

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 2017

	<u>Note</u>	Individual quarter Quarter ended		Individual quarter Quarter ended	
		31.12.2017	31.12.2016	31.12.2017 (Note a)	31.12.2016 (Note a)
		Unaudited	Restated*	Unaudited	Restated
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	76,406	81,524	47,525	50,708
Cost of sales		(67,883)	(76,456)	(42,223)	(47,556)
Gross profit		8,523	5,068	5,302	3,152
Other income		3,765	12	2,342	7
Selling and distribution expenses	B1	(30,213)	(71,142)	(18,792)	(44,250)
Administrative expenses	B1	(5,270)	(4,821)	(3,278)	(2,999)
Finance costs		4,338	(3,335)	2,698	(2,074)
Loss before taxation	B1	(18,857)	(74,218)	(11,728)	(46,164)
Taxation		122	168	75	104
Total loss for the period	B1	(18,735)	(74,050)	(11,653)	(46,060)
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		(18,735)	(74,050)	(11,653)	(46,060)
Attributable to :					
- Equity holders of the Company		(18,735)	(74,050)	(11,653)	(46,060)
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(6.39)	(27.80)	(3.97)	(17.29)
Diluted (RMB cents/RM sen)	B9	(6.39)	(27.80)	(3.97)	(17.29)

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 2017 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6220 as at 31 December 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.

* The Unaudited Condensed Consolidated Statements of Comprehensive Income for the financial quarter ended 31 December 2016 was restated arising from the effects of the unwinding deferred tax liabilities and the discounting of the principal amount of long-term interest-bearing payables.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		Cumulative quarter		Cumulative quarter	
		Current year to date 31.12.2017	Preceding year to date 31.12.2016	Current year to date 31.12.2017 <i>(Note a)</i>	Preceding year to date 31.12.2016 <i>(Note a)</i>
	<u>Note</u>	Unaudited RMB'000	Restated* RMB'000	Unaudited RM'000	Restated RM'000
Revenue	B1	303,365	301,277	188,693	187,394
Cost of sales		<u>(271,363)</u>	<u>(281,298)</u>	<u>(168,788)</u>	<u>(174,967)</u>
Gross profit		32,002	19,979	19,905	12,427
Other income		3,785	44	2,354	27
Selling and distribution expenses	B1	(41,875)	(100,465)	(26,046)	(62,489)
Administrative expenses	B1	(21,150)	(20,921)	(13,155)	(13,012)
Finance costs		<u>(10,893)</u>	<u>(9,223)</u>	<u>(6,775)</u>	<u>(5,737)</u>
Loss before taxation	B1	(38,131)	(110,586)	(23,717)	(68,784)
Taxation		<u>122</u>	<u>168</u>	<u>75</u>	<u>104</u>
Total loss for the year	B1	<u>(38,009)</u>	<u>(110,418)</u>	<u>(23,642)</u>	<u>(68,680)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the year		<u>(38,009)</u>	<u>(110,418)</u>	<u>(23,642)</u>	<u>(68,680)</u>
Attributable to :					
-Equity holders of the Company		<u>(38,009)</u>	<u>(110,418)</u>	<u>(23,642)</u>	<u>(68,680)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(13.22)	(41.45)	(8.22)	(25.78)
Diluted (RMB cents/RM sen)	B9	(13.22)	(41.45)	(8.22)	(25.78)

Notes:

(a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the financial year ended 31 December 2017 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6220 as at 31 December 2017. This translation should not be construed as a representation that the RMB amounts represented have been or could to 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 unaudited interim financial statements.

* The Unaudited Condensed Consolidated Statements of Comprehensive Income for the financial year ended 31 December 2016 was restated arising from the effects of the unwinding deferred tax liabilities and the discounting of the principal amount of long-term interest-bearing payables.

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Unaudited As at 31.12.2017	Restated* As at 31.12.2016	Restated* As at 1.1.2016	Unaudited As at 31.12.2017 (Note a)	Restated As at 31.12.2016 (Note a)	Restated
	RMB'000	RMB'000	RMB'000	RM'000	RM'000	RM'000
ASSETS						
Non-Current Assets						
Property, plant and equipment	41,004	47,397	53,573	25,504	29,481	33,322
Patents	29,975	37,675	33,458	18,644	23,434	20,811
Land use rights	43,715	68,922	70,548	27,191	42,869	43,881
	<u>114,694</u>	<u>153,994</u>	<u>157,579</u>	<u>71,339</u>	<u>95,784</u>	<u>98,014</u>
Current Assets						
Inventories	8,113	9,792	9,209	5,046	6,091	5,728
Trade and other receivables	107,429	115,882	153,294	66,821	72,079	95,349
Cash and bank balances	1,244	164	6,163	774	102	3,833
	<u>116,786</u>	<u>125,838</u>	<u>168,666</u>	<u>72,641</u>	<u>78,272</u>	<u>104,910</u>
Total assets	<u>231,480</u>	<u>279,832</u>	<u>326,245</u>	<u>143,980</u>	<u>174,056</u>	<u>202,924</u>
EQUITY AND LIABILITIES						
Capital and Reserves						
Share capital	287,196	285,075	285,075	178,636	177,317	177,317
(Accumulated losses)/Retained earnings	(57,078)	(19,069)	91,349	(35,503)	(11,861)	56,819
Other reserves	(149,444)	(149,444)	(149,444)	(92,954)	(92,954)	(92,954)
	<u>80,674</u>	<u>116,562</u>	<u>226,980</u>	<u>50,179</u>	<u>72,502</u>	<u>141,182</u>
Current Liabilities						
Borrowings	35,670	36,700	23,900	22,187	22,827	14,866
Income tax payable	46	-	-	28	-	-
Trade and other payables	55,292	38,604	69,731	34,392	24,012	43,372
	<u>91,008</u>	<u>75,304</u>	<u>93,631</u>	<u>56,607</u>	<u>46,839</u>	<u>58,238</u>
Non-Current Liability						
Deferred tax liability	5,298	5,466	5,634	3,295	3,400	3,504
Other payable	54,500	82,500	-	33,899	51,315	-
	<u>59,798</u>	<u>87,966</u>	<u>5,634</u>	<u>37,194</u>	<u>54,715</u>	<u>3,504</u>
Total liabilities	<u>150,806</u>	<u>163,270</u>	<u>99,265</u>	<u>93,801</u>	<u>101,554</u>	<u>61,742</u>
Total equity and liabilities	<u>231,480</u>	<u>279,832</u>	<u>326,245</u>	<u>143,980</u>	<u>174,056</u>	<u>202,924</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM set)	<u>27.55</u>	<u>43.76</u>	<u>85.20</u>	<u>17.14</u>	<u>27.22</u>	<u>52.99</u>

Notes:

- (a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 31 December 2017 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6220 as at 31 December 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 31 December 2017 divided by the number of ordinary shares of 266,400,000 and 293,040,000 respectively.

* The Unaudited Condensed Consolidated Statements of Financial Position as at 31 December 2016 was restated arising from the effects of the unwinding deferred tax liabilities and the discounting of the principal amount of long-term interest-bearing payables.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 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	91,349	226,980
Total comprehensive loss for the financial year	-	-	-	(110,418)	(110,418)
At 31 December 2016	285,075	(174,156)	24,712	(19,069)	116,562
At 31 December 2016	285,075	(174,156)	24,712	(19,069)	116,562
Share issuance	2,121	-	-	-	2,121
Total comprehensive loss for the financial year	-	-	-	(38,009)	(38,009)
At 31 December 2017	287,196	(174,156)	24,712	(57,078)	80,674

	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	177,317	(108,325)	15,371	56,819	141,182
Total comprehensive loss for the financial year	-	-	-	(68,680)	(68,680)
At 31 December 2016 (note a)	177,317	(108,325)	15,371	(11,861)	72,502
At 31 December 2016	177,317	(108,325)	15,371	(11,861)	72,502
Share issuance	1,319	-	-	-	1,319
Total comprehensive loss for the financial year	-	-	-	(23,642)	(23,642)
At 31 December 2017 (note a)	178,636	(108,325)	15,371	(35,503)	50,179

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 YEAR ENDED 31 DECEMBER 2017

	For the financial year ended 31.12.2017	For the financial year ended 31.12.2016	For the financial year ended 31.12.2017 (Note a)	For the financial year ended 31.12.2016 (Note a)
	Unaudited	Restated*	Unaudited	Restated
	RMB'000	RMB'000	RM'000	RM'000
Cash flows from operating activities				
Loss before taxation	(38,131)	(110,586)	(23,717)	(68,784)
Adjustments for:				
Interest income	(29)	(39)	(18)	(24)
Interest expenses	10,893	9,223	6,775	5,737
Depreciation of property, plant and equipment	4,000	6,176	2,488	3,842
Gain on disposal of land use rights, property, plant and equipment	(2,397)	-	(1,491)	-
Property, plant and equipment written off	149	-	93	-
Amortisation of land use rights	1,348	1,626	838	1,011
Amortisation of patents	7,700	6,783	4,789	4,219
Operating loss before working capital changes	(16,467)	(86,817)	(10,243)	(53,999)
Decrease/(Increase) in inventories	1,679	(583)	1,044	(363)
Decrease/(Increase) in trade and other receivables	8,453	37,412	5,258	23,270
Increase/(Decrease) in trade and other payables	16,688	(9,127)	10,380	(5,677)
Cash from operations	10,353	(59,115)	6,439	(36,769)
Income tax paid	-	-	-	-
Interest received	29	39	18	24
Interest paid	(10,893)	(9,223)	(6,775)	(5,737)
Net cash flows from/(used in) operating activities	(511)	(68,299)	(318)	(42,482)
Cash flows from investing activities				
Purchase of property, plant and equipment	(8)	-	(5)	-
Prepayment of patents	-	(11,000)	-	(6,842)
Proceeds from disposal of land use rights, property, plant and equipment	28,508	-	17,732	-
Net cash flows from/(used in) investing activities	28,500	(11,000)	17,727	(6,842)
Cash flows from financing activities				
Proceeds from share issuance	2,121	-	1,319	-
Proceeds from bank borrowings	37,670	36,700	23,431	22,828
Repayment of bank borrowings	(38,700)	(23,900)	(24,071)	(14,866)
Proceeds from borrowings	-	60,500	-	37,631
Repayment of long term payable	(28,000)	-	(17,416)	-
Net cash flows (used in)/from financing activities	(26,909)	73,300	(16,737)	45,593
Net increase/(decrease) in cash and cash equivalents	1,080	(5,999)	672	(3,731)
Cash and cash equivalents at beginning of the financial year	164	6,163	102	3,833
Cash and cash equivalents at end of the financial year	1,244	164	774	102

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.

* The Unaudited Condensed Consolidated Statements of Cash Flow for the financial year ended 31 December 2016 was restated arising from the effects of the unwinding deferred tax liabilities and the discounting of the principal amount of long-term interest-bearing payables.

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A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 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 31 December 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 Malaysia”).

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) Results of operating segments

	For the quarter ended 31 December 2017							
	Sports footwear in PRC		Construction in Malaysia		Holding company		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue								
Footwear	75,138	46,736	-	-	-	-	75,138	46,736
Construction	-	-	1,268	789	-	-	1,268	789
							<u>76,406</u>	<u>47,525</u>
Other income								
Interest income	9	6	-	-	-	-	9	6
Unrealised gain on foreign exchange	1,010	628	-	-	-	-	1,010	628
Gain on disposal	3,756	2,336	-	-	-	-	3,756	2,336
Elimination							<u>(1,010)</u>	<u>(628)</u>
							<u>3,765</u>	<u>2,342</u>
Operating expenses								
Selling and distribution	(30,213)	(18,792)	-	-	-	-	(30,213)	(18,792)
Administrative	(3,952)	(2,458)	(103)	(64)	(2,225)	(1,384)	(6,280)	(3,906)
Elimination							<u>1,010</u>	<u>628</u>
							<u>(35,483)</u>	<u>(22,070)</u>
Profit/(Loss) before taxation	<u>(16,580)</u>	<u>(10,313)</u>	<u>70</u>	<u>44</u>	<u>(2,225)</u>	<u>(1,384)</u>	<u>(18,735)</u>	<u>(11,653)</u>

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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)

For the financial year ended 31 December 2017

	Sports footwear in PRC		Construction in Malaysia		Holding company		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Revenue								
Footwear	302,097	187,904	-	-	-	-	302,097	187,904
Construction	-	-	1,268	789	-	-	1,268	789
							<u>303,365</u>	<u>188,693</u>
Other income								
Interest income	29	18	-	-	-	-	29	18
Unrealised gain on foreign exchange	1,010	628	-	-	-	-	1,010	628
Gain on disposal	3,756	2,336	-	-	-	-	3,756	2,336
Elimination							<u>(1,010)</u>	<u>(628)</u>
							<u>3,785</u>	<u>2,354</u>
Operating expenses								
Selling and distribution	(41,875)	(26,046)	-	-	-	-	(41,875)	(26,046)
Administrative	(18,456)	(11,479)	(103)	(64)	(3,601)	(2,240)	(22,160)	(13,783)
Elimination							<u>1,010</u>	<u>628</u>
							<u>(63,025)</u>	<u>(39,201)</u>
Profit/(Loss) before taxation	<u>(34,478)</u>	<u>(21,446)</u>	<u>70</u>	<u>44</u>	<u>(3,601)</u>	<u>(2,240)</u>	<u>(38,009)</u>	<u>(23,642)</u>

b) Assets and liabilities

	Sports footwear in PRC		Construction in Malaysia		Holding company		Total	
	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000	RMB'000	RM'000
Total assets	<u>229,549</u>	<u>142,779</u>	<u>1,268</u>	<u>789</u>	<u>663</u>	<u>412</u>	<u>231,480</u>	<u>143,980</u>
Total liabilities	<u>142,073</u>	<u>88,369</u>	<u>1,191</u>	<u>741</u>	<u>7,542</u>	<u>4,691</u>	<u>150,806</u>	<u>93,801</u>

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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 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 21 February 2018, 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
- (iii) proposed diversification of the principal activities of K-Star Group to include construction and related activities.

On 5 February 2018, Bursa Malaysia has resolved to approve the following:

- (i) Admission to the Official List and the listing and quotation of up to 152,380,800 Warrants to be issued pursuant to the Proposed Free Warrants Issue;
- (ii) Listing and quotation of up to 87,912,000 Placement Shares; and
- (ii) Listing and quotation of up to 152,380,800 new K-Star Shares to be issued pursuant to the exercise of the Warrants.

The approval by Bursa Malaysia for the above is subject to the following conditions:

- (i) K-Star and Mercury Securities Sdn Bhd ("Mercury Securities") must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the proposals;
- (ii) K-Star and Mercury Securities to inform Bursa Malaysia upon the completion of the proposals;
- (ii) K-Star to furnish Bursa Malaysia with a written confirmation of its compliance with the terms and conditions of Bursa Malaysia' approval once the proposals are completed;
- (iv) K-Star to furnish Bursa Malaysia on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of the Warrants as at the end of each quarter together with a detailed computation of listing fees payable; and

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- (v) To incorporate Bursa Malaysia' comments in respect of the draft circular to shareholders.

The circular to shareholder pertaining to the aforesaid corporate proposals has been despatched to the shareholders on 22 February 2018. Barring any unforeseen circumstances, 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 RM'000	Utilisation as at the reporting date RM'000	Amount unutilised RM'000
General working capital		Within 12 months	1,259	(1,283)	(24)
Expenses for private placement #		Within 1 month	100	(76)	24
			<u>1,359</u>	<u>(1,359)</u>	<u>-</u>

Note:

The unutilised amount of RM24,000 have been allocated towards for the general working capital.

A12. Contingent liabilities/assets

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 31 December 2017.

A14. Changes in the composition of the Group

On 12 September 2017, the Company has acquired one (1) ordinary share in Sinaran Trilion 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. Subsequent thereto, the Company had on 7 February 2018 subscribed an additional 99,999 ordinary shares in STSB.

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 31 December 2017	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense, nominal	-	-
	<hr/>	
	Current year to date ended 31 December 2017	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense, nominal	1,650	1,026
	<hr/>	

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

B1. Performance review

	Individual quarter ended 31 December		Changes (%)	Cumulative period ended 31 December		Changes (%)
	2017	Restated 2016		2017	Restated 2016	
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	76,406	81,524	(6.28)	303,365	301,277	0.69
Gross profit margin (%)	11.85	6.22	90.51	10.72	6.63	61.69
Profit/(Loss) before tax	(18,857)	(74,218)	74.59	(38,131)	(110,586)	65.52
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive loss for the period	(18,735)	(74,050)	74.70	(38,009)	(110,418)	65.58

Statement of profit & loss

The Group recorded total revenue of RMB 76.41 million for the current quarter three (3) months ended 31 December 2017 (“4Q2017”), representing a decrease of approximately 6.28% as compared to the preceding year corresponding quarter three (3) months ended 31 December 2016 (“4Q2016”). Whilst the average unit selling price and the sales of Dixing brand footwear remained consistent, the sales from the OEM segment has decreased by approximately RMB 7.40 million, representing a drop of 48.37% as compared to 4Q2016.

Notwithstanding the decrease in the Group revenue, the gross profit margin has improved by 5.63% from 6.22% 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.

In addition, RMB 1.27 million of revenue was derived from the construction segment which yielded a gross profit margin of 17.32%.

Selling and distribution expenses has decreased by 57.53% or RMB 40.93 million as compared to 4Q2016. There were no advertising expenses incurred in the current quarter as compared to the advertising expenses of RMB 5.63 million recorded in the 4Q2016. In addition, sales rebate incurred was lower by RMB 35.02 million or 56.01% as compared to 4Q2016.

Administrative expenses has increased by 9.31% or RMB 0.45 million as compared to the 4Q2016. This was mainly due to the loss on disposal of land use rights amounted to RMB 1.36 million. In addition, finance costs recorded at a credit balance of RMB 4.34 million resulting from a prior year adjustment to unwind fair value interest accretion accounted on non-current payables.

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The Group's loss before taxation ("LBT") has narrowed by 74.59% as compared to the 4Q2016 as a result of improving gross profit margin as well as cost savings on advertising, depreciation expenses and sales rebate.

For the financial year ended ("FYE") 31 December 2017, the Group's revenue stood at RMB 303.37 million, a slight increase of approximately 0.69% as compared to the FYE 31 December 2016. The sales of Dixing brand footwear has increased by approximately RMB 10.853 million, representing an increase of 4.40% as compared to preceding year corresponding period. The OEM segment, on the other hand has decreased by RMB 10.03 million or 18.33% as compared to the FYE 31 December 2016.

Notwithstanding that the average unit selling price remained consistent, the Group's gross profit margin has improved by approximately 4.09% from 6.33% recorded in the FYE 31 December 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.

During the financial year, there were 3 construction contracts secured with a contract sum of RM 3.41 million. The revenue recognised amounted to RMB 1.27 million with gross profit margin of approximately 17.32%.

The sales and distribution expenses were recorded lower by approximately 58.32% as compared to the FYE 31 December 2016. This was mainly due to cost cutting in advertising expenditures and sales rebate by 71.14% and 56.06% respectively as compared to FYE 31 December 2016.

Comparing to the preceding year, the administrative expenses was fairly consistent with a slight increase of approximately 1.09%. Finance costs was higher by 18.11% resulting additional borrowings amounted to RMB 33.50 million sought from a third party during the 4Q2016.

The Group's LBT has narrowed by 65.52% for the current financial year mainly attributable to the improvement in gross profit margin as well as cost savings in advertising expenditures and sales rebate.

Statement of financial position

The inventory turnover period stood at the age of 11 days as at 31 December 2017 and has remained fairly consistent as compared to the FYE 31 December 2016 of 13 days.

The trade receivables turnover period as at 31 December 2017 and 2016 were 129 days. All trade receivables are within 120 days age band and were neither considered as past due nor impaired.

The trade payables turnover period stood at the age of 57 days and remained at the 31-60 days age band as compared to the preceding year of 36 days.

Statement of cash flow

The net cash outflow from operating activities of the Group for the FYE 31 December 2017 amounted to RMB 0.51 million, has decreased by RMB 67.79 million as compared to the net cash out flow of RMB 68.30 million recorded in the preceding year.

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For the current financial year, the net cash and cash equivalents has increased by RMB 1.08 million as compared to the net decrease of RMB 6.00 million in FYE 31 December 2016. During the current financial year, the Group has disposed a vacant land and a small factory for a total consideration of RMB 28.50 million and RM 28.00 million was utilised to repay long term payable. 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.

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

	Individual quarter ended 31 December		Individual quarter ended 31 December	
	2017 RMB'000	Restated 2016 RMB'000	2017 RM'000	Restated 2016 RM'000
Interest income	(9)	(8)	(6)	(5)
Other income including investment income	-	-	-	-
Interest expense	(4,338)	3,335	(2,698)	2,074
Depreciation	960	1,449	597	901
Amortisation	2,192	2,239	1,363	1,393
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	158	(4)	98	(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 31 December		Current year to date ended 31 December	
	2017 RMB'000	Restated 2016 RMB'000	2017 RM'000	Restated 2016 RM'000
Interest income	(29)	(39)	(18)	(22)
Other income including investment income	-	-	-	-
Interest expense	10,893	9,223	6,775	5,737
Depreciation	4,000	6,176	2,488	3,842
Amortisation	9,048	8,409	5,628	5,230
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	195	(5)	121	(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.*

* *Negligible*

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B2. Variation of results against immediate preceding quarter

	Current quarter ended 31 December 2017 RMB'000	Preceding quarter ended 30 September 2017 RMB'000	Changes (%)
Revenue	76,406	71,771	6.46
Loss before taxation	(18,857)	(6,378)	195.65
Loss after taxation and total comprehensive loss for the period	(18,735)	(6,378)	193.74

	Current quarter ended 31 December 2017 RM'000	Preceding quarter ended 30 September 2017 RM'000
Revenue	47,525	44,642
Loss before taxation	(11,729)	(3,967)
Loss after taxation and total comprehensive loss for the period	(11,653)	(3,967)

The Group's revenue for the 4Q2017 has increased by 6.46% as compared to the preceding quarter three (3) months ended 30 September 2017 ("3Q2017"). For the 4Q2017, the sales of Dixing brand footwear which accounted for 89.48% has increased by 6.40% while the OEM segment representing 10.52% of the total footwear sales has decreased by approximately 7.92%.

The gross profit margin was fairly consistent, stood at 11.15% as compared to 11.32% recorded in the preceding quarter. The average unit selling price and production costs were both consistent with no major fluctuation. In addition, a new stream of revenue was derived from the construction segment amounted to RMB 1.27 million with gross profit margin of approximately 17.32%.

Sales and distribution expenses has increased by RMB 29.63 million as compared to the 3Q2017. This was mainly resulted from provision of sales rebate amounted to RMB 27.45 million and R&D expenses of RMB 2.17 million during the current quarter.

Finance costs recorded at a credit balance of RMB 4.34 million resulting from a prior year adjustment to unwind fair value interest accretion accounted on non-current payables. The increase in current quarter's losses was mainly arising from provision of sales rebate.

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B3. Prospects for the financial year ending 31 December 2018

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 was at a rate of 6.7% in both 2016 and 2017. 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 2018 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

	Current Quarter RMB ’000	Current year to date RMB ’000
Income tax	(46)	(46)
Deferred tax income	168	168
	122	122

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	Current Quarter RM '000	Current year to date RM '000
Income tax	(29)	(29)
Deferred tax income	104	104
	<u>75</u>	<u>75</u>

The income tax expense for the current quarter and year to date ended 31 December 2017 was merely arising from the income tax provision for the construction segment.

The deferred tax income was in respect of the unwinding of deferred tax liability over the useful life of certain assets.

B6. Group borrowings

The Group's borrowings as at 31 December 2017 were as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000	Changes %
Short-term bank borrowings:			
Secured	<u>35,670</u>	<u>36,700</u>	(2.81)
	31 December 2017 RM'000	31 December 2016 RM'000	
Short-term bank borrowings:			
Secured	<u>22,187</u>	<u>22,827</u>	

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

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	31 December		31 December	
	2017	Restated 2016	2017	Restated 2016
	RMB'000	RMB'000	RM'000	RM'000
Long-term other payables:				
Secured	54,500	82,500	33,899	51,315

The long term other payables 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.

As at 31 December 2016, this amount consists of payable to a related party and a third party amounted to RMB 22.00 million and RMB 60.50 million respectively. During the FYE 31 December 2017, full settlement has been made to a related party amounted to RM 22.00 million and partial settlement of RMB 6.00 million was made to the third party.

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 2017.

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B9. Loss per share

a) Basic loss per share

	Individual quarter ended 31 December		Individual quarter ended 31 December	
	2017 RMB'000	Restated 2016 RMB'000	2017 RM'000	Restated 2016 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(18,735)	(74,050)	(11,653)	(46,060)
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)	(6.39)	(27.80)	(3.97)	(17.29)

	Cumulative year to date ended 31 December		Cumulative year to date ended 31 December	
	2017 RMB'000	Restated 2016 RMB'000	2017 RM'000	Restated 2016 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(38,009)	(110,418)	(23,642)	(68,680)
Weighted average number of ordinary shares in issue ('000)	287,566	266,400	287,566	266,400
Basic loss per share (RMB cents/RM sen)	(13.22)	(41.45)	(8.22)	(25.78)

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	
	2017	Restated 2016	2017	Restated 2016
	RMB'000	RMB'000	RM'000	RM'000
Realised	(51,693)	(13,603)	(32,154)	(8,461)
Unrealised	(5,385)	(5,466)	(3,349)	(3,400)
Total retained profits/(losses)	(57,078)	(19,069)	(35,503)	(11,861)

	Preceding quarter ended 30 September 2017	
	RMB'000	RM'000
Realised	(31,216)	(19,416)
Unrealised	11,940	7,427
Total retained profits/(losses)	(19,276)	(11,989)

Note:

* *Negligible*

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
28 February 2017