

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 30 JUNE 2017

	<u>Note</u>	Individual quarter Quarter ended		Individual quarter Quarter ended	
		30.06.2017	30.06.2016	30.06.2017 (Note a)	30.06.2016 (Note a)
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	77,198	73,672	48,890	46,656
Cost of sales		<u>(67,701)</u>	<u>(68,728)</u>	<u>(42,875)</u>	<u>(43,525)</u>
Gross profit		9,497	4,944	6,015	3,131
Other income		5	15	3	9
Selling and distribution expenses	B1	(4,869)	(11,683)	(3,084)	(7,399)
Administrative expenses	B1	(4,881)	(5,499)	(3,091)	(3,483)
Finance costs		<u>(3,714)</u>	<u>(1,835)</u>	<u>(2,352)</u>	<u>(1,162)</u>
Loss before taxation	B1	(3,962)	(14,058)	(2,509)	(8,904)
Taxation		-	-	-	-
Total loss for the period	B1	<u>(3,962)</u>	<u>(14,058)</u>	<u>(2,509)</u>	<u>(8,904)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		<u>(3,962)</u>	<u>(14,058)</u>	<u>(2,509)</u>	<u>(8,904)</u>
Attributable to :					
- Equity holders of the Company		<u>(3,962)</u>	<u>(14,058)</u>	<u>(2,509)</u>	<u>(8,904)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(1.35)	(5.28)	(0.85)	(3.34)
Diluted (RMB cents/RM sen)	B9	(1.35)	(5.28)	(0.85)	(3.34)

Notes:

(a) The presentation currency of this unaudited interim financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the quarter ended 30 June 2017 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6333 as at 30 June 2017. 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 2016 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 PERIOD ENDED 30 JUNE 2017

		Cumulative quarter		Cumulative quarter	
		Current	Preceding	Current	Preceding
		year	year	year	year
		to date	to date	to date	to date
		30.06.2017	30.06.2016	30.06.2017	30.06.2016
				(Note a)	(Note a)
	Note	RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	155,188	144,172	98,280	91,304
Cost of sales		<u>(139,831)</u>	<u>(134,518)</u>	<u>(88,555)</u>	<u>(85,190)</u>
Gross profit		15,357	9,654	9,725	6,114
Other income		9	24	6	15
Selling and distribution expenses	B1	(11,076)	(18,753)	(7,014)	(11,876)
Administrative expenses	B1	(9,839)	(11,081)	(6,231)	(7,018)
Finance costs		<u>(7,347)</u>	<u>(3,277)</u>	<u>(4,653)</u>	<u>(2,075)</u>
Loss before taxation	B1	(12,896)	(23,433)	(8,167)	(14,840)
Taxation		-	-	-	-
Total loss for the period	B1	<u>(12,896)</u>	<u>(23,433)</u>	<u>(8,167)</u>	<u>(14,840)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		<u>(12,896)</u>	<u>(23,433)</u>	<u>(8,167)</u>	<u>(14,840)</u>
Attributable to :					
-Equity holders of the Company		<u>(12,896)</u>	<u>(23,433)</u>	<u>(8,167)</u>	<u>(14,840)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(4.57)	(8.80)	(2.89)	(5.57)
Diluted (RMB cents/RM sen)	B9	(4.57)	(8.80)	(2.89)	(5.57)

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 2016 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Unaudited As at 30.06.2017	Audited As at 31.12.2016	Unaudited As at 30.06.2017 (Note a)	Audited As at 31.12.2016 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
ASSETS				
Non-Current Assets				
Property, plant and equipment	45,361	47,397	28,727	30,017
Patents	33,825	37,675	21,421	23,860
Land use rights	68,109	68,922	43,133	43,648
	<u>147,295</u>	<u>153,994</u>	<u>93,281</u>	<u>97,525</u>
Current Assets				
Inventories	6,977	9,792	4,419	6,201
Trade and other receivables	115,685	115,882	73,263	73,388
Cash and bank balances	5,500	164	3,483	104
	<u>128,162</u>	<u>125,838</u>	<u>81,165</u>	<u>79,693</u>
Total assets	<u>275,457</u>	<u>279,832</u>	<u>174,446</u>	<u>177,218</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	287,196	285,075	181,881	180,538
(Accumulated losses)/Retained earnings	(12,898)	(2)	(8,168)	(1)
Other reserves	(149,444)	(149,444)	(94,643)	(94,643)
	<u>124,854</u>	<u>135,629</u>	<u>79,070</u>	<u>85,894</u>
Current Liabilities				
Borrowings	35,970	36,700	22,780	23,242
Trade and other payables	44,379	38,604	28,105	24,448
	<u>80,349</u>	<u>75,304</u>	<u>50,885</u>	<u>47,690</u>
Non-Current Liability				
Deferred tax liability	4,921	4,921	3,116	3,117
Other payable	65,333	63,978	41,375	40,517
	<u>70,254</u>	<u>68,899</u>	<u>44,491</u>	<u>43,634</u>
Total liabilities	<u>150,603</u>	<u>144,203</u>	<u>95,376</u>	<u>91,324</u>
Total equity and liabilities	<u>275,457</u>	<u>279,832</u>	<u>174,446</u>	<u>177,218</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)	<u>42.61</u>	<u>50.91</u>	<u>26.98</u>	<u>32.24</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 2016 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 2016 and 30 June 2017 divided by the number of ordinary shares of 266,400,000 and 293,040,000 respectively.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017

	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 2015	285,075	(174,156)	24,712	168,957	304,588
Total comprehensive loss for the financial period	-	-	-	(23,433)	(23,433)
At 30 June 2016	285,075	(174,156)	24,712	145,524	281,155
At 31 December 2016	285,075	(174,156)	24,712	(2)	135,629
Share issuance	2,121	-	-	-	2,121
Total comprehensive loss for the financial period	-	-	-	(12,896)	(12,896)
At 30 June 2017	287,196	(174,156)	24,712	(12,898)	124,854

	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 2015	180,538	(110,293)	15,650	107,000	192,895
Total comprehensive loss for the financial period	-	-	-	(14,840)	(14,840)
At 30 June 2016 (note a)	180,538	(110,293)	15,650	92,160	178,055
At 31 December 2016	180,538	(110,293)	15,650	(1)	85,894
Share issuance	1,343	-	-	-	1,343
Total comprehensive loss for the financial period	-	-	-	(8,167)	(8,167)
At 30 June 2017 (note a)	181,881	(110,293)	15,650	(8,168)	79,070

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 2016 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 PERIOD ENDED 30 JUNE 2017

	For the financial period ended 30.06.2017	For the financial period ended 30.06.2016	For the financial period ended 30.06.2017 (Note a)	For the financial period ended 30.06.2016 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
Cash flows from operating activities				
Loss before taxation	(12,896)	(23,433)	(8,167)	(14,840)
Adjustments for:				
Interest income	(9)	(19)	(6)	(12)
Interest expenses	7,347	3,277	4,653	2,075
Depreciation of property, plant and equipment	2,036	3,206	1,289	2,030
Amortisation of land use rights	813	813	515	515
Amortisation of patents	3,850	3,300	2,438	2,090
Operating loss before working capital changes	1,141	(12,856)	722	(8,142)
Increase in inventories	2,815	2,303	1,783	1,458
(Increase)/Decrease in trade and other receivables	197	(2,077)	125	(1,315)
Increase/(Decrease) in trade and other payables	5,775	11,749	3,657	7,441
Cash from operations	9,928	(881)	6,287	(558)
Income tax paid	-	-	-	-
Interest received	9	19	6	12
Interest paid	(5,992)	(3,277)	(3,795)	(2,075)
Net cash flows from operating activities	3,945	(4,139)	2,498	(2,621)
Net cash flows from/(used in) investing activities	-	-	-	-
Cash flows from financing activities				
Proceeds from share issuance	2,121	-	1,343	-
Proceeds from bank borrowings	11,970	12,700	7,581	8,043
Repayment of bank borrowings	(12,700)	(8,000)	(8,043)	(5,066)
Proceeds from borrowings	-	-	-	-
Net cash flows from financing activities	1,391	4,700	881	2,977
Net increase in cash and cash equivalents	5,336	561	3,379	356
Cash and cash equivalents at beginning of the financial period	164	6,163	104	3,903
Cash and cash equivalents at end of the financial period	5,500	6,724	3,483	4,259

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 2016 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 SECOND QUARTER ENDED 30 JUNE 2017

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 30 June 2017 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 2016. 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 2016.

In the current financial year, the Company has adopted all the new or amended FRS and Interpretations of FRS (“INT FRS”) that are relevant to its operations and effective for the current financial year ending 31 December 2017.

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 period under review:

No.	Title	Effective date - Annual periods commencing on or after
FRS 115	Revenue from Contracts with Customers Illustrative Examples	1 January 2018
Amendments to FRS 115	Clarifications to FRS 115 Revenue from Contracts with Customers	
FRS 110, FRS 28	Amendments to FRS 110 and FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
FRS 109	Financial Instruments Illustrative Examples Implementation Guidance	1 January 2018
Improvements to FRSs (December 2016)	Amendments to Guidance on Other Standards	1 January 2018
FRS 102	Amendments to FRS 102: Classification and Measurement of Share-based Payment Transactions	1 January 2018
FRS 40	Amendments to FRS 40: Transfers of Investment Property	1 January 2018
FRS 116	Leases	1 January 2019

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FRS 104	Amendments to FRS 104: Applying FRS 109 Financial Instruments with FRS 104 Insurance Contracts	1 January 2018
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.

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 2016.

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.

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c) Functional currency and translation to presentation currency

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

The Group's audited consolidated financial statements for the FYE 31 December 2016 were not subject to any audit qualification.

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A3. Seasonal or cyclical factors

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

A4. Unusual items

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

A5. Material changes in estimates

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

A6. Changes in share capital and debts

Save as disclosed below, 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.

Details of the movements in the Company's shares since the previous FYE 31 December 2016 up to the current financial year to date are as follows:

Date of issue	No. of shares issued	Issued and paid-up share capital	
		RMB	SGD
As at 31 December 2016			
	266,400,000	285,075,553	59,903,460
17 March 2017			
- Issuance pursuant to private placement	26,640,000	2,120,565	429,194
	<u>293,040,000</u>	<u>287,196,118</u>	<u>60,332,654</u>

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.

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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:

	Six (6) months ended 30 June 2017	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	155,188	98,280
Sale of sports apparel and accessories	-	-
	<u>155,188</u>	<u>98,280</u>

	Six (6) months ended 30 June 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	144,172	91,304
Sale of sports apparel and accessories	-	-
	<u>144,172</u>	<u>91,304</u>

b) Geographical segments

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

A10. Property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendment from the Group's audited consolidated financial statements for the FYE 31 December 2016.

A11. Status of corporate exercise

- (a) There were no other corporate proposals announced but not completed as at 11 August 2017, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

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(b) Utilisation of proceeds

The total gross proceeds from the private placement of 26,640,000 new ordinary shares in K-Star to individual third party investors amounting to approximately RM1.36 million are expected to be fully utilised in the following manner:

Details of utilisation	Utilisation timeframe	Proposed utilisation RM'000	Utilisation as at the reporting date RM'000	Amount unutilised RM'000
General capital	working Within 12 months	1,259	(780)	479
Expenses for private placement #	Within 1 month	100	(76)	24
		1,359	(856)	503

Note:

The unutilised amount of RM24,000 will be allocated towards for the general working capital.

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 2016.

A13. Capital commitments

There is no capital commitment as at 30 June 2017.

A14. Changes in the composition of the Group

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

A15. Reserves

a) Statutory reserve

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

b) Merger reserve

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

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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 30 June 2017	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense	822	521
Interest payable, nominal value	660	418

	For the financial year to date ended 30 June 2017	
	<u>RMB'000</u>	<u>RM'000</u>
Amount due to a related party	22,000	13,933
Less: Fair value discounting	(4,660)	(2,951)
Amount due to a related party	<u>17,340</u>	<u>10,982</u>

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

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

B1. Review of performance

The Group recorded total revenue of RMB 77.20 million for the current quarter three (3) months ended 30 June 2017 ("2Q2017"), representing an increase of approximately 4.79% as compared to the preceding year corresponding quarter three (3) months ended 30 June 2016 ("2Q2016"). Whilst the average unit selling price remained consistent, the sales of Dixing brand footwear has increased by 11.05% or RMB 6.45 million while the sales contributed from the OEM segment has decreased by approximately 19.22% or RMB 2.93 million.

Gross profit margin has improved by 5.59% from 6.71% recorded in the preceding year corresponding quarter. This was mainly contributed from the R&D's effort to reduce material usage, manufacturing waste and less labour intensive in the production which resulting in higher margins.

Selling and distribution expenses has decreased by 58.32% as compared to 2Q2016. This was mainly due to cost cutting measures in advertising expenses which has dropped significantly by 63.82% as compared to 2Q2016.

Administrative expenses has reduced by 11.24% whilst depreciation expenses incurred was lowered by 46.12% as compared to 2Q2016. On the other hand, finance costs was higher by 102.40% resulting from fair value interest accretion on non-current payables amounted to RMB82.50 which bear an interest rate of 1.00% per month.

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The Group's loss before taxation ("LBT") has narrowed by 71.82% as compared to the 2Q2016 as a result of improving sales and gross profit margin as well as cost savings on advertising and depreciation expenses.

For the financial period ended ("FPE") 30 June 2016 (1H2017"), the Group's revenue stood at RMB 155.19 million, representing an increase of approximately 7.64% as compared to the FPE 30 June 2016 ("1H2016"). The sales of Dixing brand footwear has increased by approximately RMB 13.53 million, representing an increase of 11.93% as compared to 1H2016. The OEM segment, on the other hand has decreased by RMB 2.52 million or 8.19% as compared to the preceding year corresponding period.

Notwithstanding that there were slight upward adjustment on the average unit selling price by approximately 0.66%, the Group's gross profit margin has improved by approximately 3.20% from 6.70% recorded in the 1H2016. This was mainly due to product evolution involving new set of R&D in producing lightweight yet fashionable shoes that the footwear market is obsessing. This excelled in terms of both design and cost efficiencies which resulting in higher margins.

The sales and distribution expenses were recorded lower by approximately 40.94% as compared to the 1H2016. This was mainly due to cost cutting in advertising expenditure by 44.40% as compared to 1H2016.

Comparing to the 1H2016, the administrative expenses has reduced by 11.21% as the depreciation expenses was recorded lower by 48.67%. Contrary, finance costs was higher by 124.20% resulting from fair value interest accretion on non-current payables amounted to RMB 82.50 which bear an interest rate of 1.00% per month.

The Group's loss before taxation and loss after taxation were narrowed by 44.97% for the 1H2017 mainly attributable to improvement in sales and gross profit margin as well as cost savings in the selling and distribution expenses and administrative expenses.

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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	
	30 June		30 June	
	2017	2016	2017	2016
	RMB'000	RMB'000	RM'000	RM'000
Interest income	(5)	(12)	(3)	(8)
Other income including investment income	-	-	-	-
Interest expense	3,714	1,836	2,352	1,163
Depreciation	1,018	1,549	645	981
Amortisation	1,518	2,056	961	1,302
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	25	(2)	18	(1)
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

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

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

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

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

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	Current year to date ended 30 June		Current year to date ended 30 June	
	2017 RMB'000	2016 RMB'000	2017 RM'000	2016 RM'000
Interest income	(9)	(19)	(6)	(12)
Other income including investment income	-	-	-	-
Interest expense	7,347	3,277	4,653	2,075
Depreciation	2,036	3,206	1,289	2,030
Amortisation	4,663	4,113	2,953	2,605
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	39	(4)	25	(3)
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

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

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

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

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

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B2. Variation of results against immediate preceding quarter

	Current quarter ended 30 June 2017 RMB'000	Preceding quarter ended 31 March 2017 RMB'000
Revenue	77,198	77,990
Loss before taxation	(3,962)	(8,934)
Loss after taxation and total comprehensive loss for the period	(3,962)	(8,934)

	Current quarter ended 30 June 2017 RM'000	Preceding quarter ended 31 March 2017 RM'000
Revenue	48,890	49,391
Loss before taxation	(2,509)	(5,658)
Loss after taxation and total comprehensive loss for the period	(2,509)	(5,658)

The Group's revenue for the 2Q2017 was fairly consistent as compared to the preceding quarter three (3) months ended 31 March 2017 ("1Q2017"). The sales of Dixing brand footwear which accounted for 84.06% was higher by 4.51% while the OEM segment representing 15.94% of the total footwear sales has decreased by approximately 22.60%.

Resulting from the new product evolution that cost way less to produce in terms of savings on materials and labour in the production, the gross profit margin has improved by 4.79% correspondingly as compared to the 1Q2017.

The administrative expenses and finance costs of the Group were fairly consistent as compared to 1Q2017. The sales and distribution expenses were recorded lower by approximately 21.56% as compared to the 1Q2017. This was mainly due to lower advertising expenses incurred which has decreased by 33.19% as compared to 1Q2017.

In view of the above, the current quarter's losses were narrowed by approximately 55.65% as compared to the 1Q2017.

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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 30 June 2017 were as follows:

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	9,950	6,301
Unsecured	26,020	16,479
	<u>35,970</u>	<u>22,780</u>
	Total RMB'000	Total RM'000
Long-term other payables:		
Secured	82,500	52,247
Less: Fair value discounting	<u>(17,167)</u>	<u>(10,872)</u>
	<u>65,333</u>	<u>41,375</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 30 June 2017.

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B9. Loss per share

a) Basic loss per share

	Individual quarter ended 30 June		Individual quarter ended 30 June	
	2017 RMB'000	2016 RMB'000	2017 RM'000	2016 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(3,962)	(14,058)	(2,509)	(8,904)
Weighted average number of ordinary shares in issue ('000)	293,040	266,400	293,040	266,400
Basic loss per share (RMB cents/RM sen)	(1.35)	(5.28)	(0.85)	(3.34)

	Cumulative six (6) months ended 30 June		Cumulative six (6) months ended 30 June	
	2017 RMB'000	2016 RMB'000	2017 RM'000	2016 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(12,896)	(23,433)	(8,167)	(14,840)
Weighted average number of ordinary shares in issue ('000)	282,001	266,400	282,001	266,400
Basic loss per share (RMB cents/RM sen)	(4.57)	(8.80)	(2.89)	(5.57)

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)

	FPE 30 June		FPE 30 June	
	2017	2016	2017	2016
	RMB'000	RMB'000	RM'000	RM'000
Realised	(30,065)	68,629	(19,040)	43,463
Unrealised	17,167	*	10,872	*
Total retained profits/(losses)	(12,898)	68,629	(8,168)	43,463

	Preceding quarter ended	
	31 March 2017	
	RMB'000	RM'000
Realised	(26,800)	(16,972)
Unrealised	17,864	11,313
Total retained profits/(losses)	(8,936)	(5,659)

Note:

* *Negligible*

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
18 August 2017