

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)

[Malaysian Branch Registration Number 200902000042 (995214-D)]

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 SEPTEMBER 2020

	Note	Individual quarter Quarter ended		Individual quarter Quarter ended	
		30.09.2020	30.09.2019	30.09.2020 (Note a)	30.09.2019 (Note a)
		Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	39,863	51,489	24,392	31,506
Cost of sales		<u>(37,194)</u>	<u>(47,102)</u>	<u>(22,759)</u>	<u>(28,822)</u>
Gross profit		2,669	4,387	1,633	2,684
Other income		135	72	83	44
Selling and distribution expenses	B1	(338)	(450)	(207)	(275)
Administrative expenses	B1	(2,635)	(2,852)	(1,612)	(1,745)
Finance costs		<u>(1,583)</u>	<u>(1,833)</u>	<u>(969)</u>	<u>(1,122)</u>
Profit/(Loss) before taxation	B1	(1,752)	(676)	(1,072)	(414)
Taxation		<u>42</u>	<u>(31)</u>	<u>26</u>	<u>(19)</u>
Total profit/(loss) for the period	B1	<u>(1,710)</u>	<u>(707)</u>	<u>(1,046)</u>	<u>(433)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive profit/(loss) for the period		<u>(1,710)</u>	<u>(707)</u>	<u>(1,046)</u>	<u>(433)</u>
Attributable to :					
- Equity holders of the Company		<u>(1,710)</u>	<u>(707)</u>	<u>(1,046)</u>	<u>(433)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(0.38)	(0.17)	(0.23)	(0.10)
Diluted (RMB cents/RM sen)	B9	(0.30)	(0.13)	(0.18)	(0.08)

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 2020 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6119 as at 30 September 2020. 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 2019 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 2020

		Cumulative quarter		Cumulative quarter	
		Current year to date 30.09.2020	Preceding year to date 30.09.2019	Current year to date 30.09.2020 (Note a)	Preceding year to date 30.09.2019 (Note a)
	<u>Note</u>	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	115,123	152,464	70,444	93,293
Cost of sales		(104,044)	(138,145)	(63,665)	(84,531)
Gross profit		11,079	14,319	6,779	8,762
Other income		262	194	160	119
Selling and distribution expenses	B1	(1,117)	(1,683)	(683)	(1,030)
Administrative expenses	B1	(7,909)	(8,947)	(4,840)	(5,475)
Finance costs		(5,258)	(5,532)	(3,217)	(3,385)
Profit/(Loss) before taxation	B1	(2,943)	(1,649)	(1,801)	(1,009)
Taxation		126	1	77	1
Total profit/(loss) for the period	B1	(2,817)	(1,648)	(1,724)	(1,008)
Other comprehensive income after tax		-	-	-	-
Total comprehensive profit/(loss) for the period		(2,817)	(1,648)	(1,724)	(1,008)
Attributable to :					
-Equity holders of the Company		(2,817)	(1,648)	(1,724)	(1,008)
Profit/(Loss) per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(0.63)	(0.42)	(0.39)	(0.26)
Diluted (RMB cents/RM sen)	B9	(0.50)	(0.30)	(0.31)	(0.18)

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 2019 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 2020

	Unaudited As at 30.09.2020	Audited As at 31.12.2019	Unaudited As at 30.09.2020 (Note a)	Audited As at 31.12.2019 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
ASSETS				
Non-Current Assets				
Property, plant and equipment	31,545	33,842	19,302	20,708
Intangible assets	-	-	-	-
Land use rights prepayments	39,579	40,383	24,218	24,710
	<u>71,124</u>	<u>74,225</u>	<u>43,520</u>	<u>45,418</u>
Current Assets				
Land use rights prepayments	1,071	1,071	655	655
Inventories	916	4,454	561	2,726
Trade and other receivables	40,490	75,173	24,776	45,998
Tax recoverable	118	5	72	3
Cash and bank balances	21,760	17,955	13,315	10,987
	<u>64,355</u>	<u>98,658</u>	<u>39,379</u>	<u>60,369</u>
Total assets	<u>135,479</u>	<u>172,883</u>	<u>82,899</u>	<u>105,787</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	109,146	100,021	66,787	61,203
(Accumulated losses)/Retained earnings	66,580	69,397	40,740	42,464
Other reserves	(133,083)	(128,271)	(81,434)	(78,489)
	<u>42,643</u>	<u>41,147</u>	<u>26,093</u>	<u>25,178</u>
Current Liabilities				
Borrowings	34,630	34,630	21,190	21,190
Income tax payable	-	-	-	-
Trade and other payables	37,369	47,643	22,866	29,153
	<u>71,999</u>	<u>82,273</u>	<u>44,056</u>	<u>50,343</u>
Non-Current Liability				
Deferred tax liability	4,837	4,963	2,960	3,037
Other payable	16,000	44,500	9,790	27,229
	<u>20,837</u>	<u>49,463</u>	<u>12,750</u>	<u>30,266</u>
Total liabilities	<u>92,836</u>	<u>131,736</u>	<u>56,806</u>	<u>80,609</u>
Total equity and liabilities	<u>135,479</u>	<u>172,883</u>	<u>82,899</u>	<u>105,787</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)	<u>9.30</u>	<u>9.66</u>	<u>5.69</u>	<u>5.91</u>

Notes:

- (a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 30 September 2020 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6119 as at 30 September 2020. 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 2019 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 2019 and 30 September 2020 divided by the number of ordinary shares of 425,872,200 and 458,538,300 respectively.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2020

Attributable to Equity Holders of the Company

	Share capital RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Warrant reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 31 December 2018	93,774	(174,156)	24,712	22,083	(24)	80,316	46,705
Share issuance arising from private placement	4,527	-	-	-	-	-	4,527
Share issuance arising from warrant conversion	818	-	-	-	-	-	818
Foreign exchange translation reserve	-	-	-	-	8	-	8
Total comprehensive loss for the financial period	-	-	-	-	-	(1,648)	(1,648)
At 30 September 2019	99,119	(174,156)	24,712	22,083	(16)	78,668	50,410
At 31 December 2019	100,021	(174,156)	24,712	21,181	(8)	69,397	41,147
Share issuance arising from warrant conversion	9,125	-	-	-	-	-	9,125
Exercise of warrants	-	-	-	(4,734)	-	-	(4,734)
Foreign exchange translation reserve	-	-	-	-	(78)	-	(78)
Total comprehensive loss for the financial period	-	-	-	-	-	(2,817)	(2,817)
At 30 September 2020	109,146	(174,156)	24,712	16,447	(86)	66,580	42,643

Attributable to Equity Holders of the Company

	Share capital RM'000	Merger reserve RM'000	Statutory reserve RM'000	Warrant reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 31 December 2018	57,380	(106,566)	15,121	13,512	(15)	49,145	28,577
Share issuance arising from private placement	2,770	-	-	-	-	-	2,770
Share issuance arising from warrant conversion	501	-	-	-	-	-	501
Free warrant issuance	-	-	-	-	-	-	-
Foreign exchange translation reserve	-	-	-	-	5	-	5
Total comprehensive loss for the financial period	-	-	-	-	-	(1,008)	(1,008)
At 30 September 2019 (note a)	60,651	(106,566)	15,121	13,512	(10)	48,137	30,845
At 31 December 2019	61,203	(106,566)	15,121	12,961	(5)	42,464	25,178
Share issuance arising from warrant conversion	5,584	-	-	-	-	-	5,584
Exercise of warrants	-	-	-	(2,897)	-	-	(2,897)
Foreign currency translation reserve	-	-	-	-	(48)	-	(48)
Total comprehensive loss for the financial period	-	-	-	-	-	(1,724)	(1,724)
At 30 September 2020 (note a)	66,787	(106,566)	15,121	10,064	(53)	40,740	26,093

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 2019 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 2020

	For the financial period ended 30.09.2020	For the financial period ended 30.09.2019	For the financial period ended 30.09.2020 (Note a)	For the financial period ended 30.09.2019 (Note a)
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Cash flows from operating activities				
Loss before taxation	(2,943)	(1,649)	(1,801)	(1,009)
Adjustments for:				
Interest income	(16)	(15)	(10)	(9)
Interest expenses	5,258	5,532	3,217	3,385
Depreciation of property, plant and equipment	2,297	2,454	1,406	1,502
Amortisation of land use rights	804	804	492	492
Amortisation of patents	-	1,284	-	785
Operating loss before working capital changes	5,400	8,410	3,304	5,146
Decrease/(Increase) in inventories	3,538	900	2,165	551
Decrease/(Increase) in trade and other receivables	34,570	811	21,153	496
Increase/(Decrease) in trade and other payables	(27,816)	(7,307)	(17,021)	(4,471)
Cash from operations	15,692	2,814	9,601	1,722
Income tax paid	-	(73)	-	(45)
Interest received	16	15	10	9
Interest paid	(5,258)	(5,532)	(3,217)	(3,385)
Net cash flows (used in)/generated from operating activities	10,450	(2,776)	6,394	(1,699)
Cash flows from investing activities				
Net cash flows from investing activities	-	-	-	-
Cash flows from financing activities				
Proceeds from share issuance	4,391	5,345	2,687	3,271
Proceeds from bank borrowings	34,630	34,630	21,190	21,190
Repayment of bank borrowings	(34,630)	(35,630)	(21,190)	(21,802)
Repayment of long term payable	(28,500)	-	(17,439)	-
Net cash flows from financing activities	(24,109)	4,345	(14,752)	2,659
Net (decrease)/increase in cash and cash equivalents	(13,659)	1,569	(8,358)	960
Cash and cash equivalents at beginning of the financial year	17,955	1,655	10,987	1,013
Restricted bank balance [^]	17,542	-	10,734	-
Effect of exchange translation difference on cash and cash equivalents	(78)	8	(48)	5
Cash and cash equivalents at end of the financial period	21,760	3,232	13,315	1,978

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 2019 and the accompanying explanatory notes attached to the unaudited interim financial statements.

[^] The restricted bank balance represents amount deposited by third parties as a guarantee for indemnity purpose. The deposit is under the custody and control by Dixing, a wholly-owned subsidiary of K-Star.

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A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2020

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 2020 are unaudited and have been prepared in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)”) 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 2019. 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 2019.

In the current financial year, the Company has adopted all the new or revised SFRS(I) and Interpretations of SFRS(I) (“INT SFRS(I)”) that are relevant to its operations and effective for the current financial year ending 31 December 2020. SFRS(I)s comprise Standards and Interpretations that are equivalent to International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB).

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

No.	Title	Effective date - Annual periods commencing on or after
SFRS(I) 16	Amendment to SFRS(I) 16: Covid-19-Related Rent Concessions	1 June 2020
SFRS(I) 1-1	Amendments to SFRS(I) 1-1: Classification of Liabilities as Current or Non-current	1 January 2023
SFRS(I) 3	Amendments to SFRS(I) 3: Reference to the Conceptual Framework	1 January 2022
SFRS(I) 1-16	Amendments to SFRS(I) 1-16: Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
SFRS(I) 1-37	Amendments to SFRS(I) 1-37: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Various	Annual Improvement to SFRS(I)s 2018-2020	1 January 2022
SFRS(I) 10, SFRS(I) 1-28	Amendments to SFRS(I) 10 and SFRS(I) 1-28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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The Directors do not anticipate that the adoption of these SFRS(I) (including sequential amendments) and INT SFRS(I), 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 adoption of these new or revised SFRS(I) and INT SFRS(I) 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.

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 2019 were not subject to any audit qualification.

A3. Seasonal or cyclical factors

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

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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.

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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 year to date.

Details of the movements in the Company's shares since the previous FYE 31 December 2019 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 2019			
	425,872,200	99,118,757	21,297,532
8 January 2020			
- Issuance pursuant to conversion of warrants	6,000,000	817,056	158,016
20 January 2020			
- Issuance pursuant to conversion of warrants	3,750,000	510,660	99,450
10 February 2020			
- Issuance pursuant to conversion of warrants	6,000,000	817,056	160,848
27 February 2020			
- Issuance pursuant to conversion of warrants	4,000,000	544,704	105,536
30 June 2020			
- Issuance pursuant to conversion of warrants	4,016,100	530,286	104,514
9 July 2020			
- Issuance pursuant to conversion of warrants	100,000	13,204	2,608
15 July 2020			
- Issuance pursuant to conversion of warrants	1,700,000	223,197	44,377
21 August 2020			
- Issuance pursuant to conversion of warrants	3,150,000	418,320	82,253
7 September 2020			
- Issuance pursuant to conversion of warrants	470,000	62,040	12,379
28 September 2020			
- Issuance pursuant to conversion of warrants	3,480,000	454,961	91,900
	458,538,300	103,510,241	22,159,413
Reallocation of value to share capital from warrant reserves arising from conversion of warrants	-	5,636,036	1,123,172
	458,538,300	109,146,277	23,282,585

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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.

A9. Segment information

a) Results of operating segments

	For the quarter ended 30 September 2020							
	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	21,980	13,449	-	-	-	-	21,980	13,449
Construction	-	-	17,883	10,943	-	-	17,883	10,943
							<u>39,863</u>	<u>24,392</u>
Other income								
Realised gain on foreign exchange	-	-	-	-	6	4	6	4
Others	-	-	70	43	-	-	70	43
Interest income	8	5	-	-	-	-	8	5
Rental income	51	31	-	-	-	-	51	31
							<u>135</u>	<u>83</u>
Elimination							<u>-</u>	<u>-</u>
							<u>135</u>	<u>83</u>
Operating expenses								
Selling and distribution	(338)	(207)	-	-	-	-	(338)	(207)
Administrative	(1,638)	(1,002)	(293)	(179)	(704)	(431)	(2,635)	(1,612)
							<u>(2,973)</u>	<u>(1,819)</u>
Elimination							<u>-</u>	<u>-</u>
							<u>(2,973)</u>	<u>(1,819)</u>
Profit/(Loss) before taxation	<u>(1,084)</u>	<u>(663)</u>	<u>30</u>	<u>18</u>	<u>(698)</u>	<u>(427)</u>	<u>(1,752)</u>	<u>(1,072)</u>

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(Registered as a foreign company in Malaysia)

[Malaysian Branch Registration Number 200902000042 (995214-D)]

For the financial period ended 30 September 2020

	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	92,556	56,635	-	-	-	-	92,556	56,635
Construction	-	-	22,567	13,809	-	-	22,567	13,809
							115,123	70,444
Other income								
Realised gain on foreign exchange	-	-	-	-	24	15	24	14
Others	-	-	70	43	-	-	70	43
Interest income	16	10	-	-	-	-	16	10
Rental income	152	93	-	-	-	-	152	93
							262	160
Elimination							-	-
							262	160
Operating expenses								
Selling and distribution	(1,117)	(683)	-	-	-	-	(1,117)	(683)
Administrative	(5,122)	(3,134)	(781)	(478)	(2,006)	(1,228)	(7,909)	(4,840)
							(9,026)	(5,523)
Elimination							-	-
							(9,026)	(5,523)
Profit/(Loss) before taxation	(1,125)	(688)	164	100	(1,982)	(1,213)	(2,943)	(1,801)

b) Assets and liabilities

As at 30 September 2020

	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	127,583	78,068	7,231	4,424	665	407	135,479	82,899
Total liabilities	86,895	53,171	5,192	3,177	749	458	92,836	56,806

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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 2019. The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

A11. Status of corporate exercise

- (a) Save as disclosed below, there were no other corporate proposals announced but not completed as at 13 November 2020, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

The Company had on 30 June 2020, announced that the Company proposed to undertake the following proposals:

- 1) proposed special issue of up to 222,811,100 new ordinary shares in K-Star ("K-Star Shares" or "Shares"), representing not more than 50.0% of the issued share capital in K-Star to independent third party investor(s) to be identified ("Proposed Special Issue"); and
- 2) proposed internal reorganisation by way of a members' scheme of arrangement under Section 210 of the Companies Act (Chapter 50) of Singapore ("Proposed Internal Reorganisation") comprising the following proposals:

(i) Proposed exchange of:

(aa) all existing K-Star Shares with new ordinary shares in a new investment holding company, namely Bluesky Capital Sdn. Bhd. ("Newco") ("Newco Shares") on a one-for-one basis; and

(bb) all outstanding warrants 2018/2021 ("K-Star Warrants" or "Warrants") with new warrants to be issued by Newco ("Newco Warrants") on a one-for-one basis;

as at an entitlement date to be determined and announced later ("Proposed Securities Exchange");

(ii) Proposed transfer of K-Star's listing status to Newco, followed by the admission of Newco to and withdrawal of K-Star from the Official List of Bursa Malaysia Securities Berhad ("Bursa Securities"), and the listing of and quotation for the new Newco Shares and Newco Warrants on the Main Market of Bursa Securities ("Proposed Transfer of Listing"); and

(iii) Proposed transfer of K-Star's entire shareholdings in its wholly-owned subsidiary, Sinaran Trilion Sdn. Bhd. ("STSB") to Newco. Following the Proposed Securities Exchange, all of K-Star's shareholdings in STSB will be transferred to Newco ("Proposed Transfer of Subsidiary")

Subsequently on 26 October 2020, the Company announced the following:

- (i) that the Board has resolved to reduce the issuance size of the Proposed Special Issue to 142,097,400 K-Star Shares; and

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- (ii) that the Company intends to establish an employees' share option scheme ("ESOS") upon completion of the Proposed Transfer of Listing under its new investment holding company, namely Sinaran Advance Group Berhad ("SAG"). The ESOS would entails the issuance of up to 15% of the total number of ordinary shares in SAG ("SAG Shares") (excluding treasury shares, if any) at any point of time during the duration of the ESOS for the employees as well as executive and non-executive directors ("Director(s)") of SAG and its subsidiaries ("SAG Group") (excluding dormant subsidiaries) ("Proposed ESOS").

Proposed ESOS is intended to be implemented after the completion of the Proposed Transfer of Listing. In the event that the Proposed Transfer of Listing fails to be completed, the Proposed ESOS will be implemented by K-Star.

On 12 November 2020, the listing applications in relation to the Proposed Special Issue and Proposed Internal Reorganisation have been submitted to Bursa Securities.

As the Proposed ESOS is intended to be implemented after the Proposed Transfer of Listing, the listing application for the Proposed ESOS will be submitted to Bursa Securities after the approval of shareholders of K-Star has been obtained in the forthcoming Extraordinary General Meeting and the Proposed Transfer of Listing is completed.

Barring unforeseen circumstances, the aforesaid proposals are expected to be completed by the first quarter of 2021.

b) Utilisation of proceeds

The total gross proceeds from the private placement of 38,695,200 new ordinary shares in K-Star ("Proposal") to individual third party investors amounting to approximately RM2.71 million have been be fully utilised in the first quarter of 2020.

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 2019.

A13. Capital commitments

There is no capital commitment as at 30 September 2020.

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.

c) Warrant reserve

Warrant reserve relates to the fair value ascribed to warrants issued, net of issue expenses. As and when the warrants are exercised, the related balance in the warrant reserve is transferred to the share capital account. Each warrant carries the right to subscribe for one new ordinary share in the capital of the Company at an exercise price of RM 0.08. The warrants will expire on 10 April 2021. On the expiry of the warrants, the balance in the warrant reserve will be transferred to retained earnings.

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 THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Performance review

	Individual quarter ended 30 September		Changes (%)	Cumulative period ended 30 September		Changes (%)
	2020	2019		2020	2019	
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	39,863	51,489	(22.58)	115,123	152,464	(24.49)
Gross profit margin (%)	6.70	8.52	21.36	9.62	9.39	2.45
Profit/(Loss) before tax	(1,752)	(676)	(159.17)	(2,943)	(1,649)	(78.47)
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	(1,710)	(707)	(141.87)	(2,817)	(1,648)	(70.93)

Statement of Profit & loss

For the current quarter three (3) months ended 30 September 2020 ("3Q2020"), the Group's revenue has decreased by approximately 22.58% as compared to the preceding year corresponding quarter ended 30 September 2019 ("3Q2019"). This was mainly due to the slowdown in sales of both the Dixing's core brand footwear and OEM footwear by 56.10% and 62.12% respectively amid Covid-19 pandemic. Contrary, the revenue from the construction segment has increased by RM 17.88 million as compared to the revenue recorded in the 3Q2019 of RMB 0.006 million.

Gross profit margin stood at 6.70%, representing a decrease of 1.82% as compared to 8.52% recorded in the 3Q2019. The decrease was mainly due to lower gross profit margin contribution from the construction segment.

The current quarter's selling and distribution expenses has reduced by 24.89% as compared to the preceding year corresponding quarter mainly due to lower staff costs and R&D expenditures.

Administrative expenses has decreased by 7.61% mainly due to lower depreciation expenses, amortisation expenses and staff costs. The finance costs incurred in 3Q2020 has reduced by 13.64% as compared to 3Q2019 which was in corresponding with the repayment of long-term interest bearing payables amounted to RMB 28.50 million made during the current quarter.

The Group has incurred a loss before taxation ("LBT") of RMB 1.71 million was mainly in corresponding with the diminishing sales from the footwear segment due to the Covid-19 pandemic.

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The Group's total revenue for the current financial period ended ("FPE") 30 September 2020 has decreased by 24.49% as compared to the preceding year corresponding period. The current period revenue stood at RMB 115.12 million, of which 82.08% and 17.92% of the total footwear revenue of RMB 92.56 million were derived from Dixing's core brand and OEM segment respectively. Both the Dixing brand footwear and OEM footwear have decreased by 36.63% and 48.37% respectively as compared to the preceding year corresponding period ended 30 September 2019 amid the outbreak of Covid-19 during the first quarter of 2020. Notwithstanding the slacking in footwear sales, approximately RMB 22.57 million was derived from the construction segment as compared to the FPE 30 September 2019 of RMB 0.47 million.

The Group's gross profit margin was fairly consistent, stood at 9.62% as compared to the preceding year corresponding period of 9.39%. The gross profit margin from the footwear segment has improved by 19.14% as compared to the FPE 30 September 2019. However, this was set-off with a lower gross profit margin yield from the construction segment of 3.88% recorded for the FPE 30 September 2020.

The sales and distribution expenses has decreased by 33.63% as compared to the preceding year corresponding period as there were no trade fair organised during the recent Covid-19 pandemic.

The administrative expenses has reduced by approximately 11.60% mainly due to lower depreciation expenses, amortisation expenses and staff costs. Finance costs incurred in the FPE 30 September 2020 has decreased by 4.95% as compared to FPE 30 September 2019 as there were repayment of long-term interest bearing payables amounted to RMB 28.50 million made during the current financial period.

The increase in the Group's pre-tax losses by RMB 1.17 million was mainly in corresponding with the diminishing sales from the footwear segment due to the Covid-19 pandemic.

Statement of financial position

The inventory turnover period were fairly consistent, stood at the age of 2 days as at 30 September 2020 as compared to 30 September 2019 of 7 days.

The trade receivables turnover period as at 30 September 2020 has improved, stood at 96 days as compared to 135 days in the preceding year corresponding quarter.

The trade payables turnover period stood at the age of 44 days as compared to the preceding year corresponding quarter of 56 days.

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Statement of cash flow

The Group has recorded a net cash inflow from operating activities of RMB 10.45 million for the current FPE 30 September 2020 as compared to the net cash outflow of RMB 2.78 million recorded in the FPE 30 September 2019. This was mainly due to quicker trade receivables turnover as compared to FPE 30 September 2019. There was no cash flow allocation for and from investing activities.

From the financing activities, gross proceeds of RM 4.39 million was raised from the conversion of 35.81 million warrants during the current financial period. In addition, there were repayment of long-term interest bearing payables of RMB 28.5 million made during the current financial period.

For the current financial period, the net cash and cash equivalents stood at RMB 21.76 million, of which an amount of RMB 17.54 was restricted bank balance deposited by third parties as a guarantee for indemnity purpose.

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

	Individual quarter ended 30 September			
	2020 RMB'000	2019 RMB'000	2020 RM'000	2019 RM'000
Interest income	(8)	(7)	(5)	(4)
Other income including investment income	-	-	-	-
Interest expense	1,583	1,833	969	1,122
Depreciation	661	818	404	500
Amortisation	268	670	164	410
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	(6)	(15)	(4)	(9)
(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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	Current year to date ended 30 September			
	2020 RMB'000	2019 RMB'000	2020 RM'000	2019 RM'000
Interest income	(16)	(15)	(10)	(9)
Other income including investment income	-	-	-	-
Interest expense	5,258	5,532	3,217	3,385
Depreciation	2,297	2,454	1,406	1,502
Amortisation	804	2,088	492	1,278
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	(24)	(29)	(15)	(18)
(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.*

* *Negligible*

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

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B2. Variation of results against immediate preceding quarter

	Current quarter ended 30 September 2020 RMB'000	Preceding quarter ended 30 June 2019 RMB'000	Changes (%)
Revenue	39,863	41,272	(3.41)
Profit/(Loss) before taxation	(1,752)	(1)	> 100
Profit/(Loss) after taxation and total comprehensive income/(loss) for the period	(1,710)	41	> 100

	Current quarter ended 30 September 2020 RM'000	Preceding quarter ended 30 June 2019 RM'000
Revenue	24,392	25,254
Loss before taxation	(1,072)	*
Loss after taxation and total comprehensive loss for the period	(1,046)	25

Note:

* Negligible

The Group's revenue for the 3Q2020 has increased by 3.41% as compared to the preceding quarter three (3) months ended 30 June 2020 ("2Q2020"). In the 3Q2020, the revenue contribution from the footwear segment has decreased by RMB 16.81 million. Both the sales of Dixing's core brand footwear and the OEM footwear has decreased by 45.84% and 27.90% respectively. The revenue from the construction segment, however, has increased by RMB 9.47 million.

The gross profit margin stood at 6.70%, reduced by 5.00% as compared to 11.70% recorded in the preceding quarter. This was mainly due to lower gross profit margin contribution from the construction segment which has undermined the Group overall gross profit margin.

The Group recorded a pre-tax loss of RMB 1.71 million which was mainly arising from the diminishing sales from the footwear segment.

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B3. Prospects for the financial year ending 31 December 2020

Looking forward, the sportswear market will be sustaining its growth potential driven by the consumption upgrading trend and stable demand among domestic consumers with improved living standard and higher income growth. The propelling growth in the sector is also driven by rising level of health and well-being awareness and increasing sports participation. In addition, the Chinese Government supports the development of sports industry vigorously with the introduction of numerous favorable policies, programmes and sport events. The advancement of e-commerce also plays a significant part to drive growth and to cushion the deteriorating growth of the retail stores.

However, the macro economic uncertainties and the recent outbreak of coronavirus are posing impact on the market. Adding to that, the China economic growth has slowed to a rate of 6.10% in 2019 as compared to 6.60% in 2018, the weakest pace in nearly 30 years and was marred noticeably by the effect of US-China trade war. It is envisaged that the outlook of the China sports footwear market will remain challenging ahead.

Market competition will continue to intensify with international sportswear brands are constantly accelerating their presence in the mainland causing domestic sportswear brands to lose market share due to weaker brand recognition and innovation. The increasing cost of labour also raises concern over the challenges from Southeast Asia countries offering considerably labour cost advantages over China. However, China has its competitive advantages over its well-established and centralised hub of raw and auxiliary material supplies serves to strengthen cohesion and sustainability of the local market.

Given the overall backdrop in consumer sentiment, uncertainty economic impact arising from the on-going US-China trade dispute, coronavirus outbreak and intense market competition, the Group remains cautious and sees challenges on the business growth but remains optimistic on the long term sustainability of the business.

Following the diversification of the Group business into construction and involvement into healthcare sector with the intention to provide additional stream of revenue to the Group, the Board of Directors of K-Star ("Board") envisages that the Group's prospects for the financial year ending 31 December 2020 would be favourable.

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.

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B5. Taxation

	Current Quarter RMB '000	Current year to date RMB '000
Income tax	-	-
Underprovision of income tax	-	-
Deferred tax income	(42)	(126)
	<u>(42)</u>	<u>(126)</u>

	Current Quarter RM '000	Current year to date RM '000
Income tax	-	-
Underprovision of income tax	-	-
Deferred tax income	(26)	(77)
	<u>(26)</u>	<u>(77)</u>

There were no provision for taxation for the current quarter and year to date ended 30 September 2020 as the Group has incurred losses.

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 2020 were as follows:

	30 September 2020 RMB'000	30 September 2019 RMB'000	Changes %
Short-term bank borrowings:			
Secured	9,800	9,800	-
Unsecured	<u>24,830</u>	<u>24,830</u>	-
	<u>34,630</u>	<u>34,630</u>	-

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	30 September 2020 RM'000	30 September 2019 RM'000
Short-term bank borrowings:		
Secured	5,997	5,997
Unsecured	15,193	15,193
	<u>21,190</u>	<u>21,190</u>

The bank borrowings are denominated in RMB with a weighted average interest rate of 5.66% (30 September 2019: 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.

The Group's long-term other payables as at 30 September 2020 were as follows:

	30 September 2020 RMB'000	30 September 2019 RMB'000	Changes %
Long-term other payables:			
Secured	<u>16,000</u>	<u>44,500</u>	(64.04)

	30 September 2020 RM'000	30 September 2019 RM'000
Long-term other payables:		
Secured	<u>9,790</u>	<u>27,229</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.

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 material proceedings pending or threatened or of any material fact likely to give rise to any such proceedings.

B8. Dividend

There were no dividends declared by the Company for the current quarter ended 30 September 2020.

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B9. Profit/(Loss) per share

a) Basic loss per share

	Individual quarter ended 30 September			
	2020	2019	2020	2019
	RMB'000	RMB'000	RM'000	RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(1,710)	(707)	(1,046)	(433)
Weighted average number of ordinary shares in issue ('000)	452,810	419,381	452,810	419,381
Basic earning/(loss) per share (RMB cents/RM sen)	(0.38)	(0.17)	(0.23)	(0.10)

	Cumulative year to date ended 30 September			
	2020	2019	2020	2019
	RMB'000	RMB'000	RM'000	RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(2,817)	(1,648)	(1,724)	(1,008)
Weighted average number of ordinary shares in issue ('000)	445,929	395,397	445,929	395,397
Basic earning/(loss) per share (RMB cents/RM sen)	(0.63)	(0.42)	(0.39)	(0.26)

b) Diluted earnings per share

	Individual quarter ended 30 September			
	2020	2019	2020	2019
	RMB'000	RMB'000	RM'000	RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(1,710)	(707)	(1,046)	(433)
Weighted average number of ordinary shares in issue ('000)	452,810	419,381	452,810	419,381
Warrants outstanding ('000)	113,489	146,155	113,489	146,155
Diluted earning/(loss) per share (RMB cents/RM sen)	(0.30)	(0.13)	(0.18)	(0.08)

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	Cumulative year to date ended 30 September			
	2020 RMB'000	2019 RMB'000	2020 RM'000	2019 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(2,817)	(1,648)	(1,724)	(1,008)
Weighted average number of ordinary shares in issue ('000)	445,929	395,397	445,929	395,397
Assuming full exercise of warrants ('000)	113,489	146,155	113,489	146,155
Diluted earning/(loss) per share (RMB cents/RM sen)	(0.50)	(0.30)	(0.31)	(0.18)

B10. Realised and unrealised profits/(losses)

	FPE 30 September		FPE 30 September	
	2020 RMB'000	2019 RMB'000	2020 RM'000	2019 RM'000
Realised	71,417	83,673	43,700	51,199
Unrealised	(4,837)	(5,005)	(2,960)	(3,062)
Total retained profits/(losses)	66,580	78,668	40,740	48,137

	Preceding quarter ended 30 June 2020	
	RMB'000	RM'000
Realised	73,169	44,772
Unrealised	(4,879)	(2,985)
Total retained profits/(losses)	68,290	41,787

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
20 November 2020