

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 2018

	Note	Individual quarter Quarter ended		Individual quarter Quarter ended	
		30.09.2018	30.09.2017	30.09.2018 (Note a)	30.09.2017 (Note a)
		Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	54,220	71,771	32,684	43,264
Cost of sales		<u>(50,505)</u>	<u>(63,649)</u>	<u>(30,444)</u>	<u>(38,368)</u>
Gross profit		3,715	8,122	2,240	4,896
Other income		56	11	34	7
Selling and distribution expenses	B1	(461)	(586)	(278)	(353)
Administrative expenses	B1	(4,052)	(6,041)	(2,443)	(3,642)
Finance costs		<u>(2,151)</u>	<u>(7,884)</u>	<u>(1,297)</u>	<u>(4,752)</u>
Profit/(Loss) before taxation	B1	(2,893)	(6,378)	(1,744)	(3,844)
Taxation		536	-	323	-
Total profit/(loss) for the period	B1	<u>(2,357)</u>	<u>(6,378)</u>	<u>(1,421)</u>	<u>(3,844)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive income/(loss) for the period		<u>(2,357)</u>	<u>(6,378)</u>	<u>(1,421)</u>	<u>(3,844)</u>
Attributable to :					
- Equity holders of the Company		<u>(2,357)</u>	<u>(6,378)</u>	<u>(1,421)</u>	<u>(3,844)</u>
Profit/(Loss) per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(0.62)	(2.18)	(0.37)	(1.31)
Diluted (RMB cents/RM sen)	B9	(0.44)	(2.18)	(0.27)	(1.31)

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 2018 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6028 as at 30 September 2018. 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 2017 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 2017 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 PERIOD ENDED 30 SEPTEMBER 2018

		Cumulative quarter		Cumulative quarter	
		Current year to date 30.09.2018	Preceding year to date 30.09.2017	Current year to date 30.09.2018 <i>(Note a)</i>	Preceding year to date 30.09.2017 <i>(Note a)</i>
	<u>Note</u>	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	204,249	226,959	123,121	136,811
Cost of sales		<u>(184,583)</u>	<u>(203,480)</u>	<u>(111,267)</u>	<u>(122,658)</u>
Gross profit		19,666	23,479	11,854	14,153
Other income		171	20	103	12
Selling and distribution expenses	B1	(1,825)	(11,662)	(1,100)	(7,030)
Administrative expenses	B1	(12,743)	(15,880)	(7,681)	(9,572)
Finance costs		<u>(6,466)</u>	<u>(15,231)</u>	<u>(3,898)</u>	<u>(9,181)</u>
Profit/(Loss) before taxation	B1	(1,197)	(19,274)	(722)	(11,618)
Taxation		<u>21</u>	<u>-</u>	<u>13</u>	<u>-</u>
Total profit/(loss) for the period	B1	<u>(1,176)</u>	<u>(19,274)</u>	<u>(709)</u>	<u>(11,618)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive income/(loss) for the period		<u>(1,176)</u>	<u>(19,274)</u>	<u>(709)</u>	<u>(11,618)</u>
Attributable to :					
-Equity holders of the Company		<u>(1,176)</u>	<u>(19,274)</u>	<u>(709)</u>	<u>(11,618)</u>
Profit/(Loss) per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(0.32)	(6.75)	(0.19)	(4.07)
Diluted (RMB cents/RM sen)	B9	(0.23)	(6.75)	(0.14)	(4.07)

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 2017 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 2018

	Unaudited As at 30.09.2018	Audited As at 31.12.2017	Unaudited As at 30.09.2018 (Note a)	Audited As at 31.12.2017 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
ASSETS				
Non-Current Assets				
Property, plant and equipment	38,334	41,004	23,108	24,717
Patents	25,483	29,975	15,361	18,069
Land use rights	42,911	43,715	25,867	26,351
	<u>106,728</u>	<u>114,694</u>	<u>64,336</u>	<u>69,137</u>
Current Assets				
Inventories	4,061	8,113	2,448	4,891
Trade and other receivables	89,126	107,429	53,725	64,758
Cash and bank balances	4,269	1,244	2,573	750
	<u>97,456</u>	<u>116,786</u>	<u>58,746</u>	<u>70,399</u>
Total assets	<u>204,184</u>	<u>231,480</u>	<u>123,082</u>	<u>139,536</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	101,080	287,196	60,932	173,122
(Accumulated losses)/Retained earnings	139,240	(57,078)	83,933	(34,407)
Other reserves	(149,470)	(149,444)	(90,101)	(90,085)
	<u>90,850</u>	<u>80,674</u>	<u>54,764</u>	<u>48,630</u>
Current Liabilities				
Borrowings	35,630	35,670	21,478	21,502
Income tax payable	23	46	14	28
Trade and other payables	18,050	55,292	10,880	33,330
	<u>53,703</u>	<u>91,008</u>	<u>32,372</u>	<u>54,860</u>
Non-Current Liability				
Deferred tax liability	5,131	5,298	3,093	3,194
Other payable	54,500	54,500	32,853	32,852
	<u>59,631</u>	<u>59,798</u>	<u>35,946</u>	<u>36,046</u>
Total liabilities	<u>113,334</u>	<u>150,806</u>	<u>68,318</u>	<u>90,906</u>
Total equity and liabilities	<u>204,184</u>	<u>231,480</u>	<u>123,082</u>	<u>139,536</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)	<u>23.85</u>	<u>27.53</u>	<u>14.38</u>	<u>16.60</u>

Notes:

- (a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 30 September 2018 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6028 as at 30 September 2018. 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 2017 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 2017 and 30 September 2018 divided by the number of ordinary shares of 293,040,000 and 380,952,000 respectively.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

Attributable to Equity Holders of the Company

	Share capital RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
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
At 31 December 2017	287,196	(174,156)	24,712	-	(57,078)	80,674
Share issuance	11,378	-	-	-	-	11,378
Capital reduction	(197,494)	-	-	-	197,494	-
Foreign exchange translation reserve	-	-	-	(26)	-	(26)
Total comprehensive income for the financial period	-	-	-	-	(1,176)	(1,176)
At 30 September 2018	101,080	(174,156)	24,712	(26)	139,240	90,850

Attributable to Equity Holders of the Company

	Share capital RM'000	Merger reserve RM'000	Statutory reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 31 December 2016	171,843	(104,981)	14,896	-	(1)	81,757
Share issuance	1,279	-	-	-	-	1,279
Total comprehensive loss for the financial period	-	-	-	-	(11,618)	(11,618)
At 30 September 2017 (note a)	173,122	(104,981)	14,896	-	(11,619)	71,418
At 31 December 2017	173,122	(104,981)	14,896	-	(34,407)	48,630
Share issuance	6,859	-	-	-	-	6,859
Capital reduction	(119,049)	-	-	-	119,049	-
Foreign currency translation reserve	-	-	-	(16)	-	(16)
Total comprehensive income for the financial period	-	-	-	-	(709)	(709)
At 30 September 2018 (note a)	60,932	(104,981)	14,896	(16)	83,933	54,764

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 2017 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 2018

	For the financial period ended 30.09.2018	For the financial period ended 30.09.2017	For the financial period ended 30.09.2018 (Note a)	For the financial period ended 30.09.2017 (Note a)
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Cash flows from operating activities				
Profit/(Loss) before taxation	(1,197)	(19,274)	(722)	(11,618)
Adjustments for:				
Interest income	(21)	(20)	(13)	(12)
Interest expenses	6,466	15,231	3,898	9,181
Depreciation of property, plant and equipment	2,639	3,040	1,591	1,833
Loss on disposal of land use rights	-	1,359	-	819
Property, plant and equipment written off	31	-	18	-
Amortisation of land use rights	804	1,081	485	652
Amortisation of patents	4,492	5,775	2,708	3,481
Operating loss before working capital changes	13,214	7,192	7,965	4,336
Decrease/(Increase) in inventories	4,052	3,124	2,442	1,883
Decrease/(Increase) in trade and other receivables	18,303	6,445	11,033	3,885
Increase/(Decrease) in trade and other payables	(37,398)	(1,594)	(22,543)	(961)
Cash from/(used in) operations	(1,829)	15,167	(1,103)	9,143
Income tax paid	(13)	-	(8)	-
Interest received	21	20	13	12
Interest paid	(6,466)	(8,649)	(3,898)	(5,214)
Net cash flows from/(used in) operating activities	(8,287)	6,538	(4,996)	3,941
Cash flows from investing activities				
Purchase of property, plant and equipment	-	(8)	-	(5)
Proceeds from disposal of land use rights	-	22,500	-	13,563
Net cash flows from/(used in) investing activities	-	22,492	-	13,558
Cash flows from financing activities				
Proceeds from share issuance	11,378	2,121	6,859	1,278
Proceeds from bank borrowings	35,630	34,930	21,478	21,056
Repayment of bank borrowings	(35,670)	(35,950)	(21,502)	(21,671)
Repayment of long term payable	-	(22,000)	-	(13,261)
Net cash flows from/(used in) financing activities	11,338	(20,899)	6,835	(12,598)
Net increase/(decrease) in cash and cash equivalents	3,051	8,131	1,839	4,901
Cash and cash equivalents at beginning of the financial period	1,244	164	750	99
Effect of exchange translation difference on cash and cash equivalents	(26)	-	(16)	-
Cash and cash equivalents at end of the financial period	4,269	8,295	2,573	5,000

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 2017 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 2018

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 2018 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 2017. 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 2017.

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 2018.

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 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	Amendments to FRS 109: Prepayment Features with Negative Compensation	1 January 2019
Improvements to FRSS (December 2018)		1 January 2019
FRS 28	Amendments to FRS 48: Long-term interests in Associates and Joint Ventures	1 January 2019
FRS 116	Leases	1 January 2019
FRS 117	Insurance Contracts	1 January 2021
FRS 19	Amendments to FRS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
INT FRS 123	Uncertainty over Income Tax Treatments	1 January 2019

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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 2017.

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 2017 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 2017 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 2017	293,040,000	287,196,118	60,332,654
20 March 2018			
- Issuance pursuant to private placement	87,912,000	11,378,204	2,362,371
	380,952,000	298,574,322	62,695,025
10 August 2018			
- Completion of capital reduction	-	(197,493,808)	(42,455,039)
	380,952,000	101,080,514	20,239,986

A7. Subsequent material events

There were 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 30 September 2018							
	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	53,942	32,516	-	-	-	-	53,942	32,516
Construction	-	-	278	168	-	-	278	168
							<u>54,220</u>	<u>32,684</u>
Other income								
Interest income	7	4	*	*	-	-	7	4
Realised gain on foreign exchange	-	-	-	-	1	*	1	*
Rental income	48	30	-	-	-	-	48	30
Elimination							<u>-</u>	<u>-</u>
							<u>56</u>	<u>34</u>
Operating expenses								
Selling and distribution	(461)	(278)	-	-	-	-	(461)	(278)
Administrative	(3,637)	(2,192)	28	16	(443)	(267)	(4,052)	(2,443)
Elimination							<u>-</u>	<u>-</u>
							<u>(4,513)</u>	<u>(2,721)</u>
Profit/(Loss) before taxation	<u>(2,346)</u>	<u>(1,414)</u>	<u>(103)</u>	<u>(62)</u>	<u>(444)</u>	<u>(268)</u>	<u>(2,893)</u>	<u>(1,744)</u>

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For the financial period ended 30 September 2018

	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	202,264	121,925	-	-	-	-	202,264	121,925
Construction	-	-	1,985	1,196	-	-	1,985	1,196
							<u>204,249</u>	<u>123,121</u>
Other income								
Interest income	21	13	*	*	-	-	21	13
Realised gain on foreign exchange	-	-	-	-	4	2	4	2
Rental income	146	88	-	-	-	-	146	88
Elimination							<u>-</u>	<u>-</u>
							<u>171</u>	<u>103</u>
Operating expenses								
Selling and distribution	(1,825)	(1,100)	-	-	-	-	(1,825)	(1,100)
Administrative	(11,314)	(6,820)	(64)	(38)	(1,365)	(823)	(12,743)	(7,681)
Elimination							<u>-</u>	<u>-</u>
							<u>(14,568)</u>	<u>(8,781)</u>
Profit/(Loss) before taxation								
	(28)	(17)	193	116	(1,362)	(821)	(1,197)	(722)

Note:

* Negligible

b) Assets and liabilities

As at 30 September 2018

	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	201,946	121,733	1,295	781	943	568	204,184	123,082
Total liabilities	110,955	66,884	649	391	1,730	1,043	113,334	68,318

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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 2017.

A11. Status of corporate exercise

(a) There were no other corporate proposals announced but not completed as at 16 November 2018, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

b) Utilisation of proceeds

The total gross proceeds from the private placement of 87,912,000 new ordinary shares in K-Star ("Proposal") to individual third party investors amounting to approximately RM7.03 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
Footwear business	Within 12 months	4,000	4,000	-
Construction business	Within 18 months	2,713	150	2,563
Expenses for the Proposal	Within 3 month	320	270	50
		<u>7,033</u>	<u>4,420</u>	<u>2,613</u>

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 2017.

A13. Capital commitments

There is no capital commitment as at 30 September 2018.

A14. Changes in the composition of the Group

There were no 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

There were no related party transactions during the current quarter and the financial year to date.

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

B1. Performance review

	Individual quarter ended 30 September		Changes (%)	Cumulative period ended 30 September		Changes (%)
	2018	2017		2018	2017	
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	54,220	71,771	(24.45)	204,249	226,959	(10.01)
Gross profit margin (%)	6.85	11.32	(39.49)	9.63	10.35	(6.96)
Profit/(Loss) before tax	(2,893)	(6,378)	54.64	(1,197)	(19,274)	93.79
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	(2,357)	(6,378)	63.04	(1,176)	(19,274)	93.90

Statement of profit & loss

For the current quarter three (3) months ended 30 September 2018 (“3Q2018”), the Group’s revenue has decreased by approximately 24.45% as compared to the preceding year corresponding quarter ended 30 September 2017 (“3Q2017”), contributed mainly from the decrease in sales of both Dixing’s core brand and OEM footwear by 26.67% and 11.38% respectively. However, this was partly off-set by the new stream of revenue derived from the construction segment of RMB 0.28 million.

Gross profit margin has reduced from 11.32% to 6.85% which was due to the increase in the average unit cost of production by approximately 7.33% while the average unit selling price has adjusted upward by a mere increase of 3.49%.

Selling and distribution expenses has decreased by 21.33% as compared to 3Q2017 mainly due to the decrease in R&D expenditures by 32.91%.

Administrative expenses has reduced by 32.93% mainly due to lower depreciation and amortisation expenses which have reduced by 12.02% and 26.57% respectively. Finance costs has reduced by 72.72% resulting from repayment of long term loan since the 2nd half of 2017.

For the financial period ended (“FPE”) 30 September 2018 comparing to the preceding year corresponding period, the Group’s total revenue stood at RMB 204.25 million, of which 79.27% and 20.73% of the total footwear revenue of RMB 202.26 million were derived from Dixing’s core brand and OEM segment respectively. The balance of RMB 1.99 million was derived from the construction subsidiary. Dixing brand footwear has decreased by 15.69% while the OEM segment has recorded an increasing sales of 13.99% mainly contributed from the increasing order from a local PRC brand customer.

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The Group's gross profit margin remained fairly consistent with a marginal decrease of approximately 0.72% from 10.35% recorded in the preceding year corresponding period.

The sales and distribution expenses has decreased by approximately 84.35% as compared to the preceding year corresponding period. This was mainly due to cost cutting measure in advertising expenditures whereby there was no advertising expenditure incurred during the current financial period.

The administrative expenses has also reduced by approximately 19.75% mainly attributed from the reduction in depreciation and amortisation expenses. Finance costs was lower by 57.55% resulted from the repayment made in the previous financial year.

The Group's loss before taxation has been narrowed by RMB 18.77 million from RMB 19.27 million recorded in the preceding year corresponding period. This was primarily attributable to the cost savings in finance costs, advertising, depreciation and amortisation expenses.

Statement of financial position

The inventory turnover period stood at the age of 11 days as at 30 September 2018 and has remained fairly consistent as compared to the FPE 30 September 2017 of 9 days.

The trade receivables turnover period as at 30 September 2018 was 119 days as compared to 132 days in the FPE 30 September 2017. All trade receivables as at 30 September 2018 were within 120 days age band and were neither considered as past due nor impaired.

The trade payables turnover period stood at the age of 17 days as compared to the preceding year corresponding quarter of 35 days. All trade payables were remained at the 1-30 days age band as at 30 September 2018.

Statement of cash flow

The net cash outflow from operating activities of the Group for the FPE 30 September 2018 amounted to RMB 8.29 million, has decreased by RMB 14.83 million as compared to the net cash in flow of RMB 6.54 million recorded in the preceding year corresponding quarter. There was no cash flow allocation from investing activities.

For the current financial period, the net cash and cash equivalents stood at RMB 4.27 million, representing a decrease of RMB 4.03 million as compared to RMB 8.30 million recorded in the FPE 30 September 2017. During the current financial period, a sum of RMB 11.38 million was raised through a private placement exercise via the issuance of 87.91 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		Individual quarter ended	
	30 September		30 September	
	2018	2017	2018	2017
	RMB'000	RMB'000	RM'000	RM'000
Interest income	(7)	(11)	(4)	(7)
Other income including investment income	-	-	-	-
Interest expense	2,151	7,884	1,297	4,752
Depreciation	869	1,004	524	605
Amortisation	1,643	2,193	990	1,322
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	8	(2)	5	(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 September		Current year to date ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Interest income	(21)	(20)	(13)	(12)
Other income including investment income	-	-	-	-
Interest expense	6,466	15,231	3,898	9,181
Depreciation	2,639	3,040	1,591	1,833
Amortisation	5,296	6,856	3,193	4,133
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	47	37	28	22
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

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B2. Variation of results against immediate preceding quarter

	Current quarter ended 30 September 2018 RMB'000	Preceding quarter ended 30 June 2018 RMB'000	Changes (%)
Revenue	54,220	71,904	(24.59)
Profit/(Loss) before taxation	(2,893)	(1,031)	180.60
Profit/(Loss) after taxation and total comprehensive income/(loss) for the period	(2,357)	(1,009)	133.60

	Current quarter ended 30 September 2018 RM'000	Preceding quarter ended 30 June 2018 RM'000
Revenue	32,684	43,344
Loss before taxation	(1,744)	(621)
Loss after taxation and total comprehensive loss for the period	(1,421)	(608)

The Group's revenue for the 3Q2018 has decreased by 24.59% as compared to the preceding quarter three (3) months ended 30 June 2018 ("2Q2018"). The sales of both Dixing's core brand and OEM footwear have decreased by approximately 18.70% and 46.32% respectively. In addition, the decrease in sales was also due to slower delivery to customers which was resulted from the shortages of production labour. Meanwhile, revenue from the construction segment has decreased by 62.78%.

The gross profit margin has decreased by 2.11%, stood at 6.85% as compared to 8.96% recorded in the preceding quarter. The average unit selling price has slight upward adjustment of 2.85% in correspondence with the increase in average unit production costs of 3.27%. Labour cost on the other hand has remained consistent as compared to 2Q2018.

Sales and distribution expenses has decreased by 44.32% as there were no trade fair related expenses incurred during the 3Q2018. Administrative expenses and finance costs have no material deviation as compared to the 2Q2018.

In view of the lower revenue and gross profit margin recorded during the current quarter, the Group has suffered a higher loss before taxation of RMB 2.89 million as compared to RMB 1.03 million recorded in 2Q2018.

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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 less favourable. Given the overall backdrop in consumer sentiment, uncertainty economic impact arising from the on-going US-China trade war and intense competition both from foreign and domestic brands, the Group sees challenges on the business growth but remains optimistic on the long term sustainability and potential opportunity given the Group’s continuous effort 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	-	147
Overprovision of income tax	(536)	-
Deferred tax income	-	(168)
	-	(21)

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	Current Quarter RM '000	Current year to date RM '000
Income tax	-	88
Overprovision of income tax	323	-
Deferred tax income	-	(101)
	<u>323</u>	<u>(13)</u>

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

The income tax expense for the year to date ended 30 September 2018 was merely arising from the income tax provision for the footwear 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 30 September 2018 were as follows:

	30 September 2018 RMB'000	30 September 2017 RMB'000	Changes %
Short-term bank borrowings:			
Secured	9,800	9,850	0.51
Unsecured	<u>25,830</u>	<u>25,830</u>	-
	<u>35,630</u>	<u>35,680</u>	0.14

	30 September 2018 RM'000	30 September 2017 RM'000
Short-term bank borrowings:		
Secured	5,908	5,938
Unsecured	<u>15,570</u>	<u>15,570</u>
	<u>21,478</u>	<u>21,508</u>

The bank borrowings are denominated in RMB with a weighted average interest rate of 5.66% per annum. There were no material changes of the borrowings amount as at the current quarter as compared to the preceding year corresponding quarter.

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	30 September 2018 RMB'000	30 September 2017 Restated RMB'000	Changes %
Long-term other payables:			
Secured	<u>54,500</u>	<u>60,500</u>	9.92

	30 September 2018 RM'000	30 September 2017 RM'000
Long-term other payables:		
Secured	<u>32,853</u>	<u>36,469</u>

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.

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 30 September 2018.

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B9. Profit/(Loss) per share

a) Basic loss per share

	Individual quarter ended 30 September		Individual quarter ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(2,357)	(6,378)	(1,421)	(3,844)
Weighted average number of ordinary shares in issue ('000)	380,952	293,040	380,952	293,040
Basic earning/(loss) per share (RMB cents/RM sen)	<u>(0.62)</u>	<u>(2.18)</u>	<u>(0.37)</u>	<u>(1.31)</u>
	Cumulative year to date ended 30 September		Cumulative year to date ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(1,176)	(19,274)	(709)	(11,618)
Weighted average number of ordinary shares in issue ('000)	361,952	282,001	361,952	282,001
Basic earning/(loss) per share (RMB cents/RM sen)	<u>(0.32)</u>	<u>(6.75)</u>	<u>(0.19)</u>	<u>(4.07)</u>

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b) Diluted earnings per share

	Individual quarter ended 30 September		Individual quarter ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(2,357)	(6,378)	(1,421)	(3,844)
Weighted average number of ordinary shares in issue ('000)	380,952	293,040	380,952	293,040
Assuming full exercise of warrants ('000)	152,380	-	152,380	-
Diluted earning/(loss) per share (RMB cents/RM sen)	(0.44)	(2.18)	(0.27)	(1.31)
	Cumulative year to date ended 30 September		Cumulative year to date ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(1,176)	(19,274)	(709)	(11,618)
Weighted average number of ordinary shares in issue ('000)	361,952	282,001	361,952	282,001
Assuming full exercise of warrants ('000)	152,380	-	152,380	-
Diluted earning/(loss) per share (RMB cents/RM sen)	(0.23)	(6.75)	(0.14)	(4.07)

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B10. Realised and unrealised profits/(losses)

	FPE 30 September		FPE 30 September	
	2018	2017	2018	2017
	RMB'000	RMB'000	RM'000	RM'000
Realised	144,371	(31,216)	87,026	(18,817)
Unrealised	(5,131)	11,940	(3,093)	7,197
Total retained profits/(losses)	139,240	(19,276)	83,933	(11,620)
			Preceding quarter ended 30 June 2018	
			RMB'000	RM'000
Realised			(50,766)	(30,602)
Unrealised			(5,131)	(3,093)
Total retained profits/(losses)			(55,897)	(33,695)

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
23 November 2018