

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)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 DECEMBER 2016

	<u>Note</u>	Individual quarter Quarter ended		Individual quarter Quarter ended	
		31.12.2016	31.12.2015	31.12.2016 <i>(Note a)</i>	31.12.2015 <i>(Note a)</i>
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	81,524	84,855	52,665	54,816
Cost of sales		<u>(76,456)</u>	<u>(78,993)</u>	<u>(49,391)</u>	<u>(51,029)</u>
Gross profit		5,068	5,862	3,274	3,787
Other income		12	7	8	5
Selling and distribution expenses	B1	(71,142)	(43,743)	(45,958)	(28,258)
Administrative expenses	B1	(4,819)	(5,514)	(3,113)	(3,562)
Finance costs		<u>15,187</u>	<u>(789)</u>	<u>9,811</u>	<u>(510)</u>
Loss before taxation	B1	(55,694)	(44,177)	(35,978)	(28,538)
Taxation		-	-	-	-
Total loss for the period	B1	<u>(55,694)</u>	<u>(44,177)</u>	<u>(35,978)</u>	<u>(28,538)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		<u>(55,694)</u>	<u>(44,177)</u>	<u>(35,978)</u>	<u>(28,538)</u>
Attributable to :					
- Equity holders of the Company		<u>(55,694)</u>	<u>(44,177)</u>	<u>(35,978)</u>	<u>(28,538)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(20.91)	(16.58)	(13.51)	(10.71)
Diluted (RMB cents/RM sen)	B9	(20.91)	(16.58)	(13.51)	(10.71)

Notes:

(a) The presentation currency of this unaudited interim financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the quarter ended 31 December 2016 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6460 as at 31 December 2016. This translation should not be construed as a representation that the RMB amounts represented have been or could be converted into RM at this or any other rate.

(b) The Unaudited Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the interim unaudited financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	<u>Note</u>	Cumulative quarter		Cumulative quarter	
		Current year to date 31.12.2016	Preceding year to date 31.12.2015	Current year to date 31.12.2016 <i>(Note a)</i>	Preceding year to date 31.12.2015 <i>(Note a)</i>
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	301,277	301,352	194,625	194,673
Cost of sales		<u>(281,298)</u>	<u>(280,584)</u>	<u>(181,719)</u>	<u>(181,257)</u>
Gross profit		19,979	20,768	12,906	13,416
Other income		44	123	28	79
Selling and distribution expenses	B1	(100,465)	(73,737)	(64,900)	(47,634)
Administrative expenses	B1	(20,919)	(22,133)	(13,513)	(14,297)
Finance costs		<u>9,299</u>	<u>(1,916)</u>	<u>6,007</u>	<u>(1,238)</u>
Loss before taxation	B1	(92,062)	(76,895)	(59,472)	(49,674)
Taxation		-	-	-	-
Total loss for the year	B1	<u>(92,062)</u>	<u>(76,895)</u>	<u>(59,472)</u>	<u>(49,674)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the year		<u>(92,062)</u>	<u>(76,895)</u>	<u>(59,472)</u>	<u>(49,674)</u>
Attributable to :					
-Equity holders of the Company		<u>(92,062)</u>	<u>(76,895)</u>	<u>(59,472)</u>	<u>(49,674)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(34.56)	(28.86)	(22.33)	(18.64)
Diluted (RMB cents/RM sen)	B9	(34.56)	(28.86)	(22.33)	(18.64)

Notes:

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(b) The Unaudited Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Unaudited As at 31.12.2016	Audited As at 31.12.2015	Unaudited As at 31.12.2016 (Note a)	Audited As at 31.12.2015 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
ASSETS				
Non-Current Assets				
Property, plant and equipment	47,397	53,573	30,618	34,608
Patents	37,675	33,458	24,338	21,614
Land use rights	68,922	70,548	44,523	45,574
	<u>153,994</u>	<u>157,579</u>	<u>99,479</u>	<u>101,796</u>
Current Assets				
Inventories	9,792	9,209	6,326	5,949
Trade and other receivables	115,883	153,294	74,860	99,028
Cash and bank balances	165	6,163	107	3,981
	<u>125,840</u>	<u>168,666</u>	<u>81,293</u>	<u>108,958</u>
Total assets	<u>279,834</u>	<u>326,245</u>	<u>180,772</u>	<u>210,754</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	285,075	285,075	184,158	184,158
(Accumulated losses)/Retained earnings	-	92,062	-	59,472
Other reserves	(149,444)	(149,444)	(96,541)	(96,541)
	<u>135,631</u>	<u>227,693</u>	<u>87,617</u>	<u>147,089</u>
Current Liabilities				
Borrowings	36,700	23,900	23,708	15,440
Trade and other payables	38,604	69,731	24,938	45,046
	<u>75,304</u>	<u>93,631</u>	<u>48,646</u>	<u>60,486</u>
Non-Current Liability				
Deferred tax liability	4,921	4,921	3,179	3,179
Other payable	63,978	-	41,330	-
	<u>68,899</u>	<u>4,921</u>	<u>44,509</u>	<u>3,179</u>
Total liabilities	<u>144,203</u>	<u>98,552</u>	<u>93,155</u>	<u>63,665</u>
Total equity and liabilities	<u>279,834</u>	<u>326,245</u>	<u>180,772</u>	<u>210,754</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)	<u>50.91</u>	<u>85.47</u>	<u>32.89</u>	<u>55.21</u>

Notes:

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- (b) The unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the unaudited interim financial statements.
- (c) The net assets per share attributable to equity holders of the Company is calculated based on the net assets as at 31 December 2015 and 31 December 2016 divided by the number of ordinary shares of 266,400,000.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Attributable to Equity Holders of the Company				
	Share capital RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 31 December 2014	285,075	(174,156)	24,712	168,957	304,588
Total comprehensive loss for the financial year	-	-	-	(76,895)	(76,895)
At 31 December 2015	285,075	(174,156)	24,712	92,062	227,693
At 31 December 2015	285,075	(174,156)	24,712	92,062	227,693
Total comprehensive loss for the financial year	-	-	-	(92,062)	(92,062)
At 31 December 2016	285,075	(174,156)	24,712	-	135,631

	Attributable to Equity Holders of the Company				
	Share capital RM'000	Merger reserve RM'000	Statutory reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 31 December 2014	184,158	(112,505)	15,964	109,146	196,763
Total comprehensive loss for the financial year	-	-	-	(49,674)	(49,674)
At 31 December 2015 (note a)	184,158	(112,505)	15,964	59,472	147,089
At 31 December 2015	184,158	(112,505)	15,964	59,472	147,089
Total comprehensive loss for the financial year	-	-	-	(59,472)	(59,472)
At 31 December 2016 (note a)	184,158	(112,505)	15,964	-	87,617

Notes:

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- (b) The Unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	For the financial year ended 31.12.2016 RMB'000	For the financial year ended 31.12.2015 RMB'000	For the financial year ended 31.12.2016 (Note a) RM'000	For the financial year ended 31.12.2015 (Note a) RM'000
Cash flows from operating activities				
Loss before taxation	(92,062)	(76,895)	(59,472)	(49,674)
Adjustments for:				
Interest income	(39)	(115)	(25)	(74)
Interest expenses	(9,299)	1,916	(6,007)	1,238
Depreciation of property, plant and equipment	6,176	7,288	3,990	4,708
Property, plant and equipment written off	-	61	-	39
Amortisation of land use rights	1,626	1,627	1,050	1,051
Amortisation of patents	6,783	5,959	4,382	3,849
Operating loss before working capital changes	(86,815)	(60,159)	(56,082)	(38,863)
Increase in inventories	(583)	(2,980)	(377)	(1,925)
Decrease/(Increase) in trade and other receivables	37,411	(7,808)	24,168	(5,044)
(Decrease)/Increase in trade and other payables	(11,523)	43,332	(7,444)	27,992
Cash from/(used in) operations	(61,510)	(27,615)	(39,735)	(17,840)
Income tax paid	-	-	-	-
Interest received	39	115	25	74
Interest paid	(6,827)	(1,474)	(4,410)	(952)
Net cash used in operating activities	(68,298)	(28,974)	(44,120)	(18,718)
Cash flows from investing activities				
Purchase of property, plant and equipment	-	(1,801)	-	(1,163)
Acquisition of patent	(11,000)	(11,000)	(7,106)	(7,106)
Net cash used in investing activities	(11,000)	(12,801)	(7,106)	(8,269)
Cash flows from financing activities				
Proceeds from bank borrowings	36,700	23,900	23,708	15,439
Repayment of bank borrowings	(23,900)	(23,900)	(15,439)	(15,439)
Proceeds from borrowings	60,500	-	39,083	-
Net cash generated from/(used in) financing activities	73,300	-	47,352	-
Net decrease in cash and cash equivalents	(5,998)	(41,775)	(3,874)	(26,987)
Cash and cash equivalents at beginning of the financial year	6,163	47,938	3,981	30,968
Cash and cash equivalents at end of the financial year	165	6,163	107	3,981

Notes:

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(b) The Unaudited Condensed Consolidated Statements of Cash Flow should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2016

A1. Basis of accounting and changes in accounting policies

a) Basis of accounting

The consolidated interim financial statements of K-Star Sports Limited (the “Company” or “K-Star”) and its subsidiary companies (“the Group”) for the quarter ended 31 December 2016 are unaudited and have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Group for the financial year ended (“FYE”) 31 December 2015. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the FYE 31 December 2015.

In the current financial year, the Company has adopted all the new or amended FRS and Interpretations of FRS (“INT FRS”) that are relevant to its operations and effective for the current FYE 31 December 2016.

The adoption of these new or revised FRS and INT FRS did not result in substantial changes to the Group’s and the Company’s accounting policies and had no material effect on the amounts reported for the current or prior financial years.

At the date of authorisation of this report, the following FRS relevant to the Group were issued but not yet effective for the current financial year under review:

No.	Title	Effective date - Annual periods commencing on or after
FRS 115	Revenue from Contracts with Customers	1 January 2018
	Illustrative Examples	
Amendments to FRS 115	Clarifications to FRS 115 Revenue from Contracts with Customers	
FRS 109	Financial Instruments	1 January 2018
Improvements to FRSs (December 2016)		1 January 2018
Amendments to FRS 7	Disclosure Initiative	1 January 2017
Amendments to FRS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
FRS 116	Leases	1 January 2019
INT FRS 122	Foreign Currency Transactions and Advance Consideration	1 January 2018

The Directors do not anticipate that the adoption of these FRS (including sequential amendments) and INT FRS, where relevant to the Group, in future periods will have a material impact on the financial statements of the Group in the period of their initial adoption.

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Changes in accounting policies

The accounting policies and presentation adopted by the Group for the interim consolidated financial statements are consistent with those adopted for the Group's audited consolidated financial statements for the FYE 31 December 2015.

b) Basis of consolidation

The consolidated interim financial statements of the Group have been prepared using the historical cost method similar to the "pooling-of-interest" as acquisition of subsidiary is accounted for as reconstructions of businesses. Under the historical cost method, the acquired assets and liabilities are recorded at their existing carrying amounts.

The consolidated interim financial statements include the results of operations, and the assets and liabilities of the pooled enterprises as part of the Group for the whole of the current period.

Other than accounting of subsidiary company using the historical cost method as disclosed above, the results of the subsidiary companies acquired during the financial year, if any, are included in the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

Subsequent acquisitions of subsidiary companies, if any, are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Where accounting policies of a subsidiary do not conform with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiary companies acquired or disposed of during the financial year are included or excluded from the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

c) Functional currency and translation to presentation currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

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(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of transactions. Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates when the fair values are determined.

(iii) Group companies

The results and financial positions of all entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

- (1) Assets and liabilities are translated at the closing exchange rate at the end of reporting period;
- (2) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (3) All resulting currency translation differences are recognised in the currency translation reserve in equity.

A2. Audit report of the Group's preceding annual financial statements

The Group's audited consolidated financial statements for the FYE 31 December 2015 were not subject to any audit qualification.

A3. Seasonal or cyclical factors

There were no seasonal or cyclical factors which will materially affect the Group during the quarter under review.

A4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and financial year-to-date.

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A5. Material changes in estimates

There were no changes in estimates of amounts reported in prior financial year that have a material effect on the results of the current quarter under review.

A6. Changes in share capital and debts

There were no issuance, cancellations, repurchase, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury shares and resale of treasury shares for the current financial period to date.

A7. Subsequent material events

There are no other material events as at the date of this announcement that will affect the results in the financial year under review.

A8. Financial instruments with off-balance sheet risks

There were no financial instruments with off-balance sheet risks as at the date of this report.

A9. Segment information

a) Operating segments

The Group has only one operating segment, which is the design, manufacture and sale of sports footwear, sports apparel and accessories.

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

	FYE 31 December 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	301,277	194,625
Sale of sports apparel and accessories	-	-
	<u>301,277</u>	<u>194,625</u>

	FYE 31 December 2015	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	301,352	194,673
Sale of sports apparel and accessories	-	-
	<u>301,352</u>	<u>194,673</u>

b) Geographical segments

The Group operates predominantly in the People's Republic of China ("PRC"). Accordingly, no separate business and geographical segment information is presented.

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A10. Property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendment from the Group's audited consolidated financial statements for the FYE 31 December 2015.

A11. Status of corporate exercise

Save as disclosed in the ensuing paragraph, there were no other corporate proposals announced but not completed as at 21 February 2017, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report:

On 9 September 2016, K-Star proposed to undertake a private placement of up to 26,640,000 new ordinary shares in K-Star ("Placement Shares") to individual third party investor(s) to be identified ("Proposed Private Placement"). The 26,640,000 Placement Shares represents ten percent (10%) of the existing 266,400,000 issued and paid-up K-Star Shares.

The Proposed Private Placement is proposed to be implemented pursuant to a prior approval obtained pursuant to Section 161 of the Companies Act (Chapter 50) of Singapore from shareholders of K-Star in a general meeting held on 24 June 2016.

The Company had on 23 September 2016 submitted an application to Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for up to 26,640,000 new ordinary shares of K-Star pursuant to the Proposed Private Placement ("Application").

On 25 January 2017, the Company has announced that Bursa Securities had vide its letter dated 24 January 2017, resolved to approve the listing and quotation of up to 26,640,000 new ordinary shares in K-Star to be issued pursuant to the Private Placement.

The Proposed Private Placement is expected to be completed by the first quarter of 2017.

A12. Contingent liabilities

There were no material changes in the contingent liabilities or contingent assets since the last annual statement of financial position ended 31 December 2015.

A13. Capital commitments

There is no capital commitment as at 31 December 2016.

A14. Changes in the composition of the Group

There were no other changes in the composition of the Group during the financial period under review.

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A15. Reserves

a) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiary company of K-Star established in the PRC are required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulation of the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of this subsidiary, subject to the approval from the PRC authorities, and are not available for dividend distribution to the shareholders.

b) Merger reserve

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

A16. Related party transactions

Save as disclosure below, there were no related party transactions during the current quarter and the financial year to date:

	Current quarter ended 31 December 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense	(4,023)	(2,599)
Interest payable	950	614
	<hr/>	<hr/>
	FYE 31 December 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense	(1,053)	(680)
Interest payable	950	614
	<hr/>	<hr/>
	Current quarter ended and FYE 31 December 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Amount due to a related party	22,000	14,212
Less: Fair value discounting	(4,973)	(3,213)
	<hr/>	<hr/>
Amount due to a related party	17,027	10,999

The amount due to a related party is secured against certain land and building of the Group, bearing interest of 1.00% - 1.50% per month and with full principal repayment to be made at the end of the tenure of 5 years.

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

B1. Review of performance

The Group recorded total revenue of RMB 81.52 million for the current quarter three (3) months ended 31 December 2016 (“4Q2016”), representing a decrease of approximately 3.93% as compared to the preceding year corresponding quarter three (3) months ended 31 December 2015 (“4Q2015”) mainly due to lower sales derived from the OEM segment which saw a decrease of 16.18% by comparison.

Gross profit margin was fairly consistent with no major fluctuation in the production costs as well as the average unit selling price.

The Group’s loss before taxation (“LBT”) was recorded higher as compared to the 4Q2015 was mainly due to provision of sales rebates to the distributors for the FYE 2014 and 2015 which in aggregate amounted to RMB 62.47 million incurred during the 4Q2016.

For the FYE 31 December 2016, the Group’s revenue and gross profit margin were fairly consistent. Whilst there were no major fluctuation in the average unit selling price, the sales of Dixing brand footwear has recorded an increase by approximately 5.72% while the sales of OEM has decreased by approximately 19.70% as compared to the FYE 31 December 2015.

The sales and distribution expenses has increased by 36.25% as compared to the FYE 31 December 2015. This was mainly attributed from the current year increase in sales rebates provided to the distributors amounted to RMB 62.47 million as compared to RMB 32.42 million incurred in the previous financial year. To support and maintain long term sustainability of the distributors and the retailers amid unfavorable market condition, the Group has since the FYE 2012 provided sales rebates to the distributors, save for the FYE 2014. The sales rebate is non-contractual and serve as an alternative incentive substituting subsidies given to the distributors before the FYE 2012.

Comparing to the FYE 31 December 2015, the administrative expense has reduced by 5.49% as the depreciation expenses was recorded lower by 15.26%. Contrary, finance costs was higher resulting from an additional long term borrowings of RMB 60.50 million from a third party which bear an interest rate of 1.00 – 1.50% per month. During the financial year, the Group reflected a net credit effect on interest expense resulting from fair value adjustment of RMB 18.52 million pertaining to non-current payables amounting to RMB 82.50 million. This fair value adjustment is made in accordance with FRS 39.

The Group reported a higher LBT and loss after taxation (“LAT”) by RMB 15.17 million for the FYE 31 December 2016 was mainly due to higher finance costs and sales rebates incurred during the financial year.

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The Group's profit/loss before taxation is arrived at after charging/(crediting) amongst others, the following:

	Individual quarter ended		Individual quarter ended	
	31 December		31 December	
	2016	2015	2016	2015
	RMB'000	RMB'000	RM'000	RM'000
Interest income	(8)	(6)	(5)	(4)
Other income including investment income	-	-	-	-
Interest expense	(15,187)	789	(9,811)	510
Depreciation	1,449	1,837	936	1,187
Amortisation	2,239	2,148	1,446	1,388
Provision for doubtful debts	*1	*1	*1	*1
Bad debts written off	*1	*1	*1	*1
Provision for slow moving inventory	*2	*2	*2	*2
Inventory written off	*2	*2	*2	*2
(Gain)/ Loss on disposal of quoted or unquoted investments or properties	N/A	N/A	N/A	N/A
Impairment of assets	*3	*3	*3	*3
(Gain)/Loss on foreign exchange	(4)	16	(3)	(10)
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

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

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

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

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

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	Current year to date ended 31 December		Current year to date ended 31 December	
	2016 RMB'000	2015 RMB'000	2016 RM'000	2015 RM'000
Interest income	(39)	(114)	(25)	(74)
Other income including investment income	-	-	-	-
Interest expense	(9,299)	1,916	(6,007)	1,238
Depreciation	6,176	7,288	3,990	4,707
Amortisation	8,409	7,586	5,432	4,900
Provision for doubtful debts	*1	*1	*1	*1
Bad debts written off	*1	*1	*1	*1
Provision for slow moving inventory	*2	*2	*2	*2
Inventory written off	*2	*2	*2	*2
(Gain)/ Loss on disposal of quoted or unquoted investments or properties	N/A	N/A	N/A	N/A
Impairment of assets	*3	*3	*3	*3
(Gain)/Loss on foreign exchange	(5)	(7)	(3)	(5)
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

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

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

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

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

* *Negligible*

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B2. Variation of results against immediate preceding quarter

	Current quarter ended 31 December 2016 RMB'000	Preceding quarter ended 30 September 2016 RMB'000
Revenue	81,524	75,581
Loss before taxation	(55,694)	(12,935)
Loss after taxation and total comprehensive loss for the period	(55,694)	(12,935)

	Current quarter ended 31 December 2016 RM'000	Preceding quarter ended 30 September 2016 RM'000
Revenue	52,665	48,825
Loss before taxation	(35,978)	(8,356)
Loss after taxation and total comprehensive loss for the period	(35,978)	(8,356)

The Group's revenue for the 4Q2016 has increased by 7.86% as compared to the preceding quarter three (3) months ended 30 September 2016 ("3Q2016"). The sales of Dixing brand footwear which accounted for 81.23% of the total sales was fairly consistent with a marginal drop of 1.00% in revenue while the OEM segment representing 18.77% of the total sales has increased by approximately 76.10%.

The gross profit margin was fairly consistent with no major fluctuation in the production costs as well as the average unit selling price.

Comparing to the 3Q2016, the sales and distribution expenses were recorded higher by RMB 60.57 million mainly due to the increase in sales rebates provided to the distributors amounted to RMB 62.47 million during the quarter as mentioned in B1 above. Meanwhile, there were no major fluctuation in the administrative expenses as compared to 3Q2016.

The net credit effect on the interest expense was due to the fair value adjustment of RMB 18.52 million, pertaining to the non-current payables amounting to RMB 82.50 million. This fair value adjustment is made in accordance with FRS 39.

In view of the above, the current quarter's losses were higher by approximately RMB 42.76 million as compared to the 3Q2016.

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B3. Prospects for the financial year ending 31 December 2017

The China economy has slowed down with declining in manufacturing, falling exports, turbulent capital market, rising debt level and eroding foreign reserves. The gross domestic product (“GDP”) growth rate has seen fell from 6.9% in 2015 to 6.7% in 2016. It is envisaged that a challenging time ahead for China economy that the China Government has lower its economic growth target to approximately 6.5% as set in the 13th Five-Year Plan. However, the unveiled 13th Five-Year Plan also sets to promote “Made in China 2025” which encourages the industry to reform its manufacturing practices into high-end manufacturing and encouraging expansion into the international market. Rising participation in sport activities supported by Government policy and advancement of e-commerce are in place to drive growth and recovery of the overall sporting goods industry.

Looking forward, the China sports footwear market will remain challenging after years of downturn. Domestic brands underwent a prolong restructuring arising from overly expansion which led to high level of excessive inventory. The oversupply situation has generally stabilised and yet struggling to see a recovery in sales growth.

International sportswear brands are aggressively expanding their business efforts in the lower tier cities, causing domestic sportswear brands to lose market share due to weaker brand recognition and lack of product differentiation. With rising disposable income and increasing participation in sports, consumers in lower tier cities are seeking more value in brand identity and product quality.

The Group remains cautious on the uncertainty of the economic recovery and perceived that the competition within China’s sporting goods industry will continue to intensify. The Board of Directors of K-Star (“Board”) envisages that the Group’s prospects for the financial year ending 31 December 2017 would be favourable. Given the overall backdrop in consumer sentiment and intense competition both from foreign and domestic brands as discussed, the Group sees limited upside momentum on the sales growth and remains optimistic on the long term sustainability and potential opportunity given the Group’s continuous effort and investment in brand recognition as well as product innovation.

B4. Profit forecast and profit guarantee

The Group has not provided any profit forecast or profit guarantee in any public document for the current financial quarter.

B5. Taxation

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

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B6. Group borrowings

The Group's borrowings as at 31 December 2016 were as follows:

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	9,950	6,428
Unsecured	<u>26,750</u>	<u>17,280</u>
	<u>36,700</u>	<u>23,708</u>
	Total RMB'000	Total RM'000
Long-term payables:		
Secured	82,500	53,295
Less: Fair value discounting	<u>(18,522)</u>	<u>(11,965)</u>
	<u>63,978</u>	<u>41,330</u>

B7. Changes in material litigation

As at the date of this report, there is no material litigation or arbitration, which has a material effect on the financial position of the Group and the Board is not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

B8. Dividend

There were no dividends declared by the Company for the current quarter ended 31 December 2016.

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B9. Loss per share

a) Basic loss per share

	Individual quarter ended 31 December		Individual quarter ended 31 December	
	2016 RMB'000	2015 RMB'000	2016 RM'000	2015 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(55,694)	(44,177)	(35,978)	(28,538)
Weighted average number of ordinary shares in issue ('000)	266,400	266,400	266,400	266,400
Basic loss per share (RMB cents/RM sen)	(20.91)	(16.58)	(13.51)	(10.71)

	Cumulative FYE 31 December		Cumulative FYE 31 December	
	2016 RMB'000	2015 RMB'000	2016 RM'000	2015 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(92,062)	(76,892)	(59,472)	(49,672)
Weighted average number of ordinary shares in issue ('000)	266,400	266,400	266,400	266,400
Basic loss per share (RMB cents/RM sen)	(34.56)	(28.86)	(22.33)	(18.64)

b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares as at the respective balance sheet dates.

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B10. Realised and unrealised profits/(losses)

	FYE 31 December		FYE 31 December	
	2016	2015	2016	2015
	RMB'000	RMB'000	RM'000	RM'000
Realised	(18,526)	92,063	(11,967)	59,472
Unrealised	18,526	(1)	11,967	*
Total retained profits/(losses)	*	92,062	*	59,472
			Preceding quarter ended 30 September 2016	
			RMB'000	RM'000
Realised			55,694	35,978
Unrealised			*	*
Total retained profits			55,694	35,978

Note:

* *Negligible*

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
28 February 2017