

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 DECEMBER 2018

	Note	Individual quarter Quarter ended		Individual quarter Quarter ended	
		31.12.2018	31.12.2017	31.12.2018 (Note a)	31.12.2017 (Note a)
		Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	49,782	76,406	29,914	45,912
Cost of sales		<u>(44,535)</u>	<u>(67,883)</u>	<u>(26,761)</u>	<u>(40,791)</u>
Gross profit		5,247	8,523	3,153	5,121
Other income		27	3,765	16	2,262
Selling and distribution expenses	B1	(29,001)	(30,213)	(17,427)	(18,155)
Administrative expenses	B1	(4,066)	(5,270)	(2,443)	(3,166)
Other operating expenses	B1	(36,560)	-	(21,969)	-
Finance costs		<u>(2,036)</u>	<u>4,338</u>	<u>(1,223)</u>	<u>2,607</u>
Loss before taxation	B1	(66,389)	(18,857)	(39,893)	(11,331)
Taxation		<u>159</u>	<u>122</u>	<u>95</u>	<u>73</u>
Total loss for the period	B1	<u>(66,230)</u>	<u>(18,735)</u>	<u>(39,798)</u>	<u>(11,258)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the period		<u>(66,230)</u>	<u>(18,735)</u>	<u>(39,798)</u>	<u>(11,258)</u>
Attributable to :					
- Equity holders of the Company		<u>(66,230)</u>	<u>(18,735)</u>	<u>(39,798)</u>	<u>(11,258)</u>
Loss per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(17.39)	(6.39)	(10.45)	(3.84)
Diluted (RMB cents/RM sen)	B9	(12.42)	(6.39)	(7.46)	(3.84)

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 December 2018 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6009 as at 31 December 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.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	<u>Note</u>	Cumulative quarter		Cumulative quarter	
		Current year to date 31.12.2018 Unaudited RMB'000	Preceding year to date 31.12.2017 Unaudited RMB'000	Current year to date 31.12.2018 (Note a) Unaudited RM'000	Preceding year to date 31.12.2017 (Note a) Unaudited RM'000
Revenue	B1	254,031	303,365	152,647	182,292
Cost of sales		(229,118)	(271,363)	(137,677)	(163,062)
Gross profit		24,913	32,002	14,970	19,230
Other income		198	3,785	119	2,274
Selling and distribution expenses	B1	(30,826)	(41,875)	(18,523)	(25,163)
Administrative expenses	B1	(16,809)	(21,150)	(10,100)	(12,709)
Other operating expenses	B1	(36,560)	-	(21,969)	-
Finance costs		(8,502)	(10,893)	(5,109)	(6,545)
Loss before taxation	B1	(67,586)	(38,131)	(40,612)	(22,913)
Taxation		180	122	108	73
Total loss for the year	B1	(67,406)	(38,009)	(40,504)	(22,840)
Other comprehensive income after tax		-	-	-	-
Total comprehensive loss for the year		(67,406)	(38,009)	(40,504)	(22,840)
Attributable to :					
-Equity holders of the Company		(67,406)	(38,009)	(40,504)	(22,840)
Profit/(Loss) per share attributable to equity holders of the Company :					
Basic (RMB cents/RM sen)	B9	(18.38)	(13.22)	(11.04)	(7.94)
Diluted (RMB cents/RM sen)	B9	(12.98)	(13.22)	(7.80)	(7.94)

Notes:

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(b) The Unaudited Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Unaudited As at 31.12.2018	Audited As at 31.12.2017	Unaudited As at 31.12.2018 (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	37,498	41,004	22,533	24,639
Patents	9,662	29,975	5,806	18,012
Land use rights	42,643	43,715	25,624	26,269
	<u>89,803</u>	<u>114,694</u>	<u>53,963</u>	<u>68,920</u>
Current Assets				
Inventories	4,278	8,113	2,571	4,875
Trade and other receivables	76,378	107,429	45,895	64,554
Cash and bank balances	1,655	1,244	995	748
	<u>82,311</u>	<u>116,786</u>	<u>49,461</u>	<u>70,177</u>
Total assets	<u>172,114</u>	<u>231,480</u>	<u>103,424</u>	<u>139,097</u>
EQUITY AND LIABILITIES				
Capital and Reserves				
Share capital	93,774	287,196	60,739	172,576
(Accumulated losses)/Retained earnings	80,316	(57,078)	43,872	(34,298)
Other reserves	(127,385)	(149,444)	(76,545)	(89,801)
	<u>46,705</u>	<u>80,674</u>	<u>28,066</u>	<u>48,477</u>
Current Liabilities				
Borrowings	35,630	35,670	21,410	21,434
Income tax payable	10	46	6	28
Trade and other payables	40,138	55,292	24,119	33,225
	<u>75,778</u>	<u>91,008</u>	<u>45,535</u>	<u>54,687</u>
Non-Current Liability				
Deferred tax liability	5,131	5,298	3,083	3,184
Other payable	44,500	54,500	26,740	32,749
	<u>49,631</u>	<u>59,798</u>	<u>29,823</u>	<u>35,933</u>
Total liabilities	<u>125,409</u>	<u>150,806</u>	<u>75,358</u>	<u>90,620</u>
Total equity and liabilities	<u>172,114</u>	<u>231,480</u>	<u>103,424</u>	<u>139,097</u>
Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)	<u>12.26</u>	<u>27.53</u>	<u>7.37</u>	<u>16.54</u>

Notes:

- (a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 31 December 2018 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6009 as at 31 December 2018. This translation should not be construed as a representation that the RMB amounts represented have been or could be converted into RM at this or any other rate.
- (b) The Unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to the unaudited interim financial statements.
- (c) The net assets per share attributable to equity holders of the Company is calculated based on the net assets as at 31 December 2017 and 31 December 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 YEAR ENDED 31 DECEMBER 2018

	Attributable to Equity Holders of the Company						
	Share capital RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Warrant reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 31 December 2016	285,075	(174,156)	24,712	-	-	(19,069)	116,562
Share issuance	2,121	-	-	-	-	-	2,121
Total comprehensive loss for the financial year	-	-	-	-	-	(38,009)	(38,009)
At 31 December 2017	287,196	(174,156)	24,712	-	-	(57,078)	80,674
At 31 December 2017	287,196	(174,156)	24,712	-	-	(57,078)	80,674
Share issuance	11,378	-	-	-	-	-	11,378
Capital reduction	(204,800)	-	-	-	-	204,800	-
Free warrant issuance	-	-	-	22,083	-	-	22,083
Foreign exchange translation reserve	-	-	-	-	(24)	-	(24)
Total comprehensive loss for the financial year	-	-	-	-	-	(67,406)	(67,406)
At 31 December 2018	93,774	(174,156)	24,712	22,083	(24)	80,316	46,705

	Attributable to Equity Holders of the Company						
	Share capital RM'000	Merger reserve RM'000	Statutory reserve RM'000	Warrant reserve RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 31 December 2016	171,302	(104,650)	14,849	-	-	(11,458)	70,043
Share issuance	1,274	-	-	-	-	-	1,274
Total comprehensive loss for the financial year	-	-	-	-	-	(22,840)	(22,840)
At 31 December 2017 (note a)	172,576	(104,650)	14,849	-	-	(34,298)	48,477
At 31 December 2017	172,576	(104,650)	14,849	-	-	(34,298)	48,477
Share issuance	6,837	-	-	-	-	-	6,837
Capital reduction	(118,674)	-	-	-	-	118,674	-
Free warrant issuance	-	-	-	13,270	-	-	13,270
Foreign currency translation reserve	-	-	-	-	(14)	-	(14)
Total comprehensive loss for the financial year	-	-	-	-	-	(40,504)	(40,504)
At 31 December 2018 (note a)	60,739	(104,650)	14,849	13,270	(14)	43,872	28,066

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(b) The Unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	For the financial period ended 31.12.2018	For the financial period ended 31.12.2017	For the financial period ended 31.12.2018 (Note a)	For the financial period ended 31.12.2017 (Note a)
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Cash flows from operating activities				
Loss before taxation	(67,586)	(38,131)	(40,612)	(22,913)
Adjustments for:				
Interest income	(28)	(29)	(17)	(17)
Interest expenses	8,502	10,893	5,109	6,545
Depreciation of property, plant and equipment	3,475	4,000	2,088	2,404
Gain on disposal of land use rights	-	(2,260)	-	(1,358)
Property, plant and equipment written off	31	12	19	7
Warrant expense	22,083	-	13,270	-
Patents written off	14,446	-	8,680	-
Amortisation of land use rights	1,072	1,348	644	810
Amortisation of patents	5,867	7,700	3,525	4,627
Operating loss before working capital changes	(12,138)	(16,467)	(7,294)	(9,895)
Decrease/(Increase) in inventories	3,835	1,679	2,304	1,009
Decrease/(Increase) in trade and other receivables	31,051	8,453	18,659	5,079
Increase/(Decrease) in trade and other payables	(9,409)	17,788	(5,654)	10,689
Cash from operations	13,339	11,453	8,015	6,882
Income tax paid	(23)	-	(14)	-
Interest received	28	29	17	17
Interest paid	(8,502)	(11,993)	(5,109)	(7,206)
Net cash flows generated from/(used in) operating activities	4,842	(511)	2,909	(307)
Cash flows from investing activities				
Purchase of property, plant and equipment	-	(8)	-	(5)
Proceeds from disposal of land use rights	-	28,508	-	17,130
Net cash flows from investing activities	-	28,500	-	17,125
Cash flows from financing activities				
Proceeds from share issuance	5,633	2,121	3,385	1,275
Proceeds from bank borrowings	35,630	37,670	21,410	22,636
Repayment of bank borrowings	(35,670)	(38,700)	(21,434)	(23,255)
Repayment of long term payable	(10,000)	(28,000)	(6,009)	(16,825)
Net cash flows used in financing activities	(4,407)	(26,909)	(2,648)	(16,169)
Net increase/(decrease) in cash and cash equivalents	435	1,080	261	649
Cash and cash equivalents at beginning of the financial year	1,244	164	748	99
Effect of exchange translation difference on cash and cash equivalents	(24)	-	(14)	-
Cash and cash equivalents at end of the financial year	1,655	1,244	995	748

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 FOURTH QUARTER ENDED 31 DECEMBER 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 December 2018 are unaudited and have been prepared in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)”) and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa 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 revised SFRS(I) and Interpretations of SFRS(I) (“INT SFRS(I)”) that are relevant to its operations and effective for the current financial year ending 31 December 2018. SFRS(I)s comprise Standards and Interpretations that are equivalent to International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standards Board (IASB).

The group has adopted the new financial reporting framework on 1 January 2018 in accordance with the decision made by the Accounting Standards Council. In addition, the Group has adopted all the new and revised SFRS(I)s and Interpretations of SFRS(I) (“SFRS(I) INT”) that are effective from 1 January 2018 as follows:

- SFRS(I) 9 Financial Instruments
- SFRS(I) 15 Revenue from Contracts with Customers (with clarifications issued)

(i) SFRS(I) 9 Financial Instruments

SFRS(I) 9 introduces new requirements for recognition, classification and measurement of financial assets, impairment of financial assets and hedge accounting from 1 January 2018. In relation to the impairment of financial assets, SFRS(I) 9 requires an expected credit loss model and replaces the FRS 39 incurred loss model. The Group and the Company have adopted the new standard and assessed that the adoption of this standard has no material effect on the amounts reported. As such, the comparative figures have not been restated.

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(ii) SFRS(I) 15 Revenue from Contracts with Customers (with clarifications issued)

SFRS(I) 15 establishes a five step model to account for revenue arising from contracts with customers, and introduces new contract costs guidance. Under SFRS(I)15, there are specific requirements on how revenue should be recognized and other new requirements such as accounting for commissions paid to salesmen, additional disclosures, etc. The Group and the Company have adopted the new standard and assessed that the adoption of this standard has no material effect on the amounts reported. As such, the comparative figures have not been restated.

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

No.	Title	Effective date - Annual periods commencing on or after
SFRS(I) 10, SFRS(I) 1-28	Amendments to SFRS(I) 10 and SFRS(I) 1-28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
SFRS(I) 16	Leases	1 January 2019
Various	Amendments to References to the Conceptual Framework in SFRS(I) Standards Amendments to illustrative examples, implementation guidance and SFRS(I) practice statements	1 January 2020

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

Changes in accounting policies

The adoption of these new or revised SFRS(I) and INT SFRS(I) did not result in substantial changes to the Group's and the Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

b) Basis of consolidation

The consolidated interim financial statements of the Group have been prepared using the historical cost method similar to the "pooling-of-interest" as acquisition of subsidiary is accounted for as reconstructions of businesses. Under the historical cost method, the acquired assets and liabilities are recorded at their existing carrying amounts.

The consolidated interim financial statements include the results of operations, and the assets and liabilities of the pooled enterprises as part of the Group for the whole of the current period.

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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.

(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.

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(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.

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 year to date.

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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>
10 August 2018			
- Completion of capital reduction	-	(204,800,000)	(42,455,039)
	<u>380,952,000</u>	<u>93,774,322</u>	<u>20,239,986</u>

A7. Subsequent material events

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

A8. Financial instruments with off-balance sheet risks

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

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A9. Segment information

a) Results of operating segments

	For the quarter ended 31 December 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	49,443	29,710	-	-	-	-	49,443	29,710
Construction	-	-	339	204	-	-	339	204
							<u>49,782</u>	<u>29,914</u>
Other income								
Interest income	7	4	*	*	-	-	7	4
Realised gain on foreign exchange	-	-	-	-	1,710	1,028	1,710	1,028
Rental income	49	29	-	-	-	-	49	29
							1,766	1,061
Elimination							<u>(1,739)</u>	<u>(1,045)</u>
							<u>27</u>	<u>16</u>
Operating expenses								
Selling and distribution	(29,001)	(17,427)	-	-	-	-	(29,001)	(17,427)
Administrative	(4,727)	(2,840)	(6)	(4)	(1,072)	(644)	(5,805)	(3,488)
							<u>(34,806)</u>	<u>(20,915)</u>
Elimination							<u>1,739</u>	<u>1,045</u>
							<u>(33,067)</u>	<u>(19,870)</u>
Other operating expenses	(14,477)	(8,699)	-	-	(22,083)	(13,270)	(36,560)	(21,969)
Profit/(Loss) before taxation	<u>(43,065)</u>	<u>(25,878)</u>	<u>(141)</u>	<u>(85)</u>	<u>(23,183)</u>	<u>(13,930)</u>	<u>(66,389)</u>	<u>(39,893)</u>

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	For the financial year ended 31 December 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	251,707	151,251	-	-	-	-	251,707	151,251
Construction	-	-	2,324	1,396	-	-	2,324	1,396
							<u>254,031</u>	<u>152,647</u>
Other income								
Interest income	27	16	1	*	-	-	28	16
Gain on foreign exchange	-	-	-	-	1,714	1,030	1,714	1,030
Rental income	195	117	-	-	-	-	195	118
							<u>1,937</u>	<u>1,164</u>
Elimination							<u>(1,739)</u>	<u>(1,045)</u>
							<u>198</u>	<u>119</u>
Operating expenses								
Selling and distribution	(30,826)	(18,523)	-	-	-	-	(30,826)	(18,523)
Administrative	(16,040)	(9,638)	(71)	(43)	(2,437)	(1,464)	(18,548)	(11,145)
							<u>(49,374)</u>	<u>(29,668)</u>
Elimination							<u>1,739</u>	<u>1,045</u>
							<u>(47,635)</u>	<u>(28,623)</u>
Other operating expenses	(14,477)	(8,699)	-	-	(22,083)	(13,270)	(36,560)	(21,969)
Profit/(Loss) before taxation	<u>(43,093)</u>	<u>(25,894)</u>	<u>52</u>	<u>31</u>	<u>(24,545)</u>	<u>(14,749)</u>	<u>(67,586)</u>	<u>(40,612)</u>

Note:

* *Negligible*

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b) Assets and liabilities

	As at 31 December 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	170,918	102,705	849	510	347	209	172,114	103,424
Total liabilities	124,370	74,734	329	197	710	427	125,409	75,358

A10. Property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendment from the Group's audited consolidated financial statements for the FYE 31 December 2017.

A11. Status of corporate exercise

(a) There were no other corporate proposals announced but not completed as at 21 February 2019, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

b) Utilisation of proceeds

The total gross proceeds from the private placement of 87,912,000 new ordinary shares in K-Star ("Proposal") to individual third party investors amounting to approximately RM7.03 million are expected to be fully utilised in the following manner:

Details of utilisation	Utilisation timeframe	Proposed utilisation	Utilisation as at the reporting date	Amount unutilised
		RM'000	RM'000	RM'000
Footwear business	Within 12 months	4,000	4,000	-
Construction business	Within 18 months	2,713	150	2,563
Expenses for the Proposal	Within 3 month	320	270	50
		7,033	4,420	2,613

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.

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A13. Capital commitments

There is no capital commitment as at 31 December 2018.

A14. Changes in the composition of the Group

There were no changes in the composition of the Group during the financial year 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.

c) Warrant reserve

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

A16. Related party transactions

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

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

B1. Performance review

	Individual quarter ended 31 December		Changes (%)	Cumulative period ended 31 December		Changes (%)
	2018 RMB'000	2017 RMB'000		2018 RMB'000	2017 RMB'000	
Revenue	49,782	76,406	(34.85)	254,031	303,365	(16.26)
Gross profit margin (%)	10.54	11.15	(5.47)	9.81	10.55	(7.01)
Profit/(Loss) before tax	(66,389)	(18,857)	(252.07)	(67,586)	(38,131)	(77.25)
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	(66,230)	(18,735)	(253.51)	(67,406)	(38,009)	(77.34)

Statement of profit & loss

For the current quarter three (3) months ended 31 December 2018 (“4Q2018”), the Group’s revenue has decreased by approximately 34.85% as compared to the preceding year corresponding quarter ended 31 December 2017 (“4Q2017”), contributed mainly from the decrease in sales of Dixing’s core brand footwear by 39.86% while saw an increase in sales of OEM footwear by 13.98%. In addition, the revenue from the construction segment has slowed down and decreased by 73.26%.

Gross profit margin was fairly consistent stood at 10.54% as compared to 11.15% recorded in 4Q2017, a marginal decrease of 0.61%.

Selling and distribution expenses has decreased by 4.01% as compared to 4Q2017 mainly due to lower R&D expenditures while the sales rebates remained consistent with a marginal increase of 2.95% as compared to the corresponding quarter.

Administrative expenses has reduced by 22.85% mainly due to lower depreciation and amortisation expenses which were reduced by 17.28% and 26.57% respectively. Save for the prior year adjustment to unwind fair value interest accretion, the finance costs has reduced by 9.27% resulting from repayment of long term loan.

On a non-recurrent basis, the Group has written off certain patents no longer in use and recognised cost of free warrants issuance amounted to RMB 14.45 million and RMB 22.08 million respectively during the current quarter. As a result, the Group has incurred higher loss before taxation (“LBT”) of RMB 66.39 million during the current quarter.

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For the FYE 31 December 2018 comparing to the FYE 31 December 2017, the Group's total revenue stood at RMB 254.03 million, of which 79.77% and 20.23% of the total footwear revenue of RMB 251.71 million were derived from Dixing's core brand and OEM segment respectively. The balance of RMB 2.32 million was derived from the construction subsidiary. Dixing brand footwear has decreased by 22.00% while the OEM segment has recorded an increase of 13.99% mainly contributed from the increasing order from a local PRC brand customer.

The Group's gross profit margin remained fairly consistent with a marginal decrease of approximately 0.74% from 10.55% recorded in the preceding year.

The sales and distribution expenses has decreased by approximately 26.39% as compared to the preceding year. This was mainly due to cost cutting measure in R&D and advertising expenditures while the sales rebates remained consistent with a slight increase of 2.95% as compared to the preceding financial year.

The administrative expenses has also reduced by approximately 20.52% mainly attributed from the reduction in depreciation and amortisation expenses. Finance costs was lower by 21.95% resulted from the repayment made since the previous financial year.

During the current financial year, the Group has written off certain patents no longer in use and recognised cost of free warrant issuance amounted to RMB 14.45 million and RMB 22.08 million respectively. Correspondingly, the Group has incurred higher LBT of RMB 67.59 million as compared to the preceding financial year.

Statement of financial position

The inventory turnover period stood at the age of 7 days as at 31 December 2018 and has remained fairly consistent as compared to the FYE 31 December 2017 of 11 days.

The trade receivables turnover period as at 31 December 2018 was 109 days as compared to 129 days in the FYE 31 December 2017. All trade receivables as at 31 December 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 10 days as compared to the preceding year corresponding quarter of 57 days. All trade payables were remained at the 1-30 days age band as at 31 December 2018.

Statement of cash flow

The net cash inflow from operating activities of the Group for the FYE 31 December 2018 amounted to RMB 4.84 million, has improved as compared to the net cash outflow of RMB 0.51 million recorded in the preceding year. There was no cash flow allocation from investing activities.

For the current financial year, the net cash and cash equivalents stood at RMB 1.66 million, representing an increase of RMB 0.41 million as compared to RMB 1.24 million recorded in the FYE 31 December 2017. During the current financial year, a gross proceeds of RMB 11.38 million was raised through a private placement exercise via the issuance of 87.91 million new ordinary shares of the Company.

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

	Individual quarter ended		Individual quarter ended	
	31 December		31 December	
	2018	2017	2018	2017
	RMB'000	RMB'000	RM'000	RM'000
Interest income	(7)	(9)	(4)	(5)
Other income including investment income	-	-	-	-
Interest expense	2,036	(4,338)	1,223	(2,607)
Depreciation	836	960	502	577
Amortisation	1,643	2,192	987	1,317
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
Property, plant and equipment written off	31	-	19	-
Patents written off	14,446	-	8,680	-
(Gain)/Loss on foreign exchange	29	158	17	95
(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.*

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 31 December		Current year to date ended 31 December	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Interest income	(28)	(29)	(17)	(17)
Other income including investment income	-	-	-	-
Interest expense	8,502	10,893	5,109	6,546
Depreciation	3,475	4,000	2,088	2,404
Amortisation	6,939	9,048	4,169	5,437
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
Property, plant and equipment written off	31	-	19	-
Patents written off	14,446	-	8,680	-
(Gain)/Loss on foreign exchange	76	195	46	117
(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.*

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 December 2018 RMB'000	Preceding quarter ended 30 September 2018 RMB'000	Changes (%)
Revenue	49,782	54,220	(8.19)
Profit/(Loss) before taxation	(66,389)	(2,893)	(2,194.82)
Profit/(Loss) after taxation and total comprehensive income/(loss) for the period	(66,230)	(2,357)	(2,709.93)

	Current quarter ended 31 December 2018 RM'000	Preceding quarter ended 30 September 2018 RM'000
Revenue	29,914	32,581
Loss before taxation	(39,893)	(1,738)
Loss after taxation and total comprehensive loss for the period	(39,798)	(1,416)

The Group's revenue for the 4Q2018 has decreased by 8.19% as compared to the preceding quarter three (3) months ended 30 September 2018 ("3Q2018"). The sales of Dixing's core brand representing 81.79% of the footwear sales has decreased by approximately 12.73% while the OEM segment representing 18.21% of the footwear sales has recorded an increase of 18.43%.

The gross profit margin has improved by 3.69%, stood at 10.54% as compared to 6.85% recorded in the preceding quarter. Save for the average unit selling price and unit labour costs which were remained fairly consistent, the average unit production costs of has reduced by approximately 5.67% as compared to the preceding quarter.

Sales and distribution expenses has increased by RMB 28.54 million due to provision of sales rebates and trade fair related expenses incurred during the 4Q2018.

Administrative expenses and finance costs have no material deviation as compared to the 3Q2018.

The LBT for the current quarter has increased to RMB 66.23 million arising from the provision of sales rebates, patents written off and one-off warrants issuance expenses amounted to RMB 28.26 million, RMB 14.45 million and RMB 22.08 million respectively.

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B3. Prospects for the financial year ending 31 December 2019

The gross domestic product (“GDP”) growth was at a rate of 6.6% and 6.7% respectively in 2018 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.

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. As the disposable income of China’s huge population continues to rise and increasing participation in sports, consumers in lower tier cities are seeking more value in brand identity and product quality.

As sporting events are becoming increasingly popular and people’s interest in personal fitness continues to rise, as well as greater enthusiasm for taking part in sports under the National Fitness Programme and related government policies, the cost of participating in sports-related activities has become a significant part of many individuals’ spending. In addition, the advancement of e-commerce is in place to drive growth and recovery of the overall sporting goods industry.

The Group remains cautious on the uncertainty of the economic condition over the US-China trade war 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 2019 would be favourable. Given the overall backdrop in consumer sentiment, uncertainty economic impact arising from the on-going US-China trade war and intense competition both from foreign and domestic brands, the Group sees challenges on the business growth but remains optimistic on the long term sustainability and potential opportunity given the Group’s continuous effort in brand recognition as well as product innovation.

B4. Profit forecast and profit guarantee

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

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B5. Taxation

	Current Quarter RMB '000	Current year to date RMB '000
Income tax	-	10
Overprovision of income tax	(159)	(23)
Deferred tax income	-	(167)
	<u>(159)</u>	<u>(180)</u>

	Current Quarter RM '000	Current year to date RM '000
Income tax	-	6
Overprovision of income tax	(95)	(14)
Deferred tax income	-	(100)
	<u>(95)</u>	<u>(108)</u>

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

The deferred tax income was in respect of the unwinding of deferred tax liability over the useful life of certain assets.

B6. Group borrowings

The Group's borrowings as at 31 December 2018 were as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000	Changes %
Short-term bank borrowings:			
Secured	9,800	9,840	0.41
Unsecured	<u>25,830</u>	<u>25,830</u>	-
	<u>35,630</u>	<u>35,670</u>	0.11

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	31 December 2018 RM'000	31 December 2017 RM'000
Short-term bank borrowings:		
Secured	5,889	5,913
Unsecured	15,521	15,521
	<u>21,410</u>	<u>21,434</u>

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

	31 December 2018 RMB'000	31 December 2017 Restated RMB'000	Changes %
Long-term other payables:			
Secured	<u>44,500</u>	<u>54,500</u>	9.92

	31 December 2018 RM'000	31 December 2017 RM'000
Long-term other payables:		
Secured	<u>26,740</u>	<u>32,749</u>

The long term other payables are secured loans for working capital purpose. This amount is repayable on the 4th quarter of 2021 (5th year from the date of the loan agreement) with an interest charged at 1% per month.

During the current financial year, partial settlement of RMB 10.00 million was made to settle the amount.

During the FYE 31 December 2017, full settlement has been made to a related party amounted to RM 22.00 million and partial settlement of RMB 6.00 million was made to the third party.

B7. Changes in material litigation

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

B8. Dividend

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

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B9. Profit/(Loss) per share

a) Basic loss per share

	Individual quarter ended 31 December		Individual quarter ended 31 December	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(66,230)	(18,735)	(39,798)	(11,258)
Weighted average number of ordinary shares in issue ('000)	380,952	293,040	380,952	293,040
Basic earning/(loss) per share (RMB cents/RM sen)	<u>(17.39)</u>	<u>(6.39)</u>	<u>(10.45)</u>	<u>(3.84)</u>
	Cumulative year to date ended 31 December		Cumulative year to date ended 31 December	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(67,406)	(38,009)	(40,504)	(22,840)
Weighted average number of ordinary shares in issue ('000)	366,742	287,566	366,742	287,566
Basic earning/(loss) per share (RMB cents/RM sen)	<u>(18.38)</u>	<u>(13.22)</u>	<u>(11.04)</u>	<u>(7.94)</u>

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b) Diluted earnings per share

	Individual quarter ended 31 December		Individual quarter ended 31 December	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(66,230)	(18,735)	(39,798)	(11,258)
Weighted average number of ordinary shares in issue ('000)	380,952	293,040	380,952	293,040
Assuming full exercise of warrants ('000)	152,380	-	152,380	-
Diluted earning/(loss) per share (RMB cents/RM sen)	<u>(12.42)</u>	<u>(6.39)</u>	<u>(7.46)</u>	<u>(3.84)</u>
	Cumulative year to date ended 31 December		Cumulative year to date ended 31 December	
	2018 RMB'000	2017 RMB'000	2018 RM'000	2017 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(67,406)	(38,009)	(40,504)	(22,840)
Weighted average number of ordinary shares in issue ('000)	366,742	287,566	366,742	287,566
Assuming full exercise of warrants ('000)	152,380	-	152,380	-
Diluted earning/(loss) per share (RMB cents/RM sen)	<u>(12.98)</u>	<u>(13.22)</u>	<u>(7.80)</u>	<u>(7.94)</u>

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B10. Realised and unrealised profits/(losses)

	FYE 31 December		FYE 31 December	
	2018	2017	2018	2017
	RMB'000	RMB'000	RM'000	RM'000
Realised	85,447	(51,693)	46,995	(31,062)
Unrealised	(5,131)	(5,385)	(3,083)	(3,236)
Total retained profits/(losses)	80,316	(57,078)	43,872	(34,298)
			Preceding quarter ended 30 September 2018	
			RMB'000	RM'000
Realised			144,371	86,753
Unrealised			(5,131)	(3,083)
Total retained profits/(losses)			139,240	83,670

By Order of the Board

Ding JianPing
Executive Chairman and
Chief Executive Officer
28 February 2019