

# K-Star

## K-STAR SPORTS LIMITED

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

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

(Malaysian Branch Registration Number 995214-D)

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 JUNE 2019

		Individual quarter Quarter ended		Individual quarter Quarter ended	
		30.06.2019	30.06.2018	30.06.2019	30.06.2018
				(Note a)	(Note a)
		Unaudited	Unaudited	Unaudited	Unaudited
Note		RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	52,671	71,904	31,703	43,279
Cost of sales		(47,252)	(65,464)	(28,441)	(39,403)
Gross profit		5,419	6,440	3,262	3,876
Other income		59	56	35	34
Selling and distribution expenses	B1	(762)	(828)	(458)	(498)
Administrative expenses	B1	(3,675)	(4,529)	(2,212)	(2,726)
Other operating expenses	B1	-	-	-	-
Finance costs		(1,860)	(2,170)	(1,120)	(1,306)
Profit/(Loss) before taxation	B1	(819)	(1,031)	(493)	(620)
Taxation		42	22	25	13
Total profit/(loss) for the period	B1	(777)	(1,009)	(468)	(607)
Other comprehensive income after tax		-	-	-	-
Total comprehensive profit/(loss) for the period		(777)	(1,009)	(468)	(607)
Attributable to :					
- Equity holders of the Company		(777)	(1,009)	(468)	(607)
<b>Loss per share attributable to equity holders of the Company :</b>					
Basic (RMB cents/RM sen)	B9	(0.20)	(0.26)	(0.12)	(0.16)
Diluted (RMB cents/RM sen)	B9	(0.15)	(0.19)	(0.09)	(0.11)

#### Notes:

(a) The presentation currency of this unaudited interim financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the quarter ended 30 June 2019 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6019 as at 30 June 2019. 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 2018 and the accompanying explanatory notes attached to the interim unaudited financial statements.

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2019

		Cumulative quarter		Cumulative quarter	
		Current	Preceding	Current	Preceding
		year	year	year	year
		to date	to date	to date	to date
		30.06.2019	30.06.2018	30.06.2019	30.06.2018
				(Note a)	(Note a)
		Unaudited	Unaudited	Unaudited	Unaudited
	Note	RMB'000	RMB'000	RM'000	RM'000
Revenue	B1	100,975	150,029	60,777	90,302
Cost of sales		(91,043)	(134,078)	(54,799)	(80,701)
Gross profit		9,932	15,951	5,978	9,601
Other income		122	115	73	69
Selling and distribution expenses	B1	(1,233)	(1,364)	(742)	(821)
Administrative expenses	B1	(6,095)	(8,691)	(3,668)	(5,231)
Other operating expenses	B1	-	-	-	-
Finance costs		(3,699)	(4,315)	(2,226)	(2,597)
Profit/(Loss) before taxation	B1	(973)	1,696	(585)	1,021
Taxation		32	(515)	19	(310)
Total profit/(loss) for the period	B1	(941)	1,181	(566)	711
Other comprehensive income after tax		-	-	-	-
Total comprehensive profit/(loss) for the period		(941)	1,181	(566)	711
Attributable to :					
-Equity holders of the Company		(941)	1,181	(566)	711
<b>Profit/(Loss) per share attributable to equity holders of the Company :</b>					
Basic (RMB cents/RM sen)	B9	(0.25)	0.34	(0.15)	0.20
Diluted (RMB cents/RM sen)	B9	(0.18)	0.23	(0.11)	0.14

#### 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 2018 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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### CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Unaudited As at 30.06.2019	Audited As at 31.12.2018	Unaudited As at 30.06.2019 (Note a)	Audited As at 31.12.2018 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	35,862	37,498	21,585	22,570
Intangible assets	8,782	9,662	5,286	5,816
Land use rights prepayments	41,036	41,572	24,700	25,022
	<u>85,680</u>	<u>88,732</u>	<u>51,571</u>	<u>53,408</u>
<b>Current Assets</b>				
Land use rights prepayments	1,071	1,071	645	645
Inventories	3,983	4,278	2,397	2,575
Trade and other receivables	77,053	76,504	46,378	46,048
Cash and bank balances	1,197	1,655	720	996
	<u>83,304</u>	<u>83,508</u>	<u>50,140</u>	<u>50,264</u>
<b>Total assets</b>	<u>168,984</u>	<u>172,240</u>	<u>101,711</u>	<u>103,672</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Share capital	94,562	93,774	56,917	56,443
(Accumulated losses)/Retained earnings	79,375	80,316	47,776	48,342
Other reserves	(127,388)	(127,385)	(76,675)	(76,673)
	<u>46,549</u>	<u>46,705</u>	<u>28,018</u>	<u>28,112</u>
<b>Current Liabilities</b>				
Borrowings	34,630	35,630	20,844	21,446
Income tax payable	62	10	37	6
Trade and other payables	38,196	40,264	22,990	24,235
	<u>72,888</u>	<u>75,904</u>	<u>43,871</u>	<u>45,687</u>
<b>Non-Current Liability</b>				
Deferred tax liability	5,047	5,131	3,038	3,088
Other payable	44,500	44,500	26,784	26,785
	<u>49,547</u>	<u>49,631</u>	<u>29,822</u>	<u>29,873</u>
<b>Total liabilities</b>	<u>122,435</u>	<u>125,535</u>	<u>73,693</u>	<u>75,560</u>
<b>Total equity and liabilities</b>	<u>168,984</u>	<u>172,240</u>	<u>101,711</u>	<u>103,672</u>
<b>Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)</b>	<u>12.03</u>	<u>12.26</u>	<u>7.24</u>	<u>7.38</u>

#### Notes:

- (a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 30 June 2019 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6019 as at 30 June 2019. 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 2018 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 2018 and 30 June 2019 divided by the number of ordinary shares of 380,952,000 and 386,952,000 respectively.

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2019

#### 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 2017	287,196	(174,156)	24,712	-	-	(57,078)	80,674
Share issuance	11,378	-	-	-	-	-	11,378
Foreign exchange translation reserve	-	-	-	-	(31)	-	(31)
Total comprehensive loss for the financial period	-	-	-	-	-	1,181	1,181
At 30 June 2018	298,574	(174,156)	24,712	-	(31)	(55,897)	93,202
At 31 December 2018	93,774	(174,156)	24,712	22,083	(24)	80,316	46,705
Share issuance arising from warrant conversion	788	-	-	-	-	-	788
Foreign exchange translation reserve	-	-	-	-	(3)	-	(3)
Total comprehensive loss for the financial period	-	-	-	-	-	(941)	(941)
At 30 June 2019	94,562	(174,156)	24,712	22,083	(27)	79,375	46,549

#### 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 2017	172,863	(104,825)	14,875	-	-	(34,355)	48,558
Share issuance	6,848	-	-	-	-	-	6,848
Foreign exchange translation reserve	-	-	-	-	(19)	-	(19)
Total comprehensive loss for the financial period	-	-	-	-	-	711	711
At 30 June 2018 (note a)	179,711	(104,825)	14,875	-	(19)	(33,644)	56,098
At 31 December 2018	56,443	(104,825)	14,874	13,292	(14)	48,342	28,112
Share issuance arising from warrant conversion	474	-	-	-	-	-	474
Foreign currency translation reserve	-	-	-	-	(2)	-	(2)
Total comprehensive loss for the financial period	-	-	-	-	-	(566)	(566)
At 30 June 2019 (note a)	56,917	(104,825)	14,874	13,292	(16)	47,776	28,018

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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 2018 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2019

	For the financial period ended 30.06.2019	For the financial period ended 30.06.2018	For the financial period ended 30.06.2019 (Note a)	For the financial period ended 30.06.2018 (Note a)
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
<b>Cash flows from operating activities</b>				
Loss before taxation	(973)	1,696	(585)	1,021
Adjustments for:				
Interest income	(8)	(13)	(5)	(8)
Interest expenses	3,699	4,315	2,226	2,597
Depreciation of property, plant and equipment	1,636	1,770	985	1,065
Amortisation of land use rights	536	536	322	323
Amortisation of patents	880	3,117	530	1,876
Operating loss before working capital changes	5,770	11,421	3,473	6,874
Decrease/(Increase) in inventories	295	2,250	177	1,354
Decrease/(Increase) in trade and other receivables	(675)	(1,493)	(406)	(899)
Increase/(Decrease) in trade and other payables	(1,942)	(16,889)	(1,169)	(10,165)
Cash from operations	3,448	(4,711)	2,075	(2,836)
Income tax paid	-	(682)	-	(410)
Interest received	8	13	5	8
Interest paid	(3,699)	(4,315)	(2,226)	(2,597)
<b>Net cash flows generated from/(used in) operating activities</b>	<b>(243)</b>	<b>(9,695)</b>	<b>(146)</b>	<b>(5,835)</b>
<b>Cash flows from investing activities</b>				
<b>Net cash flows from investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>				
Proceeds from share issuance	788	11,378	474	6,848
Proceeds from bank borrowings	11,670	12,670	7,024	7,626
Repayment of bank borrowings	(12,670)	(12,710)	(7,626)	(7,650)
<b>Net cash flows used in financing activities</b>	<b>(212)</b>	<b>11,338</b>	<b>(128)</b>	<b>6,824</b>
Net increase/(decrease) in cash and cash equivalents	(455)	1,643	(274)	989
Cash and cash equivalents at beginning of the financial period	1,655	1,244	996	748
Effect of exchange translation difference on cash and cash equivalents	(3)	(31)	(2)	(18)
<b>Cash and cash equivalents at end of the financial period</b>	<b>1,197</b>	<b>2,856</b>	<b>720</b>	<b>1,719</b>

#### 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 2018 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 SECOND QUARTER ENDED 30 JUNE 2019

#### A1. Basis of accounting and changes in accounting policies

##### a) Basis of accounting

The consolidated interim financial statements of K-Star Sports Limited (the “Company” or “K-Star”) and its subsidiary companies (“the Group”) for the quarter ended 30 June 2019 are unaudited and have been prepared in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)”) and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Group for the financial year ended (“FYE”) 31 December 2018. 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 2018.

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 2019. 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 2019 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 that are effective from 1 January 2019 as follows:

- SFRS(I) 16 Leases

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:

		Effective date - Annual periods commencing on or after
No.	Title	
SFRS(I) 3	Amendments to SFRS(I) 3: Definition of a Business	1 January 2020
SFRS(I) 1-1, SFRS(I) 1-8	Amendments to SFRS(I) 1-1 and SFRS(I) 1-8: Definition of Material	1 January 2020
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
Various	Amendments to References to the Conceptual Framework in SFRS(I) Standards	1 January 2020
	Amendments to illustrative examples, implementation guidance and SFRS(I) practice statements	

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

### **Changes in accounting policies**

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

### **b) Basis of consolidation**

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

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

Other than accounting of subsidiary company using the historical cost method as disclosed above, the results of the subsidiary companies acquired during the financial year, if any, are included in the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

Subsequent acquisitions of subsidiary companies, if any, are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Where accounting policies of a subsidiary do not conform with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiary companies acquired or disposed of during the financial year are included or excluded from the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group.

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### c) **Functional currency and translation to presentation currency**

#### (i) **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Group.

#### (ii) **Transactions and balances**

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of transactions. Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates when the fair values are determined.

#### (iii) **Group companies**

The results and financial positions of all entities that have functional currencies different from the presentation currency are translated into the presentation currency as follows:

- (1) Assets and liabilities are translated at the closing exchange rate at the end of reporting period;
- (2) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (3) All resulting currency translation differences are recognised in the currency translation reserve in equity.

### A2. **Audit report of the Group's preceding annual financial statements**

The Group's audited consolidated financial statements for the FYE 31 December 2018 were not subject to any audit qualification.



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### A3. Seasonal or cyclical factors

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

### A4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and financial year-to-date.

### A5. Material changes in estimates

There were no changes in estimates of amounts reported in prior financial year that have a material effect on the results of the current quarter under review.

### A6. Changes in share capital and debts

Save as disclosed below, there were no issuance, cancellations, repurchase, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury shares and resale of treasury shares for the current financial year to date.

Details of the movements in the Company's shares since the previous FYE 31 December 2018 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 2018			
	380,952,000	93,774,322	20,239,986
23 April 2019			
- Issuance pursuant to conversion of warrants	6,000,000	788,160	157,488
	386,952,000	94,562,482	20,397,474

### A7. Subsequent material events

Save as disclosed below, there were no other material events as at the date of this announcement that will affect the results in the financial period under review.

On 17 May 2019, K-Star proposed to undertake a private placement of up to 38,695,200 new ordinary shares representing 10% of the issued share capital in K-Star to independent third party investor(s) to be identified ("Proposed Private Placement").

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The Company had on 23 May 2019 submitted an additional listing application in relation to the Proposed Private Placement to Bursa Securities (“Application”) and Bursa Securities had approved the Application on 31 May 2019.

Proposed Private Placement has been completed on 19 July 2019 following the listing of and quotation for 38,695,200 new ordinary shares on the Main Market of Bursa Securities.

**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 30 June 2019							
	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
<b>Revenue</b>								
Footwear	52,447	31,568	-	-	-	-	52,447	31,568
Construction	-	-	224	135	-	-	224	135
							52,671	31,703
<b>Other income</b>								
Realised gain on foreign exchange	-	-	-	-	1	*	1	*
Interest income	8	5	-	-	-	-	8	5
Rental income	50	30	-	-	-	-	50	30
							59	35
Elimination							-	-
							59	35
<b>Operating expenses</b>								
Selling and distribution	(762)	(458)	-	-	-	-	(762)	(458)
Administrative	(2,956)	(1,779)	*	*	(719)	(433)	(3,675)	(2,212)
							(4,437)	(2,670)
Elimination							-	-
							(4,437)	(2,670)
<b>Profit/(Loss) before taxation</b>	(124)	(75)	22	13	(717)	(431)	(819)	(493)

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(Malaysian Branch Registration Number 995214-D)

For the financial period ended 30 June 2019								
	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
<b>Revenue</b>								
Footwear	100,514	60,499	-	-	-	-	100,514	60,499
Construction	-	-	461	278	-	-	461	278
							<u>100,975</u>	<u>60,777</u>
<b>Other income</b>								
Realised gain on foreign exchange	-	-	-	-	14	8	14	8
Interest income	8	5	-	-	-	-	8	5
Rental income	100	60	-	-	-	-	100	60
							<u>122</u>	<u>73</u>
Elimination							<u>-</u>	<u>-</u>
							<u>122</u>	<u>73</u>
<b>Operating expenses</b>								
Selling and distribution	(1,233)	(742)	-	-	-	-	(1,233)	(742)
Administrative	(4,876)	(2,934)	*	*	(1,219)	(734)	(6,095)	(3,668)
							<u>(7,328)</u>	<u>(4,410)</u>
Elimination							<u>-</u>	<u>-</u>
							<u>(7,328)</u>	<u>(4,410)</u>
<b>Profit/(Loss) before taxation</b>	<u>(28)</u>	<u>(17)</u>	<u>259</u>	<u>156</u>	<u>(1,204)</u>	<u>(724)</u>	<u>(973)</u>	<u>(585)</u>

Note:

\* Negligible

### b) Assets and liabilities

As at 30 June 2019								
	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
<b>Total assets</b>	<u>168,068</u>	<u>101,160</u>	<u>746</u>	<u>449</u>	<u>169</u>	<u>102</u>	<u>168,983</u>	<u>101,711</u>
<b>Total liabilities</b>	<u>121,464</u>	<u>73,109</u>	<u>286</u>	<u>172</u>	<u>684</u>	<u>412</u>	<u>122,434</u>	<u>73,693</u>

# K-Star

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### A10. Property, plant and equipment

The valuations of property, plant and equipment have been brought forward without amendment from the Group's audited consolidated financial statements for the FYE 31 December 2018.

### A11. Status of corporate exercise

(a) There were no other corporate proposals announced but not completed as at 19 August 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 RM'000	Utilisation as at the reporting date RM'000	Amount unutilised RM'000
Footwear business	Within 12 months	4,000	4,000	-
Construction business	Within 18 months	2,713	2,162	551
Expenses for the Proposal	Within 3 month	320	270	50
		7,033	6,432	601

### 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 2018.

### A13. Capital commitments

There is no capital commitment as at 30 June 2019.

### A14. Changes in the composition of the Group

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

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### **A15. Reserves**

#### **a) Statutory reserve**

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

#### **b) Merger reserve**

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

#### **c) Warrant reserve**

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

### **A16. Related party transactions**

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

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

#### B1. Performance review

	Individual quarter ended 30 June		Changes	Cumulative period ended 30 June		Changes
	2019	2018	(%)	2019	2018	(%)
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	52,671	71,904	(26.75)	100,975	150,029	(32.70)
Gross profit margin (%)	10.29	8.96	14.84	9.84	10.63	(7.43)
Profit/(Loss) before tax	(819)	(1,031)	20.56	(973)	1,696	(157.37)
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	(777)	(1,009)	22.99	(941)	1,181	(179.68)

#### Statement of profit & loss

For the current quarter three (3) months ended 30 June 2019 ("1Q2019"), the Group's revenue has decreased by approximately 26.75% as compared to the preceding year corresponding quarter ended 30 June 2018 ("1Q2018"). This was mainly due to the slowdown in sales of both the Dixing's core brand footwear and OEM footwear by 28.90% and 15.38% respectively.

Gross profit margin stood at 10.29% as compared to 8.96% recorded in 2Q2018, an increase of 1.33%. This was mainly due to an increase in the average unit selling price by approximately 6.70% while the average unit production costs has increased by 5.01%.

The current quarter's selling and distribution expenses has reduced by 7.97% as compared to the preceding year corresponding quarter mainly due to lower trade fair expenses and staff costs.

Administrative expenses has decreased by 18.86% mainly due to lower amortisation of patents in view of the writing off of patents amounted to RMB14.45 million in the last quarter of 2018. The finance costs has reduced by 14.29% resulting from the repayment of long term loan in the previous financial year.

The Group has incurred a loss before taxation ("LBT") of RMB 0.78 million resulted from the decreased in sales for the 2Q2019.

For the FPE 30 June 2019, the Group's total revenue stood at RMB 100.97 million, of which 78.29% and 21.71% of the total footwear revenue of RMB 100.51 million were derived from Dixing's core brand and OEM segment respectively. The balance of RMB 0.46 million was derived from the construction segment. Both the Dixing brand footwear and OEM footwear have decreased by 30.97% and 36.44% respectively as compared to the preceding year corresponding period.

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The Group's gross profit margin remained fairly consistent with a marginal decrease of approximately 0.79% from 10.63% recorded in the preceding year corresponding period.

The sales and distribution expenses has decreased by approximately 9.60% as compared to the preceding year corresponding period. This was mainly due to cost cutting measure in R&D and trade fair related expenditures.

The administrative expenses has also reduced by approximately 29.86% mainly attributed from the reduction in depreciation and amortisation expenses. Finance costs was lower by 14.28% resulted from the loan repayment made since the previous financial year.

The Group was in a pre-tax loss position resulting from the decrease in revenue from both footwear and construction segment.

### **Statement of financial position**

The inventory turnover period stood at the age of 8 days as at 30 June 2019 and remained consistent as compared to the 2Q2018 of 8 days.

The trade receivables turnover period as at 30 June 2019 was 139 days as compared to 132 days in the preceding year corresponding quarter. All trade receivables as at 30 June 2019 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 66 days as compared to the preceding year corresponding quarter of 41 days. Majority of the trade payables were within the 60 days age band, save for approximately 11.82% were felt in the 60-90 days age band as at 30 June 2019.

### **Statement of cash flow**

The net cash outflow from operating activities of the Group for the current financial period ended ("FPE") 30 June 2019 amounted to RMB 0.24 million, has improved as compared to the net cash outflow of RMB 9.69 million recorded in the preceding year corresponding quarter. There was no cash flow allocation from investing activities.

From the financing activities, a gross proceeds of RM 0.79 million was raised through conversion of warrants and a net repayment of bank borrowings amounted to RMB 1.00 million.

For the current financial period, the net cash and cash equivalents stood at RMB 1.20 million, representing a decrease of RMB 1.66 million as compared to RMB 2.86 million recorded in the FPE 30 June 2018.



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

	Individual quarter ended 30 June		Individual quarter ended 30 June	
	2019	2018	2019	2018
	RMB'000	RMB'000	RM'000	RM'000
Interest income	(8)	(7)	(5)	(4)
Other income including investment income	-	-	-	-
Interest expense	1,860	2,170	1,120	1,306
Depreciation	818	872	492	525
Amortisation	708	1,642	426	988
Provision for doubtful debts	*1	*1	*1	*1
Bad debts written off	*1	*1	*1	*1
Provision for slow moving inventory	*2	*2	*2	*2
Inventory written off	*2	*2	*2	*2
(Gain)/ Loss on disposal of quoted or unquoted investments or properties	N/A	N/A	N/A	N/A
Impairment of assets	*3	*3	*3	*3
(Gain)/Loss on foreign exchange	(1)	42	*	25
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

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	Current year to date ended 30 June		Current year to date ended 30 June	
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Interest income	(8)	(14)	(5)	(8)
Other income including investment income	-	-	-	-
Interest expense	3,699	4,315	2,226	2,597
Depreciation	1,636	1,770	985	1,065
Amortisation	1,418	3,653	852	2,199
Provision for doubtful debts	*1	*1	*1	*1
Bad debts written off	*1	*1	*1	*1
Provision for slow moving inventory	*2	*2	*2	*2
Inventory written off	*2	*2	*2	*2
(Gain)/ Loss on disposal of quoted or unquoted investments or properties	N/A	N/A	N/A	N/A
Impairment of assets	*3	*3	*3	*3
(Gain)/Loss on foreign exchange	(14)	39	(8)	23
(Gain)/Loss on derivatives	N/A	N/A	N/A	N/A
Exceptional items	N/A	N/A	N/A	N/A

### Notes:

- \*1 The Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no bad debts to be written off and no allowance for doubtful debts was required.
- \*2 The Directors are not aware of any circumstances which would render it necessary to write off any inventory or to make any allowance for slow moving inventory as at the date of this report.
- \*3 The Directors are not aware of any indication of impairment.
- \* Negligible
- N/A Not applicable as the Group does not have any quoted or unquoted investments or properties, derivatives and exceptional items as at the date of this report.

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### B2. Variation of results against immediate preceding quarter

	Current quarter ended 30 June 2019 RMB'000	Preceding quarter ended 31 March 2019 RMB'000	Changes (%)
Revenue	52,671	48,304	9.04
Profit/(Loss) before taxation	(819)	(154)	431.82
Profit/(Loss) after taxation and total comprehensive income/(loss) for the period	(777)	(164)	373.78

	Current quarter ended 30 June 2019 RM'000	Preceding quarter ended 31 March 2019 RM'000
Revenue	(31,703)	19,074
Loss before taxation	(493)	(93)
Loss after taxation and total comprehensive loss for the period	(468)	(99)

The Group's revenue for the 2Q2019 has increased by 9.04% as compared to the preceding quarter three (3) months ended 31 March 2019 ("1Q2019"). The sales of both Dixing's core brand and the OEM segment has recorded an increase of 6.17% and 20.49% respectively.

The gross profit margin has increased marginally by 0.95%, stood at 10.29% as compared to 9.34% recorded in the preceding quarter. The average unit selling price has increased by 3.45% while the average unit production costs has increased by approximately 5.01% as compared to the preceding quarter.

The Group has incurred a loss before taxation of RMB 0.78 million for the current quarter arising from the increase selling and distribution expenses, mainly due to trade fair and an increase in general administrative expenses.

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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 13<sup>th</sup> Five-Year Plan. However, the unveiled 13<sup>th</sup> 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	-	-
Underprovision of income tax	-	52
Deferred tax income	(42)	(84)
	<u>(42)</u>	<u>(32)</u>

	Current Quarter RM '000	Current year to date RM '000
Income tax	-	-
Underprovision of income tax	-	31
Deferred tax income	(25)	(50)
	<u>(25)</u>	<u>(19)</u>

There were no provision for taxation for the current quarter and year to date ended 30 June 2019 as the Group has incurred losses.

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

### B6. Group borrowings

The Group's borrowings as at 30 June 2019 were as follows:

	30 June 2019 RMB'000	30 June 2018 RMB'000	Changes %
Short-term bank borrowings:			
Secured	9,800	9,800	-
Unsecured	<u>24,830</u>	<u>25,830</u>	(3.87)
	<u>34,630</u>	<u>35,630</u>	(2.81)

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	30 June 2019 RM'000	30 June 2018 RM'000
Short-term bank borrowings:		
Secured	5,899	5,899
Unsecured	14,945	15,547
	<u>20,844</u>	<u>21,446</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.

The Group's long-term other payables as at 30 June 2019 were as follows:

	30 June 2019 RMB'000	30 June 2018 RMB'000	Changes %
Long-term other payables:			
Secured	<u>44,500</u>	<u>54,500</u>	9.92

  

	30 June 2019 RM'000	30 June 2018 RM'000
Long-term other payables:		
Secured	<u>26,784</u>	<u>32,804</u>

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

A partial settlement of RMB 10.00 million was made to settle the amount in the previous financial year.

### 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 30 June 2019.

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### B9. Profit/(Loss) per share

#### a) Basic loss per share

	Individual quarter ended 30 June			
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(777)	(1,009)	(468)	(607)
Weighted average number of ordinary shares in issue ('000)	385,435	380,952	385,435	380,952
Basic earning/(loss) per share (RMB cents/RM sen)	(0.20)	(0.26)	(0.12)	(0.16)

	Cumulative year to date ended 30 June			
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(941)	1,181	(566)	711
Weighted average number of ordinary shares in issue ('000)	383,206	352,295	383,206	352,295
Basic earning/(loss) per share (RMB cents/RM sen)	(0.25)	0.34	(0.15)	0.20

#### b) Diluted earnings per share

	Individual quarter ended 30 June			
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(777)	(1,009)	(468)	(607)
Weighted average number of ordinary shares in issue ('000)	385,435	380,952	385,435	380,952
Assuming full exercise of warrants ('000)	146,380	152,380	146,380	152,380
Diluted earning/(loss) per share (RMB cents/RM sen)	(0.15)	(0.19)	(0.09)	(0.11)

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	Cumulative year to date ended 30 June			
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	((941)	1,181	(566)	711
Weighted average number of ordinary shares in issue ('000)	383,206	352,295	383,206	352,295
Assuming full exercise of warrants ('000)	146,380	152,380	146,380	152,380
Diluted earning/(loss) per share (RMB cents/RM sen)	(0.18)	0.23	(0.11)	0.14

### B10. Realised and unrealised profits/(losses)

	FPE 30 June		FPE 30 June	
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Realised	84,422	(50,766)	50,814	(30,556)
Unrealised	(5,047)	(5,131)	(3,038)	(3,088)
Total retained profits/(losses)	79,375	(55,897)	47,776	(33,644)

	Preceding quarter ended 31 March 2019	
	RMB'000	RM'000
Realised	85,242	51,307
Unrealised	(5,090)	(3,064)
Total retained profits/(losses)	80,152	48,243

By Order of the Board

Ding JianPing  
Executive Chairman and  
Chief Executive Officer  
26 August 2019