

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 2016

	<u>Note</u>	Individual quarter Quarter ended		Individual quarter Quarter ended	
		30.09.2016	30.09.2015	30.09.2016 (Note a)	30.09.2015 (Note a)
		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	75,581	78,438	46,777	48,545
Cost of sales		<u>(70,324)</u>	<u>(72,938)</u>	<u>(43,524)</u>	<u>(45,141)</u>
Gross profit		5,257	5,500	3,253	3,404
Other income		8	24	5	15
Selling and distribution expenses	B1	(10,570)	(10,983)	(6,542)	(6,797)
Administrative expenses	B1	(5,019)	(5,652)	(3,106)	(3,498)
Finance costs		<u>(2,611)</u>	<u>(371)</u>	<u>(1,616)</u>	<u>(230)</u>
Loss before taxation	B1	(12,935)	(11,482)	(8,006)	(7,106)
Taxation		-	-	-	-
Total loss for the period	B1	<u>(12,935)</u>	<u>(11,482)</u>	<u>(8,006)</u>	<u>(7,106)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		<u>(12,935)</u>	<u>(11,482)</u>	<u>(8,006)</u>	<u>(7,106)</u>
Attributable to :					
- Equity holders of the Company		<u>(12,935)</u>	<u>(11,482)</u>	<u>(8,006)</u>	<u>(7,106)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(4.86)	(4.31)	(3.01)	(2.67)
Diluted (RMB cents/RM sen)	B9	(4.86)	(4.31)	(3.01)	(2.67)

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 2016 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6189 as at 30 September 2016. 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 2015 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 NINE (9) MONTHS FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

		Cumulative quarter		Cumulative quarter	
		Current	Preceding	Current	Preceding
		year	year	year	year
		to date	to date	to date	to date
		30.09.2016	30.09.2015	30.09.2016	30.09.2015
				(Note a)	(Note a)
	Note	RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	219,753	216,497	136,005	133,990
Cost of sales		(204,842)	(201,591)	(126,777)	(124,765)
Gross profit		14,911	14,906	9,228	9,225
Other income		32	116	20	72
Selling and distribution expenses	B1	(29,323)	(29,994)	(18,148)	(18,563)
Administrative expenses	B1	(16,100)	(16,616)	(9,964)	(10,284)
Finance costs		(5,888)	(1,127)	(3,644)	(698)
Loss before taxation	B1	(36,368)	(32,715)	(22,508)	(20,248)
Taxation		-	-	-	-
Total loss for the period	B1	(36,368)	(32,715)	(22,508)	(20,248)
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		(36,368)	(32,715)	(22,508)	(20,248)
Attributable to :					
-Equity holders of the Company		(36,368)	(32,715)	(22,508)	(20,248)
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(13.65)	(12.28)	(8.45)	(7.60)
Diluted (RMB cents/RM sen)	B9	(13.65)	(12.28)	(8.45)	(7.60)

Notes:

(a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the financial period ended 30 September 2016 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6189 as at 30 September 2016. 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 2015 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 2016

	Unaudited As at 30.09.2016	Audited As at 31.12.2015	Unaudited As at 30.09.2016 (Note a)	Audited As at 31.12.2015 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
ASSETS				
Non-Current Assets				
Property, plant and equipment	48,846	53,573	30,231	33,156
Patents	37,308	33,458	23,090	20,707
Land use rights	69,328	70,548	42,907	43,662
	<u>155,482</u>	<u>157,579</u>	<u>96,228</u>	<u>97,525</u>
Current Assets				
Inventories	8,613	9,209	5,331	5,700
Trade and other receivables	146,214	153,294	90,492	94,874
Cash and bank balances	7,754	6,163	4,799	3,814
	<u>162,581</u>	<u>168,666</u>	<u>100,622</u>	<u>104,388</u>
Total assets	<u>318,063</u>	<u>326,245</u>	<u>196,850</u>	<u>201,913</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	285,075	285,075	176,433	176,433
Retained earnings	55,694	92,062	34,469	56,977
Other reserves	(149,444)	(149,444)	(92,491)	(92,491)
	<u>191,325</u>	<u>227,693</u>	<u>118,411</u>	<u>140,919</u>
Current Liabilities				
Borrowings	36,700	23,900	22,714	14,792
Trade and other payables	85,117	69,731	52,679	43,156
	<u>121,817</u>	<u>93,631</u>	<u>75,393</u>	<u>57,948</u>
Non-Current Liability				
Deferred tax liability	4,921	4,921	3,046	3,046
Total liabilities	<u>126,738</u>	<u>98,552</u>	<u>78,439</u>	<u>60,994</u>
Total equity and liabilities	<u>318,063</u>	<u>326,245</u>	<u>196,850</u>	<u>201,913</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)	<u>71.82</u>	<u>85.47</u>	<u>44.45</u>	<u>52.90</u>

Notes:

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- (b) The unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2015 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 2015 and 30 September 2016 divided by the number of ordinary shares of 266,400,000.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE (9) MONTHS FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

	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 2014	285,075	(174,156)	24,712	168,957	304,588
Total comprehensive loss for the financial period	-	-	-	(32,715)	(32,715)
At 30 September 2015	285,075	(174,156)	24,712	136,242	271,873
At 31 December 2015	285,075	(174,156)	24,712	92,062	227,693
Total comprehensive loss for the financial period	-	-	-	(36,368)	(36,368)
At 30 September 2016	285,075	(174,156)	24,712	55,694	191,325

	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 2014	176,433	(107,785)	15,294	104,567	188,509
Total comprehensive loss for the financial period	-	-	-	(20,248)	(20,248)
At 30 September 2015 (note a)	176,433	(107,785)	15,294	84,319	168,261
At 31 December 2015	176,433	(107,785)	15,294	56,977	140,919
Total comprehensive loss for the financial period	-	-	-	(22,508)	(22,508)
At 30 September 2016 (note a)	176,433	(107,785)	15,294	34,469	118,411

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 2015 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 NINE (9) MONTHS FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016

	For the financial period ended 30.09.2016	For the financial period ended 30.09.2015	For the financial period ended 30.09.2016 <i>(Note a)</i>	For the financial period ended 30.09.2015 <i>(Note a)</i>
	RMB'000	RMB'000	RM'000	RM'000
Cash flows from operating activities				
Loss before taxation	(36,368)	(32,715)	(22,508)	(20,248)
Adjustments for:				
Interest income	(31)	(108)	(19)	(67)
Interest expenses	5,888	1,127	3,644	698
Depreciation of property, plant and equipment	4,727	5,450	2,925	3,373
Property, plant and equipment written off	-	61	-	38
Amortisation of land use rights	1,220	1,220	755	755
Amortisation of patents	4,950	4,217	3,064	2,610
Operating loss before working capital changes	(19,614)	(20,748)	(12,139)	(12,841)
Decrease/(Increase) in inventories	596	(1,528)	369	(946)
Decrease/(Increase) in trade and other receivables	7,080	(3,188)	4,382	(1,973)
Increase in trade and other payables	15,386	5,539	9,522	3,428
Cash from/(used in) operations	3,448	(19,925)	2,134	(12,332)
Income tax paid	-	-	-	-
Net cash generated from operating activities	3,448	(19,925)	2,134	(12,332)
Cash flows from investing activities				
Purchase of property, plant and equipment	-	(1,801)	-	(1,115)
Prepayment of patents	(8,800)	(8,800)	(5,446)	(5,446)
Interest received	31	108	19	67
Net cash used in investing activities	(8,769)	(10,493)	(5,427)	(6,494)
Cash flows from financing activities				
Interest paid	(5,888)	(1,127)	(3,644)	(698)
Proceeds from bank borrowings	28,000	15,200	17,329	9,407
Repayment of bank borrowings	(15,200)	(15,200)	(9,407)	(9,407)
Net cash generated from/(used in) financing activities	6,912	(1,127)	4,278	(698)
Net increase/(decrease) in cash and cash equivalents	1,591	(31,545)	985	(19,524)
Cash and cash equivalents at beginning of the financial period	6,163	47,938	3,814	29,669
Cash and cash equivalents at end of the financial period	7,754	16,393	4,799	10,145

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 2015 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 2016

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 2016 are unaudited and have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) and Appendix 9B of the Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements.

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 2015. 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 2015.

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 2016.

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 were issued but not yet effective for the current financial year under review:

No.	Title	Effective date - Annual periods commencing on or after
FRS 115	Revenue from Contracts with Customers Illustrative Examples	1 January 2018
	Amendments to FRS 115: Clarifications to FRS 115 Revenue from Contracts with Customers	
FRS 110, FRS 28	Amendments to FRS 110 and FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
FRS 109	Financial Instruments Illustrative Examples Implementation Guidance	1 January 2018
	Amendments to Guidance on Other Standards	
FRS 7	Amendments to FRS 7: Disclosure Initiative	1 January 2017
FRS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
FRS 116	Leases Illustrative Examples & Amendments to Guidance on Other Standards	1 January 2019

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The Directors do not anticipate that the adoption of this FRS (including sequential amendments) and INT FRS, where relevant to the Company, in future periods will have a material impact on the financial statements of the Company in the period of their initial adoption.

Changes in accounting policies

The accounting policies and presentation adopted by the Group for the interim financial statements are consistent with those adopted for the Group's audited consolidated financial statements for the FYE 31 December 2015.

b) Basis of consolidation

The consolidated 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 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 2015 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

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.

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.

A9. Segment information

a) Operating segments

The Group has only one operating segment, which is the design, manufacture and sale of sports footwear, sports apparel and accessories.

The breakdown of the Group revenue by product type is as follows:

	Nine (9) months ended 30 September 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	219,753	136,005
Sale of sports apparel and accessories	-	-
	<u>219,753</u>	<u>136,005</u>

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	Nine (9) months ended 30 September 2015	
	<u>RMB'000</u>	<u>RM'000</u>
Sale of sports footwear	216,497	133,990
Sale of sports apparel and accessories	-	-
	<u>216,497</u>	<u>133,990</u>

b) Geographical segments

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

A10. Property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendment from the Company's audited consolidated financial statements for the FYE 31 December 2015.

A11. Status of corporate exercise

Save as disclosed in the ensuing paragraph, there were no other corporate proposals announced but not completed as at 18 November 2016, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report:

On 9 September 2016, K-Star proposed to undertake a private placement of up to 26,640,000 new ordinary shares in K-Star ("Placement Shares") to individual third party investor(s) to be identified ("Proposed Private Placement"). The 26,640,000 Placement Shares represents ten percent (10%) of the existing 266,400,000 issued and paid-up K-Star Shares.

The Proposed Private Placement is proposed to be implemented pursuant to a prior approval obtained pursuant to Section 161 of the Companies Act (Chapter 50) of Singapore from shareholders of K-Star in a general meeting held on 24 June 2016.

The Company had on 23 September 2016 submitted an application to Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for up to 26,640,000 new ordinary shares of K-Star pursuant to the Proposed Private Placement ("Application").

As of the date of this report, the Application is pending the approval from the Bursa Securities and the Proposed Private Placement is expected to be completed by the first quarter of 2017.

A12. Contingent liabilities

There were no material changes in the contingent liabilities or contingent assets since the last annual statement of financial position ended 31 December 2015.

A13. Capital commitments

There is no capital commitment as at 30 September 2016.

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A14. Changes in the composition of the Group

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

A15. Reserves

a) Statutory reserve

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

b) Merger reserve

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

A16. Related party transactions

Save as disclosure below, there were no related party transactions during the current quarter and the financial year to date:

	For the current quarter ended 30 September 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense	990	613
Interest payable	990	613
Amount due to a related party	22,000	13,616
	<hr/>	<hr/>
	For the financial year to date ended 30 September 2016	
	<u>RMB'000</u>	<u>RM'000</u>
Interest expense	2,970	1,838
Interest payable	990	613
Amount due to a related party	22,000	13,616
	<hr/>	<hr/>

The amount due to a related party is secured against certain land and building of the Group, bearing interest of 1.50% per month and without fix term of repayment.

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

B1. Review of performance

The Group recorded total revenue of RMB 75.58 million for the current quarter three (3) months ended 30 September 2016 (“3Q2016”), representing a decrease of approximately 3.64% as compared to the preceding year corresponding quarter three (3) months ended 30 September 2015 (“3Q2015”) mainly due to lower sales derived from the OEM segment.

Gross profit margin was fairly consistent as there was no major fluctuation in the production costs as well as the average unit selling price.

The Group’s loss before taxation (“LBT”) was recorded higher as compared to the 3Q2015 was as a result of higher finance costs incurred during the 3Q2016.

For the financial period ended (“FPE”) 30 September 2016, the Group’s revenue has increased marginally by approximately 1.50% mainly attributable to an increase in sales of Dixing brand footwear by approximately 8.24% as compared to the FPE 30 September 2015. Gross profit margin was fairly consistent with no major fluctuation in the average unit selling price and the production costs.

Besides, the sales and distribution expenses as well as the administrative expenses were consistent as compared to the FPE 30 September 2015.

The Group reported a higher LBT and loss after taxation (“LAT”) by RMB 3.65 million for the FPE 30 September 2016 was mainly due to higher finance costs incurred during the period.

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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)
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(Malaysian Branch Registration Number 995214-D)

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

	Individual quarter ended 30 September		Individual quarter ended 30 September	
	2016 RMB'000	2015 RMB'000	2016 RM'000	2015 RM'000
Interest income	(12)	(16)	(7)	(10)
Other income including investment income	-	-	-	-
Interest expense	2,611	408	1,616	253
Depreciation	1,521	1,837	941	1,137
Amortisation	2,057	2,057	1,273	1,273
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	3	(14)	2	(9)
(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	
	2016 RMB'000	2015 RMB'000	2016 RM'000	2015 RM'000
Interest income	(31)	(108)	(19)	(67)
Other income including investment income	-	-	-	-
Interest expense	5,888	1,127	3,644	698
Depreciation	4,727	5,450	2,925	3,373
Amortisation	6,170	5,437	3,819	3,365
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	(1)	(23)	*	(14)
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

Notes:

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

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

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

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

* *Negligible*

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B2. Variation of results against immediate preceding quarter

	Current quarter ended 30 September 2016 RMB'000	Preceding quarter ended 30 June 2016 RMB'000
Revenue	75,581	73,672
Loss before taxation	(12,935)	(14,058)
Loss after taxation and total comprehensive loss for the period	(12,935)	(14,058)

	Current quarter ended 30 September 2016 RM'000	Preceding quarter ended 30 June 2016 RM'000
Revenue	46,777	45,596
Loss before taxation	(8,006)	(8,700)
Loss after taxation and total comprehensive loss for the period	(8,006)	(8,700)

The Group's revenue for the 3Q2016 has increased by 2.59% as compared to the preceding quarter three (3) months ended 30 June 2016 ("2Q2016"). The sales of Dixing brand footwear which accounted for 88.50% of the total sales was higher by 14.46% while the OEM segment representing 11.50% of the total sales has decreased by approximately 42.95%.

The gross profit margin stood at approximately 6.96% comparing to the preceding quarter 2Q2016 of 6.71%. The marginal improvement in gross profit margin by 0.25% was attributable to the slight upward adjustment on the average unit selling price by approximately 1.76%.

Comparing to the 2Q2016, the sales and distribution expenses were recorded lower by approximately 9.53% mainly due to the savings on trade fair and meeting related expenses. In addition, administrative expenses has also dipped by 8.73% in view of general administrative costs saving in particular the entertainment expenses which saw a decrease of approximately 87.37%. On the other hand, the finance costs comparing to the 2Q2016 has increased by RMB 0.78 million for additional short term borrowing incurred since the 2Q2016.

In view of the above, the current quarter's losses were lower by approximately RMB 1.12 million as compared to the 2Q2016.

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B3. Prospects for the financial year ending 31 December 2016

The sports footwear and apparel market in China has reached a certain level of maturity and has entered a phase of stabilised growth after a period of rapid expansion with double digit growth rate from 2008 to 2010. Thereafter, it had undergone a prolonged downturn since 2011 due to intense industry rivalry resulting in oversupply of sports apparel and footwear in the market. Accordingly, many distributors and retailers have to reduce the inventories and relieve the dilemma through shutting down shops, industrial promotion and channel transformation. In addition, consistent high level of inflationary pressure has also affected the consumer sentiment, hindering the overall market growth as well as the Group's performance.

However, the Group remains optimistic on the long term potential and sustainability of the sports industry in China witnessed by a combination of government's support which include promotion of public sporting programmes, hosting of international events and increasing media exposure.

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. It is envisaged that the oversupply situation in the sportswear industry in China will ease over time, however challenges on offline channels from online channels is inevitable. While the distributors are still focusing on rationalising its retail channel and improving profitability, the Group as the brand owner will undertake necessary measures by extending mix of incentives to support and ensure the sustainability of the distributors' business amid the current market environment will continue to be faced with numerous challenges.

The Board of Directors of K-Star ("Board") envisages that the Group's prospects for the financial year ending 31 December 2016 would be less favourable in view of the China's retailing growth slowdown in the short and medium term perspective. In addition, the Group is expected to extend some sales rebates in the forthcoming quarter to support the distributors which may further add pressure to the profitability of the Group in the financial year ending 2016.

B4. Profit forecast and profit guarantee

The Group has not provided any profit forecast or profit guarantee in any public document for the current financial quarter.

B5. Taxation

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

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B6. Group borrowings

The Group's borrowings as at 30 September 2016 were as follows:

	Total RMB'000	Total RM'000
Short-term bank borrowings:		
Secured	9,950	6,158
Unsecured	26,750	16,556
	<u>36,700</u>	<u>22,714</u>

B7. Changes in material litigation

As at the date of this report, there is no 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 2016.

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B9. Loss per share

a) Basic loss per share

	Individual quarter ended 30 September		Individual quarter ended 30 September	
	2016 RMB'000	2015 RMB'000	2016 RM'000	2015 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(12,935)	(11,482)	(8,006)	(7,106)
Weighted average number of ordinary shares in issue ('000)	266,400	266,400	266,400	266,400
Basic loss per share (RMB cents/RM sen)	<u>(4.86)</u>	<u>(4.31)</u>	<u>(3.01)</u>	<u>(2.67)</u>

	Cumulative nine (9) months ended 30 September		Cumulative nine (9) months ended 30 September	
	2016 RMB'000	2015 RMB'000	2016 RM'000	2015 RM'000
Loss attributable to equity holders of the Company (RMB'000)	(36,368)	(32,715)	(22,508)	(20,248)
Weighted average number of ordinary shares in issue ('000)	266,400	266,400	266,400	266,400
Basic loss per share (RMB cents/RM sen)	<u>(13.65)</u>	<u>(12.28)</u>	<u>(8.45)</u>	<u>(7.60)</u>

b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares as at the respective balance sheet dates.

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B10. Realised and unrealised profits/(losses)

	FPE 30 September		FPE 30 September	
	2016	2015	2016	2015
	RMB'000	RMB'000	RM'000	RM'000
Realised	55,694	136,227	34,469	84,311
Unrealised	*	15	*	9
Total retained profits	55,694	136,242	34,469	84,320

	Preceding quarter ended	
	30 June 2016	
	RMB'000	RM'000
Realised	68,629	42,474
Unrealised	*	*
Total retained profits	68,629	42,474

Note:

* *Negligible*

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
25 November 2016