

K-Star

K-STAR SPORTS LIMITED

(Incorporated in Singapore under the Companies Act (Chapter 50) of Singapore)(Company Registration Number 200820976H)

(Registered as a foreign company in Malaysia under the Companies Act 1965 of Malaysia)

(Malaysian Branch Registration Number 995214-D)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 MARCH 2018

	Note	Individual quarter Quarter ended		Individual quarter Quarter ended	
		31.03.2018	31.03.2017	31.03.2018 (Note a)	31.03.2017 (Note a)
		Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	78,125	77,990	48,109	48,026
Cost of sales		(68,614)	(72,130)	(42,252)	(44,418)
Gross profit		9,511	5,860	5,857	3,608
Other income		59	4	36	2
Selling and distribution expenses	B1	(536)	(6,207)	(330)	(3,822)
Administrative expenses	B1	(4,162)	(4,958)	(2,563)	(3,053)
Finance costs		(2,145)	(3,633)	(1,321)	(2,237)
Profit/(Loss) before taxation	B1	2,727	(8,934)	1,679	(5,502)
Taxation		(537)	-	(331)	-
Total profit/(loss) for the period	B1	2,190	(8,934)	1,348	(5,502)
Other comprehensive income after tax		-	-	-	-
Total comprehensive income/(loss) for the period		2,190	(8,934)	1,348	(5,502)
Attributable to :					
- Equity holders of the Company		2,190	(8,934)	1,348	(5,502)
Profit/(Loss) per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	0.68	(3.30)	0.42	(2.03)
Diluted (RMB cents/RM sen)	B9	0.68	(3.30)	0.42	(2.03)

Notes:

(a) The presentation currency of this unaudited interim financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the quarter ended 31 March 2018 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6158 as at 31 March 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 31 MARCH 2018

		Cumulative quarter		Cumulative quarter	
		Current year to date 31.03.2018	Preceding year to date 31.03.2017	Current year to date 31.03.2018 <i>(Note a)</i>	Preceding year to date 31.03.2017 <i>(Note a)</i>
	<u>Note</u>	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	78,125	77,990	48,109	48,026
Cost of sales		<u>(68,614)</u>	<u>(72,130)</u>	<u>(42,252)</u>	<u>(44,418)</u>
Gross profit		9,511	5,860	5,857	3,608
Other income		59	4	36	2
Selling and distribution expenses	B1	(536)	(6,207)	(330)	(3,822)
Administrative expenses	B1	(4,162)	(4,958)	(2,563)	(3,053)
Finance costs		<u>(2,145)</u>	<u>(3,633)</u>	<u>(1,321)</u>	<u>(2,237)</u>
Profit/(Loss) before taxation	B1	2,727	(8,934)	1,679	(5,502)
Taxation		<u>(537)</u>	-	<u>(331)</u>	-
Total profit/(loss) for the period	B1	<u>2,190</u>	<u>(8,934)</u>	<u>1,348</u>	<u>(5,502)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive income/(loss) for the period		<u>2,190</u>	<u>(8,934)</u>	<u>1,348</u>	<u>(5,502)</u>
Attributable to :					
-Equity holders of the Company		<u>2,190</u>	<u>(8,934)</u>	<u>1,348</u>	<u>(5,502)</u>
Profit/(Loss) per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	0.68	(3.30)	0.42	(2.03)
Diluted (RMB cents/RM sen)	B9	0.68	(3.30)	0.42	(2.03)

Notes:

(a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the financial period ended 31 March 2018 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6158 as at 31 March 2018. 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 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 31 MARCH 2018

	Unaudited As at 31.03.2018	Audited As at 31.12.2017	Unaudited As at 31.03.2018 (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	40,106	41,004	24,697	25,250
Patents	28,233	29,975	17,386	18,459
Land use rights	43,446	43,715	26,754	26,920
	<u>111,785</u>	<u>114,694</u>	<u>68,837</u>	<u>70,629</u>
Current Assets				
Inventories	6,612	8,113	4,072	4,996
Trade and other receivables	118,389	107,429	72,904	66,155
Cash and bank balances	7,570	1,244	4,662	766
	<u>132,571</u>	<u>116,786</u>	<u>81,638</u>	<u>71,917</u>
Total assets	<u>244,356</u>	<u>231,480</u>	<u>150,475</u>	<u>142,546</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	298,574	287,196	183,862	176,855
(Accumulated losses)/Retained earnings	(54,888)	(57,078)	(33,801)	(35,149)
Other reserves	(149,486)	(149,444)	(92,053)	(92,027)
	<u>94,200</u>	<u>80,674</u>	<u>58,008</u>	<u>49,679</u>
Current Liabilities				
Borrowings	35,670	35,670	21,966	21,966
Income tax payable	34	46	21	28
Trade and other payables	54,821	55,292	33,759	34,049
	<u>90,525</u>	<u>91,008</u>	<u>55,746</u>	<u>56,043</u>
Non-Current Liability				
Deferred tax liability	5,131	5,298	3,160	3,263
Other payable	54,500	54,500	33,561	33,561
	<u>59,631</u>	<u>59,798</u>	<u>36,721</u>	<u>36,824</u>
Total liabilities	<u>150,156</u>	<u>150,806</u>	<u>92,467</u>	<u>92,867</u>
Total equity and liabilities	<u>244,356</u>	<u>231,480</u>	<u>150,475</u>	<u>142,546</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)				
	<u>24.73</u>	<u>27.53</u>	<u>15.23</u>	<u>16.95</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 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 31 March 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 31 MARCH 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	-	-	-	-	(8,934)	(8,934)
At 31 March 2017	287,196	(174,156)	24,712	-	(8,936)	128,816
At 31 December 2017	287,196	(174,156)	24,712	-	(57,078)	80,674
Share issuance	11,378	-	-	-	-	11,378
Foreign exchange translation reserve	-	-	-	(42)	-	(42)
Total comprehensive income for the financial period	-	-	-	-	2,190	2,190
At 31 March 2018	298,574	(174,156)	24,712	(42)	(54,888)	94,200

	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	175,549	(107,245)	15,218	-	(1)	83,521
Share issuance	1,306	-	-	-	-	1,306
Total comprehensive loss for the financial period	-	-	-	-	(5,502)	(5,502)
At 31 March 2017 (note a)	176,855	(107,245)	15,218	-	(5,503)	79,325
At 31 December 2017	176,855	(107,245)	15,218	-	(35,149)	49,679
Share issuance	7,007	-	-	-	-	7,007
Foreign currency translation reserve	-	-	-	(26)	-	(26)
Total comprehensive income for the financial period	-	-	-	-	1,348	1,348
At 31 March 2018 (note a)	183,862	(107,245)	15,218	(26)	(33,801)	58,008

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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 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 31 MARCH 2018

	For the financial period ended 31.03.2018	For the financial period ended 31.03.2017	For the financial period ended 31.03.2018 (Note a)	For the financial period ended 31.03.2017 (Note a)
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Cash flows from operating activities				
Profit/(Loss) before taxation	2,727	(8,934)	1,679	(5,502)
Adjustments for:				
Interest income	(7)	(4)	(4)	(2)
Interest expenses	2,145	3,633	1,321	2,237
Depreciation of property, plant and equipment	898	1,018	553	627
Gain on disposal of land use rights, property, plant and equipment	-	-	-	-
Property, plant and equipment written off	-	-	-	-
Amortisation of land use rights	269	407	165	251
Amortisation of patents	1,742	1,925	1,073	1,185
Operating loss before working capital changes	7,774	(1,955)	4,787	(1,204)
Decrease/(Increase) in inventories	1,501	2,128	924	1,310
Decrease/(Increase) in trade and other receivables	(10,960)	(9,827)	(6,749)	(6,051)
Increase/(Decrease) in trade and other payables	(483)	15,992	(297)	9,848
Cash from/(used in) operations	(2,168)	6,338	(1,335)	3,903
Income tax paid	(704)	-	(433)	-
Interest received	7	4	4	2
Interest paid	(2,145)	(2,975)	(1,321)	(1,832)
Net cash flows from/(used in) operating activities	(5,010)	3,367	(3,085)	2,073
Net cash flows from/(used in) investing activities	-	-	-	-
Cash flows from financing activities				
Proceeds from share issuance	11,378	2,121	7,007	1,306
Proceeds from bank borrowings	-	2,000	-	1,232
Repayment of bank borrowings	-	(2,000)	-	(1,232)
Net cash flows (used in)/from financing activities	11,378	2,121	7,007	1,306
Net increase/(decrease) in cash and cash equivalents	6,368	5,488	3,922	3,379
Cash and cash equivalents at beginning of the financial period	1,244	164	766	101
Effect of exchange translation difference on cash and cash equivalents	(42)	164	(26)	101
Cash and cash equivalents at end of the financial period	7,570	5,816	4,662	3,581

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 FIRST QUARTER ENDED 31 MARCH 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 31 March 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
INT FRS 123	Uncertainty over Income Tax Treatments	1 January 2019

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

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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.

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.

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(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.

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.

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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
	<u>380,952,000</u>	<u>298,574,322</u>	<u>62,695,025</u>

A7. Subsequent material events

There are no other material events as at the date of this announcement that will affect the results in the financial year under review.

A8. Financial instruments with off-balance sheet risks

There were no financial instruments with off-balance sheet risks as at the date of this report.

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A9. Segment information

a) Results of operating segments

	For the quarter and year-to-date ended 31 March 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	77,163	47,517	-	-	-	-	77,163	47,517
Construction	-	-	962	592	-	-	962	592
							<u>78,125</u>	<u>48,109</u>
Other income								
Interest income	7	4	-	-	-	-	7	4
Unrealised gain on foreign exchange	-	-	-	-	3	2	3	2
Rental income	49	30	-	-	-	-	49	30
							<u>-</u>	<u>-</u>
Elimination							<u>59</u>	<u>36</u>
Operating expenses								
Selling and distribution	(536)	(330)	-	-	-	-	(536)	(330)
Administrative	(4,052)	(2,495)	(42)	(26)	(68)	(42)	(4,162)	(2,563)
							<u>-</u>	<u>-</u>
Elimination							<u>(4,698)</u>	<u>(2,893)</u>
Profit/(Loss) before taxation	<u>2,075</u>	<u>1,277</u>	<u>180</u>	<u>111</u>	<u>(65)</u>	<u>(40)</u>	<u>2,190</u>	<u>1,348</u>

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b) Assets and liabilities

	As at 31 March 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	237,510	146,259	666	410	6,180	3,806	244,356	150,475
Total liabilities	147,603	90,895	334	206	2,219	1,366	150,156	92,467

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) Save as disclosed in the ensuing paragraph, there were no other corporate proposals announced but not completed as at 17 May 2018, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

On 8 May 2018, the Company proposed to undertake a reduction of its issued share capital pursuant to Section 78C of the Singapore Companies Act (Chapter 50).

The proposed capital reduction is subject to the following approvals being obtained:

- (i) K-Star's shareholders at an extraordinary general meeting to be convened;
- (ii) financiers and/or creditors of K-Star; and
- (iii) any other relevant authorities or parties, if required.

Barring any unforeseen circumstances, the proposals are expected to be completed by the third quarter of 2018.

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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	3,500	500
Construction business	Within 18 months	2,713	-	2,713
Expenses for the Proposal	Within 3 month	320	270	50
		<u>7,033</u>	<u>3,770</u>	<u>3,263</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 31 March 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.

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 31 March		Changes (%)	Cumulative period ended 31 March		Changes (%)
	2018 RMB'000	2017 RMB'000		2018 RMB'000	2017 RMB'000	
Revenue	78,125	77,990	0.17	78,125	77,990	0.17
Gross profit margin (%)	12.17	7.51	62.02	12.17	7.51	62.02
Profit/(Loss) before tax	2,727	(8,934)	130.53	2,727	(8,934)	130.53
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	2,190	(8,934)	124.51	2,190	(8,934)	124.51

Statement of profit & loss

For the financial period ended ("FPE") 31 March 2017 ("1Q2018"), the Group's total revenue stood at RMB 78.13 million, representing a slight increase of approximately 0.17% and was fairly consistent as compared to the FPE 31 March 2017 ("1Q2017"). The revenue generated from the footwear segment was fairly consistent with a marginal decrease of approximately 1.06% as compared to the 1Q2017. The sales of Dixing brand footwear has decreased by approximately RMB 5.09 million, representing a decrease of 8.19% as compared to the 1Q2017. The OEM segment, on the other hand has increased by RMB 4.26 million or 26.81% as compared to the 1Q2017.

Notwithstanding that the average unit selling price remained consistent, the Group's gross profit margin has improved by approximately 12.17% from 7.51% recorded in the 1Q2017. This was mainly due to product evolution involving new set of R&D in the production process that excelled in terms of both design and cost efficiencies which resulted in higher margins.

In addition, a revenue of RMB 0.96 million was recognised in 1Q2018 from the construction contracts secured in FYE 31 December 2017 which yielded a gross profit margin of 23.03%.

The sales and distribution expenses has decreased by approximately 91.36% as compared to the 1Q2017. This was mainly due to cost cutting measure in advertising expenditures whereby there was no advertising expenditure incurred in the 1Q2018 as compared to the 1Q2017 of RMB 5.63 million.

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Comparing to the 1Q2017, the administrative expenses has reduced by approximately 16.05% mainly attributed from the savings in depreciation, amortisation and professional fees. Finance costs was lower by 40.96% resulting from the repayment made in the previous financial year.

The Group has rebounded from a loss making position in the 1Q2017 to record a profit before taxation of RMB 2.19 million in the current quarter. This was mainly attributable to the improvement in gross profit margin as well as cost savings in advertising expenditures.

Statement of financial position

The inventory turnover period stood at the age of 9 days as at 31 March 2018 and has remained fairly consistent as compared to the FPE 31 March 2017 of 10 days.

The trade receivables turnover period as at 31 March 2018 was 138 days as compared to 143 days in the FPE 31 March 2017. All trade receivables as at 31 March 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 61 days as compared to the preceding year corresponding quarter of 54 days. All trade payables were remained at the 31-60 days age band as at 31 March 2018.

Statement of cash flow

The net cash outflow from operating activities of the Group for the FPE 31 March 2018 amounted to RMB 5.01 million, has decreased by RMB 8.38 million as compared to the net cash in flow of RMB 3.37 million recorded in the preceding year corresponding quarter. There were no cash flow allocation from investing activities as well as bank borrowings.

For the current financial period, the net cash and cash equivalents stood at RMB 7.57 million, representing an increase of RMB 1.75 million as compared to RMB 5.82 million recorded in the FPE 31 March 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.

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

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	Individual quarter/ Current year to date ended 31 March		Individual quarter/ Current year to date ended 31 March	
	2018	2017	2018	2017
	RMB'000	RMB'000	RM'000	RM'000
Interest income	(7)	(4)	(4)	(2)
Other income including investment income	-	-	-	-
Interest expense	2,145	3,633	1,321	2,237
Depreciation	898	1,018	553	627
Amortisation	2,011	2,332	1,238	1,436
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)	7
(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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B2. Variation of results against immediate preceding quarter

	Current quarter ended 31 March 2018 RMB'000	Preceding quarter ended 31 December 2017 RMB'000	Changes (%)
Revenue	78,125	76,406	2.25
Profit/(Loss) before taxation	2,727	(18,857)	114.46
Profit/(Loss) after taxation and total comprehensive income/(loss) for the period	2,190	(18,735)	111.69

	Current quarter ended 31 March 2018 RM'000	Preceding quarter ended 31 December 2017 RM'000
Revenue	48,109	47,051
Loss before taxation	1,679	(11,612)
Loss after taxation and total comprehensive loss for the period	1,348	(11,612)

The Group's revenue for the 1Q2018 has increased by 2.25% as compared to the preceding quarter three (3) months ended 31 December 2017 ("4Q2017"). The main contributor was due to the increase in OEM sales of approximately 155.13% and was partly set off with the decrease in Dixing brand footwear sales of 15.22%. Meanwhile, revenue from the construction segment has decreased by 24.11% with an improvement in gross profit margin of 5.71%.

The gross profit margin has increased marginally by 1.02%, stood at 12.17% as compared to 11.15% recorded in the preceding quarter. The average unit selling price and production costs were both consistent with no major fluctuation.

Sales and distribution expenses has decreased by RMB 29.67 million as compared to the 4Q2017. This was mainly resulted from provision of sales rebate amounted to RMB 27.45 million and R&D expenses of RMB 2.17 million in 4Q2017.

Finance costs for the 1Q2018 was RMB 2.15 million as compared to a credit balance of RMB 4.34 million resulting from a prior year adjustment to unwind fair value interest accretion accounted on non-current payables. In view of the provision of sales rebate in the preceding quarter, the Group has sustained a profit before taxation of RMB 2.19 million as compared to a loss making position recorded in 4Q2017.

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B3. Prospects for the financial year ending 31 December 2018

The China economy has slowed down with declining in manufacturing, falling exports, turbulent capital market, rising debt level and eroding foreign reserves. The gross domestic product (“GDP”) growth was at a rate of 6.7% in both 2016 and 2017. It is envisaged that a challenging time ahead for China economy that the China Government has lower its economic growth target to approximately 6.5% as set in the 13th Five-Year Plan. However, the unveiled 13th Five-Year Plan also sets to promote “Made in China 2025” which encourages the industry to reform its manufacturing practices into high-end manufacturing and encouraging expansion into the international market. Rising participation in sport activities supported by Government policy and advancement of e-commerce are in place to drive growth and recovery of the overall sporting goods industry.

Looking forward, the China sports footwear market will remain challenging after years of downturn. Domestic brands underwent a prolong restructuring arising from overly expansion which led to high level of excessive inventory. The oversupply situation has generally stabilised and yet struggling to see a recovery in sales growth.

International sportswear brands are aggressively expanding their business efforts in the lower tier cities, causing domestic sportswear brands to lose market share due to weaker brand recognition and lack of product differentiation. With rising disposable income and increasing participation in sports, consumers in lower tier cities are seeking more value in brand identity and product quality.

The Group remains cautious on the uncertainty of the economic recovery and perceived that the competition within China’s sporting goods industry will continue to intensify. The Board of Directors of K-Star (“Board”) envisages that the Group’s prospects for the financial year ending 31 December 2018 would be favourable. Given the overall backdrop in consumer sentiment and intense competition both from foreign and domestic brands as discussed, the Group sees limited upside momentum on the sales growth and remains optimistic on the long term sustainability and potential opportunity given the Group’s continuous effort and investment in brand recognition as well as product innovation.

B4. Profit forecast and profit guarantee

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

B5. Taxation

	Current Quarter RMB '000	Current year to date RMB '000
Income tax	(704)	(704)
Deferred tax income	167	167
	<u>(537)</u>	<u>(537)</u>

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	Current Quarter RM '000	Current year to date RM '000
Income tax	(434)	(434)
Deferred tax income	103	104
	<u>(331)</u>	<u>(331)</u>

The income tax expense for the current quarter and year to date ended 31 March 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 31 March 2018 were as follows:

	31 March 2018 RMB'000	31 March 2017 RMB'000	Changes %
Short-term bank borrowings:			
Secured	<u>35,670</u>	<u>36,700</u>	(2.81)
	31 March 2018 RM'000	31 March 2017 RM'000	
Short-term bank borrowings:			
Secured	<u>21,966</u>	<u>22,600</u>	

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

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	31 March		31 March	
	2018	2017	2018	2017
	RMB'000	RMB'000	RM'000	RM'000
Long-term other payables:				
Secured	54,500	64,636	33,561	39,803

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.

As at 31 March 2018, this amount consists of payable to a related party.

B7. Changes in material litigation

As at the date of this report, there is no material litigation or arbitration, which has a material effect on the financial position of the Group and the Board is not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

B8. Dividend

There were no dividends declared by the Company for the current quarter ended 31 March 2018.

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B9. Loss per share

a) Basic loss per share

	Individual quarter/ Cumulative year to date ended 31 March		Individual quarter/ Cumulative year to date ended 31 March	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	2,190	(8,934)	1,348	(5,502)
Weighted average number of ordinary shares in issue ('000)	323,320	270,840	323,320	270,840
Basic earning/(loss) per share (RMB cents/RM sen)	0.68	(3.30)	0.42	(2.03)

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.

B10. Realised and unrealised profits/(losses)

	FPE 31 March		FPE 31 March	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Realised	(49,757)	(26,800)	(30,641)	(16,503)
Unrealised	(5,131)	17,864	(3,160)	11,001
Total retained profits/(losses)	(54,888)	(8,936)	(33,801)	(5,502)

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	Preceding quarter ended	
	31 December 2017	
	RMB'000	RM'000
Realised	(51,693)	(31,833)
Unrealised	(5,385)	(3,316)
Total retained profits/(losses)	<u>(57,078)</u>	<u>(35,149)</u>

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
24 May 2018