

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 SEPTEMBER 2017

	Note	Individual quarter Quarter ended		Individual quarter Quarter ended	
		30.09.2017	30.09.2016	30.09.2017 (Note a)	30.09.2016 (Note a)
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	71,771	75,581	45,553	47,971
Cost of sales		<u>(63,649)</u>	<u>(70,324)</u>	<u>(40,398)</u>	<u>(44,635)</u>
Gross profit		8,122	5,257	5,155	3,336
Other income		11	8	7	5
Selling and distribution expenses	B1	(586)	(10,570)	(372)	(6,709)
Administrative expenses	B1	(6,041)	(5,019)	(3,834)	(3,186)
Finance costs		<u>(7,884)</u>	<u>(2,611)</u>	<u>(5,004)</u>	<u>(1,657)</u>
Loss before taxation	B1	(6,378)	(12,935)	(4,048)	(8,211)
Taxation		-	-	-	-
Total loss for the period	B1	<u>(6,378)</u>	<u>(12,935)</u>	<u>(4,048)</u>	<u>(8,211)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		<u>(6,378)</u>	<u>(12,935)</u>	<u>(4,048)</u>	<u>(8,211)</u>
Attributable to :					
- Equity holders of the Company		<u>(6,378)</u>	<u>(12,935)</u>	<u>(4,048)</u>	<u>(8,211)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(2.18)	(4.86)	(1.38)	(3.08)
Diluted (RMB cents/RM sen)	B9	(2.18)	(4.86)	(1.38)	(3.08)

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 September 2017 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6347 as at 30 September 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 SEPTEMBER 2017

	<u>Note</u>	Cumulative quarter		Cumulative quarter	
		Current year to date 30.09.2017	Preceding year to date 30.09.2016	Current year to date 30.09.2017 (Note a)	Preceding year to date 30.09.2016 (Note a)
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	226,959	219,753	144,051	139,477
Cost of sales		(203,480)	(204,842)	(129,149)	(130,013)
Gross profit		23,479	14,911	14,902	9,464
Other income		20	32	13	20
Selling and distribution expenses	B1	(11,662)	(29,323)	(7,402)	(18,611)
Administrative expenses	B1	(15,880)	(16,100)	(10,079)	(10,219)
Finance costs		(15,231)	(5,888)	(9,667)	(3,737)
Loss before taxation	B1	(19,274)	(36,368)	(12,233)	(23,083)
Taxation		-	-	-	-
Total loss for the period	B1	(19,274)	(36,368)	(12,233)	(23,083)
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		(19,274)	(36,368)	(12,233)	(23,083)
Attributable to :					
-Equity holders of the Company		(19,274)	(36,368)	(12,233)	(23,083)
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(6.75)	(13.65)	(4.28)	(8.66)
Diluted (RMB cents/RM sen)	B9	(6.75)	(13.65)	(4.28)	(8.66)

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 SEPTEMBER 2017

	Unaudited As at 30.09.2017	Audited As at 31.12.2016	Unaudited As at 30.09.2017 (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	44,365	47,397	28,158	30,083
Patents	31,900	37,675	20,247	23,912
Land use rights	43,982	68,922	27,915	43,745
	<u>120,247</u>	<u>153,994</u>	<u>76,320</u>	<u>97,740</u>
Current Assets				
Inventories	6,668	9,792	4,232	6,215
Trade and other receivables	109,437	115,882	69,460	73,550
Cash and bank balances	8,295	164	5,265	104
	<u>124,400</u>	<u>125,838</u>	<u>78,957</u>	<u>79,869</u>
Total assets	<u>244,647</u>	<u>279,832</u>	<u>155,277</u>	<u>177,609</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	287,196	285,075	182,283	180,937
(Accumulated losses)/Retained earnings	(19,276)	(2)	(12,234)	(1)
Other reserves	(149,444)	(149,444)	(94,852)	(94,852)
	<u>118,476</u>	<u>135,629</u>	<u>75,197</u>	<u>86,084</u>
Current Liabilities				
Borrowings	35,680	36,700	22,646	23,293
Trade and other payables	37,010	38,604	23,490	24,502
	<u>72,690</u>	<u>75,304</u>	<u>46,136</u>	<u>47,795</u>
Non-Current Liability				
Deferred tax liability	4,921	4,921	3,123	3,123
Other payable	48,560	63,978	30,821	40,607
	<u>53,481</u>	<u>68,899</u>	<u>33,944</u>	<u>43,730</u>
Total liabilities	<u>126,171</u>	<u>144,203</u>	<u>80,080</u>	<u>91,525</u>
Total equity and liabilities	<u>244,647</u>	<u>279,832</u>	<u>155,277</u>	<u>177,609</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)	<u>40.43</u>	<u>50.91</u>	<u>25.66</u>	<u>32.31</u>

Notes:

- (a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 30 September 2017 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6347 as at 30 September 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 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 September 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 SEPTEMBER 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	-	-	-	(36,368)	(36,368)
At 30 September 2016	285,075	(174,156)	24,712	132,589	268,220
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	-	-	-	(19,274)	(19,274)
At 30 September 2017	287,196	(174,156)	24,712	(19,276)	118,476

	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	180,937	(110,537)	15,685	107,237	193,322
Total comprehensive loss for the financial period	-	-	-	(23,083)	(23,083)
At 30 September 2016 (note a)	180,937	(110,537)	15,685	84,154	170,239
At 31 December 2016	180,937	(110,537)	15,685	(1)	86,084
Share issuance	1,346	-	-	-	1,346
Total comprehensive loss for the financial period	-	-	-	(12,233)	(12,233)
At 30 September 2017 (note a)	182,283	(110,537)	15,685	(12,234)	75,197

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 SEPTEMBER 2017

	For the financial period ended 30.09.2017	For the financial period ended 30.09.2016	For the financial period ended 30.09.2017 (Note a)	For the financial period ended 30.09.2016 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
Cash flows from operating activities				
Loss before taxation	(19,274)	(36,368)	(12,233)	(23,083)
Adjustments for:				
Interest income	(20)	(31)	(13)	(20)
Interest expenses	15,231	5,888	9,667	3,737
Depreciation of property, plant and equipment	3,040	4,727	1,929	3,000
Loss on disposal of land use rights	1,359	-	863	-
Amortisation of land use rights	1,081	1,220	686	774
Amortisation of patents	5,775	4,950	3,665	3,142
Operating loss before working capital changes	7,192	(19,614)	4,564	(12,450)
Increase in inventories	3,124	596	1,983	378
Decrease in trade and other receivables	6,445	7,080	4,091	4,494
(Decrease)/Increase in trade and other payables	(1,594)	15,386	(1,012)	9,765
Cash from operations	15,167	3,448	9,626	2,187
Income tax paid	-	-	-	-
Interest received	20	31	13	20
Interest paid	(8,649)	(5,888)	(5,490)	(3,737)
Net cash flows from/(used in) operating activities	6,538	(2,409)	4,149	(1,530)
Cash flows from investing activities				
Purchase of property, plant and equipment	(8)	-	(5)	-
Prepayment of patents	-	(8,800)	-	(5,585)
Proceeds from disposal of land use rights	22,500	-	14,281	-
Net cash flows from/(used in) investing activities	22,492	(8,800)	14,276	(5,585)
Cash flows from financing activities				
Proceeds from share issuance	2,121	-	1,346	-
Proceeds from bank borrowings	34,930	28,000	22,170	17,772
Repayment of bank borrowings	(35,950)	(15,200)	(22,817)	(9,647)
Repayment of long term payable	(22,000)	-	(13,963)	-
Net cash flows (used in)/from financing activities	(20,899)	12,800	(13,264)	8,125
Net increase in cash and cash equivalents	8,131	1,591	5,161	1,010
Cash and cash equivalents at beginning of the financial period	164	6,163	104	3,912
Cash and cash equivalents at end of the financial period	8,295	7,754	5,265	4,922

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 THIRD QUARTER ENDED 30 SEPTEMBER 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 September 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 Amendments to Guidance on Other Standards	1 January 2018
Improvements to FRSs (December 2016)		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
INT FRS 123	Uncertainty over Income Tax Treatments	1 January 2019

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:

	Nine (9) months ended 30 September 2017	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	226,959	144,051
Sale of sports apparel and accessories	-	-
	<u>226,959</u>	<u>144,051</u>

	Nine (9) months ended 30 September 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	219,753	139,477
Sale of sports apparel and accessories	-	-
	<u>219,753</u>	<u>139,477</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) Save as disclosed in the ensuing paragraph, there were no other corporate proposals announced but not completed as at 10 November 2017, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

On 13 October 2017, the Company proposed to undertake the following proposals:

- i) proposed placement of up to 87,912,000 placement shares, representing 30% of K-Star's total number of issued shares;
- (ii) proposed issue of up to 152,380,800 warrants on the basis of 2 warrants for every 5 existing K-Star's shares held on the entitlement date; and

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(iii) proposed diversification of the principal activities of K-Star Group to include construction and related activities.

The application to the relevant authorities in relation to the proposals will be made in due course. Barring any unforeseen circumstances and subject to all relevant approvals being obtained, the proposals are expected to be completed by the second quarter of 2018.

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	Utilisation as at the reporting date	Amount unutilised
		RM'000	RM'000	RM'000
General working capital	Within 12 months	1,259	(1,214)	45
Expenses for private placement #	Within 1 month	100	(76)	24
		1,359	(1,290)	69

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 September 2017.

A14. Changes in the composition of the Group

On 12 September 2017, the Company has acquired one (1) ordinary share in Sinaran Trillion Sdn Bhd ("STSB"), representing 100% of the share capital of STSB for a total consideration of RM1.00. Consequent thereto, STSB became a wholly-owned subsidiary of the Company.

Save as disclosed above, 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 30 September 2017	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense	330	209

	Current year to date ended 30 September 2017	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense	1,650	1,047

The interest was arising from an amount due to a related party which was 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. As at the date of this report, the amount has been fully settled.

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K-Star

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

B1. Performance review

	Individual quarter ended 30 September		Changes (%)	Cumulative period ended 30 September		Changes (%)
	2017	2016		2017	2016	
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	71,771	75,581	5.04	226,959	219,753	3.28
Gross profit margin (%)	11.32	6.96	62.64	10.35	6.79	52.43
Profit/(Loss) before tax	(6,378)	(12,935)	(50.69)	(19,274)	(36,368)	(47.00)
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive loss for the period	(6,378)	(12,935)	(50.69)	(19,274)	(36,368)	(47.00)

Statement of profit & loss

The Group recorded total revenue of RMB 71.77 million for the current quarter three (3) months ended 30 September 2017 ("3Q2017"), representing a decrease of approximately 5.04% as compared to the preceding year corresponding quarter three (3) months ended 30 September 2016 ("3Q2016"). Whilst the average unit selling price remained consistent, both the sales of Dixing brand footwear and the OEM segment have decreased by approximately 5.53% and 1.26% respectively.

Notwithstanding the slight decrease in the Group revenue, the gross profit margin has improved by 4.36% from 6.96% 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 resulted in higher margins.

Selling and distribution expenses has decreased by 94.46% or RMB 9.98 million as compared to 3Q2016. There were no advertising expenses incurred in the current quarter as compared to the advertising expenses of RMB 10.01 million recorded in the 3Q2016.

Administrative expenses has increased by 20.36% or RMB 1.02 million as compared to the 3Q2016. This was mainly due to the loss on disposal of land use rights amounted to RMB 1.36 million. In addition, finance costs was higher by RMB 5.27 million resulting from fair value interest accretion accounted on non-current payables.

The Group's loss before taxation ("LBT") has narrowed by 50.69% as compared to the 3Q2016 was as a result of improving gross profit margin as well as cost savings on advertising and depreciation expenses.

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For the financial period ended (“FPE”) 30 September 2016, the Group’s revenue stood at RMB 226.96 million, representing an increase of approximately 3.28% as compared to the FPE 30 September 2016. The sales of Dixing brand footwear has increased by approximately RMB 9.83 million, representing an increase of 5.45% as compared to preceding year corresponding period. The OEM segment, on the other hand has decreased by RMB 2.63 million or 6.67% as compared to the preceding year corresponding period.

Notwithstanding that there were slight upward adjustment on the average unit selling price by approximately 0.32%, the Group’s gross profit margin has improved by approximately 3.56% from 6.79% recorded in the FPE 30 September 2016. 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 60.23% as compared to the FPE 30 September 2016. This was mainly due to cost cutting in advertising expenditures by 65.10% as compared to FPE 30 September 2016.

Comparing to the preceding year corresponding period, the administrative expenses was fairly consistent with a marginal decrease of approximately 1.37%. Contrary, finance costs was higher by 158.68% resulting from fair value interest accretion on non-current payables.

The Group’s LBT has narrowed by 47.00% for the FPE 30 September 2017 mainly attributable to the improvement in sales and gross profit margin as well as cost savings in advertising expenditures.

Statement of financial position

The inventory turnover period remained fairly consistent as compared to the FPE 30 September 2016, stood at the age of 9 days as at 30 September 2017.

The average trade receivables turnover period was 132 days as at 30 September 2017 as compared to 30 September 2016 of 163 days. All trade receivables are within 120 days age band and were neither considered as past due nor impaired.

The trade payables turnover period were consistent, remained at the 31-60 days age band as compared to the preceding year corresponding period.

Statement of cash flow

The net cash inflow from operating activities of the Group for the FPE 30 September 2017 amounted to RMB 6.54 million as compared to net cash out flow of RMB 2.41 million recorded in the preceding year corresponding period.

For the current financial period, the net cash and cash equivalents has increased by RMB 0.54 million as compared to FPE 30 September 2016. During the current financial period, the Group has disposed a vacant land for a total consideration of RMB 22.50 million and RM 22.00 million was utilised to fully repay a long term payable due to a related party. In addition, a sum of RMB 2.12 million was raised from a private placement exercise via the issuance of 26.64 million new ordinary shares of the Company.

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

	Individual quarter ended 30 September		Individual quarter ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RM'000	2016 RM'000
Interest income	(11)	(12)	(7)	(8)
Other income including investment income	-	-	-	-
Interest expense	7,884	2,611	5,004	1,657
Depreciation	1,004	1,521	637	965
Amortisation	2,193	2,057	1,392	1,306
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	(2)	3	(1)	2
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

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

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

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

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

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	Current year to date ended 30 September		Current year to date ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RM'000	2016 RM'000
Interest income	(20)	(31)	(13)	(20)
Other income including investment income	-	-	-	-
Interest expense	15,231	5,888	9,667	3,737
Depreciation	3,040	4,727	1,929	3,000
Amortisation	6,856	6,170	4,351	3,916
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	37	(1)	23	*
(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 30 September 2017 RMB'000	Preceding quarter ended 30 June 2017 RMB'000	Changes (%)
Revenue	71,771	77,198	7.03
Loss before taxation	(6,378)	(3,962)	60.98
Loss after taxation and total comprehensive loss for the period	(6,378)	(3,962)	60.98

	Current quarter ended 30 September 2017 RM'000	Preceding quarter ended 30 June 2017 RM'000
Revenue	45,553	48,998
Loss before taxation	(4,048)	(2,515)
Loss after taxation and total comprehensive loss for the period	(4,048)	(2,515)

The Group's revenue for the 3Q2017 has decreased by 7.03% as compared to the preceding quarter three (3) months ended 30 June 2017 ("2Q2017"). For the 3Q2017, the sales of Dixing brand footwear which accounted for 88.04% has decreased by 2.62% and the OEM segment representing 11.96% of the total footwear sales has decreased by approximately 30.26%.

As compared to the 2Q2017, the average selling price has increased by 1.61% and this was outweighed by an increase of approximately 2.69% in the average production and material costs. Correspondingly, the gross profit margin has decreased by 0.98% as compared to the 2Q2017.

There were no advertising expenses incurred during the current quarter which resulted in lower sales and distribution expenses recorded as compared to the 2Q2017.

General administrative expenses was fairly consistent, save for the loss on disposal of land use rights of RMB 1.36 million recorded in the current quarter. In addition, finance costs was higher by 112.28% resulting from fair value interest accretion on non-current payables. In view of the above, the current quarter's losses has increased by approximately 60.98% as compared to the 2Q2017.

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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 September 2017 were as follows:

	30 September 2017 RMB'000	30 September 2016 RMB'000	Changes %
Short-term bank borrowings:			
Secured	9,850	9,950	1.01
Unsecured	25,830	26,750	(3.44)
	<u>35,680</u>	<u>36,700</u>	2.78
	30 September 2017 RM'000	30 September 2016 RM'000	
Short-term bank borrowings:			
Secured	6,252	6,315	
Unsecured	16,394	16,978	
	<u>22,646</u>	<u>23,293</u>	

The bank borrowings are denominated in RMB with a weighted average interest rate of 5.71% per annum. There were no material changes as at the current period as compared to the preceding year corresponding period.

	Total RMB'000	Total RM'000
Long-term other payables:		
Secured, nominal value	60,500	38,399
Less: Fair value discounting	<u>(11,940)</u>	<u>(7,578)</u>
	<u>48,560</u>	<u>30,821</u>

The amount due to a third party are secured loans for working capital purpose. This amount is repayable on the 4th quarter of 2021 (5th year from the date of the loan agreement) with an interest charged at 1% per month.

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.

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B8. Dividend

There were no dividends declared by the Company for the current quarter ended 30 September 2017.

B9. Loss per share

a) Basic loss per share

	Individual quarter ended 30 September		Individual quarter ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RM'000	2016 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(6,378)	(12,935)	(4,048)	(8,211)
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)	<u>(2.18)</u>	<u>(4.86)</u>	<u>(1.38)</u>	<u>(3.08)</u>

	Cumulative nine (9) months ended 30 September		Cumulative nine (9) months ended 30 September	
	2017 RMB'000	2016 RMB'000	2017 RM'000	2016 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(19,274)	(36,368)	(12,233)	(23,083)
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)	<u>(6.75)</u>	<u>(13.65)</u>	<u>(4.28)</u>	<u>(8.66)</u>

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 September		FPE 30 September	
	2017	2016	2017	2016
	RMB'000	RMB'000	RM'000	RM'000
Realised	(31,216)	55,694	(19,813)	35,349
Unrealised	11,940	*	7,578	*
Total retained profits/(losses)	(19,276)	55,694	(8,168)	35,349

	Preceding quarter ended	
	30 June 2017	
	RMB'000	RM'000
Realised	(30,065)	(19,082)
Unrealised	17,167	10,896
Total retained profits/(losses)	(12,898)	(8,186)

Note:

* *Negligible*

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
17 November 2017