

# 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)

[Malaysian Branch Registration Number 200902000042 (995214-D)]

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

	<u>Note</u>	Individual quarter Quarter ended		Individual quarter Quarter ended	
		30.09.2019	30.09.2018	30.09.2019 (Note a)	30.09.2018 (Note a)
		Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	51,489	54,220	30,173	31,773
Cost of sales		<u>(47,102)</u>	<u>(50,505)</u>	<u>(27,602)</u>	<u>(29,596)</u>
Gross profit		4,387	3,715	2,571	2,177
Other income		72	56	42	33
Selling and distribution expenses	B1	(450)	(461)	(264)	(270)
Administrative expenses	B1	(2,852)	(4,052)	(1,671)	(2,374)
Other operating expenses	B1	-	-	-	-
Finance costs		<u>(1,833)</u>	<u>(2,151)</u>	<u>(1,074)</u>	<u>(1,261)</u>
Profit/(Loss) before taxation	B1	(676)	(2,893)	(396)	(1,695)
Taxation		<u>(31)</u>	<u>536</u>	<u>(18)</u>	<u>314</u>
Total profit/(loss) for the period	B1	<u>(707)</u>	<u>(2,357)</u>	<u>(414)</u>	<u>(1,381)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive profit/(loss) for the period		<u>(707)</u>	<u>(2,357)</u>	<u>(414)</u>	<u>(1,381)</u>
Attributable to :					
- Equity holders of the Company		<u>(707)</u>	<u>(2,357)</u>	<u>(414)</u>	<u>(1,381)</u>
<b>Loss per share attributable to equity holders of the Company :</b>					
Basic (RMB cents/RM sen)	B9	(0.17)	(0.62)	(0.10)	(0.36)
Diluted (RMB cents/RM sen)	B9	(0.13)	(0.44)	(0.08)	(0.26)

**Notes:**

(a) The presentation currency of this unaudited interim financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the quarter ended 30 September 2019 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.5860 as at 30 September 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 SEPTEMBER 2019

		Cumulative quarter		Cumulative quarter	
		Current year to date 30.09.2019	Preceding year to date 30.09.2018	Current year to date 30.09.2019 (Note a)	Preceding year to date 30.09.2018 (Note a)
	<u>Note</u>	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	152,464	204,249	89,344	119,690
Cost of sales		<u>(138,145)</u>	<u>(184,583)</u>	<u>(80,953)</u>	<u>(108,166)</u>
Gross profit		14,319	19,666	8,391	11,524
Other income		194	171	114	100
Selling and distribution expenses	B1	(1,683)	(1,825)	(986)	(1,069)
Administrative expenses	B1	(8,947)	(12,743)	(5,243)	(7,467)
Other operating expenses	B1	-	-	-	-
Finance costs		<u>(5,532)</u>	<u>(6,466)</u>	<u>(3,242)</u>	<u>(3,789)</u>
Profit/(Loss) before taxation	B1	(1,649)	(1,197)	(966)	(701)
Taxation		<u>1</u>	<u>21</u>	<u>1</u>	<u>12</u>
Total profit/(loss) for the period	B1	<u>(1,648)</u>	<u>(1,176)</u>	<u>(965)</u>	<u>(689)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive profit/(loss) for the period		<u>(1,648)</u>	<u>(1,176)</u>	<u>(965)</u>	<u>(689)</u>
Attributable to :					
-Equity holders of the Company		<u>(1,648)</u>	<u>(1,176)</u>	<u>(965)</u>	<u>(689)</u>
<b>Profit/(Loss) per share attributable to equity holders of the Company :</b>					
Basic (RMB cents/RM sen)	B9	(0.42)	(0.32)	(0.25)	(0.19)
Diluted (RMB cents/RM sen)	B9	(0.30)	(0.23)	(0.18)	(0.13)

#### 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 SEPTEMBER 2019

	Unaudited As at 30.09.2019	Audited As at 31.12.2018	Unaudited As at 30.09.2019 (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	35,044	37,498	20,536	21,974
Intangible assets	8,378	9,662	4,909	5,662
Land use rights prepayments	40,768	41,572	23,890	24,361
	<u>84,190</u>	<u>88,732</u>	<u>49,335</u>	<u>51,997</u>
<b>Current Assets</b>				
Land use rights prepayments	1,071	1,071	628	628
Inventories	3,378	4,278	1,979	2,507
Trade and other receivables	75,693	76,504	44,356	44,831
Cash and bank balances	3,232	1,655	1,894	970
	<u>83,374</u>	<u>83,508</u>	<u>48,857</u>	<u>48,936</u>
<b>Total assets</b>	<u>167,564</u>	<u>172,240</u>	<u>98,192</u>	<u>100,933</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Share capital	99,119	93,774	58,083	54,951
(Accumulated losses)/Retained earnings	78,668	80,316	46,100	47,065
Other reserves	(127,377)	(127,385)	(74,642)	(74,647)
	<u>50,410</u>	<u>46,705</u>	<u>29,541</u>	<u>27,369</u>
<b>Current Liabilities</b>				
Borrowings	34,630	35,630	20,293	20,879
Income tax payable	62	10	36	6
Trade and other payables	32,957	40,264	19,313	23,595
	<u>67,649</u>	<u>75,904</u>	<u>39,642</u>	<u>44,480</u>
<b>Non-Current Liability</b>				
Deferred tax liability	5,005	5,131	2,933	3,007
Other payable	44,500	44,500	26,077	26,077
	<u>49,505</u>	<u>49,631</u>	<u>29,010</u>	<u>29,084</u>
<b>Total liabilities</b>	<u>117,154</u>	<u>125,535</u>	<u>68,652</u>	<u>73,564</u>
<b>Total equity and liabilities</b>	<u>167,564</u>	<u>172,240</u>	<u>98,193</u>	<u>100,933</u>
<b>Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)</b>	<u>11.83</u>	<u>12.26</u>	<u>6.93</u>	<u>7.18</u>

**Notes:**

- (a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 30 September 2019 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.5860 as at 30 September 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 September 2019 divided by the number of ordinary shares of 380,952,000 and 425,872,200 respectively.

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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
Capital reduction	(197,494)	-	-	-	-	197,494	-
Foreign exchange translation reserve	-	-	-	-	(26)	-	(26)
Total comprehensive loss for the financial period	-	-	-	-	-	(1,176)	(1,176)
At 30 September 2018	101,080	(174,156)	24,712	-	(26)	139,240	90,850
At 31 December 2018	93,774	(174,156)	24,712	22,083	(24)	80,316	46,705
Share issuance arising from private placement	4,527	-	-	-	-	-	4,527
Share issuance arising from warrant conversion	818	-	-	-	-	-	818
Foreign exchange translation reserve	-	-	-	-	8	-	8
Total comprehensive loss for the financial period	-	-	-	-	-	(1,648)	(1,648)
At 30 September 2019	99,119	(174,156)	24,712	22,083	(16)	78,668	50,410

	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	168,297	(102,055)	14,481	-	-	(33,448)	47,275
Share issuance	6,667	-	-	-	-	-	6,667
Capital reduction	(115,731)	-	-	-	-	115,731	-
Foreign exchange translation reserve	-	-	-	-	(15)	-	(15)
Total comprehensive loss for the financial period	-	-	-	-	-	(689)	(689)
At 30 September 2018 (note a)	59,233	(102,055)	14,481	-	(15)	81,594	53,238
At 31 December 2018	54,951	(102,055)	14,481	12,941	(14)	47,065	27,369
Share issuance arising from private placement	2,653	-	-	-	-	-	2,653
Share issuance arising from warrant conversion	479	-	-	-	-	-	479
Foreign currency translation reserve	-	-	-	-	5	-	5
Total comprehensive loss for the financial period	-	-	-	-	-	(965)	(965)
At 30 September 2019 (note a)	58,083	(102,055)	14,481	12,941	(9)	46,100	29,541

#### Notes:

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(b) The Unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 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 SEPTEMBER 2019

	For the financial period ended 30.09.2019	For the financial period ended 30.09.2018	For the financial period ended 30.09.2019 (Note a)	For the financial period ended 30.09.2018 (Note a)
	Unaudited	Unaudited	Unaudited	Unaudited
	RMB'000	RMB'000	RM'000	RM'000
<b>Cash flows from operating activities</b>				
Loss before taxation	(1,649)	(1,197)	(966)	(701)
Adjustments for:				
Interest income	(15)	(21)	(9)	(12)
Interest expenses	5,532	6,466	3,242	3,789
Depreciation of property, plant and equipment	2,454	2,639	1,438	1,546
Property, plant and equipment written off	-	31	-	18
Amortisation of land use rights	804	804	471	471
Amortisation of patents	1,284	4,492	753	2,632
Operating loss before working capital changes	8,410	13,214	4,929	7,743
Decrease/(Increase) in inventories	900	4,052	527	2,374
Decrease/(Increase) in trade and other receivables	811	18,303	475	10,726
Increase/(Decrease) in trade and other payables	(7,307)	(37,398)	(4,282)	(21,915)
Cash from operations	2,814	(1,829)	1,649	(1,072)
Income tax paid	(73)	(13)	(43)	(8)
Interest received	15	21	9	12
Interest paid	(5,532)	(6,466)	(3,242)	(3,789)
<b>Net cash flows used in operating activities</b>	<b>(2,776)</b>	<b>(8,287)</b>	<b>(1,627)</b>	<b>(4,857)</b>
<b>Cash flows from investing activities</b>				
<b>Net cash flows from investing activities</b>	-	-	-	-
<b>Cash flows from financing activities</b>				
Proceeds from share issuance	5,345	11,378	3,132	6,668
Proceeds from bank borrowings	34,630	35,630	20,293	20,879
Repayment of bank borrowings	(35,630)	(35,670)	(20,879)	(20,903)
<b>Net cash flows from financing activities</b>	<b>4,345</b>	<b>11,338</b>	<b>2,546</b>	<b>6,644</b>
Net increase in cash and cash equivalents	1,569	3,051	919	1,787
Cash and cash equivalents at beginning of the financial period	1,655	1,244	970	729
Effect of exchange translation difference on cash and cash equivalents	8	(26)	5	(15)
<b>Cash and cash equivalents at end of the financial period</b>	<b>3,232</b>	<b>4,269</b>	<b>1,894</b>	<b>2,501</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 THIRD QUARTER ENDED 30 SEPTEMBER 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 September 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:

No.	Title	Effective date - Annual periods commencing on or after
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 Amendments to illustrative examples, implementation guidance and SFRS(I) practice statements	1 January 2020

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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
24 April 2019			
- Issuance pursuant to conversion of warrants	6,000,000	788,160	157,488
16 July 2019			
- Issuance pursuant to private placement	38,695,200	4,526,719	894,126
5 September 2019			
- Issuance pursuant to conversion of warrants	100,000	13,136	2,640
20 September 2019			
- Issuance pursuant to conversion of warrants	125,000	16,420	3,292
	<u>425,872,200</u>	<u>99,118,757</u>	<u>21,297,532</u>

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### 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 period under review.

### A8. Financial instruments with off-balance sheet risks

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

### A9. Segment information

#### a) Results of operating segments

	For the quarter ended 30 September 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	51,483	30,169	-	-	-	-	51,483	30,169
Construction	-	-	6	4	-	-	6	4
							<u>51,489</u>	<u>30,173</u>
<b>Other income</b>								
Realised gain on foreign exchange	-	-	-	-	15	9	15	9
Interest income	7	4	-	-	-	-	7	4
Rental income	50	29	-	-	-	-	50	29
							<u>72</u>	<u>42</u>
Elimination							<u>-</u>	<u>-</u>
							<u>72</u>	<u>42</u>
<b>Operating expenses</b>								
Selling and distribution	(450)	(264)	-	-	-	-	(450)	(264)
Administrative	(2,405)	(1,409)	(19)	(11)	(428)	(251)	(2,852)	(1,671)
							<u>(3,302)</u>	<u>(1,935)</u>
Elimination							<u>-</u>	<u>-</u>
							<u>(3,302)</u>	<u>(1,935)</u>
<b>Profit/(Loss) before taxation</b>	<u>(244)</u>	<u>(143)</u>	<u>(18)</u>	<u>(10)</u>	<u>(414)</u>	<u>(243)</u>	<u>(676)</u>	<u>(396)</u>

# 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)

[Malaysian Branch Registration Number 200902000042 (995214-D)]

	For the financial period ended 30 September 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	151,997	89,070	-	-	-	-	151,997	89,070
Construction	-	-	467	274	-	-	467	274
							<u>152,464</u>	<u>89,344</u>
<b>Other income</b>								
Realised gain on foreign exchange	-	-	-	-	29	17	29	17
Interest income	15	9	-	-	-	-	15	9
Rental income	150	88	-	-	-	-	150	88
							<u>194</u>	<u>114</u>
Elimination							<u>-</u>	<u>-</u>
							<u>194</u>	<u>114</u>
<b>Operating expenses</b>								
Selling and distribution	(1,683)	(986)	-	-	-	-	(1,683)	(986)
Administrative	(7,281)	(4,267)	(19)	(11)	(1,647)	(965)	(8,947)	(5,243)
							<u>(10,630)</u>	<u>(6,229)</u>
Elimination							<u>-</u>	<u>-</u>
							<u>(10,630)</u>	<u>(6,229)</u>
<b>Profit/(Loss) before taxation</b>	<u>(272)</u>	<u>(159)</u>	<u>241</u>	<u>141</u>	<u>(1,618)</u>	<u>(948)</u>	<u>(1,649)</u>	<u>(966)</u>

Note:

\* *Negligible*

### b) Assets and liabilities

	As at 30 September 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>164,731</u>	<u>96,532</u>	<u>672</u>	<u>394</u>	<u>2,161</u>	<u>1,266</u>	<u>167,564</u>	<u>98,192</u>
<b>Total liabilities</b>	<u>116,697</u>	<u>68,384</u>	<u>291</u>	<u>171</u>	<u>166</u>	<u>97</u>	<u>117,154</u>	<u>68,652</u>

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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 21 November 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 to individual third party investors amounting to approximately RM7.03 million have been fully utilised.

The total gross proceeds from the private placement of 38,695,200 new ordinary shares in K-Star ("Proposal") to individual third party investors amounting to approximately RM2.71 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
Working capital	Within 12 months	2,619	929	1,690
Expenses for the Proposal	Immediate	90	65	<sup>^</sup> 25
		<u>2,709</u>	<u>994</u>	<u>1,715</u>

Note:

<sup>^</sup> The amount unutilised for private placement expenses will be used for general working capital purposes.

## 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 September 2019.

# K-Star

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

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

## **A15. Reserves**

### **a) Statutory reserve**

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

### **b) Merger reserve**

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

### **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 September		Changes (%)	Cumulative period ended 30 September		Changes (%)
	2019	2018		2019	2018	
	RMB'000	RMB'000		RMB'000	RMB'000	
Revenue	51,489	54,220	(5.04)	152,464	204,249	(25.35)
Gross profit margin (%)	8.52	6.85	24.38	9.39	9.63	(2.49)
Profit/(Loss) before tax	(676)	(2,893)	76.63	(1,649)	(1,197)	(37.76)
Other comprehensive income after tax	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	(707)	(2,357)	70.00	(1,648)	(1,176)	(40.14)

### Statement of profit & loss

For the current quarter three (3) months ended 30 September 2019 (“3Q2019”), the Group’s revenue has decreased by approximately 5.04% as compared to the preceding year corresponding quarter ended 30 September 2018 (“3Q2018”). This was mainly due to the slowdown in sales of the Dixing’s core brand footwear by 11.12%. Contrary, the sales of OEM segment has increased by RMB 2.70 million, representing an increase of approximately 35.45% as compared to 3Q2018.

Gross profit margin stood at 8.52% as compared to 6.85% recorded in 3Q2018, an increase of 1.67%. This was mainly due to an increase in the average unit selling price by approximately 2.53% while there were no major fluctuation on the average unit production costs.

The current quarter’s selling and distribution expenses incurred was fairly consistent as compared to 3Q2018. Administrative expenses has decreased by 29.62% 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 14.78% resulting from the repayment of long term loan in the previous financial year.

The Group’s loss before taxation (“LBT”) has been narrowed by RMB 2.22 million resulted from the lower amortisation and finance costs.

For the FPE 30 September 2019, the Group’s total revenue stood at RMB 152.46 million, of which 78.87% and 21.13% of the total footwear revenue of RMB 152.00 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 25.23% and 23.40% 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 0.24% from 9.63% recorded in the preceding year corresponding period.

The sales and distribution expenses has decreased by approximately 7.78% 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 29.79% mainly attributed from the reduction in depreciation and amortisation expenses. Finance costs was lower by 14.44% resulted from the loan repayment made since the previous financial year.

The Group's pre-tax losses has increased by 37.76% resulting from the diminishing sales from footwear segment.

### **Statement of financial position**

The inventory turnover period stood at the age of 7 days as at 30 September 2019 and remained consistent as compared to the 3Q2018 of 11 days.

The trade receivables turnover period as at 30 September 2019 was 135 days as compared to 119 days in the preceding year corresponding quarter. All trade receivables as at 30 September 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 56 days as compared to the preceding year corresponding quarter of 17 days.

### **Statement of cash flow**

The net cash outflow from operating activities of the Group for the current financial period ended ("FPE") 30 September 2019 amounted to RMB 2.78 million, has improved as compared to the net cash outflow of RMB 8.29 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 5.35 million was raised through a private placement and 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 3.23 million, representing a decrease of RMB 1.04 million as compared to RMB 4.27 million recorded in the FPE 30 September 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 September		Individual quarter ended 30 September	
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Interest income	(7)	(7)	(4)	(4)
Other income including investment income	-	-	-	-
Interest expense	1,833	2,151	1,074	1,260
Depreciation	818	869	479	509
Amortisation	670	1,643	393	963
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	(15)	8	(9)	5
(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 September		Current year to date ended 30 September	
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Interest income	(15)	(21)	(9)	(12)
Other income including investment income	-	-	-	-
Interest expense	5,532	6,466	3,242	3,789
Depreciation	2,454	2,639	1,438	1,546
Amortisation	2,088	5,296	1,224	3,103
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	(29)	47	(17)	28
(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

	<b>Current quarter ended 30 September 2019 RMB'000</b>	<b>Preceding quarter ended 30 June 2019 RMB'000</b>	<b>Changes (%)</b>
Revenue	51,489	52,671	(2.24)
Profit/(Loss) before taxation	(676)	(819)	17.46
Profit/(Loss) after taxation and total comprehensive income/(loss) for the period	(707)	(777)	9.01

	<b>Current quarter ended 30 September 2019 RM'000</b>	<b>Preceding quarter ended 30 June 2019 RM'000</b>
Revenue	30,173	30,865
Loss before taxation	(396)	(480)
Loss after taxation and total comprehensive loss for the period	(414)	(455)

The Group's revenue for the 3Q2019 has decreased marginally by 2.24% as compared to the preceding quarter three (3) months ended 30 June 2019 ("2Q2019"). The sales of Dixing's core brand remained consistent while the OEM segment has recorded a decrease of 13.61%.

The gross profit margin has decreased by 1.77%, stood at 8.52% as compared to 10.29% recorded in the preceding quarter. The average unit selling price has decreased by 1.17% while the average unit production costs were fairly consistent as compared to the preceding quarter.

The Group was in pre-tax loss position of RMB 0.71 million arising from the lower sales derived from its footwear segment.

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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	73	125
Deferred tax income	(42)	(126)
	31	(1)

	Current Quarter RM '000	Current year to date RM '000
Income tax	-	-
Underprovision of income tax	43	73
Deferred tax income	(25)	(74)
	18	(1)

There were no provision for taxation for the current quarter and year to date ended 30 September 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 September 2019 were as follows:

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

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	30 September 2019 RM'000	30 September 2018 RM'000
Short-term bank borrowings:		
Secured	5,743	5,743
Unsecured	14,550	15,136
	<u>20,293</u>	<u>20,879</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 September 2019 were as follows:

	30 September 2019 RMB'000	30 September 2018 RMB'000	Changes %
Long-term other payables:			
Secured	<u>44,500</u>	<u>54,500</u>	18.35

  

	30 September 2019 RM'000	30 September 2018 RM'000
Long-term other payables:		
Secured	<u>26,077</u>	<u>31,937</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 material proceedings pending or threatened or of any material fact likely to give rise to any such proceedings.

### **B8. Dividend**

There were no dividends declared by the Company for the current quarter ended 30 September 2019.

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

#### a) Basic loss per share

	Individual quarter ended 30 September			
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(707)	(2,357)	(414)	(1,381)
Weighted average number of ordinary shares in issue ('000)	419,381	380,952	419,381	380,952
Basic earning/(loss) per share (RMB cents/RM sen)	<u>(0.17)</u>	<u>(0.62)</u>	<u>(0.10)</u>	<u>(0.36)</u>

	Cumulative year to date ended 30 September			
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(1,648)	(1,176)	(965)	(689)
Weighted average number of ordinary shares in issue ('000)	395,397	361,952	395,397	361,952
Basic earning/(loss) per share (RMB cents/RM sen)	<u>(0.42)</u>	<u>(0.32)</u>	<u>(0.25)</u>	<u>(0.19)</u>

#### b) Diluted earnings per share

	Individual quarter ended 30 September			
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(707)	(2,357)	(414)	(1,381)
Weighted average number of ordinary shares in issue ('000)	419,381	380,952	419,381	380,952
Assuming full exercise of warrants ('000)	146,155	152,380	146,155	152,380
Diluted earning/(loss) per share (RMB cents/RM sen)	<u>(0.13)</u>	<u>(0.44)</u>	<u>(0.08)</u>	<u>(0.26)</u>

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	Cumulative year to date ended 30 September			
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(1,648)	(1,176)	(965)	(689)
Weighted average number of ordinary shares in issue ('000)	395,397	361,952	395,397	361,952
Assuming full exercise of warrants ('000)	146,155	152,380	146,155	152,380
Diluted earning/(loss) per share (RMB cents/RM sen)	(0.30)	(0.23)	(0.18)	(0.13)

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

	FPE 30 September		FPE 30 September	
	2019 RMB'000	2018 RMB'000	2019 RM'000	2018 RM'000
Realised	83,673	144,371	49,033	84,601
Unrealised	(5,005)	(5,131)	(2,933)	(3,007)
Total retained profits/(losses)	78,668	139,240	46,100	81,594

  

	Preceding quarter ended 30 June 2019	
	RMB'000	RM'000
Realised	84,422	49,471
Unrealised	(5,047)	(2,957)
Total retained profits/(losses)	79,375	46,514

By Order of the Board

Ding JianPing  
Executive Chairman and  
Chief Executive Officer  
28 November 2019