



XiDeLang Holdings Ltd

(Bermuda Company No. 43136)
(Malaysian Foreign Company Registration No. 995210-W)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2019

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|--|--|---|---|--|
| | Quarter ended 30.09.2019 ⁽¹⁾ RMB'000 | Quarter ended 30.09.2018 RMB'000 | Financial period ended 30.09.2019 ⁽¹⁾ RMB'000 | Financial period ended 30.09.2018 RMB'000 |
| Revenue | 121,386 | 120,260 | 347,738 | 338,418 |
| Cost of Sales | <u>(91,033)</u> | <u>(96,036)</u> | <u>(263,790)</u> | <u>(275,879)</u> |
| Gross Profit ("GP") | 30,353 | 24,224 | 83,948 | 62,539 |
| Other Income | 810 | 821 | 2,393 | 2,162 |
| Distribution Costs | (51) | (51) | (192) | (145) |
| Administrative and Other Expenses | (15,998) | (15,174) | (45,836) | (39,442) |
| Finance Costs | <u>(158)</u> | <u>(61)</u> | <u>(472)</u> | <u>(183)</u> |
| Profit before Tax ("PBT") | 14,956 | 9,759 | 39,841 | 24,931 |
| Tax Expense | <u>(6,629)</u> | <u>(3,780)</u> | <u>(18,644)</u> | <u>(8,586)</u> |
| Profit for the Period ("PAT") | <u>8,327</u> | <u>5,979</u> | <u>21,197</u> | <u>16,345</u> |
| Other Comprehensive Income: | | | | |
| Foreign currency translations | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other Comprehensive Income, net of tax | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Comprehensive Income | <u>8,327</u> | <u>5,979</u> | <u>21,197</u> | <u>16,345</u> |
| Profit attributable to: | | | | |
| Equity holders of the parent | <u>8,327</u> | <u>5,979</u> | <u>21,197</u> | <u>16,345</u> |
| Total Comprehensive Income attributable to: | | | | |
| Equity holders of the parent | <u>8,327</u> | <u>5,979</u> | <u>21,197</u> | <u>16,345</u> |
| Earnings per share attributable to equity holders of the parent | | | | |
| - Basic ⁽²⁾ (RMB cent) | 0.46 | 0.34 | 1.17 | 1.08 |
| - Diluted ⁽²⁾ (RMB cent) | 0.46 | 0.34 | 1.17 | 1.08 |

Notes:

(1) The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the annual report and audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.

(2) Refer Note B9 for further details.

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)**

| | As at 30.09.2019 ⁽¹⁾ RMB'000 | As at 31.12.2018 RMB'000 (audited) |
|--|---|---|
| ASSETS | | |
| Non-Current Assets | | |
| Property, plant and equipment | 528,075 | 536,377 |
| Land use rights | 45,765 | 46,678 |
| | 573,840 | 583,055 |
| Current Assets | | |
| Inventories | 2,579 | 1,520 |
| Trade and other receivables (Note @) | 152,926 | 150,807 |
| Current tax assets | - | 437 |
| Cash and cash equivalents | 836,007 | 805,983 |
| | 991,512 | 958,747 |
| TOTAL ASSETS | 1,565,352 | 1,541,802 |
| EQUITY AND LIABILITIES | | |
| Equity attributable to equity holders of the parent | | |
| Share capital | 452,534 | 452,534 |
| Reserves | 977,519 | 956,322 |
| TOTAL EQUITY | 1,430,053 | 1,408,856 |
| Non-current Liabilities | | |
| Deferred tax liabilities | 23,450 | 22,274 |
| Current Liabilities | | |
| Trade and other payables (Note #) | 96,496 | 98,272 |
| Current tax liabilities | 2,953 | - |
| Bank borrowings | 12,400 | 12,400 |
| | 111,849 | 110,672 |
| TOTAL LIABILITIES | 135,299 | 132,946 |
| TOTAL EQUITY AND LIABILITIES | 1,565,352 | 1,541,802 |
| Net assets per share (RMB)⁽²⁾ | 0.79 | 0.78 |

Notes:

- (1) *The Condensed Consolidated Statement of Financial Position should be read in conjunction with the annual report and audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.*
- (2) *Calculated based on the number of ordinary shares outstanding (excluding treasury shares) as at the end of the respective financial period(s).*

Remark

- (@) *Average credit terms granted to trade receivables by the Group are 120 days.*
- (#) *Average credit terms granted by trade payables to the Group are 120 days.*



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| Quarter and period ended 30 September 2018 ⁽¹⁾ | Non-distributable | | | | | | Distributable | | | Total equity RMB'000 |
|---|-----------------------------|-----------------------------|----------------------------|---|--|------------------------------|---|-------------------------------|---------------------------------|----------------------------|
| | Share capital RMB'000 | Share premium RMB'000 | ESOS Reserve RMB'000 | Capital redemption reserve RMB'000 | Statutory surplus reserve RMB'000 | Merger deficit RMB'000 | Exchange translation reserve RMB'000 | Treasury shares RMB'000 | Retained earnings RMB'000 | |
| Balance at 31 December 2017 | 157,909 | 15,087 | - | 578,218 | 40,074 | (204,906) | 33,401 | (1) | 647,401 | 1,267,183 |
| Impact arising from adoption of MFRS 9 [^] | - | - | - | - | - | - | - | - | (1,154) | (1,154) |
| Balance at 1 January 2018 | 157,909 | 15,087 | - | 578,218 | 40,074 | (204,906) | 33,401 | (1) | 646,247 | 1,266,029 |
| Total comprehensive income | - | - | - | - | - | - | - | - | 16,345 | 16,345 |
| Granting of ESOS | - | - | 2,043 | - | - | - | - | - | - | 2,043 |
| Transactions with owners | | | | | | | | | | |
| Ordinary shares issued pursuant to: | | | | | | | | | | |
| - Exercise of warrants | 101,315 | 72 | - | - | - | - | - | - | - | 101,387 |
| - Exercise of options under employee share option scheme (ESOS) | 17,230 | 2,291 | (2,043) | - | - | - | - | - | - | 17,478 |
| - Bonus issue | 176,080 | (15,093) | - | (160,987) | - | - | - | - | - | - |
| Transfer to statutory surplus reserve | - | - | - | - | 2,111 | - | - | - | (2,111) | - |
| | 294,625 | (12,730) | (2,043) | (160,987) | 2,111 | - | - | - | (2,111) | 118,865 |
| Balance at 30 September 2018 | 452,534 | 2,357 | - | 417,231 | 42,185 | (204,906) | 33,401 | (1) | 660,481 | 1,403,282 |



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

| Quarter and period ended 30 September 2019 ⁽¹⁾ | Non-distributable | | | | | | Distributable | | Total equity RMB'000 |
|--|-----------------------------|-----------------------------|---|--|------------------------------|---|-------------------------------|---------------------------------|----------------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Capital redemption reserve RMB'000 | Statutory surplus reserve RMB'000 | Merger deficit RMB'000 | Exchange translation reserve RMB'000 | Treasury shares RMB'000 | Retained earnings RMB'000 | |
| Balance at 1 January 2019 | 452,534 | 2,290 | 417,225 | 42,973 | (204,906) | 33,401 | (1) | 665,340 | 1,408,856 |
| Total comprehensive income | - | - | - | - | - | - | - | 21,197 | 21,197 |
| Transactions with owners | | | | | | | | | |
| Transfer to statutory surplus reserve | - | - | - | 3,533 | - | - | - | (3,533) | - |
| | - | - | - | 3,533 | - | - | - | (3,533) | - |
| Balance at 30 September 2019 | 452,534 | 2,290 | 417,225 | 46,506 | (204,906) | 33,401 | (1) | 683,004 | 1,430,053 |

Note:

- (1) The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the annual report and audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

| | Financial period ended | |
|---|--------------------------------------|-----------------------|
| | 30.09.2019 ⁽¹⁾ RMB'000 | 30.09.2018 RMB'000 |
| Profit before tax | 39,841 | 24,931 |
| Adjustments for non-operating cash flows: | | |
| Non-cash items | 12,237 | 13,569 |
| Non-operating items | <u>(1,921)</u> | <u>(1,793)</u> |
| Operating profit before working capital changes | 50,157 | 36,707 |
| Changes in working capital | | |
| Net change in current assets | (3,669) | 11,880 |
| Net change in current liabilities | <u>(1,776)</u> | <u>(14,846)</u> |
| Cash generated from operating activities | 44,712 | 33,741 |
| Income tax paid | <u>(14,078)</u> | <u>(5,933)</u> |
| Net cash from operating activities | <u>30,634</u> | <u>27,808</u> |
| Investing activities | | |
| Interest received | 2,393 | 1,976 |
| Purchase of property, plant and equipment | <u>(2,531)</u> | <u>(264)</u> |
| Net cash (used in)/from investing activities | <u>(138)</u> | <u>1,712</u> |
| Financing activities | | |
| Interest paid | (472) | (183) |
| Drawdown of borrowings | 12,400 | - |
| Repayment of borrowings | (12,400) | - |
| Proceeds from issuance of shares pursuant to exercise of ESOS | - | 17,478 |
| Proceeds from issuance of shares pursuant to exercise of warrants | <u>-</u> | <u>101,387</u> |
| Net cash (used in)/from financing activities | <u>(472)</u> | <u>118,682</u> |
| Net change in cash and cash equivalents | 30,024 | 148,202 |
| Cash and cash equivalents at beginning of financial period | <u>805,983</u> | <u>619,239</u> |
| Cash and cash equivalents at end of financial period | <u>836,007</u> | <u>767,441</u> |
| Cash and cash equivalents at end of financial period | | |
| Cash and bank balances | <u>836,007</u> | <u>767,441</u> |

Note:

- (1) *The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the annual report and audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.*

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134 (“MFRS 134”)

A1. BASIS OF PREPARATION

The condensed consolidated interim financial statements as contained in this interim financial report are unaudited and have been prepared under the historical cost convention except otherwise stated.

These unaudited interim financial statements have been prepared in accordance with the requirements of MFRS 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”) and Paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements (“MMLR”) issued by Bursa Malaysia Securities Berhad (“Bursa Securities”).

These unaudited interim financial statements should be read in conjunction with the annual report and audited consolidated financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report. The explanatory notes contained herein provide an explanation of events and transactions that are significant to understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2018.

The significant accounting policies and methods of computation applied in these unaudited interim financial statements are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2018, save for the adoption of the following MFRS and Amendments to MFRSs during the current financial period as disclosed below:

Effective for annual periods commencing on or after 1 January 2019

- MFRS 16 *Leases*
- Amendments to MFRS 3 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 112 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 119 (*Plan Amendment, Curtailment or Settlement*)
- Amendments to MFRS 123 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*

The adoption of the above MFRS, Amendments to MFRSs and IC Interpretation did not have any significant financial impact to the Group upon their initial application.

A1. BASIS OF PREPARATION (cont'd)

The following MFRSs and Amendments to MFRSs have been issued by the MASB but have not been early adopted by the Group:

Effective for annual periods commencing on or after 1 January 2020

Amendments to References to the Conceptual Framework in MFRS Standards, as issued by MASB on 30 April 2018

Amendments to MFRS 3 Definition of a Business

Amendments to MFRS 101 and MFRS 108 Definition of Material

Amendments to MFRS 9, MFRS 139 and MFRS 7 Interest Rate Benchmark Reform

Effective for annual periods commencing on or after 1 January 2021

MFRS 17 Insurance Contracts

Deferred

Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The Group is in the process of assessing the impact of implementing these accounting standards and amendments, since the effects would only be observable for the future financial years.

A2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the Group's most recent annual audited financial statements for the financial year ended 31 December 2018 were not subject to any qualification.

A3. SEASONALITY OR CYCLICALITY OF OPERATION

Save for the seasonality that is inherent in the sportswear industry, our Group's operations are not exposed to any anomalous cyclical fluctuation.

A4. UNUSUAL ITEMS

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group during the current quarter and financial period under review.

A5. MATERIAL CHANGES IN ESTIMATES

There were no significant changes in estimates of amounts reported in prior financial years that have a material impact on the current quarter and financial period under review.



A6. DEBTS AND EQUITY SECURITIES

- *Proposed Bonus Issue of Warrants*

The Company had, on 3 December 2018, proposed to undertake a bonus issue of up to 902,441,557 free warrants in the Company (“**Warrants D**”) on the basis of 1 Warrant D for every 2 existing ordinary shares of USD0.04 each in the Company (“**XDL Shares**”) held by registered holders of XDL Shares on an entitlement date to be determined and announced later (“**Proposed Bonus Issue of Warrants**”).

The Proposed Bonus Issue of Warrants was subsequently approved by the shareholders of the Company at an Extraordinary General Meeting held on 2 January 2019, with the entitlement date fixed on 17 January 2019.

The Proposed Bonus Issue of Warrants had been completed on 25 January 2019, following the listing of and quotation for 902,441,557 Warrants D on the Main Market of Bursa Securities. Relevant announcement has been made to Bursa Securities.

Save for the above, there was no other issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the current quarter and financial period under review.

A7. DIVIDEND PAID

The Board of Directors did not recommend any payment of dividend during the current quarter and financial period under review (*Quarter and financial period ended 30 September 2018: Nil*).

A8. SEGMENT INFORMATION

The Group’s activities are predominantly in designing, manufacturing and marketing of sports shoes as well as designing and marketing of sports apparel, accessories and equipment within the People’s Republic of China (“PRC” or “China”). The Group’s operations are concentrated in Jinjiang City, Fujian Province of the PRC, which represents its principal place of business and in which the assets and liabilities of the Group are located.

Due to the similarities in the business operations between the two operating subsidiaries in the PRC, the Group’s chief operating decision maker, the Group’s Chief Executive Officer in this context manages the operations within the Group as a whole in single segment and relies on internal reports which are similar to those currently disclosed externally to make decisions about allocation of resources.



A8. SEGMENT INFORMATION (cont'd)

The Group evaluates performance on the basis of revenue from the respective operations. The analysis is as follows:

| | Own-branding RMB'000 | Original design manufacturer ("ODM") RMB'000 | Total RMB'000 |
|---|-------------------------|---|------------------|
| Quarter ended 30 September 2019 | | | |
| Revenue – Sport Shoes | 43,788 | 77,598 | 121,386 |
| Quarter ended 30 September 2018 | | | |
| Revenue – Sport Shoes | 58,684 | 61,576 | 120,260 |
| | | | |
| | Own-branding RMB'000 | Original design manufacturer ("ODM") RMB'000 | Total RMB'000 |
| Financial period ended 30 September 2019 | | | |
| Revenue – Sport Shoes | 131,676 | 216,062 | 347,738 |
| Financial period ended 30 September 2018 | | | |
| Revenue – Sport Shoes | 184,919 | 153,499 | 338,418 |



A8. SEGMENT INFORMATION (cont'd)

Accordingly, no further segmental analysis is available for disclosure except for the following entity-wide disclosures as required by MFRS 8:

Revenue by region

During the financial period under review, the Group derived all of its revenue from the PRC. In view of the vast geographical areas within the PRC, customers can be stratified on a regional basis within the PRC. The following is an analysis of the Group's revenue by region by location of customers, irrespective of the origin of the goods/services and based on the following regional groupings:

- Eastern region includes Jiangsu and Shandong.
- Southern region includes Fujian, Hubei, Hunan, Jiangxi and Anhui.
- Western region includes Sichuan, Guangxi, Guizhou, Yunnan, Chongqing, Gansu, Xinjiang and Shaanxi.
- Northern region includes Beijing, Henan, Heilongjiang, Liaoning, Shanxi and Jilin.

| | Quarter ended 30.09.2019 RMB'000 | Quarter ended 30.09.2018 RMB'000 | Year to date ended 30.09.2019 RMB'000 | Year to date ended 30.09.2018 RMB'000 |
|-------------------|---|---|--|--|
| Within the PRC: | | | | |
| - Eastern region | 3,314 | 7,954 | 9,478 | 22,893 |
| - Southern region | 90,486 | 75,018 | 254,902 | 196,356 |
| - Western region | 15,541 | 20,825 | 46,203 | 65,917 |
| - Northern region | 12,045 | 16,463 | 37,155 | 53,252 |
| | 121,386 | 120,260 | 347,738 | 338,418 |

A9. MATERIAL EVENTS

There are no material events subsequent to the end of the current quarter that have not been reflected in this interim financial report or announced to Bursa Securities.

A10. CHANGES IN THE COMPOSITION OF THE GROUP

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

A11. CHANGES IN CONTINGENT LIABILITIES

There are no material contingent liabilities as at the date of this report.



A12. CAPITAL COMMITMENTS

Capital commitments not provided for in the financial statements as at 30 September 2019 is as follows:

| | As at 30.09.2019 RMB'000 |
|--------------------------------------|---|
| Property, plant and equipment | |
| Approved but not contracted for | <u>31,142</u> |

A13. RELATED PARTY TRANSACTIONS

There was no related party transaction entered into by the Group during the current quarter and financial period under review (*Quarter and financial period ended 30 September 2018: Nil*).

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

B1. ANALYSIS OF PERFORMANCE

| | Quarter ended | | Changes | |
|--|-----------------------|-----------------------|---------|-------|
| | 30.09.2019 RMB'000 | 30.09.2018 RMB'000 | RMB'000 | % |
| Revenue | 121,386 | 120,260 | 1,126 | +0.9 |
| Gross profit | 30,353 | 24,224 | 6,129 | +25.3 |
| Profit before tax | 14,956 | 9,759 | 5,197 | +53.3 |
| Profit after tax / Profit attributable to equity holders of the parent | 8,327 | 5,979 | 2,348 | +39.3 |

| | Year to date ended | | Changes | |
|--|-----------------------|-----------------------|---------|-------|
| | 30.09.2019 RMB'000 | 30.09.2018 RMB'000 | RMB'000 | % |
| Revenue | 347,738 | 338,418 | 9,320 | +2.8 |
| Gross profit | 83,948 | 62,539 | 21,409 | +34.2 |
| Profit before tax | 39,841 | 24,931 | 14,910 | +59.8 |
| Profit after tax / Profit attributable to equity holders of the parent | 21,197 | 16,345 | 4,852 | +29.7 |

Revenue

Our Group recorded total revenue of approximately RMB121.4 million and RMB347.7 million respectively during the current quarter and financial period under review, relatively consistent with the preceding year corresponding quarter and period with a growth of 0.9% and 2.8% respectively.

During the current quarter and financial period under review, our Group recorded lower revenue contribution from the Own-branding Division primarily due to lower quantities sold as illustrated below:

| | Quarter ended | | Year to date ended | |
|--------------------------|---------------|------------|--------------------|------------|
| | 30.09.2019 | 30.09.2018 | 30.09.2019 | 30.09.2018 |
| Volume sold ('000 pairs) | 525 | 723 | 1,593 | 2,296 |
| Movement | -27.4% | | -30.6% | |

The moderation was, however, partially mitigated by an overall increase in average selling price of our own-branding sport shoes.



B1. ANALYSIS OF PERFORMANCE (cont'd)

During the current quarter and financial period under review, our Group recorded improved performance from the ODM Production Division mainly due to increase in sales volume as illustrated below:

| | Quarter ended | | Year to date ended | |
|--------------------------|---------------|------------|--------------------|------------|
| | 30.09.2019 | 30.09.2018 | 30.09.2019 | 30.09.2018 |
| Volume sold ('000 pairs) | 1,097 | 920 | 3,108 | 2,330 |
| Movement | +19.2% | | +33.4% | |

In addition to that, we also recorded overall increase in average selling price for our ODM production orders.

Profitability

Our Group's gross profit stood at RMB30.4 million and RMB83.9 million respectively for the current quarter and financial period under review, improved by approximately 25.3% and 34.2% respectively as compared to preceding year corresponding quarter and period. This was attributable to improved gross profit margin recorded during the current quarter and financial period under review, arising from:

- (i) overall increase in average unit selling prices;
- (ii) production cost control initiatives; and
- (iii) lower amount of depreciation charges captured under "Cost of sales", whereby certain portion of the depreciation charges previously expensed off under "Cost of Sales" in prior year (Quarter 3, 2018: RMB2.3 million and 9-month, 2018: RMB6.4 million) are now expensed off under "Administrative and other expenses" during the financial period under review.

Backed by the improvement in gross profit, our Group's profit after tax increased to RMB8.3 million and RMB21.2 million respectively for the current quarter and financial period under review; representing an increase of 39.3% and 29.7% respectively as compared to preceding year corresponding period.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

| | Quarter ended | | Changes | |
|--|---------------|------------|---------|------|
| | 30.09.2019 | 30.06.2019 | RMB'000 | % |
| | RMB'000 | RMB'000 | | |
| Revenue | 121,386 | 129,516 | (8,130) | -6.3 |
| Gross profit | 30,353 | 31,709 | (1,356) | -4.3 |
| Profit before tax | 14,956 | 16,475 | (1,519) | -9.2 |
| Profit after tax / Profit attributable to equity holders of the parent | 8,327 | 7,909 | 418 | +5.3 |



B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER (cont'd)

Revenue for the current quarter under review was lower by 6.3% as compared to the preceding quarter, mainly due to lower sales from both the Own-branding Division and ODM Production Division as a result of conservatism market sentiments amid the ongoing trade dispute and economic uncertainties.

As a result of the moderation in sales performance, our Group's profit before tax for the current quarter under review was 9.2% lower as compared to the preceding quarter.

ADDITIONAL INFORMATION – TRADE RECEIVABLES

| | Quarter ended | |
|------------------------------------|------------------------------|-----------------------------|
| | 30 September 2019 RMB'000 | 31 December 2018 RMB'000 |
| Trade receivables – third party | 154,388 | 150,878 |
| Allowance for expected credit loss | (1,463) | (971) |
| | <u>152,925</u> | <u>149,907</u> |

The normal credit terms granted by our Group is 120 days. As of 30 September 2019, our Group was not aware of any significant concern on the recoverability of the trade receivables.

B3. TAX EXPENSES

| | Quarter ended 30.09.2019 RMB'000 | Quarter ended 30.09.2018 RMB'000 | Year to date ended 30.09.2019 RMB'000 | Year to date ended 30.09.2018 RMB'000 |
|--------------------|--|--|---|---|
| Tax expenses | <u>6,629</u> | <u>3,780</u> | <u>18,644</u> | <u>8,586</u> |
| Effective tax rate | <u>44.3%</u> | <u>38.7%</u> | <u>46.8%</u> | <u>34.4%</u> |

Our Group recorded higher tax expenses for the current quarter and financial period under review, in line with the improved profit before tax recorded by our Group and as a result of additional adjustment made to write-off current tax assets where the recoverability is uncertain.

As our Group's principal operations are carried out in China, the effective tax rate reported by our Group is generally correlated to the statutory tax rate applicable in China. During the current quarter and financial period under review, the effective tax rate stood at 44.3% and 46.8% respectively, higher than the prevailing statutory tax rate in the PRC. This was primarily attributable to the following factors:

- (i) Additional deferred tax liabilities provided in relation to the expected withholding tax on undistributed profits of the PRC subsidiaries;
- (ii) Additional adjustment made to write-off current tax assets where the recoverability is uncertain; and



B3. TAX EXPENSES (cont'd)

- (iii) Non-availability of Group's relief, where losses incurred by the investment holding entities within the Group were not allowed to be offset against the taxable profit of the operating subsidiary of the Group. Further details are as follows:

| | Quarter ended 30.09.2019 RMB'000 | Year to date ended 30.09.2019 RMB'000 |
|--|---|--|
| Tax expenses | 6,629 | 18,644 |
| Profit/(Loss) before tax: | | |
| - HongPeng (Fujian) Shoes & Garments Co., Ltd. | 19,858 | 52,794 |
| - Other subsidiaries [^] | (4,636) | (12,310) |
| - Company level | (266) | (643) |
| Profit before tax – group level | 14,956 | 39,841 |

[^] Primarily consist of depreciation and amortisation charges, mainly in relation to buildings and land use rights held under these subsidiaries, amounting to RMB9.3 million and RMB3.1 million respectively; as well as property taxes amounting to RMB2.0 million and RMB0.7 million respectively, for the current quarter and financial period under review.

B4. OUTLOOK AND PROSPECTS

The trade dispute between China and the United States remained unresolved and continue to cast its shadow over the global economy. In view of that, the industry outlook for the near term is anticipated to experience certain degree of volatility due to the economic uncertainties. Notwithstanding, the Group is cautiously optimistic that the China's sportswear industry in the mid and long term will remain resilience and achieve stable and healthy development.

Demands for sportswear within the domestic China market and the global markets are expected to be gradual growth momentum, backed by the following growth catalysts:

- (i) Active measures and initiatives by the China Government to promote the development of the domestic sports industry and boost domestic consumption. These measures and initiatives are expected to contribute positively to the sports industry growth in the medium and long term;
- (ii) Huge and rising population within China, particularly with the implementation of two-child policy;
- (iii) Rising disposable income per capita for China citizen;
- (iv) Increasing awareness on healthy lifestyle and growing popularity of sports; and
- (v) Major sport events in the coming years such as Tokyo 2020 Summer Olympics, Beijing 2022 Winter Olympics and Qatar 2022 FIFA World Cup.

According to the National Bureau of Statistics of China, China's GDP increased by 6.3% year-on-year while the total retail sales of consumer goods increased by 8.4% year-on-year during the first half of 2019.

Barring any unforeseen circumstances, our Group expects the financial performance for the financial year ending 31 December 2019 to remain positive.

B5. Profit Forecast

Not applicable as no profit forecast was previously published.

B6. STATUS OF CORPORATE PROPOSALS AND UTILISATION OF PROCEEDS

Private placement and rights issue of warrants in 2012

The status of utilisation, as of 30 September 2019 is as follows:

| (In RM) | | | Proposed | Actual | Deviation | | |
|---------|---|-----------------------|-----------------------|-----------------------|------------------|--------|----|
| | Purpose | Intended Timeframe | Utilisation RM'000 | Utilisation RM'000 | Amount RM'000 | % | |
| i) | Purchase machinery and equipment for new design and production centre | Before December 2019 | 29,100 | 21,574 | 7,526 | 25.9 # | N1 |
| ii) | Estimated expenses in relation to the Proposals | Immediate | 600 | 600 | - | - | |
| | | | 29,700 | 22,174 | 7,526 | | |

| (In RMB) | | | Proposed | Actual | Deviation | | |
|----------|---|-----------------------|------------------------|------------------------|-------------------|--------|----|
| | Purpose | Intended Timeframe | Utilisation RMB'000 | Utilisation RMB'000 | Amount RMB'000 | % | |
| i) | Purchase machinery and equipment for new design and production centre | Before December 2019 | 53,670 | 38,545 | 15,125 | 28.2 # | N1 |
| ii) | Estimated expenses in relation to the Proposals | Immediate | 1,107 | 1,107 | - | - | |
| | | | 54,777 | 39,652 | 15,125 | | |

N1 *In line with the Group's strategic re-positioning of business focus, the Group is making appropriate alteration to the types of machinery and equipment to be invested in. Accordingly, a longer period is required for the remaining funds to be fully utilised. Barring any unforeseen circumstances, the Group expects the remaining funds to be fully utilised before 31 December 2020.*

Differential rate of deviation between RMB and RM was due to fluctuations in exchange rate.

B6. STATUS OF CORPORATE PROPOSALS AND UTILISATION OF PROCEEDS (cont'd)

Rights Issue in 2014

The status of utilisation, as of 30 September 2019 is as follows:

| (In RM) | | | Proposed | Actual | Deviation | |
|----------------|---|-------------------------------|-------------------------------|-------------------------------|--------------------------|----------|
| | Purpose | Intended Timeframe | Utilisation RM'000 | Utilisation RM'000 | Amount RM'000 | % |
| i) | Construction of the second stage of the new Design & Production Centre ("Stage 2 Construction") | Within 3 years | 83,700 | - | 83,700 | 100 |
| ii) | Estimated expenses in relation to the Proposals | Immediate | 1,000 | 1,000 | - | - |
| | | | 84,700 | 1,000 | 83,700 | |

| (In RMB) | | | Proposed | Actual | Deviation | |
|-----------------|---|-------------------------------|--------------------------------|--------------------------------|---------------------------|----------|
| | Purpose | Intended Timeframe | Utilisation RMB'000 | Utilisation RMB'000 | Amount RMB'000 | % |
| i) | Construction of the second stage of the new Design & Production Centre ("Stage 2 Construction") | Within 3 years | 151,246 | - | 151,246 | 100 |
| ii) | Estimated expenses in relation to the Proposals | Immediate | 1,807 | 1,807 | - | - |
| | | | 153,053 | 1,807 | 151,246 | |

N2 *The utilisation for the funds raised is expected to be within three (3) years from the commencement of Stage 2 Construction. All the funds are currently kept in the Group's banking account maintained with the Industrial and Commercial Bank of China.*



B7. BORROWINGS

The Group's borrowing consists of short-term loan from financial institution, arranged in the PRC and denominated in RMB.

As at 30 September 2019, the Group's outstanding borrowing are as follows:

| | Secured RMB'000 | Unsecured RMB'000 | Total RMB'000 |
|--|--------------------|----------------------|------------------|
| Current (<i>within 12 months</i>) | | | |
| Short-term bank loan | 12,400 | - | 12,400 |
| | <u>12,400</u> | <u>-</u> | <u>12,400</u> |

B8. CHANGES IN MATERIAL LITIGATION

The Board has been made aware from the China Judgement Online website that there are several litigation matters against our subsidiary, Fujian Province Jinjiang City Chendai HongPeng Footwear Manufacturing Co., Ltd. ("HongPeng Footwear") ("**Litigation Matter**"). The relevant details have been announced to Bursa Securities on the 10 January 2019.

Our Company has appointed an independent law firm in China, namely Messrs. Fujian Shilong Law Firm (福建世隆律师事务所) to undertake a thorough review of the Litigation Matters involving HongPeng Footwear and the law firm has confirmed that all Litigation Matters have been completed and settled, and all Litigation Matters are now closed. The relevant details have been announced to Bursa Securities on the 17 January 2019.

The Litigation Matters do not have any material and adverse impact on our Group.

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



B9. EARNINGS PER SHARE

(1) Basic Earnings per Share (“BEPS”)

The basic earnings per share (“BEPS”) is calculated as follows:

| | Quarter ended | | Financial period ended | |
|--|-----------------|-----------------|------------------------|-----------------|
| | 30.09.2019 | 30.09.2018 | 30.09.2019 | 30.09.2018 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Basic earnings per share | | | | |
| Profit attributable to equity holders of the parent | 8,327 | 5,979 | 21,197 | 16,345 |
| Weighted average number of ordinary shares in issue ('000) | 1,804,882 | 1,757,229 | 1,804,882 | 1,509,863 |
| | RMB cent | RMB cent | RMB cent | RMB cent |
| BEPS | 0.46 | 0.34 | 1.17 | 1.08 |

(2) Diluted Earnings per Share (“DEPS”)

As of 30 September 2019, the Group has 902,441,557 Warrants D in issue, which entitles the holders the rights for conversion into 1 ordinary share for every 1 warrant at an exercise price of RM0.18 each (or RM equivalent of the par value of the ordinary share, whichever is higher) respectively.

The warrants in issue give rise to potential ordinary shares which, upon conversion, could result in dilution to earnings per share in future financial periods. In accordance with MFRS 133, options and warrants have a dilutive effect only when the average market price of ordinary shares during the period exceeds the exercise price of the options and warrants (i.e. they are 'in-the-money').

The diluted earnings per ordinary share is same as the basic earnings per share because the effect of the assumed conversion of warrants outstanding will be anti-dilutive and the Company has no other dilutive potential ordinary share in issue as at the period end. Relevant disclosure and information, where applicable, would be made in future interim financial reports and annual financial statements.

B10. FINANCIAL INSTRUMENTS

Derivatives

The Group does not have any derivative financial instruments.

Disclosures of Gains/Losses arising from Fair Value Changes of Financial Liabilities

There were no gains/losses arising from fair value changes of financial liabilities reported by the Group during the financial period under review.

B11. DISCLOSURE ON SELECTED EXPENSE/INCOME ITEMS AS REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

Included in profit before tax comprised the following income/(expense) items:

| | Quarter ended 30.09.2019 RMB'000 | Period ended 30.09.2019 RMB'000 |
|--|---|--|
| Interest income | 810 | 2,393 |
| Interest expense | (158) | (472) |
| Depreciation and amortisation expenses | (3,942) | (11,731) |
| Reversal of/(Allowance for) expected credit loss | 165 | (492) |
| Property, plant and equipment written off | - | (14) |
| Foreign exchange gain/(loss) | N/A | N/A |
| Other income including investment income | N/A | N/A |
| Provision for and write off of receivables | N/A | N/A |
| Provision for and write off of inventories | N/A | N/A |
| Gain/Loss on disposal of quoted or unquoted investments or properties | N/A | N/A |
| Impairment of assets | N/A | N/A |
| Gain/Loss on derivatives | N/A | N/A |

“N/A” denotes not applicable.



APPENDICES – FINANCIAL STATEMENTS TRANSLATED INTO RINGGIT MALAYSIA (FOR ILLUSTRATIVE PURPOSE ONLY)

The Board of Directors wish to highlight that the presentation currency adopted by the Group in preparing the interim financial statements is Renminbi (“RMB”) as allowed under the MFRS Framework.

The following supplementary financial statements in Ringgit Malaysia (“RM”) (which include condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows) are shown for reference only and have been translated at single exchange rate of RMB1 to RM0.5867 at 30 September 2019. The translation should not be construed as a representation that the RMB amounts actually have been or could be converted into RM at this or any other rate.

In addition, due to the changes of presentation currency on adoption of MFRS Framework, the comparative financial information contained in the following supplementary financial statements translated into RM would not be consistent with previously announced interim and annual financial statements as those statements were prepared using RM as the presentation currency (which was a requirement under the previous FRS Framework).

List of supplementary financial statements in Ringgit Malaysia (“RM”):

Appendix A – Condensed Consolidated Statement of Comprehensive Income

Appendix B – Condensed Consolidated Statement of Financial Position

Appendix C – Condensed Consolidated Statement of Changes in Equity

Appendix D – Condensed Consolidated Statement of Cash Flows



**APPENDIX A –
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)**

| | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|--|--|---------------------------------------|---|--|
| | Quarter ended 30.09.2019 ⁽¹⁾ RM'000 | Quarter ended 30.09.2018 RM'000 | Financial period ended 30.09.2019 ⁽¹⁾ RM'000 | Financial period ended 30.09.2018 RM'000 |
| Revenue | 71,217 | 70,557 | 204,018 | 198,550 |
| Cost of Sales | <u>(53,409)</u> | <u>(56,344)</u> | <u>(154,766)</u> | <u>(161,858)</u> |
| Gross Profit ("GP") | 17,808 | 14,213 | 49,252 | 36,692 |
| Other Income | 475 | 482 | 1,404 | 1,268 |
| Distribution Costs | (30) | (30) | (113) | (85) |
| Administrative and Other Expenses | (9,386) | (8,903) | (26,892) | (23,141) |
| Finance Costs | <u>(93)</u> | <u>(36)</u> | <u>(277)</u> | <u>(107)</u> |
| Profit before Tax ("PBT") | 8,774 | 5,726 | 23,374 | 14,627 |
| Tax Expense | <u>(3,889)</u> | <u>(2,218)</u> | <u>(10,938)</u> | <u>(5,037)</u> |
| Profit for the Period ("PAT") | <u>4,885</u> | <u>3,508</u> | <u>12,436</u> | <u>9,590</u> |
| Other Comprehensive Income: | | | | |
| Foreign currency translations | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other Comprehensive Income, net of tax | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Comprehensive Income | <u>4,885</u> | <u>3,508</u> | <u>12,436</u> | <u>9,590</u> |
| Profit attributable to: | | | | |
| Equity holders of the parent | <u>4,885</u> | <u>3,508</u> | <u>12,436</u> | <u>9,590</u> |
| Total Comprehensive Income attributable to: | | | | |
| Equity holders of the parent | <u>4,885</u> | <u>3,508</u> | <u>12,436</u> | <u>9,590</u> |
| Earnings per share attributable to equity holders of the parent | | | | |
| - Basic ⁽²⁾ (sen) | 0.27 | 0.20 | 0.69 | 0.63 |
| - Diluted ⁽²⁾ (sen) | 0.27 | 0.20 | 0.69 | 0.63 |

**APPENDIX B –
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)**

| | As at 30.09.2019 ⁽¹⁾ RM'000 | As at 31.12.2018 RM'000 (audited) |
|--|--|--|
| ASSETS | | |
| Non-Current Assets | | |
| Property, plant and equipment | 309,822 | 314,692 |
| Land use rights | 26,850 | 27,386 |
| | 336,672 | 342,078 |
| Current Assets | | |
| Inventories | 1,513 | 892 |
| Trade and other receivables (Note @) | 89,722 | 88,479 |
| Current tax assets | - | 256 |
| Cash and cash equivalents | 490,485 | 472,870 |
| | 581,720 | 562,497 |
| TOTAL ASSETS | 918,392 | 904,575 |
| EQUITY AND LIABILITIES | | |
| Equity attributable to equity holders of the parent | | |
| Share capital | 265,502 | 265,502 |
| Reserves | 573,510 | 561,074 |
| TOTAL EQUITY | 839,012 | 826,576 |
| Non-current Liabilities | | |
| Deferred tax liabilities | 13,758 | 13,068 |
| Current Liabilities | | |
| Trade and other payables (Note #) | 56,614 | 57,656 |
| Current tax liabilities | 1,733 | - |
| Bank borrowings | 7,275 | 7,275 |
| | 65,622 | 64,931 |
| TOTAL LIABILITIES | 79,380 | 77,999 |
| TOTAL EQUITY AND LIABILITIES | 918,392 | 904,575 |
| Net assets per share (RM)⁽²⁾ | 0.46 | 0.46 |



**APPENDIX C –
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

| Quarter and period ended | Non-distributable | | | | | | | Distributable | | Total equity RM'000 |
|---|-------------------------|-------------------------|------------------------|--------------------------------------|-------------------------------------|--------------------------|--|---------------------------|-----------------------------|------------------------|
| | Share capital RM'000 | Share premium RM'000 | ESOS Reserve RM'000 | Capital redemption reserve RM'000 | Statutory surplus reserve RM'000 | Merger deficit RM'000 | Exchange translation reserve RM'000 | Treasury shares RM'000 | Retained earnings RM'000 | |
| 30 September 2018 ⁽¹⁾ | | | | | | | | | | |
| Balance at 31 December 2017 | 92,645 | 8,852 | - | 339,240 | 23,511 | (120,218) | 19,596 | (1) | 379,830 | 743,455 |
| Impact arising from adoption of MFRS 9 [^] | - | - | - | - | - | - | - | - | (677) | (677) |
| Balance at 1 January 2018 | 92,645 | 8,852 | - | 339,240 | 23,511 | (120,218) | 19,596 | (1) | 379,153 | 742,778 |
| Total comprehensive income | - | - | - | - | - | - | - | - | 9,590 | 9,590 |
| Granting of ESOS | - | - | 1,199 | - | - | - | - | - | - | 1,199 |
| Transactions with owners | | | | | | | | | | |
| Ordinary shares issued pursuant to: | | | | | | | | | | |
| - Exercise of warrants | 59,442 | 42 | - | - | - | - | - | - | - | 59,484 |
| - Exercise of options under employee share option scheme (ESOS) | 10,109 | 1,344 | (1,199) | - | - | - | - | - | - | 10,254 |
| - Bonus issue | 103,306 | (8,855) | - | (94,451) | - | - | - | - | - | - |
| Transfer to statutory surplus reserve | - | - | - | - | 1,239 | - | - | - | (1,239) | - |
| | 172,857 | (7,469) | (1,199) | (94,451) | 1,239 | - | - | - | (1,239) | 69,738 |
| Balance at 30 September 2018 | 265,502 | 1,383 | - | 244,789 | 24,750 | (120,218) | 19,596 | (1) | 387,504 | 823,305 |



**APPENDIX C –
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)**

| Quarter and period ended 30 September 2019 ⁽¹⁾ | Non-distributable | | | | | | Distributable | | Total equity RM'000 |
|--|----------------------------|----------------------------|--|---|-----------------------------|--|------------------------------|--------------------------------|---------------------------|
| | Share capital RM'000 | Share premium RM'000 | Capital redemption reserve RM'000 | Statutory surplus reserve RM'000 | Merger deficit RM'000 | Exchange translation reserve RM'000 | Treasury shares RM'000 | Retained earnings RM'000 | |
| Balance at 1 January 2019 | 265,502 | 1,344 | 244,786 | 25,212 | (120,218) | 19,596 | (1) | 390,355 | 826,576 |
| Total comprehensive income | - | - | - | - | - | - | - | 12,436 | 12,436 |
| Transactions with owners | | | | | | | | | |
| Transfer to statutory surplus reserve | - | - | - | 2,073 | - | - | - | (2,073) | - |
| | - | - | - | 2,073 | - | - | - | (2,073) | - |
| Balance at 30 September 2019 | 265,502 | 1,344 | 244,786 | 27,285 | (120,218) | 19,596 | (1) | 400,718 | 839,012 |

**APPENDIX D –
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)**

| | Financial period ended | |
|---|-------------------------------------|----------------------|
| | 30.09.2019 ⁽¹⁾ RM'000 | 30.09.2018 RM'000 |
| Profit before tax | 23,374 | 14,627 |
| Adjustments for non-operating cash flows: | | |
| Non-cash items | 7,179 | 7,961 |
| Non-operating items | (1,127) | (1,052) |
| Operating profit before working capital changes | <u>29,426</u> | <u>21,536</u> |
| Changes in working capital | | |
| Net change in current assets | (2,152) | 6,970 |
| Net change in current liabilities | (1,042) | (8,710) |
| Cash generated from operating activities | <u>26,232</u> | <u>19,796</u> |
| Income tax paid | (8,259) | (3,481) |
| Net cash from operating activities | <u>17,973</u> | <u>16,315</u> |
| Investing activities | | |
| Interest received | 1,404 | 1,159 |
| Purchase of property, plant and equipment | (1,485) | (155) |
| Net cash (used in)/from investing activities | <u>(81)</u> | <u>1,004</u> |
| Financing activities | | |
| Interest paid | (277) | (107) |
| Drawdown of borrowings | 7,275 | - |
| Repayment of borrowings | (7,275) | - |
| Proceeds from issuance of shares pursuant to exercise of ESOS | - | 10,254 |
| Proceeds from issuance of shares pursuant to exercise of warrants | - | 59,484 |
| Net cash (used in)/from financing activities | <u>(277)</u> | <u>69,631</u> |
| Net change in cash and cash equivalents | 17,615 | 86,950 |
| Cash and cash equivalents at beginning of financial period | <u>472,870</u> | <u>363,308</u> |
| Cash and cash equivalents at end of financial period | <u>490,485</u> | <u>450,258</u> |
| Cash and cash equivalents at end of financial period | | |
| Cash and bank balances | <u>490,485</u> | <u>450,258</u> |