection and assessment of new and existing directors.

CORPORATE GOVERNANCE STATEMENT (cont'd)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (cont'd)

2.2 Nomination Committee should develop, maintain and review criteria for recruitment process and annual assessment of directors

The terms of reference of the Nomination Committee amongst others includes the following:

(1) identifying, nominating and orientating new Directors;
(2) ensuring that the Board level recruitment matters are discussed in depth, allowing the Board to instead spend time on strategic and operational matters;
(3) ensuring that the Company recruits and retains the best available Executive and Non-Executive Directors;
(4) recommending to the Board a Nomination Framework for the evaluation of the Board's and individual's performance for approval of the Board;
(5) assisting the Board in an annual review of the required mix of skills, independence and diversity (including gender diversity), experience and other qualities, including core competencies which Non-Executive Directors should bring to the Board; and
(6) recommending individuals for nomination as members of the Board by accessing the desirability of renewing existing directorships. Due consideration should be given to the extent to which the interplay of the Director's expertise, skills, knowledge and experience was demonstrated with those of other Board members.

The Nomination Committee conducted an annual assessment of the Board as whole and individually of the required mix of skills, independence and diversity (including gender diversity), experience, and other qualities, including core competencies which Non-Executive Directors should bring to the Board and the effectiveness of the Board of Directors as a whole, the Board Committees and contribution of each individual Director, including Independent Non-Executive Directors, CEO and CFO. The assessment of the Directors, CEO and CFO also covered the assessment of character, integrity, competence and time in discharging their roles. The Directors, CEO and CFO had discussed about these requirements and concurred that they meet these requirements based on the outcome of the assessment. It also conducted an assessment of the Directors who are subject to retirement at the forthcoming annual general meeting in accordance with the provisions of the Articles of Association of the Company.

The nomination and election process for new director(s) is as follows:

(1) The Nomination Committee receives a nomination from:
    a. A Director of the Company; or
    b. Requisition from the shareholders.
(2) The Nomination Committee shall review the proposed candidate(s) and if need be, to meet up with the candidate(s) for an interview;
(3) The Nomination Committee shall report its findings and recommendations to the Board for consideration;
(4) If the nomination is from one of the Directors, the election process shall be conducted at a meeting of the Directors by show of hands;
(5) If the nomination is from the shareholders, the election process shall be conducted at an Annual General Meeting or Extraordinary General Meeting by show of hands or poll, as the case maybe.
(6) In the event the number of candidates exceed the maximum number of directors in accordance with the Articles of Association, the candidates with the highest votes are considered elected as directors.
(7) For item (6), if there is an equality of votes, and there are candidates who still exceed the number of vacancies, the election process for these excess candidates shall continue to be conducted to get the highest votes until the vacancies are filled.

On 27 June 2011, the Prime Minister has announced that the corporate sector must have at least 30 per cent women's representation at boardroom level in five years' time. The Board currently consist of 5 members of which one member is a female director. While the Board recognises the initiative by the government to enlarge the women's representation at boardroom, however, as the Board size is small, one woman Director is sufficient for the time being. The Board through the Nominating Committee would take steps to include women directors as part of its future selection process should the need arise. In addition, the Nomination Committee will evaluate the gender diversity policy on an annual basis.

PRINCIPLE 2 – STRENGTHEN COMPOSITION (cont'd)

2.2 Nomination Committee should develop, maintain and review criteria for recruitment process and annual assessment of directors (cont'd)

The attendance of the Board Committee members for the financial year ended 31 December 2013:

Directors	Audit Committee	Nomination Committee	Remuneration Committee
Lim Ghim Chai (resigned on 24 March 2014)	5/5	1/1	3/3
Teoh Tow Kean	5/5	1/1	3/3
Xiao LuXi	5/5	1/1	3/3
Lee Yew Weng (appointed on 24 March 2014)	–	–	–

2.3 Board should establish formal and transparent remuneration policies and procedures to attract and retain directors

The terms of reference of the Remuneration Committee are as follows:

(1) ensuring that all the Executive Directors, Chief Executive Officers ("CEO") (where the CEO is not a Director of the Company) and Senior Management are fairly rewarded for their individual contributions to the Company's overall performance;
(2) ensuring that the compensation and other benefits encourage Executive Directors to act in ways that enhance the Company's long term profitability and value;
(3) ensuring that the remuneration offered to the CEO (where the CEO is not a Director of the Company) and Senior Management is commensurate with the level of executive responsibilities and is appropriate in light of the Company's performance;
(4) recommending to the Board a Remuneration Framework on the fee structure and level of Remuneration for the Executive Directors, CEO (where the CEO is not a Director of the Company) and Senior Management;
(5) recommending to the Board a remuneration package for Non-Executive Director and remuneration packages for each Executive Director, CEO (where the CEO is not a Director of the Company) and Senior Management;
(6) performing an annual review of the remuneration of employees related to the Board and Substantial Shareholders to ensure that their remuneration packages are in line with the Company's staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities; and
(7) reviewing and recommending any bonuses, salary increment and/or promotions for the Executive Director, CEO and Senior Management to the Board.

The Remuneration Committee had performed its duty to assess annually the remuneration package of its Executive Directors and Senior Management.

The remuneration of Non-Executive Directors proposed is determined by the Board which comprises the following:

Directors' Fees	These fees are payable to the Executive Directors and Non-Executive Directors and are recommended by the Board for the approval of the shareholders at each annual general meeting.
Meeting Allowances	These allowances are payable only to the Non-Executive Directors for attendance of the Board and Committee meetings. The meeting allowance is determined by the Board.

CORPORATE GOVERNANCE STATEMENT (cont'd)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (cont'd)

2.3 Board should establish formal and transparent remuneration policies and procedures to attract and retain directors (cont'd)

In addition, the Remuneration Committee had also deliberated on the Directors' fees payable for the financial year ending 31 December 2014 which is subject to the shareholders' approval at the forthcoming annual general meeting. Further to the deliberations, the Remuneration Committee had reported to the Board its recommendations and findings. The Directors' fees recommended to the shareholders' approval for the financial year ending 31 December 2014 are RM175,000 or RMB350,000.

The details of the remuneration of Directors for the financial year ended 31 December 2013 are as follows:

	Executive Directors (RMB'000)	Non-Executive Directors (RMB'000)	Total (RMB'000)
Director fees and allowance	120	211	331
Salary, other emoluments and benefits	2,117	–	2,117
Grand Total	2,237	211	2,448

The aggregate remuneration of Directors analysed into appropriate band of RMB50,000 are as follows:

	No. of Directors	
Range of Remuneration	**Non-Executive Directors**	**Executive Directors**
Below RMB50,000	–	–
RMB50,001-RMB100,000	3	–
RMB300,001-RMB350,000	–	1
RMB1,900,001-RMB1,950,000	–	1

Details of the Director's Remuneration are set out in applicable bands of RMB50,000 which comply with Listing Requirements. Whilst the MCCG 2012 prescribed for individual disclosed of directors' remuneration packages, the Board is of the view that transparency and accountability aspects of Corporate Governance in respect of the Directors' remuneration are appropriately and adequately addressed by the board disclosure method adopted by the Board.

PRINCIPLE 3 – REINFORCE INDEPENDENCE

3.1 Board should undertake an assessment of its independent directors annually

The Board through the Nomination Committee assessed the Independent Directors on an annual basis. The Board also received confirmation in writing from the Independent Directors of their independence. The Board is satisfied with the assessment of the Independent Directors.

3.2 Tenure of independent director should not exceed cumulative term of 9 years. Upon completion of tenure, independent director can continue serving but as non-executive director

For the record, none of the Independent Directors have served more than a cumulative term of 9 years. The longest serving Independent Director is Mr Teoh Tow Kean who was appointed to the Board in August 2010. The Board is mindful of the cumulative term of 9 years for its Independent Non-Executive Directors and shall address the issue when the time comes.

PRINCIPLE 3 – REINFORCE INDEPENDENCE (cont'd)

3.3 Must justify and seek shareholders' approval in retaining independent directors (serving more than 9 years)

This is not applicable to the Company.

3.4 Positions of Chairman and Chief Executive Officer ("CEO") to be held by different individuals

It is recommended that the positions of the Chairman and CEO should be held by different individuals, and the Chairman must be a Non-executive Director. The Board continues to be mindful of the combined role of the Executive Chairman and CEO positions currently held by Mr Ding JianPing. In the best interest of the Group, this combined role is maintained as the valuable knowledge in the business operation contributed by Mr Ding JianPing is essential to the effective management of the Group. The balance of authorisation is ensured by the operation of the senior management and the Board, which comprises experienced and fair minded individuals. The Board currently comprises two (2) Executive Directors and three (3) Independent Non-Executive Directors and therefore has a strong independence element in its composition. There is a balance of membership in the Board thus ensuring that no individual dominates the decision making process and the results thereof.

3.5 Board must comprise a majority independent directors if Chairman is not an independent director

The Chairman is an Executive Director and the Board has a majority of Independent Directors to ensure that balance of power and authority is maintained at Board level.

PRINCIPLE 4 – FOSTER COMMITMENT

4.1 Board should set expectations on time commitment for its members and protocols for accepting new directorships

The Board meets at least, quarterly, to consider all matters relating to the overall control, business performance and strategy of the Company. Additional meeting will be called when and if necessary. The relevant reports and Board Papers are distributed to all Directors in advance of the Board Meeting to allow the Directors sufficient time to peruse for effective discussion and decision making during the meetings. All pertinent issues discussed at the meetings in arriving at decisions and conclusions are properly recorded in the discharge of the Board's duties and responsibilities.

The Board recognises the importance of time commitment of its members. The meeting dates for the calendar year are set and the Board usually confirmed their attendance for each meeting. The attendance record of the Directors for the financial year ended 31 December 2013 was satisfactory with full attendance. The Board is reminded to notify the Chairman before accepting any new directorship.

The attendance record of the Board for the financial year ended 31 December 2013 is set out below:

Directors	Designations	Attendance	%
Ding JianPing	Executive Chairman and Chief Executive Officer	5/5	100%
Ding ZiDi	Executive Director	5/5	100%
Lim Ghim Chai (resigned on 24 March 2014)	Independent Non-Executive Director	5/5	100%
Teoh Tow Kean	Independent Non-Executive Director	5/5	100%
Xiao LuXi	Independent Non-Executive Director	5/5	100%
Lee Yew Weng (appointed on 24 March 2014)	Independent Non-Executive Director	–	–

CORPORATE GOVERNANCE STATEMENT (cont'd)

PRINCIPLE 4 – FOSTER COMMITMENT (cont'd)

4.1 Board should set expectations on time commitment for its members and protocols for accepting new directorships (cont'd)

All the Directors have complied with the minimum 50% attendance requirement in respect of Board Meeting as stipulated in the Listing Requirements. In the intervals between Board Meetings, for any matters requiring Board's decisions, the Board's approvals are obtained through circular resolutions. The resolutions passed by way of such circular resolutions are then noted at the next Board Meeting.

4.2 Board should ensure members have access to appropriate continuing education programme

The Directors are encouraged to attend continuing education programmes and seminars to keep abreast with current developments in the market place and with new statutory and regulatory requirements. They are provided with updates from time to time on relevant new laws and regulations affecting their directorships and relevant compliances.

During the financial year ended 31 December 2013, the training programmes and seminars attended by the Directors are as follows:

- ISO9001:2008 International Quality Management System
- Advocacy Sessions on Corporate Disclosure for Directors
- Enhanced Understanding of Risk Management and Internal Control

The Company circulates the relevant guidelines on statutory and regulatory requirements from time to time to the Board for reference and the Board is briefed on these updates quarterly in Board Meetings. During the financial year 2013, the Directors were updated on the following regulatory updates:

- Corporate Disclosure Guide Second Edition
- Amendments to the Listing Requirements

PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 Audit Committee should ensure financial statements comply with applicable financial reporting standards

The Board provides the shareholders with the Audited Consolidated Financial Statements and quarterly reports on a timely basis. The Audit Committee reviews the quarterly results and Audited Consolidated Financial Statements, before the approval by the Board, focusing particularly on:

(1) changes in or implementation of major accounting policy changes;
(2) significant and unusual events; and
(3) compliance with accounting standards and other legal requirements.

The Internal Auditors provided an independent assessment of the internal control systems of the Group and report to the Audit Committee.

5.2 Audit Committee should have policies and procedures to assess suitability and independence of external auditors

On an annual basis, the Audit Committee would review and monitor the suitability and independence of the External Auditors. The Audit Committee set policy and procedures on the provision of non-audit services by the External Auditors. For the financial year 2013, there were no non-audit services rendered by the External Auditors.

The Audit Committee is satisfied with the competence and independence of the External Auditors and had recommended the re-appointment of the External Auditors to the Directors at the annual general meeting.

CORPORATE GOVERNANCE STATEMENT (cont'd)

PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS

6.1 Board should establish a sound framework to manage risks

The Risk Management Committee of the Company oversees the risk management of the Group. The Risk Management Framework was adopted by the Directors. The Board through the Audit Committee would obtain report from the Internal Auditors on their review of the internal control system.

The details of the risk management are set out in the Risk Management and Internal Control Statement in this Annual Report.

6.2 Board should establish an internal audit function which reports directly to Audit Committee

The internal audit function of the Group is outsourced to a professional services firm to provide the Audit Committee and the Board with the assurance they require pertaining to the adequacy and effectiveness of internal control. The Internal Auditors attended the meetings and reported to the Audit Committee on the annual internal audit plan and internal audit reports on the audit conducted in accordance with the annual audit plan.

The details of the internal control system are set out in the Risk Management and Internal Control Statement in this Annual Report.

PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

7.1 Ensure company has appropriate corporate disclosure policies and procedures

The Board has in place a Corporate Disclosure Policy in line with the Listing Requirements. The Executive Chairman is the spokesperson of the Company on all matters relating to the Company to ensure compliance with the disclosure obligations as well as overseeing and co-ordinating disclosure of information. The Board has delegated the authority to the Executive Chairman to approve all announcements. The Executive Chairman works closely with the Board, the Senior Management and the company secretaries who are privy to the information to maintain strict confidentiality of the information.

7.2 Encourage company to leverage on information technology for effective dissemination of information

The Company's website incorporated an Investor Relations section where the announcements of the Company would be captured under the Newsroom section. Under the Investor Relations section, other than the newsroom, the public could access the corporate information, financial information, corporate governance matters and stock information.

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

8.1 Take reasonable steps to encourage shareholder participation at general meetings

The notice of the annual general meeting of the Company is given to the shareholders slightly longer than the minimum requirement of 21 clear days. This would enable the shareholders to plan their time and also to appoint proxies and corporate representatives for the annual general meeting. In addition, this would provide the shareholders ample time to peruse this Annual Report and if ask questions during the annual general meeting.

The Company had since the financial year 2013 at its annual general meeting amended its Articles of Association in line with the amendments to the Listing Requirements to include the exempted authorised nominees and the removal of the restriction of proxies to attend the general meetings.

CORPORATE GOVERNANCE STATEMENT (cont'd)

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS (cont'd)

8.2 Board should encourage poll voting

The Chairman of the meeting would remind the shareholders, proxies and corporate representatives on their rights to demand for a poll in accordance with the provisions of the Articles of Association of the Company for any resolutions. The voting process at the general meetings shall be by way of show of hands unless a poll is demanded. The Chairman may demand for a poll for any substantive resolutions put forward for voting at the general meetings. The Company's share registrar's computer system is well equipped for any poll voting should the circumstances arise.

8.3 Board should promote effective communication and proactive engagements with shareholders

At each general meeting, all the Directors of the Company would be present at the meetings to answer any questions that the shareholders may ask. The Chairman of the meeting provided time for the shareholders to ask questions for each agenda in the notice of the general meeting. The External Auditors were also present at the general meeting to answer any questions that the shareholders may ask. The shareholders were also able to meet with the Directors after the meeting while they mingled with the shareholders, proxies and corporate representatives.

This statement is made in accordance with the resolution of the Board dated 25 April 2014.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

Pursuant to paragraph 15.26 (b) of the Main Market Listing Requirements and as guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers ("the Guidelines"), the Board of Directors of K-Star Sports Limited ("K-STAR" or "the Company") is pleased to include a statement on the state of the Group's internal controls in this annual report.

BOARD'S RESPONSIBILITIES

The Board recognises the importance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board acknowledges its overall responsibility for maintaining a sound system of risk management and internal control, and for reviewing its adequacy and integrity.

In addition, the Board has received assurance from the Executive Chairman and CEO that the Group's system of risk management and internal control is operating adequately and effectively in all material aspects.

Due to inherent limitations in any risk management and internal control system, such system put into effect by the management is designed to manage rather than eliminate risks that may impede the achievement of the Group's business objectives. Therefore, the risk management and internal control system can only provide reasonable but not absolute assurance against material misstatement or loss.

KEY FEATURES OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Key elements of the Group's risk management and internal control system that have been established to facilitate the proper conduct of the Group's businesses are described below:

A. <u>RISK MANAGEMENT PROCESS</u>

The Board continues to dedicate to strengthen the Group's risk management to manage its key business risks within the Group and to implement appropriate controls to manage these risks. The Board through the Risk Management Committee ("RMC") which was established in the financial year 2011 to assist the Board on the on-going risk identification, evaluation and managing the significant risk faced by the Company in its achievement of objectives and strategies. That such process has been in place for the year under review and up to the date of approval of this statement for inclusion in the annual report. During the financial year, the RMC reviewed the existence of new risks and assesses the relevance of the Group's existing risk profile. The findings of significant risks that may affect the Group's business objectives, would be monitored closely and any new significant risk identified would then be subsequently assessed, discussed and managed.

B. <u>INTERNAL CONTROL SYSTEM</u>

- **<u>Organisation Structure & Authorisation Procedures</u>**

  The Group maintains a formal organisational structure that includes clear delegation of responsibilities and accountability. The Executive Chairman and CEO heads the organisational structure and assisted by his team of key management, are well in place to monitor the internal control system of the Group.

- **<u>Group Policies and Procedures</u>**

  The policies and procedures are documented and regularly reviewed in order to be current.

- **<u>Information and Communication</u>**

  Critical information is communicated to the staff to ensure that matters that require the Board and senior management's attention are highlighted for review on a timely basis.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

KEY FEATURES OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (cont'd)

B. INTERNAL CONTROL SYSTEM (cont'd)

- **Monitoring and Review**

  Management meetings are held to discuss and review the business plans, financial and operational performances of the Group. Monthly management accounts containing key financial results and operational performance are presented to the management team for monitoring and review. The quarterly financial statements are presented to the Board for their review, consideration and approval.

- **Internal Audit Function**

  The Group's internal audit function is outsourced to a professional services firm, to assist the Board and Audit Committee in providing an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control system.

  During the financial year ended 31 December 2013, an internal audit was carried out and the findings of the internal audit, including the recommended corrective actions, were presented directly to the Audit Committee.

  In addition, follow up review was conducted to ensure that corrective actions have been implemented on a timely manner. Based on the internal audit review conducted, none of the weaknesses noted have resulted in any material losses, contingencies or uncertainties that would require a separate disclosure in this annual report.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Risk Management and Internal Control for inclusion in this annual report and reported to the Board that nothing has come to their attention that caused them to believe that this statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and effectiveness of the Group's risk management and internal control system.

CONCLUSION

The Board is of the view that the Group's system of internal control is adequate to safeguard shareholders' investments and the Group's assets. However, the Board is also cognizant of the fact that the Group's system of internal control and risk management practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, put in place appropriate action plans to further enhance the system of internal control and risk management framework.

This statement was approved by the Board of Directors on 25 April 2014.

AUDIT COMMITTEE REPORT

A. COMPOSITION AND ATTENDANCE

The members of the Audit Committee are as follows:

Lee Yew Weng (Chairman/Independent Non-Executive Director) (appointed on 24 March 2014)
Lim Ghim Chai (Chairman/Independent Non-Executive Director) (resigned on 24 March 2014)
Teoh Tow Kean (Member/Independent Non-Executive Director)
Xiao LuXi (Member/Independent Non-Executive Director)

Mr Lee Yew Weng, the Chairman of the Audit Committee graduated from the University of Adelaide, Australia with Bachelor of Commerce in 1999. He is a certified public accountant under the membership of CPA Australia since 2003.

The composition of the Audit Committee, the Independent Chairman and the qualification of the Chairman meet the Listing Requirements.

The Board through the Nomination Committee assesses the members of the Audit Committee on an annual basis and once in every three years would assess the effectiveness of the Audit Committee and each its members to determine whether the Audit Committee and members have carried out their duties in accordance with the Terms of Reference.

The meeting attendance is provided in the Corporate Governance Statement.

B. TERMS OF REFERENCE OF AUDIT COMMITTEE

Composition and Size

The Audit Committee should be appointed by the Board of Directors based on the recommendation of the Nomination Committee from amongst the Directors of the Company which fulfils the following requirements:

(1) the Audit Committee must be composed of no fewer than 3 members;

(2) all Audit Committee members must be non-executive directors, with a majority of them being independent directors;

(3) all Audit Committee members should be financially literate; and

(4) at least one member of the Audit Committee must fulfil the financial expertise requisite of the Listing Requirements as follows:

   (a) he must be a member of the Malaysian Institute of Accountants ("MIA"); or
   (b) if he is not a member of the MIA, he must have at least 3 years' working experience and:
      (aa) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
      (bb) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
   (c) fulfils such other requirements as prescribed or approved by the Bursa Securities.

The Board of Directors must ensure that no Alternate Director is appointed as a committee member.

In the event of any vacancy in the Audit Committee resulting in the non-compliance of the Listing Requirements pertaining to composition of Audit Committee, the Board of Directors must fill the vacancy within 3 months of the occurrence of that event.

The Board of Directors should assess the effectiveness of the Audit Committee and each of its members at least once every 3 years to determine whether such Audit Committee and members have carried out their duties in accordance with their Terms of Reference.

AUDIT COMMITTEE REPORT (cont'd)

B. TERMS OF REFERENCE OF AUDIT COMMITTEE (cont'd)

Rights

(1) The Audit Committee should have explicit authority to investigate any matter within its Terms of Reference, the resources to do so and full access to information.

(2) Each Audit Committee member has full and unrestricted access to information and is entitled to ask for further information required to make informed decisions and has right to obtain independent professional or other advice for the performance of its duties.

(3) The Audit Committee may use the services of outside expertise or advisors and invite outsiders with relevant experience to attend meeting, if necessary, at the cost of the Company in accordance with a procedure to be determined by the Board of Directors towards performance of its duties.

(4) The Audit Committee must have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any, which can be outsourced).

(5) The Audit Committee must be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and employees, whenever deemed necessary.

Responsibilities and How the Audit Committee Works

The Audit Committee shall review and report to the Board on the following key matters:

(1) To assess the risks and control environment;

(2) To review conflict of interest situations and related party transactions;

(3) To review the quarterly and yearly financial statements, prior to the approval of the Board; and

(4) To review the appointment, resignation, conduct and audit plans with the external auditors and internal auditors.

C. MEETINGS

There were five meetings held in the financial year 2013. During those meetings, the Audit Committee held two private sessions with the External Auditors without the presence of the Executive Directors and the management. During the private session, the Audit Committee enquired on the co-operation extended by the management in the course of their audit, the supply of information to facilitate the provision of the information and matters to be brought to the attention of the Audit Committee.

The Audit Committee planned its meetings for the year and would obtain the consensus of the members before fixing the dates of the meetings to ensure the attendance of each member. The notice is served at least one week before each meeting and the meeting papers would be emailed to each member.

The Chairman of the Audit Committee would brief the Board at its meeting on the matters discussed during the Audit Committee's meeting held earlier. The update from the Audit Committee is a permanent agenda on the notice of the Board meeting.

AUDIT COMMITTEE REPORT (cont'd)

D. SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

The principal activities undertaken by the Audit Committee during the financial year are summarised as follows:

(1) Reviewed the unaudited quarterly financial results, cash flows and financial position for each financial quarter prior to submission to the Board for deliberation and approval for the announcement to be released.
(2) Reviewed the Audited Consolidated Financial Statements, Directors' and Auditors' Reports and other significant accounting issues arising from the audit of the financial year ended 31 December 2013.
(3) Reviewed with the External Auditors their audit planning memorandum and salient features memorandum for the financial year ended 31 December 2013 and conducted private meetings with them without the presence of the Executive Directors and the management.
(4) Reviewed with the Internal Auditors' on their audit findings and the status of management's action plans.
(5) Reviewed the Corporate Governance Statement, Audit Committee Report and Risk Management and Internal Control Statement prior to submission to the Board for approval and inclusion in the 2013 annual report.
(6) Reviewed the quarterly status of any related party transactions, debtors' ageing report for local and foreign distributors.
(7) Reviewed the status of the land use rights application on a quarterly basis.

E. INTERNAL AUDIT FUNCTION

The Audit Committee is supported by the internal audit team whose primary responsibility is to evaluate and report on the adequacy, integrity and effectiveness of the overall system of internal control of the Group. The internal audit function of the Group is outsourced to an external consultant who reports directly to the Audit Committee with its findings and recommendations. Any necessary corrective actions after reporting to the Board of Directors by the Audit Committee will be directed by the Board.

For the financial year ended 31 December 2013, the internal audit team has developed a two years risk-based internal audit plan to support the execution of internal control reviews based on the risk profile established by the Audit Committee. An internal audit assignment in accordance to the audit plan as approved by the Audit Committee for the FYE 2013 covering the area of management of account receivables and payables were completed by the internal audit team and the report had been presented to the Audit Committee for its review. The report also includes recommendations as well as proposed corrective actions to be adopted by the management. In the subsequent financial year, follow-up audits will then be carried out to determine whether the management has taken the recommended corrective actions in the previous internal audit report.

The cost incurred for the internal audit function in respect of the financial year ended 31 December 2013 was approximately RMB40,000 (RM20,000).

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are required by the Singapore Companies Act (Chapter 50) to prepare financial statements that are in accordance with the Singapore Financial Reporting Standards and reflect a true and fair view of the state of affairs of the Company at the end of the financial year and of the results and cash flows of the Company for the financial year.

The Directors are responsible to ensure that the financial statements give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year, and of the results and cash flows of the Group and the Company for the financial year.

In preparing the financial statements, the Directors have:

- adopted suitable accounting policies and applied them consistently;
- made judgements and estimates that are prudent and reasonable;
- ensured that applicable accounting standards have been followed;
- prepared the financial statements on a going concern basis; and
- ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to detect and prevent fraud and other irregularities.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors hereby present the annual report to the members together with the audited consolidated financial statements of the Group and statements of financial position K-Star Sports Limited ("Company") and its subsidiaries ("Group") for the financial year ended 31 December 2013.

DIRECTORS

The Directors in office at the date of this report are:

Ding JianPing
Ding ZiDi
Lee Yew Weng (Appointed on 24.3.2014)
Lim Ghim Chai (Resigned on 24.3.2014)
Teoh Tow Kean
Xiao LuXi

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During and at the end of the financial year, neither the Company nor its subsidiaries was a party to any arrangement of which the object of which was to enable the directors to acquire benefits through the acquisition of shares in or debentures of the Company or of any other corporate body.

DIRECTORS' INTEREST IN SHARES OR DEBENTURES

According to the Register of Director's Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Cap 50, none of the Directors who held office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations.

DIRECTORS' CONTRACTUAL BENEFITS

Since the previous financial year, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements.

SHARE OPTIONS

During the financial year, no option was granted to subscribe for unissued shares of the Company or its subsidiaries. There were no shares issued during the financial year by virtue of the exercise of an option granted to take up unissued shares of the Company or its subsidiaries. There were no unissued shares under option at the end of the financial year.

DIRECTORS' REPORT (cont'd)

AUDIT COMMITTEE

The audit committee at the end of the financial year comprises the following members:

Lim Ghim Chai (Chairman)
Teoh Tow Kean
Xiao LuXi

The audit committee performs the functions set out in Section 201B(5) of the Companies Act, Cap. 50, Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") and the Malaysian Code on Corporate Governance 2012. In performing those functions, the committee had reviewed, amongst others, the followings:

(i) overall scope of both the internal and external audits and the assistance given by the Group's officers to the auditors. The audit committee met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation on the adequacy, integrity and effectiveness of the Group's overall system of internal accounting controls;

(ii) the audit plan of the independent auditors and any recommendations on internal accounting controls arising from the statutory audit;

(iii) the quarterly financial information and the consolidated financial statements of the Group for the financial year ended 31 December 2013 as well as the auditors' report thereon; and

(iv) interested party transactions.

The audit committee has full access to management and is given the resources required to discharge its functions. It has full authority and the discretion to invite any Director or executive officer to attend its meetings. The audit committee also recommends the apportionment of the external auditor and reviews the level of audit and non-audit fees.

The audit committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditors, Chengco Singapore PAC, be nominated for re-appointment as the auditors at the forthcoming Annual General Meeting of the Company.

INDEPENDENT AUDITORS

The independent auditors, Chengco Singapore PAC, has expressed its willingness to accept re-appointment.

On behalf of the Board of Directors

....
Ding JianPing
Director

....
Ding ZiDi
Director

Singapore,
25 APR 2014

STATEMENT BY DIRECTORS

In the opinion of the Directors,

(a) the accompanying consolidated statements of financial position of the Company and of the Group, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the results of the business, changes in equity and cash flows of the Group for the financial year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

……………………………………………
Ding JianPing
Director

……………………………………………
Ding ZiDi
Director

Singapore,
25 APR 2014

STATUTORY DECLARATION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

PURSUANT TO PARAGRAPH 9.27 OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

I, **Ding JianPing**, being the director primarily responsible for the financial management of **K-Star Sports Limited**, do solemnly and sincerely declare that the accompanying financial statements for the financial year ended 31 December 2013 set out on pages 39 to 78 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Oaths and Declarations Act (Cap 211).

Subscribed and solemnly declared by the abovementioned
in Singapore

This day of 25 APR 2014

……………………………………………
Ding JianPing
Before me: Wee Soon Keng

INDEPENDENT AUDITORS' REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the K-Star Sports Limited ("Company") and its subsidiaries ("Group"), which comprise the consolidated statements of financial position of the Group and of the Company as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50 ("Act") and Singapore Financial Reporting Standards and, for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (cont'd)

OPINION

In our opinion, the financial statements are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2013 and the results, changes in equity and cash flows of the Company for the financial year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

....
Chengco Singapore PAC
Chartered Accountants

Singapore,
25 APR 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

		The Group	
	Note	2013 RMB'000	2012 RMB'000
Revenue	3	**329,075**	497,720
Cost of sales	4	**(297,594)**	(394,132)
Gross profit		**31,481**	103,588
Other income	5	**480**	915
Selling and distribution expenses		**(92,443)**	(98,717)
Administrative expenses		**(20,721)**	(20,443)
Finance costs	6	**(1,186)**	(2,066)
Loss before taxation	7	**(82,389)**	(16,723)
Income tax expense	9	**(172)**	(9,882)
Loss for the year		**(82,561)**	(26,605)
Other comprehensive income		**–**	–
Total comprehensive loss for the year		**(82,561)**	(26,605)
Loss per share	10	**Cents**	Cents
- Basic		**(30.99)**	(9.99)
- Diluted		**(30.99)**	(9.99)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

		The Group		The Company	
		2013	2012	2013	2012
	Note	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	**66,714**	70,927	**–**	–
Intangible assets	12	**20,717**	11,000	**–**	–
Investment in subsidiaries	13	**–**	–	**234,140**	234,140
Land use rights	14	**73,801**	73,119	**–**	–
Deferred tax assets	15	**–**	–	**–**	–
		161,232	155,046	**234,140**	234,140
Current assets					
Inventories	16	**9,008**	12,656	**–**	–
Trade and other receivables	17	**147,569**	194,195	**36,808**	40,839
Cash and cash equivalents	18	**91,819**	139,268	**1**	42
		248,396	346,119	**36,809**	40,881
Total assets		**409,628**	501,165	**270,949**	275,021
LIABILITIES					
Current liabilities					
Trade and other payables	19	**34,236**	43,882	**1,076**	1,057
Borrowings	20	**24,000**	23,330	**–**	–
Current income tax liabilities	9	**–**	–	**–**	–
		58,236	67,212	**1,076**	1,057
Net current assets		**190,160**	278,907	**35,733**	39,824
Non-current liabilities					
Deferred income tax liabilities	21	**4,921**	4,921	**–**	–
Total liabilities		**63,157**	72,133	**1,076**	1,057
NET ASSETS		**346,471**	429,032	**269,873**	273,964
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	22	**285,075**	285,075	**285,075**	285,075
Other reserves	23	**(149,444)**	(149,444)	**–**	–
Retained earnings/ (Accumulated losses)		**210,840**	293,401	**(15,202)**	(11,111)
Total equity		**346,471**	429,032	**269,873**	273,964

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Share Capital RMB'000	Merger reserve RMB'000	Statutory common reserve RMB'000	Retained earnings RMB'000	Total RMB'000
The Group					
Balance at 1 January 2012	285,075	(174,156)	24,712	320,006	455,637
Total comprehensive loss for the year	–	–	–	(26,605)	(26,605)
Balance at 31 December 2012	285,075	(174,156)	24,712	293,401	429,032
Total comprehensive loss for the year	–	–	–	(82,561)	(82,561)
Balance at 31 December 2013	**285,075**	**(174,156)**	**24,712**	**210,840**	**346,471**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

		The Group	
		2013	**2012**
	Note	**RMB'000**	**RMB'000**
Cash flow from operating activities			
Loss before income tax		**(82,389)**	(16,723)
Adjustments for:			
Interest income	5	**(480)**	(905)
Interest expense	6	**1,186**	2,066
Depreciation of property, plant and equipment	11	**7,929**	7,407
Impairment of goodwill	12	**–**	2,939
Loss on disposal of property, plant and equipment	7	**36**	11
Amortisation of land use rights	14	**1,626**	943
Amortisation of patents	12	**1,283**	–
Operating loss before working capital changes		**(70,809)**	(4,262)
Changes in working capital			
Inventories		**3,648**	(549)
Trade and other receivables		**46,626**	(29,734)
Trade and other payables		**(9,646)**	(6,223)
Cash used in operations		**(30,181)**	(40,768)
Income tax paid		**(172)**	(5,872)
Net cash used in operating activities		**(30,353)**	(46,640)
Cash flow from investing activities			
Purchase of property, plant and equipment		**(3,772)**	(646)
Addition of intangible assets		**(11,000)**	(11,000)
Proceeds from disposal of property, plant and equipment		**20**	6
Acquisition of land use rights		**(2,308)**	(16,616)
Interest received		**480**	905
Net cash used in investing activities		**(16,580)**	(27,351)
Cash flow from financing activities			
Interest paid		**(1,186)**	(2,066)
Proceeds from borrowings		**29,619**	42,434
Repayment of borrowings		**(28,949)**	(44,084)
Net cash used in financing activities		**(516)**	(3,716)
Net decrease in cash and cash equivalents		**(47,449)**	(77,707)
Cash and cash equivalents at beginning of financial year		**139,268**	216,975
Cash and cash equivalents at end of financial year	18	**91,819**	139,268

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
- 31 DECEMBER 2013

These notes form an integral part of and should be read in conjunction with the accompanying financial statements:

1. CORPORATE INFORMATION

K-Star Sports Limited is a limited liability Company, which is incorporated and domiciled in Singapore.

The registered office is located at 138 Cecil Street, #12-01A Cecil Court, Singapore 069538. The principal place of business of the Group is located at No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, the People's Republic of China ("PRC").

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 13 to the financial statements.

The immediate and ultimate holding company of the Company is K-Star Sports International Limited, a company incorporated in Bermuda.

There have been no significant changes in the nature of these activities during the financial year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") as required by the Singapore Companies Act, Cap. 50 and including related Interpretations ("INT FRS") promulgated by the Accounting Standards Council ("ASC").

The financial statements, which are presented in Renminbi ("RMB"), rounded to the nearest thousand (RMB'000) unless otherwise stated. The financial statements have been prepared on historical cost basis except as disclosed in the accounting policies below.

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year.

The preparation of financial statements in conformity with FRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of profit or loss during the financial year. Although these estimates are based on the Company's best knowledge of current events, actions, historical experiences and various other factors that are believed to be reasonable under the circumstances, actual results may ultimately differ from those estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the accounting policies below.

(a) Depreciation of property, plant and equipment

These assets are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these assets to be within 5 to 20 years. The carrying amounts of the Group's property, plant and equipment as at 31 December 2013 were RMB66,714,000 (2012: RMB70,927,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets; therefore future depreciation charges could be revised.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
- 31 DECEMBER 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

(b) Impairment in investment in subsidiaries

Determining whether investment in subsidiaries is impaired requires an estimation of the value-in-use of that investment. The value-in-use calculation requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the represent value of the future cash flows. Management has evaluated the recoverability of the investment based on such estimates.

(c) Allowance for inventory obsolescence

The Group reviews the ageing analysis of inventories at each reporting date, and makes provision (if any) for obsolete and slow moving inventory items identified that are no longer suitable for sale. The net realisable values for such inventories are estimated based primarily on the latest invoice prices and current market condition. Possible changes in these estimates could result in revisions to the valuation of inventories.

If net realisable value of the inventory decreases by 10% from management's estimates, the Group profit will decrease by RMB900,800 (2012: RMB1,265,600).

(d) Allowance for impairment of receivables

Allowance for impairment of receivables is based on the assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

(e) Income taxes

The Group has exposure to income taxes arising from their operations in the PRC. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

In the current financial year, the Company has adopted all the new and revised FRS and INT FRS that are relevant to its operations and effective for the current financial year.

The adoption of these new/revised FRS and INT FRS has no material effect on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.1 Basis of preparation (cont'd)

The Company has not applied the following new/revised FRS or INT FRS that have been issued as of the reporting date but are not yet effective:

Descriptions	Effective for annual periods beginning on or after
Amendments to FRS 19 : Defined Benefit Plans : Employee Contribution	1 July 2014
Amendments to FRS 27 : Separate Financial Statements	1 January 2014
Amendments to FRS 28 : Investments in Associates & Joint Ventures	1 January 2014
Amendments to FRS 32 : Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to FRS 36 : Recoverable Amount Disclosures For Non-Financial Assets	1 January 2014
Amendments to FRS 39 : Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
FRS 110 : Consolidated Financial Statements	1 January 2014
FRS 111 : Joint Arrangements	1 January 2014
FRS 112 : Disclosure of Interests in Other Entities	1 January 2014

The Directors expect that the adoption of the FRS and INT FRS above will have no material impact on the financial statements in the period of initial application.

2.2 Basis of consolidation and business combinations

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

(b) Transaction with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.3 Functional and foreign currencies

(i) Functional currency

Items included in the financial statements are measured using the currency best reflects the economic substance of the underlying events and circumstances relevant to the Company ("Functional Currency"). The financial statements are presented in RMB, which is the functional currency of the Company and its subsidiaries.

(ii) Foreign currencies

Transactions in foreign currencies are translated into the Functional Currency using the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the Functional Currency at the rates ruling at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

All exchange differences are taken to the statement of comprehensive income.

2.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue and related cost can be reliably measured.

(a) Sales of goods

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Revenue excludes value added taxes and is arrived at after deduction of trade discounts. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

2.5 Government grants

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Company will comply with all the attached conditions.

Government grants receivable are recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income.

Government grants relating to assets are deducted against the carrying amount of the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.6 Employee benefits

Employment pension benefits

The Group participates in the national pension schemes as defined by the laws in the PRC. Pension contributions are provided at rates stipulated by the PRC regulations and are contributed to a pension fund managed by the government agencies, which are responsible for administering these amounts for the employees. Pension contribution are charged to the profit or loss in the period which the contributions relate.

Employee leave entitlement

Employee entitlement to annual leave is recognised when it accrues to employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

No provision for employee leave entitlement is made as any unconsumed annual leave will be forfeited.

2.7 Finance costs

Interest expense and similar charges are expensed in the consolidated statement of comprehensive income in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale. The interest component of finance lease payments is recognised in the consolidated statement of comprehensive income using the effective interest method.

2.8 Income tax

Current income tax liabilities for current and prior periods are recognised at the amounts expected to be paid to the tax authorities, using the tax rates that have been enacted or substantially enacted by the statement of financial position date.

Deferred income tax assets/liabilities are recognised for all deductible taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at:

(a) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled based on tax rates that have been enacted or substantially enacted by the statement of financial position date; and

(b) the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that the tax arises form a transaction which is recognised directly in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.8 Income tax (cont'd)

The Group's sales of goods in the PRC are subject to value added tax ("VAT") at the applicable tax rate of 17% for the PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the consolidated statements of financial position.

Revenue, expenses and assets are recognised net of the amount of VAT except:

(a) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(b) receivables and payables that are stated with the amount of VAT included.

2.9 Sales tax

Revenue, expenses and asset are recognised net of the amount of sales tax except where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statements of financial position.

2.10 Property, plant and equipment

(a) Measurement

<u>Property, plant and equipment</u>

All items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

<u>Component of costs</u>

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to the acquisition of the asset and costs of bringing the asset to working condition for its intended use. Dismantlement, removal or restoration costs are included as part of the cost of asset if the obligation for dismantlement, removal or restoration costs is incurred as a consequence of acquiring or using the asset. Expenditure for additions, improvements and renewals are capitalised. The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.10 Property, plant and equipment (cont'd)

(b) Depreciation

Depreciation of property, plant and equipment is calculated on the straight-line basis to write off the cost less residual value of the assets over its estimated useful lives as follows:

	Useful lives
Buildings	20 years
Plant and machineries	5 – 10 years
Furnitures, fixtures and office equipments	5 years
Motor vehicles	5 – 10 years
Renovation	5 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each financial year end. The effects of any revision are recognised in profit or loss when the changes arise.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the period the asset is derecognised.

2.11 Land use rights

Land use rights represent prepayments to acquire long-term interests in the usage of land and are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged so as to write off the cost of the land use rights, using the straight-line method, over the period of the lease term of 50 years.

2.12 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group of cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.12 Intangible assets (cont'd)

(a) Goodwill (cont'd)

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed, the goodwill associated with the operation disposal is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative fair values of the operations disposed and the portion of the cash-generating unit retained.

(b) Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

(i) Research and development costs

Research costs are expensed off as incurred.

(ii) Patents

Patents acquired are amortised on a straight line basis over its estimated useful lives of 5 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.13 Subsidiaries

A subsidiary company is an entity over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Company generally has such power when it, directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors.

Investments in subsidiary companies are stated in the Company's statement of financial position at cost less impairment losses.

2.14 Inventories

Inventories are valued at the lower of cost and net realisable value. Raw materials comprise purchase costs accounted for on a first-in first-out basis.

Work-in-progress and finished goods comprise cost of direct materials, direct labour and attributable proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any allowance for write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any allowance for write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2.15 Impairment of non-financial assets

The carrying amounts of the Company's and the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised in consolidated statement of comprehensive income if the carrying amount of an asset or its cash-generating unit exceeds it recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss has been recognised. Reversal of impairment loss is recorded in profit or loss. After such a reversal, the depreciation charge is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.16 Financial assets

Financial assets within the scope of FRS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets. Financial assets are recognised on the statement of financial position when the Group and the Company becomes a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at fair value, in the case when financial assets are not at fair value, they are stated at directly attributable transaction cost.

Financial assets are classified as held for trading if they are acquired for selling in the near term. Gains or losses on investments held for trading are recognised in the statement of comprehensive income.

Financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has positive intention and ability to hold the assets to maturity. Investments held under this category are measured at amortised cost using the effective interest method. For investments carried at amortised cost, gains or losses are recognised in the statement of comprehensive income through the amortisation process.

Financial assets with fixed and determinable payments that are not quoted are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in the statement of comprehensive income through the amortisation process.

Available-for-sale financial assets are any other financial assets that are not classified in any preceding categories. Available-for-sale financial assets are measured at fair value with gains and losses being recognised in the fair value adjustment reserve until the assets are derecognised. For quoted investments, fair value is determined by market bid price. For unquoted investments, fair value is determined by using valuation techniques, like discounted cash flow analysis.

2.17 Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

<u>Financial assets carried at amortised cost</u>

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in statement of comprehensive income.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the receivable and default or significant delay in payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.17 Impairment of financial assets (cont'd)

Financial assets carried at amortised cost (cont'd)

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in statement of comprehensive income.

Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. Significant is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from other comprehensive income and recognised in statement of comprehensive income. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on the investment previously recognised in the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
- 31 DECEMBER 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.18 Receivables

Receivables and amount due from a Director are measured in initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate bad and doubtful debts for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired. The bad and doubtful debts recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed subsequent to initial recognition.

2.19 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank deposits and highly liquid investments which are readily convertible to cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts which are repayable on demand and which form an integral part of the Group's and the Company's cash management. Restricted deposits are excluded from cash and cash equivalents.

2.20 Financial liabilities

Financial liabilities are recognised on the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at fair value of consideration received less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process. The liabilities are derecognised when the obligation under the liability is discharged or cancelled or expired.

2.21 Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the company if that person:

(i) Has control or joint control over the company;
(ii) Has significant influence over the company; or
(iii) Is a member of the key management personnel of the company or of a parent of the company.

(b) An entity is related to the company if any of the following conditions applies:

(i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
(iii) Both entities are joint venture of the same third party;
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
(v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company. If the company is itself such a plan, the sponsoring employers are also related to the company;
(vi) The entity is controlled or jointly controlled by a person identified in (a); or
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

2.22 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Gains and losses are recognised in the statement of comprehensive income through the amortisation process.

2.23 Other borrowings

Borrowings are initially recorded at fair value, net of transaction costs incurred and subsequently accounted for at amortised costs using the effective interest method. Borrowings which are due to be settled within twelve months after the reporting date are included in current borrowings in the statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue. Other borrowings due to be settled more than twelve months after the reporting date are included in non-current borrowings in the statement of financial position.

2.24 Provisions

Provisions are recognised when the Company and the Group has a present obligation (legal or constructive), as a result of a past event, and it is probable that an outflow of resources economic benefits and will be required to settle the obligation and a reliable estimate can be established on the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

2.25 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.26 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

3. REVENUE

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Sale of goods	**329,075**	497,720

Revenue represents the net invoiced amounts, after discounts and sales related taxes.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
- 31 DECEMBER 2013

4. COST OF SALES

		The Group	
	Note	2013 RMB'000	2012 RMB'000
Opening inventories of finished goods	16	**8,805**	6,968
Cost of manufacturing		**267,987**	342,824
Purchases		**25,806**	50,941
Local education contribution fee		**218**	441
Urban maintenance and construction tax fee		**545**	1,102
Additional education contribution fee		**327**	661
		303,688	402,937
Less: Closing inventories of finished goods	16	**(6,094)**	(8,805)
		297,594	394,132

5. OTHER INCOME

	The Group	
	2013 RMB'000	2012 RMB'000
Interest income	**480**	905
Grants	**–**	10
	480	915

6. FINANCE COSTS

	The Group	
	2013 RMB'000	2012 RMB'000
Interest expense on bank borrowings	**1,186**	2,066
Weighted average effective interest rate per annum	**6.1%**	6.8%

7. LOSS BEFORE TAXATION

Expenses recognised in consolidated statement of comprehensive income included the following:

	The Group	
	2013 RMB'000	2012 RMB'000
Amortisation of land use rights (Note 14)	**1,626**	943
Amortisation of patents (Note 12)	**1,283**	–
Directors' fee – Directors of the Company (Note 24)	**315**	386
Directors' fee – Over provision in prior year	**(5)**	–
Depreciation of property, plant and equipment (Note 11(a))	**7,929**	7,407
Impairment on intangible assets (Note 12)	**–**	2,939
Property, plant and equipment written off	**–**	16
Employee compensation (Note 8)	**36,688**	33,129
(Gain)/Loss on foreign exchange	**(9)**	15
Loss on disposal of property, plant and equipment	**36**	11

8. EMPLOYEE COMPENSATION

	The Group	
	2013 RMB'000	2012 RMB'000
Directors' remuneration other than fee		
Salaries of the Company	**1,200**	1,200
Salaries of the subsidiary	**910**	425
Defined contribution	**7**	7
	2,117	1,632
Key management personnel (excluding Directors)		
Salaries and related costs	**868**	1,005
Defined contribution	**30**	46
	898	1,051
Other than Directors and key management personnel		
Salaries and related costs	**30,744**	27,455
Defined contribution	**2,929**	2,991
	33,673	30,446
	36,688	33,129

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
- 31 DECEMBER 2013

9. INCOME TAX EXPENSE

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Tax expense attributable to profit is made up of:		
- Profit from current financial year		
Current income tax	**168**	8,297
Under provision in respect of prior financial years	**4**	–
	172	8,297
- Deferred income tax		
Over provision in prior year	**–**	1,585
	172	9,882

The tax expense on loss before taxation differs from the amount that would arise using the Singapore and Republic of China standard rate of income tax are as follows:

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Reconciliation of effective tax rate:		
Loss before taxation	**(82,389)**	(16,723)
Tax calculated at Republic of China tax rate of 25% (2012: 25%)	**(19,574)**	(4,285)
Tax calculated at Singapore tax rate of 17% (2012:17%)	**(696)**	(626)
Effect of:		
- Expenses not deductible for tax purposes	**20,438**	15,845
- Under provision in respect of prior financial years	**4**	–
- Income not subject to tax	**–**	(1,052)
Tax charge	**172**	9,882

No provision for Singapore income tax has been made as the Group had no assessable profit arising from or derived in Singapore during the financial year.

The subsidiaries are subject to the PRC income tax. The provision for the PRC income tax on profits arising from operations in the PRC is calculated based on statutory income tax rate of 25% in accordance with the PRC relevant income tax rules and regulations.

As at the reporting date, no deferred tax liability has been recognised on the unremitted earnings of the PRC subsidiaries from the financial year 2008, as the Company is entitled to the tax exemption for unremitted foreign source income under the Singapore Income Tax Act.

9. INCOME TAX EXPENSE (cont'd)

Movement in current income tax liabilities

	The Group		The Company	
	2013 RMB'000	**2012 RMB'000**	**2013 RMB'000**	**2012 RMB'000**
Beginning of financial year	**–**	(2,425)	**–**	–
Current year income tax	**168**	8,297	**–**	–
Under provision in respect of prior financial years	**4**	–	**–**	–
Income tax paid	**(172)**	(5,872)	**–**	–
End of financial year	**–**	–	**–**	–

10. LOSS PER SHARE

The earnings per share is calculated based on the consolidated profits attributable to owners of the parent divided by the weighted average number of shares in issue of 266,400,000 (2012: 266,400,000) shares during the financial year.

There are no potential dilutive ordinary shares as at the respective statement of financial position date.

The following table reflects the profit or loss and share data used in the computation of basic and diluted earnings per share for the financial year ended 31 December:

	The Group	
	2013	**2012**
Net loss attributable to owners of the parent (RMB'000)	**(82,561)**	(26,605)
Weighted average number of ordinary shares in issue for the purpose of basic loss per share	**266,400,000**	266,400,000
Basic and diluted loss per share (RMB cents)	**(30.99)**	(9.99)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
- 31 DECEMBER 2013

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machineries RMB'000	Furnitures, fixtures and office equipments RMB'000	Motor vehicles RMB'000	Renovation RMB'000	Total RMB'000
<u>**The Group**</u>						
Cost						
At 1.1.2012	60,506	8,088	752	4,010	18,179	91,535
Acquisition of sub-subsidiary (Note 13(c))	7,332	–	–	–	–	7,332
Additions	–	348	298	–	–	646
Disposals	–	(56)	–	(4)	–	(60)
At 31.12.2012	67,838	8,380	1,050	4,006	18,179	99,453
Additions	–	1,290	239	1,250	993	3,772
Disposals	–	(196)	–	–	–	(196)
At 31.12.2013	67,838	9,474	1,289	5,256	19,172	103,029
Accumulated depreciation and impairment losses						
At 1.1.2012	12,637	4,110	466	2,239	1,710	21,162
Depreciation	2,754	737	119	525	3,272	7,407
Disposals	–	(40)	–	(3)	–	(43)
At 31.12.2012	15,391	4,807	585	2,761	4,982	28,526
Depreciation	3,089	762	146	719	3,213	7,929
Disposals	–	(140)	–	–	–	(140)
At 31.12.2013	18,480	5,429	731	3,480	8,195	36,315
Net book value						
At 31.12.2013	**49,358**	**4,045**	**558**	**1,776**	**10,977**	**66,714**
At 31.12.2012	52,447	3,573	465	1,245	13,197	70,927

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
- 31 DECEMBER 2013

11. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) Depreciation expense charged to:

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Cost of sales	**1,669**	1,678
Administrative expenses	**6,260**	5,729
	7,929	7,407

(b) All property, plant and equipment held by the Group are located in the PRC.

(c) The leasehold buildings are located at:

Location	**Approximately build-up area (sq m)**	**Ownership**	**Effective date**
晋江市陈埭江头前进北路 125-127号	22,384	Fujian Dixing	15 January 2013
晋江市陈埭江头洋顶南路 104号	4,200	晋江市陈埭江头回族村民委员会	1 December 2005
晋江市陈埭江头村	2,144	Saifeite	9 January 2007

(d) Bank borrowings of RMB8,250,000 (2012: RMB9,100,000) are secured on a building of the Group with net book value of approximately RMB1,613,000 (2012: RMB1,807,000) at the reporting date (Note 20).

(e) Motor vehicles with net book value of approximately RMB1,776,000 (2012: RMB1,245,000) are registered in the names of certain employees of the Group and are held in trust for the Group at the reporting date.

12. INTANGIBLE ASSETS

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Goodwill	**–**	–
Patents	**20,717**	11,000
	20,717	11,000

(a) Goodwill arising on consolidation

	2013 RMB'000	2012 RMB'000
Cost		
Beginning of financial year	**–**	–
Additions (Note 13(c))	**–**	2,939
End of financial year	**–**	2,939
Accumulated impairment		
Beginning of financial year	**–**	–
Impairment (Note 7)	**–**	2,939
End of financial year	**–**	2,939
Net book value	**–**	–

(b) Patents

	2013 RMB'000	2012 RMB'000
Cost		
Beginning of financial year	**11,000**	–
Additions	**11,000**	11,000
End of financial year	**22,000**	11,000
Accumulated amortisation		
Beginning of financial year	**–**	–
Amortisation (Note 7)	**1,283**	–
End of financial year	**1,283**	–
Net book value	**20,717**	11,000

Amortisation expense is charged to administrative expenses.

13. INVESTMENT IN SUBSIDIARIES

	The Company 2013 RMB'000	2012 RMB'000
Unquoted equity shares, at cost	**234,140**	234,140

Name of subsidiaries	Principal activities	Country of business/ incorporation	Equity holding 2013 %	2012 %	Cost of investment 2013 RMB'000	2012 RMB'000
Held by the Company Fujian Jinjiang Dixing Shoes Plastics Co., Ltd ("FujianDixing")[a] 福建省晋江市帝星鞋塑有限公司	Design, manufacture and distribution of sports footwear, apparel and accessories	PRC	**100**	100	**234,140**	234,140
Held by a subsidiary company Jinjiang Saifeite Shoes Plastics Co., Ltd ("Saifeite")[a] 晋江赛飞特鞋塑有限公司	Property investment holding	PRC	**100**	100	**27,000**	27,000

(a) Audited by Chengco Singapore PAC, Singapore for the purpose of FRS reporting.

On 30 November 2012, the Group has completed the acquisition of the entire equity interest of Saifeite. The principal activity of Saifeite is that of property investment holding.

Details of the consideration paid, the assets acquired and liabilities assumed, the non-controlling interest recognised and the effects on the cash flows of the Group, at the acquisition date, are as follows:

(a) Purchase consideration

	2013 RMB'000	2012 RMB'000
Cash paid	–	27,000

(b) Effect on cash flows of the Group

	2013 RMB'000	2012 RMB'000
Cash paid (as above)	–	27,000
Less: Cash and cash equivalents in subsidiary acquired	–	–
Cash outflows on acquisition	–	27,000

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
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13. INVESTMENT IN SUBSIDIARIES (cont'd)

(c) Identifiable assets acquired and liabilities assumed

	At fair value RMB'000
Property, plant and equipment (Note 11)	7,332
Land use rights (Note 14)	21,650
Total assets	28,982
Deferred tax liabilities (Note 21)	4,921
Total identifiable net assets	24,061
Add: Goodwill (Note 12(a))	2,939
Consideration transferred for the business	27,000

14. LAND USE RIGHTS

	The Group	
	2013 RMB'000	2012 RMB'000
Cost		
Beginning of financial year	**76,076**	37,810
Acquisition of sub-subsidiary (Note 13)	–	21,650
Additions	**2,308**	16,616
End of financial year	**78,384**	76,076
Accumulated amortisation		
Beginning of financial year	**2,957**	2,014
Amortisation for the financial year (Note 7)	**1,626**	943
End of financial year	**4,583**	2,957
Net book value		
At 31 December	**73,801**	73,119

14. LAND USE RIGHTS (cont'd)

(a) Amortisation expense is charged to administrative expenses.

(b) The land use rights are the rights of using the lands with the in-principle approval from the land owner who has contractually transferred the ownership of the title, subject to registration with the Jinjang State-owned Land Resource Bureau (晋江市国土资源局). The lands are located at:

Location	Land area (sq m)	Ownership	Effective date
晋江市陈埭江头前进北路125-127号	2,581	Fujian Dixing	24 November 2012
晋江市陈埭江头洋顶南路104号	3,100[1]	晋江市陈埭江头回族村民委员会	1 December 2005
晋江市陈埭江头工业区	26,973	晋江市陈埭江头回族村民委员会	25 June 2010
晋江市陈埭江头前进北路125-127号	2,410	晋江市陈埭江头回族村民委员会	20 October 2006
晋江市陈埭江头前进北路125-127号	2,675	Fujian Dixing	20 October 2006
晋江市陈埭江头村	675	Saifeite	9 January 2007

(1) Jinjiang State-owned Land Resource Bureau (晋江市国土资源局) has acknowledged in their letter dated 26 December 2011 that the application for the transfer of the certificate of these land use rights is currently in progress.

(c) Bank borrowing of RMB8,250,000 (2012: RMB9,100,000) is secured on land use rights of the Group at 晋江市陈埭江头前进北路125-127 号(land area: 2,675 sq m) with carrying amount of approximately RMB52,684,000 (RMB51,510,000) at the date of financial position (Note 20).

15. DEFERRED TAX ASSETS

	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Beginning of financial year	–	1,585	–	–
Tax charged to profit or loss (Note 9)				
- Over provision in prior financial year	–	(1,585)	–	–
End of financial year	–	–	–	–

The balance comprises tax on provision for defined contribution. The deferred tax assets are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
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16. INVENTORIES

	The Group	
	2013	2012
	RMB'000	RMB'000
Raw materials	**1,004**	1,406
Work-in-progress	**1,910**	2,445
Finished goods (Note 4)	**6,094**	8,805
	9,008	12,656
Cost of inventories included in cost of sales (Note 4)	**297,594**	394,132

During the financial year, management is not aware of any circumstance which would render it necessary to write off any inventory or to make any allowance for slow moving inventory.

17. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
– non-related parties	**135,917**	186,276	**–**	–
Other receivables	**54**	54	**–**	–
Deposits	**2**	2	**2**	2
Prepayments	**11,596**	7,863	**–**	–
Amount due from a subsidiary – non-trade	**–**	–	**36,806**	40,837
	147,569	194,195	**36,808**	40,839

Trade receivables are non-interest bearing and are generally on on 90 days terms (2012: 90 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

Non-trade amounts due from subsidiary companies are unsecured, interest-free and are repayable on demand.

17. TRADE AND OTHER RECEIVABLES (cont'd)

The carrying amounts of current trade and other receivables approximate their fair value. The Company's trade and other receivables that are denominated in the following currencies:

	The Group		The Company	
	2013	**2012**	**2013**	**2012**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Malaysia Ringgit	**2**	2	**9,115**	10,060
United States Dollar	**–**	–	**18,176**	18,708
Renminbi	**147,567**	194,193	**7,955**	10,463
Hong Kong Dollar	**–**	–	**1,562**	1,608
	147,569	194,195	**36,808**	40,839

(i) Trade receivables that are neither past due nor impaired are substantially customers with a good collection tracked record with the Group are as follows:

	The Group		The Company	
	2013	**2012**	**2013**	**2012**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Current	**91,239**	134,526	**–**	–

(ii) The aging analysis of trade receivables past due but not impaired is as follows:

	The Group		The Company	
	2013	**2012**	**2013**	**2012**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Past due:				
- 0 to 1 month	**28,057**	51,574	**–**	–
- 1 to 7 months	**16,621**	176	**–**	–
	44,678	51,750	**–**	–

Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables past due but not impaired. These receivables are mainly arising by customers that have a good credit record with the Group.

(iii) There are no other receivables that are past due and/or impaired.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
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18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Cash on hand	**24**	134	**–**	41
Cash at bank	**91,795**	139,134	**1**	1
	91,819	139,268	**1**	42

Cash and cash equivalents are denominated in following currencies:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Malaysia Ringgit	**1**	42	**1**	42
Renminbi	**91,818**	139,226	**–**	–
	91,819	139,268	**1**	42

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	The Group	
	2013 RMB'000	2012 RMB'000
Cash and bank balances (as above)	**91,819**	139,268

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Trade payables				
- non-related parties	**28,502**	37,344	**–**	–
Other payables	**838**	1,978	**224**	239
Accrued operating expenses	**4,896**	4,560	**852**	818
	34,236	43,882	**1,076**	1,057

Trade payables generally have credit terms ranging from 30 days to 90 days and are expected to be repaid within 12 months from the end of the reporting period.

The carrying amounts of trade and other payables approximately at their fair values.

19. TRADE AND OTHER PAYABLES (cont'd)

Trade and other payables are denominated in the following currencies:

	The Group		The Company	
	2013	2012	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Malaysia Ringgit	**339**	428	**339**	428
Singapore Dollar	**737**	624	**737**	624
Renminbi	**33,160**	42,830	**–**	5
	34,236	43,882	**1,076**	1,057

20. BORROWINGS

		The Group	
		2013	2012
		RMB'000	RMB'000
Current Liabilities			
Bank loans 中国建设银行			
- Secured		**8,250**	9,100
- Unsecured		**15,750**	14,230
		24,000	23,330
Non-Current Liabilities		**–**	–
Bank loans comprises of:	Note		
- #1 (secured)	(a)	**–**	1,800
- #2 (unsecured)	(b)	**–**	2,000
- #3 (unsecured)	(c)	**–**	6,000
- #4 (unsecured)	(d)	**–**	6,230
- #5 (secured)	(e)	**–**	7,300
- #6 (unsecured)	(f)	**2,000**	–
- #7 (unsecured)	(g)	**6,000**	–
- #8 (secured)	(h)	**7,300**	–
- #9 (secured)	(i)	**950**	–
- #10 (unsecured)	(j)	**1,800**	–
- #11 (unsecured)	(k)	**5,950**	–
		24,000	23,330

20. BORROWINGS (cont'd)

(a) The secured bank loan facility #1 of RMB1,800,000 granted to Fujian Dixing is repayable on or before 10 December 2013. The loan is secured by a mortgage over the land use right (Note 14) and building (Note 11) of the Group and jointly guaranteed by a Director, 丁建萍 and his spouse, 王丽玲.

Interest is charged at 6.000% per annum.

(b) The unsecured bank loan facility #2 of RMB2,000,000 granted to Fujian Dixing is repayable on or before 27 March 2013. The loan is jointly guaranteed by third party corporation, 泉州超盛达体育用品有限公司 and a Director, 丁建萍 and his spouse, 王丽玲.

Interest is charged at 6.560% per annum.

(c) The unsecured bank loan facility #3 of RMB6,000,000 granted to Fujian Dixing is repayable on or before 27 March 2013. The loan is jointly guaranteed by third party corporation, 泉州超盛达体育用品有限公司 and a Director, 丁建萍 and his spouse, 王丽玲.

Interest is charged at 6.310% per annum.

(d) The secured bank loan facility #4 of RMB6,230,000 granted to Fujian Dixing is repayable on or before 28 June 2013. The loan is secured by certain trade receivables of Fujian Dixing's.

Interest is charged at 5.600% per annum.

(e) The secured bank loan facility #5 of RMB7,300,000 granted to Fujian Dixing is repayable on or before 21 September 2013. The loan is secured by a mortgage over the land use right (Note 14) and building (Note 11) of the Group and jointly guaranteed by a Director, 丁建萍 and his spouse, 王丽玲.

Interest is charged at 5.700% per annum.

(f) The unsecured bank loan facility #6 of RMB2,000,000 granted to Fujian Dixing is repayable on or before 1 April 2014. The loan is jointly guaranteed by third party corporation, 泉州超盛达体育用品有限公司 and a Director, 丁建萍 and his spouse, 王丽玲.

Interest is charged at 6.000% per annum.

(g) The unsecured bank loan facility #7 of RMB6,000,000 granted to Fujian Dixing is repayable on or before 3 July 2014. The loan is jointly guaranteed by third party corporation, 泉州超盛达体育用品有限公司 and a Director, 丁建萍 and his spouse, 王丽玲.

Interest is charged at 6.300% per annum.

(h) The secured bank loan facility #8 of RMB7,300,000 granted to Fujian Dixing is repayable on or before 11 September 2014. The loan is secured by a mortgage over the land use right and building of the Group and jointly guaranteed by a Director, 丁建萍 and his spouse, 王丽玲.

Interest is charged at 6.300% per annum.

(i) The secured bank loan facility #9 of RMB950,000 granted to Fujian Dixing is repayable on or before 09 October 2014. The loan is secured by a mortgage over the land use right and building of the Group and jointly guaranteed by a Director, 丁建萍 and his spouse, 王丽玲.

Interest is charged at 6.300% per annum.

20. BORROWINGS (cont'd)

(j) The unsecured bank loan facility #10 of RMB1,800,000 granted to Fujian Dixing is repayable on or before 3 December 2013.

Interest is charged at 6.000% per annum.

(k) The unsecured bank loan facility #11 of RMB5,950,000 granted to Fujian Dixing is repayable on or before 3 December 2013.

Interest is charged at 6.000% per annum.

The table below analyses the maturity profile of the Group's borrowings based on contractual undiscounted cash flows.

	2013		2012	
	Carrying amount RMB'000	Contractual cash flows RMB'000	Carrying amount RMB'000	Contractual cash flows RMB'000
Fixed interest rate loans				
Less than one year	**24,000**	**24,414**	23,330	24,147

The bank borrowings are denominated in Renminbi. The carrying amount approximately at their fair value.

21. DEFERRED INCOME TAX LIABILITIES

Movement in deferred income tax account is as follows:

	The Group	
	2013 RMB'000	2012 RMB'000
Beginning of financial year	**4,921**	–
Arising from the acquisition of subsidiary (Note 13)	**–**	4,921
End of financial year	**4,921**	4,921

Deferred tax liabilities comprised the excess of carrying amounts of qualifying property, plant and equipment over their correspondence tax written down values.

22. SHARE CAPITAL

	2013		2012	
	No. of shares	RMB'000	No. of shares	RMB'000
Issued and fully paid:				
Balance at beginning and end of financial year	**266,400**	**285,075**	266,400	285,075

The Company has only one class of shares, being ordinary shares which are all rank pari passu. The holders of ordinary shares are entitled for voting rights and any dividends, rights, allotments and/or other forms of distribution that may be declared, made or paid.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
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23. OTHER RESERVES

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Statutory common reserve	**24,712**	24,712
Merger reserve	**(174,156)**	(174,156)
	(149,444)	(149,444)

Movement in reserve is as follows:

(a) Statutory common reserve

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Beginning and end of financial year	**24,712**	24,712

In accordance with the relevant laws and regulations of the PRC, the subsidiary of the Group established in the PRC are required to transfer 10% of its profits after taxation prepared in accordance with the accounting regulation of the PRC to the statutory common reserve until the reserve balance reaches 50% of the subsidiary's registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of the subsidiary subject to the approval from the PRC relevant authority, and are not available for dividend distribution to the shareholders.

(b) Merger reserve

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Beginning and end of financial year	**(174,156)**	(174,156)

The merger reserve represents the difference between the cost of investment of subsidiary and the share capital of the subsidiary acquired under the pooling-of-interest method.

Other reserves are non-distributable.

24. SIGNIFICANT RELATED PARTY TRANSACTIONS

The transactions with related parties on terms mutually agreed during the financial year are as follows:

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Key management personnel compensation		
- Directors' remuneration	**2,117**	1,632
- Directors' fee (Note 7)	**315**	386

25. 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 follow:

	The Group	
	2013	**2012**
	RMB'000	**RMB'000**
Sale of sports footwear	**298,322**	435,415
Sale of sports apparel and accessories	**30,753**	62,305
	329,075	497,720

26. FINANCIAL ASSETS AND LIABILITIES

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:-

		The Group	
		2013	**2012**
	Note	**RMB'000**	**RMB'000**
Financial assets			
Trade and other receivables	17	**147,569**	194,195
Cash and cash equivalents	18	**91,819**	139,268
		239,388	333,463
Financial liabilities			
Financial liabilities measured at amortised cost:			
Current:			
Trade and other payables	19	**34,236**	43,882
Bank borrowings	20	**24,000**	23,330
		58,236	67,212

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. It is, and has been throughout the current financial period, the Group's policy that no derivative and forward foreign exchange contracts shall be undertaken for hedging and speculative purposes. The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

The following sections provide the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Market risk

(i) Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group has currency exposures arising from balances that are denominated in a currency other than the Functional Currency, primarily Singapore Dollar ("SGD"), and Malaysian Ringgit ("RM").

The Group's currency exposure based on the information provided to key management is as follows:

	SGD'000	RM'000
The Group		
As at 31 December 2013		
Financial assets		
Cash and cash equivalents	–	2
Trade and other receivables	–	1
Financial liabilities		
Trade and other payables	**(737)**	(339)
	(737)	(336)
As at 31 December 2012		
Financial assets		
Cash and cash equivalents	–	135
Trade and other receivables	–	2
Financial liabilities		
Trade and other payables	**(623)**	(428)
	(623)	(291)

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Market risk (cont'd)

(i) Currency risk (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit/loss after tax to a reasonably possible change in the SGD and RM exchange rate against the respective functional currencies of the Company entities, with all other variables including tax rate being held constant.

	2013		2012	
	Profit after taxation RMB'000	Equity RMB'000	Profit after taxation RMB'000	Equity RMB'000
The Group				
SGD				
- Strengthened 3% (2012:3%)	**(18)**	**(18)**	(16)	(16)
- Weakened 3% (2012: 3%)	**18**	**18**	16	16
RM				
- Strengthened 3% (2012:3%)	**(9)**	**(9)**	(12)	(12)
- Weakened 3% (2012: 3%)	**9**	**9**	12	12

(ii) Price risk

Price risk is the risk that the value of a financial instruments will fluctuate due to changes in market prices.

No sensitivity analysis is prepared as the Company do not expect any material effect on the Group's profit or loss arising form the effects of reasonably possible changes to share price.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Company's and the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their interest bearing borrowings. The Group ensures that it is not exposed to significant fluctuation in future cash flows arising from changes in market interest rates by maintaining its borrowings largely in fixed-rate instruments.

Sensitivity analysis for interest rate risk

The Group's borrowings, a change of interest rate at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all the other variable remain constant.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(a) Market risk (cont'd)

(iii) Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk (cont'd)

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the reporting date.

		Effect on profit before taxation	
	Basis points	2013 RMB'000	2012 RMB'000
The Group			
Interest expense – RMB			
- Increase in interest rate	50	**(100)**	(97)
- Decrease in interest rate	(50)	**100**	97

(b) Credit risk

Credit risk is a risk of loss that may arise on outstanding financial instruments should a counterpart default on its obligations. The Group's exposures to credit risk arise primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increase in credit risk exposure. The Group trades with all third parties but will only provide credit terms upon approval of the management. The receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the statement of financial position date, the Group and the Company maximum exposure to credit risk is represented by the carrying value of each class of financial assets recognised in the statement of financial position.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

There is no other class of financial assets that is past due and/or impaired except for trade and other receivables.

Information regarding receivables is disclosed in Note 17.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(c) Liquidity risk

The objective of liquidity management is to ensure that the Company's and the Group's has sufficient funds to meet its contractual and financial obligations. To manage liquidity risk, we monitor our net cash flow and maintain a level of cash and cash equivalents deemed adequate by management for working capital purposes so as to mitigate the effects of fluctuations in cash flow. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the support from Directors or shareholders.

The table below summarises the maturity profile of the Group's and Company's financial liabilities at the statement of financial position based on contractual undiscounted payments.

	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
The Group				
2013				
Trade and other payables	**34,236**	**–**	**–**	**34,236**
Borrowings	**24,414**	**–**	**–**	**24,414**
	58,650	**–**	**–**	**58,650**
2012				
Trade and other payables	43,882	–	–	43,882
Borrowings	24,147	–	–	24,147
	68,029	–	–	68,029
The Company				
2013				
Trade and other payables	**1,076**	**–**	**–**	**1,076**
2012				
Trade and other payables	1,057	–	–	1,057

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a capital structure so as to maximize shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholder, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented in the statement of financial position.

There were no changes in the Group's approach to capital management during the financial year.

The Company and its subsidiaries are not subject to any externally imposed capital requirements.

Gearing has no significant influence on the Group's capital structure.

(e) Fair value measurements

The carrying amounts of the financial assets and financial liabilities at the statement of financial position date approximate the fair values due to the relatively short term maturity of these financial instruments.

28. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Director on the same date as per the Directors' Report and the Statement by Directors.

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- 31 DECEMBER 2013

SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The following analysis of realised and unrealised accumulated profits of the Group at 31 December 2013 is presented in accordance with the directive issued by Bursa Securities dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Listing Requirements, as issued by the Malaysia Institute of Accountants.

The breakdown of the retained earnings of the Group as at the financial year end, into realised and unrealised profits, pursuant to the directive, is as follows:

	2013 RMB'000	2012 RMB'000
Total retained earnings of the Group		
Realised	**210,832**	293,434
Unrealised	**8**	(33)
	210,840	293,401

The disclosure of realised and unrealised profit or losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

LIST OF PROPERTIES

Location	Description/ Existing use	(i) Land area (ii) Built-up area (square metres)	Tenure	Approximate age of building (years)	Carrying amounts at 31 December 2013 (RMB'000)	Date of Acquisition
No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC	Industrial	(i) 7,666 (ii) 22,384	50 years up to 2056	4 to 13	26,883 (land) 39,352 (building)	20 October 2006
No. 104 Yangding South Road, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC	Industrial	(i) 3,100	50 years up to 2055	9	– (land) 3,072 (building)	1 December 2005
Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC	Industrial	(i) 26,973 (ii) Not applicable	50 years up to 2060	Not applicable	25,801 (land)	25 June 2010
Jiantou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, 36211 Fujian Province, PRC	Industrial	(i) 675 (ii) 2,144	50 years up to 2056	18	21,117 (land) 6,934 (building)	18 October 2011

SHAREHOLDERS' INFORMATION/ ANALYSIS OF SHAREHOLDING

Issued and paid-up Ordinary Share Capital	:	SGD59,903,460 comprising of 266,400,000 ordinary shares (The shares of the Company do not have a par value attached)
Class of shares	:	Ordinary shares
Voting rights	:	One vote per ordinary share

DISTRIBUTION OF SHAREHOLDINGS AS AT 29 APRIL 2014

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
Less than 100	1	0.053	10	0.000
100 – 1,000	214	11.389	89,700	0.033
1,001 – 10,000	599	31.878	4,097,700	1.538
10,0001 – 100,000	875	46.567	33,196,890	12.461
100,001 – 13,319,999 *	189	10.058	73,440,200	27.567
13,320,000 and above **	1	0.053	155,575,500	58.399
Total	1,879	100.00	266,400,000	100.00

Notes:

* *Less than 5% of issued shares*

** *5% and above of issued shares*

DIRECTORS' SHAREHOLDINGS AS AT 29 APRIL 2014

		Direct interest		Deemed interest	
No.	Name	No. of Shares	%	No. of Shares	%
1.	Ding JianPing (丁建萍) [1]	–	–	–	–
2.	Ding ZiDi (丁梓迪)	–	–	–	–
3.	Teoh Tow Kean	–	–	–	–
4.	Xiao LuXi	–	–	–	–
5.	Lee Yew Weng	–	–	–	–

Note:

(1) *An agreement has been entered into between Chan Kai Fly, being the sole shareholder of K-Star Sports International Limited and Ding JianPing for a right of first refusal to be given to Ding JianPing to purchase the Company's shares held under K-Star Sports International Limited after the initial public offering and the moratorium period.*

SUBSTANTIAL SHAREHOLDERS AS AT 29 APRIL 2014

		Direct interest		Deemed interest	
No.	Name	No. of Shares	%	No. of Shares	%
1.	K-STAR SPORTS INTERNATIONAL LIMITED	155,575,500	58.399	–	–

SHAREHOLDERS' INFORMATION/
ANALYSIS OF SHAREHOLDING (cont'd)

THIRTY LARGEST SHAREHOLDERS AS AT 29 APRIL 2014

No.	Shareholders	No. of Shares	% of issued share capital
1	K-STAR SPORTS INTERNATIONAL LIMITED	155,575,500	58.399
2	SKYLITECH RESOURCES SDN. BHD.	13,200,000	4.954
3	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LEONG KAM CHEE (002)	3,000,000	1.126
4	TAN KIN CHUAN	2,028,400	0.761
5	YEOH YIH SEAN	1,840,900	0.691
6	LIM POH FONG	1,762,200	0.661
7	LEW YUEN KEE @ LEW AH KEE	1,500,000	0.563
8	A1 CAPITAL SDN BHD	1,434,500	0.538
9	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ONG KOK THYE	1,023,300	0.384
10	GOH POH CHEE	1,017,000	0.381
11	CHOR KIANG MONG	890,000	0.334
12	WONG FOOK INN	863,000	0.323
13	CHIA WOON PENG	820,000	0.307
14	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR ANG ENG TIONG	801,600	0.300
15	OOI LENG HWA	800,000	0.300
16	TEH WENG KONG @ TENG WENG KONG	730,600	0.274
17	LEE HEAN GUAN	720,000	0.270
18	GAN CHENG SWEE	699,700	0.262
19	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB BANK FOR LIM CHEE BENG (LANGKAP)	626,000	0.234
20	TAN AH BA@ TAN TOON YONG	612,900	0.230
21	TAN KOK HONG	600,000	0.225
22	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR JAMAL KHIR BIN ZAINOL ABIDIN	585,900	0.219
23	CIA CHING EIU	560,000	0.210
24	CHIA SUN KIA	555,000	0.208
25	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD CHEW HIN YUEN (8063346)	550,000	0.206
26	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR THAM AH NGAN	520,000	0.195
27	GUI GUAT LAN	510,200	0.191
28	LIM BOON LENG	500,000	0.187
29	AFFIN NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR VIJAYA KUMAR A/L P.V. RAMAYAH (VIJ0095M)	460,000	0.172
30	LING KIU SIENG	450,000	0.168

ADDITIONAL COMPLIANCE INFORMATION DISCLOSURES

UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSALS

There were no proceeds raised from corporate proposals during the financial year.

SHARE BUY-BACK

The Company did not undertake any share buy-back exercise.

OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

The Company has not issued any options, warrants or convertible securities during the financial year.

AMERICAN DEPOSITORY RECEIPT / GLOBAL DEPOSITORY RECEIPT

The Company did not sponsor any depository receipt programme during the financial year.

SANCTIONS AND/OR PENALTIES

There were no sanctions and/or penalties imposed on the Company, its subsidiaries, the Directors and the management by the relevant regulatory bodies during the financial year.

NON-AUDIT FEES

There were no non-audit fees paid by the Group to the External Auditors, Messrs Chengco Singapore PAC during the financial year.

VARIATION IN RESULTS

There was no variation between the interim financial reports previously announced on the 4th Quarter results and the audited financial results for the financial year ended 31 December 2013.

PROFIT GUARANTEE

The Company did not provide any profit guarantee during the financial year.

PROFIT FORECAST

There was no profit forecast issued by the Company and its subsidiary companies during the financial year.

RECURRENT RELATED PARTY TRANSACTIONS ("RRPT")

There is no RRPT during the financial year.

ADDITIONAL COMPLIANCE INFORMATION DISCLOSURES (cont'd)

MATERIAL CONTRACTS

During the financial year under review, there was no material contract entered into by the Company and its subsidiaries which involved the Directors' and major shareholders' interest.

CORPORATE SOCIAL RESPONSIBILITIES

The Company is mindful of its corporate social responsibilities towards the shareholders, communities, other stakeholders and the environment. The Group also supports the community through various sponsorships of education and cultural activities. Our Group has been in compliance with the applicable laws and regulations in the countries which we operate in and was not involved in any significant litigation, arbitrations or claims during the financial year. We have been accredited with ISO 9001:2000 and great emphasis is placed on quality assurance in all aspect of our operations, from procurement to production, to ensure that we satisfy our customers' quality requirements and minimise wastage due to inefficiencies.

STATEMENT PERTAINING TO THE ALLOCATION OF SHARE OPTIONS TO EMPLOYEES

To date, the Company has not established any share options for employees. In the event the Company establishes such employees share options scheme ("ESOS"), the Audit Committee would carry the responsibility of reviewing all allocations granted to eligible employees to ensure compliance with the criteria as would have been spelt out in the by-laws of the Company's proposed ESOS.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2014 Annual General Meeting of the Company will be held at Kelantan Room, Level 1, Putrajaya Marriott Hotel IOI Resort City, 62502 Sepang Utara, Malaysia on Tuesday, 24 June 2014 at 2.00 p.m. for the following purposes:

AGENDA

As Ordinary Business:

1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 together with the Reports of the Directors and the Auditors thereon. **(Please refer to Explanatory Note 1)**

2. To approve the payment of Directors' fees of up to RM175,000.00 (RMB350,000.00) for the financial year ending 31 December 2014. **(Ordinary Resolution 1)**

3. To re-elect Mr. Ding ZiDi, who is retiring pursuant to Article 91 of the Articles of Association of the Company. **(Ordinary Resolution 2)**

4. To re-elect Ms. Xiao LuXi, who is retiring pursuant to Article 91 of the Articles of Association of the Company. **(Ordinary Resolution 3)**

5. To re-elect Mr. Lee Yew Weng, who is retiring pursuant to Article 97 of the Articles of Association of the Company. **(Ordinary Resolution 4)**

6. To re-appoint Messrs Chengco Singapore PAC as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 5)**

As Special Business:

To consider and if thought fit, to pass the following resolution with or without modifications:

7. **Ordinary Resolution** **(Ordinary Resolution 6)**

   Authority to issue new ordinary shares pursuant to Section 161 of the Companies Act (Chapter 50) of Singapore ("the Act")

   "**THAT** pursuant to Section 161 of the Act and the Articles of Association of the Company and subject to the approvals from Bursa Malaysia Securities Berhad and other relevant government/ regulatory authorities, where such approval is necessary, the Directors of the Company be and are hereby empowered pursuant to Section 161 of the Act to issue shares in the capital of the Company at any time until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, and upon such terms and conditions and for such purposes and to such persons as the Board of Directors may, in their absolute discretion, deem fit, provided that the value of shares to be issued, when aggregated with the value of any such shares issued during the preceding 12 months does not exceed 10% of the value of the issued and paid-up share capital (excluding treasury shares) of the Company for the time being **AND THAT** the Board of Directors be and is also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad."

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

8. To transact any other business of which due notice shall be given.

BY ORDER OF THE BOARD
THUM SOOK FUN
ELAINE WONG WEI SYN
Company Secretaries

Date: 30 May 2014

Notes:

1. *A Member may appoint not more than two (2) proxies to attend and vote at the same General Meeting. In any case where a form of proxy appoints more than one (1) proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy. A member of the Company entitled to attend and vote at a meeting of the Company, or at a meeting of any class of members of the Company, shall be entitled to appoint any person as his proxy to attend and vote instead of a Member at the meeting. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the Member to speak at the meeting.*

2. *An instrument appointing a proxy shall be in writing in any usual or common form or in any other form which the Directors may approve and in the case of individual, shall be signed by the appointor or his attorney. In the case of a corporation, shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.*

3. *The signature on such instrument need not be witnessed. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy in accordance with item 5 below, failing which the instrument may be treated as invalid.*

4. *An instrument appointing a proxy whether executed in the States of Malaysia or outside the States of Malaysia shall be attested by a solicitor, commissioner for oaths, notary public, consul or magistrate, but the Directors may from time to time waive or modify this requirement either generally or in a particular case.*

5. *An instrument appointing a proxy must be left at the Share Registrar of the Company situated at Level 17 The Gardens North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for the holding of the meeting or adjourned meeting.*

6. *Where a member of the Company is an Exempt Authorised Nominee as defined under the Securities Industry (Central Depositories) Act, 1991, which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.*

7. *For the purpose of determining a member who shall be entitled to attend the 2014 Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 51(B) (b) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 16 June 2014. Only a depositor whose name appears therein shall be entitled to attend the said meeting or appoint a proxy to attend and/ or vote on his stead.*

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

EXPLANATORY NOTES ON ORDINARY BUSINESS:

1. Item 1 of the Agenda

This Agenda item is meant for discussion only as the provision of Section 201(1) of the Companies Act (Chapter 50) of Singapore does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this item is not put forward to shareholders for voting.

2. Item 2 of the Agenda

Proposed Ordinary Resolution 1 - Approval for Directors' Fees for the financial year ending 31 December 2014

The Directors' fees proposed for the financial year ending 31 December 2014 are calculated based on the number of scheduled Board and Committee meetings for 2014 and assuming that all Directors will hold office until the end of the financial year. This resolution is to facilitate payment of Directors' fees on current financial year basis. In the event the Directors' fees proposed is insufficient (e.g. due to more meetings or enlarged Board Size), approval will be sought at the next Annual General Meeting for additional fees to meet the shortfall.

EXPLANATORY NOTE ON SPECIAL BUSINESS:

3. Item 7 of the Agenda

Proposed Ordinary Resolution 6 - Approval for Issuance of new ordinary shares pursuant to Section 161 of the Companies Act (Chapter 50) of Singapore.

The Proposed Ordinary Resolution 6 is for the purpose of granting a renewed general mandate ("General Mandate") and empowering the Directors to issue shares in the Company up to an amount not exceeding in total ten per centum (10%) of the value of the issued and paid up share capital (excluding treasury shares) of the Company for such purposes as the Directors consider would be in the best interest of the Company.

This authority, unless revoked or varied by the Company at a general meeting, shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

The General Mandate will provide flexibility to the Company for issuance of shares for any possible fund raising activities, including but not limited for further placing of shares, for the purpose of funding future investment project(s), working capital acquisition(s) or such other applications that the Directors may in their absolute discretion deemed fit.

As at the date of this Notice, the Company did not issue shares pursuant to the mandate granted to the Directors at the last Annual General Meeting held on 28 June 2013.

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Proxy Form

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)

CDS Account No

No. of shares held

I/We ______________________________________ Tel: ____________________
[Full name in block, NRIC No./Company No. and telephone number]

of ____
[Address]

____

being a member/members of **K-Star Sports Limited,** hereby appoint:-

Full Name (in Block)	NRIC / Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and / or (delete as appropriate)

Full Name (in Block)	NRIC / Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing him, the Chairman of the Meeting as my/our proxy to attend and to vote for me/us and on my/our behalf and, if necessary, to demand a poll at the 2014 Annual General Meeting of the Company to be held at Kelantan Room, Level 1, Putrajaya Marriott Hotel IOI Resort City, 62502 Sepang Utara, Malaysia on Tuesday, 24 June 2014 at 2.00 p.m. or any adjournment thereof, and to vote as indicated below:-

Item	Agenda			
1.	Receipt of Audited Financial Statements and Reports.	Please refer to Note 1		
	Agenda	**Resolution**	**FOR**	**AGAINST**
2.	Payment of Directors' fees for the financial year ending 31 December 2014	Ordinary Resolution 1		
3.	Re-election of Ding ZiDi as Director	Ordinary Resolution 2		
4.	Re-election of Xiao LuXi as Director	Ordinary Resolution 3		
5.	Re-election of Lee Yew Weng as Director	Ordinary Resolution 4		
6.	Re-appointment of Auditors of the Company	Ordinary Resolution 5		
7.	Authority to issue new ordinary shares	Ordinary Resolution 6		

Please indicate with an "X" in the space provided whether you wish your votes to be cast for or against the resolutions. In the absence of specific direction, your proxy will vote or abstain as he thinks fit.

Signed this.....................................day of......................................., 2014.

____
Signature of Shareholder/Common Seal

Notes:

1. *This Agenda item is meant for discussion only as the provision of Section 201(1) of the Companies Act (Chapter 50) of Singapore does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this item is not put forward to shareholders for voting.*
2. *A Member may appoint not more than two (2) proxies to attend and vote at the same General Meeting. In any case where a form of proxy appoints more than one (1) proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy. A member of the Company entitled to attend and vote at a meeting of the Company, or at a meeting of any class of members of the Company, shall be entitled to appoint any person as his proxy to attend and vote instead of a Member at the meeting. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the Member to speak at the meeting.*
3. *An instrument appointing a proxy shall be in writing in any usual or common form or in any other form which the Directors may approve and in the case of individual, shall be signed by the appointor or his attorney. In the case of a corporation, shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.*
4. *The signature on such instrument need not be witnessed. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy in accordance with item 5 below, failing which the instrument may be treated as invalid.*
5. *An instrument appointing a proxy whether executed in the States of Malaysia or outside the States of Malaysia shall be attested by a solicitor, commissioner for oaths, notary public, consul or magistrate, but the Directors may from time to time waive or modify this requirement either generally or in a particular case.*
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8. *For the purpose of determining a member who shall be entitled to attend the 2014 Annual General Meeting, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 51(B) (b) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositors as at 16 June 2014. Only a depositor whose name appears therein shall be entitled to attend the said meeting or appoint a proxy to attend and/ or vote on his stead.*

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AFFIX
STAMP

THE COMPANY SECRETARY
K-STAR SPORTS LIMITED
(Company Registration Number 200820976H)
(Malaysian Branch Registration Number 995214-D)
Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

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K-Star

K-STAR SPORTS LIMITED

(Malaysia Branch Registration No. 995214-D)

K-STAR SPORTS LIMITED ANNUAL REPORT 2013