

# K-Star

## K-STAR SPORTS LIMITED

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

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

(Malaysian Branch Registration Number 995214-D)

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 MARCH 2020

	<u>Note</u>	Individual quarter Quarter ended		Individual quarter Quarter ended	
		31.03.2020	31.03.2019	31.03.2020 <i>(Note a)</i>	31.03.2019 <i>(Note a)</i>
		Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
Revenue	B1	33,988	48,304	20,709	29,432
Cost of sales		<u>(30,407)</u>	<u>(43,791)</u>	<u>(18,527)</u>	<u>(26,682)</u>
Gross profit		3,581	4,513	2,182	2,750
Other income		54	63	33	38
Selling and distribution expenses	B1	(409)	(471)	(249)	(287)
Administrative expenses	B1	(2,586)	(2,420)	(1,576)	(1,475)
Finance costs		<u>(1,830)</u>	<u>(1,839)</u>	<u>(1,115)</u>	<u>(1,120)</u>
Profit/(Loss) before taxation	B1	(1,190)	(154)	(725)	(94)
Taxation		42	(10)	26	(6)
Total profit/(loss) for the period	B1	<u>(1,148)</u>	<u>(164)</u>	<u>(699)</u>	<u>(100)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive profit/(loss) for the period		<u>(1,148)</u>	<u>(164)</u>	<u>(699)</u>	<u>(100)</u>
Attributable to :					
- Equity holders of the Company		<u>(1,148)</u>	<u>(164)</u>	<u>(699)</u>	<u>(100)</u>
<b>Loss per share attributable to equity holders of the Company :</b>					
Basic (RMB cents/RM sen)	B9	(0.26)	(0.04)	(0.16)	(0.02)
Diluted (RMB cents/RM sen)	B9	(0.20)	(0.03)	(0.12)	(0.02)

#### Notes:

(a) The presentation currency of this unaudited interim financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the quarter ended 31 March 2020 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6093 as at 31 March 2020. 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 2019 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 31 MARCH 2020

	Note	Cumulative quarter		Cumulative quarter	
		Current year to date 31.03.2020 Unaudited RMB'000	Preceding year to date 31.03.2019 Unaudited RMB'000	Current year to date 31.03.2020 (Note a) Unaudited RM'000	Preceding year to date 31.03.2019 (Note a) Unaudited RM'000
Revenue	B1	33,988	48,304	20,709	29,432
Cost of sales		<u>(30,407)</u>	<u>(43,791)</u>	<u>(18,527)</u>	<u>(26,682)</u>
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Administrative expenses	B1	(2,586)	(2,420)	(1,576)	(1,475)
Finance costs		<u>(1,830)</u>	<u>(1,839)</u>	<u>(1,115)</u>	<u>(1,120)</u>
Profit/(Loss) before taxation	B1	(1,190)	(154)	(725)	(94)
Taxation		<u>42</u>	<u>(10)</u>	<u>26</u>	<u>(6)</u>
Total profit/(loss) for the period	B1	<u>(1,148)</u>	<u>(164)</u>	<u>(699)</u>	<u>(100)</u>
Other comprehensive income after tax		-	-	-	-
Total comprehensive profit/(loss) for the period		<u>(1,148)</u>	<u>(164)</u>	<u>(699)</u>	<u>(100)</u>
Attributable to :					
-Equity holders of the Company		<u>(1,148)</u>	<u>(164)</u>	<u>(699)</u>	<u>(100)</u>
<b>Profit/(Loss) per share attributable to equity holders of the Company :</b>					
Basic (RMB cents/RM sen)	B9	(0.26)	(0.04)	(0.16)	(0.02)
Diluted (RMB cents/RM sen)	B9	(0.20)	(0.03)	(0.12)	(0.02)

#### 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 2019 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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### CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2020

	Unaudited As at 31.03.2020	Audited As at 31.12.2019	Unaudited As at 31.03.2020 (Note a)	Audited As at 31.12.2019 (Note a)
	RMB'000	RMB'000	RM'000	RM'000
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	33,059	33,842	20,143	20,620
Intangible assets	-	-	-	-
Land use rights prepayments	40,115	40,383	24,442	24,605
	<u>73,174</u>	<u>74,225</u>	<u>44,585</u>	<u>45,225</u>
<b>Current Assets</b>				
Land use rights prepayments	1,071	1,071	653	653
Inventories	4,854	4,454	2,958	2,714
Trade and other receivables	70,190	75,173	42,767	45,803
Tax recoverable	6	5	4	3
Cash and bank balances	20,552	17,955	12,522	10,940
	<u>96,673</u>	<u>98,658</u>	<u>58,904</u>	<u>60,113</u>
<b>Total assets</b>	<u>169,847</u>	<u>172,883</u>	<u>103,489</u>	<u>105,338</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and Reserves</b>				
Share capital	105,572	100,021	64,325	60,943
(Accumulated losses)/Retained earnings	68,249	69,397	41,585	42,284
Other reserves	(131,174)	(128,271)	(79,924)	(78,155)
	<u>42,647</u>	<u>41,147</u>	<u>25,986</u>	<u>25,072</u>
<b>Current Liabilities</b>				
Borrowings	34,630	34,630	21,100	21,100
Income tax payable	-	-	-	-
Trade and other payables	43,149	47,643	26,291	29,028
	<u>77,779</u>	<u>82,273</u>	<u>47,391</u>	<u>50,128</u>
<b>Non-Current Liability</b>				
Deferred tax liability	4,921	4,963	2,998	3,024
Other payable	44,500	44,500	27,114	27,114
	<u>49,421</u>	<u>49,463</u>	<u>30,112</u>	<u>30,138</u>
<b>Total liabilities</b>	<u>127,200</u>	<u>131,736</u>	<u>77,503</u>	<u>80,266</u>
<b>Total equity and liabilities</b>	<u>169,847</u>	<u>172,883</u>	<u>103,489</u>	<u>105,338</u>
<b>Net assets per share attributable to equity holders of the Company (RMB cents/RM sen)</b>	<u>9.57</u>	<u>9.66</u>	<u>5.83</u>	<u>5.89</u>

**Notes:**

- (a) The presentation currency of this unaudited financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") as at 31 March 2020 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6093 as at 31 March 2020. 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 2019 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 2019 and 31 March 2020 divided by the number of ordinary shares of 425,872,200 and 445,622,200 respectively.

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2020

	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 2018	93,774	(174,156)	24,712	22,083	(24)	80,316	46,705
Share issuance	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-
Free warrant issuance	-	-	-	-	-	-	-
Foreign exchange translation reserve	-	-	-	-	(8)	-	(8)
Total comprehensive loss for the financial period	-	-	-	-	-	(164)	(164)
At 31 March 2019	93,774	(174,156)	24,712	22,083	(32)	80,152	46,533
At 31 December 2019	100,021	(174,156)	24,712	21,181	(8)	69,397	41,147
Share issuance arising from private placement	-	-	-	-	-	-	-
Share issuance arising from warrant conversion	5,551	-	-	(2,862)	-	-	2,689
Foreign exchange translation reserve	-	-	-	-	(41)	-	(41)
Total comprehensive loss for the financial period	-	-	-	-	-	(1,148)	(1,148)
At 31 March 2020	105,572	(174,156)	24,712	18,319	(49)	68,249	42,647

  

	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 2018	57,136	(106,113)	15,057	13,455	(15)	48,937	28,457
Share issuance	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-
Free warrant issuance	-	-	-	-	-	-	-
Foreign exchange translation reserve	-	-	-	-	(5)	-	(5)
Total comprehensive loss for the financial period	-	-	-	-	-	(100)	(100)
At 31 March 2019 (note a)	57,136	(106,113)	15,057	13,455	(20)	48,837	28,352
At 31 December 2019	60,943	(106,113)	15,057	12,906	(5)	42,284	25,072
Share issuance arising from private placement	-	-	-	-	-	-	-
Share issuance arising from warrant conversion	3,382	-	-	(1,744)	-	-	1,638
Foreign currency translation reserve	-	-	-	-	(25)	-	(25)
Total comprehensive loss for the financial period	-	-	-	-	-	(699)	(699)
At 31 March 2020 (note a)	64,325	(106,113)	15,057	11,162	(30)	41,585	25,986

#### 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 2019 and the accompanying explanatory notes attached to the unaudited interim financial statements.

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### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2020

	For the financial period ended 31.03.2020	For the financial period ended 31.03.2019	For the financial period ended 31.03.2020 (Note a)	For the financial period ended 31.03.2019 (Note a)
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RM'000	Unaudited RM'000
<b>Cash flows from operating activities</b>				
Loss before taxation	(1,190)	(154)	(725)	(94)
Adjustments for:				
Interest income	(3)	-	(2)	-
Interest expenses	1,830	1,839	1,115	1,120
Depreciation of property, plant and equipment	783	818	477	499
Amortisation of land use rights	268	268	163	163
Amortisation of patents	-	440	-	268
Operating loss before working capital changes	1,688	3,211	1,028	1,956
Decrease/(Increase) in inventories	(400)	950	(244)	579
Decrease/(Increase) in trade and other receivables	4,982	22,792	3,036	13,887
Increase/(Decrease) in trade and other payables	(22,036)	(24,878)	(13,426)	(15,158)
Cash from operations	(15,766)	2,075	(9,606)	1,264
Interest received	3	-	2	-
Interest paid	(1,830)	(1,839)	(1,115)	(1,120)
<b>Net cash flows (used in)/generated from operating activities</b>	<b>(17,593)</b>	<b>236</b>	<b>(10,719)</b>	<b>144</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	2,689	-	1,638	-
<b>Net cash flows from financing activities</b>	<b>2,689</b>	<b>-</b>	<b>1,638</b>	<b>-</b>
Net (decrease)/increase in cash and cash equivalents	(14,904)	236	(9,081)	144
Cash and cash equivalents at beginning of the financial year	17,955	1,655	10,940	1,008
Restricted bank balance <sup>^</sup>	17,542	-	10,688	-
Effect of exchange translation difference on cash and cash equivalents	(41)	(8)	(25)	(5)
<b>Cash and cash equivalents at end of the financial period</b>	<b>20,552</b>	<b>1,883</b>	<b>12,522</b>	<b>1,147</b>

**Notes:**

(a) The presentation currency of this unaudited interim financial report is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") for the financial year ended 31 March 2020 with comparatives are shown for reference only and has been made at the same exchange rate of RMB1 to RM0.6093 as at 31 March 2020. 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 Cash Flow should be read in conjunction with the Audited Consolidated Financial Statements for the financial year ended 31 December 2019 and the accompanying explanatory notes attached to the unaudited interim financial statements.

<sup>^</sup> The restricted bank balance represents amount deposited by third parties as a guarantee for indemnity purpose. The deposit is under the custody and control by Dixing, a wholly-owned subsidiary of K-Star.

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

## A. NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2020

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

#### a) Basis of accounting

The consolidated interim financial statements of K-Star Sports Limited (the “Company” or “K-Star”) and its subsidiary companies (“the Group”) for the quarter ended 31 March 2020 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 2019. 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 2019.

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 2020. 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).

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) 16	Amendment to SFRS(I) 16: Covid-19-Related Rent Concessions	1 June 2020
SFRS(I) 1-1	Amendments to SFRS(I) 1-1: Classification of Liabilities as Current or Non-current	1 January 2022
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

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.

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## **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.

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

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

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

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(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

The Group's audited consolidated financial statements for the FYE 31 December 2019 were not subject to any audit qualification.

**A3. Seasonal or cyclical factors**

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

**A4. Unusual items**

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



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## **A5. Material changes in estimates**

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

## **A6. Changes in share capital and debts**

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

Details of the movements in the Company's shares since the previous FYE 31 December 2019 up to the current financial year to date are as follows:

<b>Date of issue</b>	<b>No. of shares issued</b>	<b>Issued and paid-up share capital</b>	
		<b>RMB</b>	<b>SGD</b>
As at 31 December 2019			
	425,872,200	99,118,757	21,297,532
8 January 2020			
- Issuance pursuant to conversion of warrants	6,000,000	817,056	158,016
20 January 2020			
- Issuance pursuant to conversion of warrants	3,750,000	510,660	99,450
10 February 2020			
- Issuance pursuant to conversion of warrants	6,000,000	817,056	160,848
27 February 2020			
- Issuance pursuant to conversion of warrants	4,000,000	544,704	105,536
	445,622,200	101,808,233	21,821,382
Reallocation of value to share capital from warrant reserves arising from conversion of warrants	-	3,764,255	748,949
	445,622,200	105,572,488	22,570,331

## **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.

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### 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/financial period ended 31 March 2020							
	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	31,789	19,369	-	-	-	-	31,789	19,369
Construction	-	-	2,199	1,340	-	-	2,199	1,340
							<u>33,988</u>	<u>20,709</u>
<b>Other income</b>								
Realised gain on foreign exchange	-	-	-	-	-	-	-	-
Interest income	3	2	-	-	-	-	3	2
Rental income	51	31	-	-	-	-	51	31
							54	33
Elimination							-	-
							<u>54</u>	<u>33</u>
<b>Operating expenses</b>								
Selling and distribution	(409)	(249)	-	-	-	-	(409)	(249)
Administrative	(1,806)	(1,101)	(235)	(143)	(545)	(332)	(2,586)	(1,576)
							(2,995)	(1,825)
Elimination							-	-
							<u>(2,995)</u>	<u>(1,825)</u>
<b>Profit/(Loss) before taxation</b>	(707)	(431)	62	38	(545)	(332)	(1,190)	(725)

# 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)]

### b) Assets and liabilities

	As at 31 March 2020							
	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>	165,644	100,928	3,801	2,316	402	245	169,847	103,489
<b>Total liabilities</b>	124,623	75,933	1,825	1,112	752	458	127,200	77,503

#### 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 2019. The property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

#### A11. Status of corporate exercise

(a) There were no other corporate proposals announced but not completed as at 19 June 2020, 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 38,695,200 new ordinary shares in K-Star ("Proposal") to individual third party investors amounting to approximately RM2.71 million have been 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	2,644	(25)
Expenses for the Proposal	Immediate	90	65	^25
		2,709	2,709	-

Note:

^ The amount unutilised for private placement expenses have been 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 2019.

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## **A13. Capital commitments**

There is no capital commitment as at 31 March 2020.

## **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/ Year to date ended 31 March		Changes (%)
	2020 RMB'000	2019 RMB'000	
Revenue	33,988	48,304	29.64
Gross profit margin (%)	10.54	9.34	12.85
Profit/(Loss) before tax	(1,190)	(154)	672.73
Other comprehensive income after tax	-	-	-
Total comprehensive income/(loss) for the period	(1,148)	(164)	600.00

#### Statement of Profit & loss

The Group's total revenue for the financial period ended 31 March 2020 ("1Q2020") stood at RMB 33.99 million, of which 77.13% and 22.87% of the total footwear revenue of RMB 31.79 million were derived from Dixing's core brand and OEM segment respectively. Both the Dixing brand footwear and OEM footwear have decreased by 35.77% and 26.55% respectively as compared to the preceding year corresponding quarter ended 31 March 2019 ("1Q2019") amid the outbreak of Covid-19 during the first quarter of 2020. In addition, RMB 2.20 million was derived from the construction segment.

The Group's gross profit margin has increased by 1.19% from 9.34% recorded in the preceding year corresponding quarter. The slight increase was due to the temporary measures by the local Chinese government in reducing sales related taxes and surcharges amid the recent Covid-19 pandemic. Besides, the gross profit has further enhanced from the contribution from the construction segment.

The sales and distribution expenses was fairly consistent with RMB 0.41 million recorded in 1Q2020 as compared to RMB 0.47 recorded in 1Q2019.

The administrative expenses has reduced by approximately 6.86% mainly due to lower depreciation and amortisation expenses. Finance costs incurred in 1Q2020 was fairly consistent, recorded at RMB 1.83 million as compared to 1Q2019 of RMB 1.84 million.

The increase in the Group's pre-tax losses was in corresponding with the diminishing sales due to the Covid-19 pandemic.

#### Statement of financial position

The inventory turnover period stood at the age of 15 days as at 31 March 2020 and remained consistent as compared to 31 March 2019 of 7 days.

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The trade receivables turnover period as at 31 March 2020 was 188 days as compared to 101 days in the preceding year corresponding quarter. As at 31 March 2020, approximately 20.32% of trade receivables were above 120 days amid Covid-19 pandemic as collection were slowed.

The trade payables turnover period stood at the age of 61 days as compared to the preceding year corresponding quarter of 20 days. All trade payables were within 60 days age band as at 31 March 2020.

## **Statement of cash flow**

The Group has recorded a net cash outflow from operating activities of RMB 17.59 million for the current FPE 31 March 2020 as compared to the net cash inflow of RMB 0.24 million recorded in the FPE 31 March 2019. This was mainly due to the trade receivables collection were slowed during the 1Q2020. There was no cash flow allocation for and from investing activities.

From the financing activities, a gross proceeds of RM 2.69 million was raised from the conversion of warrants.

For the current financial period, the net cash and cash equivalents stood at RMB 20.55 million, of which an amount of RMB 17.54 was restricted bank balance deposited by third parties as a guarantee for indemnity purpose.

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

	Individual quarter/ Current year to date ended 31 March			
	2020	2019	2020	2019
	RMB'000	RMB'000	RM'000	RM'000
Interest income	(3)	-	(2)	-
Other income including investment income	-	-	-	-
Interest expense	1,830	1,839	1,115	1,120
Depreciation	783	818	477	499
Amortisation	268	708	163	431
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
(Gain)/Loss on foreign exchange	2	(14)	1	(9)
(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

	<b>Current quarter ended 31 March 2020 RMB'000</b>	<b>Preceding quarter ended 31 December 2019 RMB'000</b>	<b>Changes (%)</b>
Revenue	33,988	50,264	(32.38)
Profit/(Loss) before taxation	(1,190)	(9,376)	(87.31)
Profit/(Loss) after taxation and total comprehensive income/(loss) for the period	(1,148)	(9,271)	(87.62)

	<b>Current quarter ended 31 March 2020 RM'000</b>	<b>Preceding quarter ended 31 December 2019 RM'000</b>
Revenue	20,709	30,626
Loss before taxation	(725)	(5,713)
Loss after taxation and total comprehensive loss for the period	(699)	(5,649)

The Group's revenue for the 1Q2020 has decreased by 32.38% as compared to the preceding quarter three (3) months ended 31 December 2019 ("4Q2019"). Amid the Chinese New Year festive holiday season and further impacted by the outbreak of Covid-19, the sales of both Dixing's core brand footwear and OEM segment have decreased by 35.36% and 41.06% respectively.

The gross profit margin stood at 10.54% and remained fairly consistent with a marginally increase of 0.67% as compared to 9.86% recorded in the preceding quarter. The slight increase was mainly due to the contribution from the construction segment.

The Group pre-tax loss has been narrowed by RMB 8.19 million as there were absent of provision for impairment on patents, land use rights and property, plant and equipment which were recognised in 4Q2019.



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## **B3. Prospects for the financial year ending 31 December 2020**

Looking forward, the sportswear market will be sustaining its growth potential driven by the consumption upgrading trend and stable demand among domestic consumers with improved living standard and higher income growth. The propelling growth in the sector is also driven by rising level of health and well-being awareness and increasing sports participation. In addition, the Chinese Government supports the development of sports industry vigorously with the introduction of numerous favorable policies, programmes and sport events. The advancement of e-commerce also plays a significant part to drive growth and to cushion the deteriorating growth of the retail stores.

However, the macro economic uncertainties and the recent outbreak of coronavirus are posing impact on the market. Adding to that, the China economic growth has slowed to a rate of 6.10% in 2019 as compared to 6.60% in 2018, the weakest pace in nearly 30 years and was marred noticeably by the effect of US-China trade war. It is envisaged that the outlook of the China sports footwear market will remain challenging ahead.

Market competition will continue to intensify with international sportswear brands are constantly accelerating their presence in the mainland causing domestic sportswear brands to lose market share due to weaker brand recognition and innovation. The increasing cost of labour also raises concern over the challenges from Southeast Asia countries offering considerably labour cost advantages over China. However, China has its competitive advantages over its well-established and centralised hub of raw and auxiliary material supplies serves to strengthen cohesion and sustainability of the local market.

Given the overall backdrop in consumer sentiment, uncertainty economic impact arising from the on-going US-China trade dispute, coronavirus outbreak and intense market competition, the Group remains cautious and sees challenges on the business growth but remains optimistic on the long term sustainability of the business.

Following the diversification of the Group business into construction, the Group has contracts secured on hand to provide additional stream of revenue to the Group for the financial year ending 31 December 2020 and the Board of Directors of K-Star (“Board”) envisages that the Group’s prospects for the financial year ending 31 December 2020 would be favourable.

## **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/ Year to date ended 31 March 2020	
	RMB '000	RM '000
Income tax	-	-
Deferred tax income	(42)	(26)
	<u>(42)</u>	<u>(26)</u>

There were no provision for taxation for the current quarter and year to date ended 31 March 2020 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 March 2020 were as follows:

	31 March 2020 RMB'000	31 March 2019 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)
	31 March 2020 RM'000	31 March 2019 RM'000	
Short-term bank borrowings:			
Secured	5,971	5,971	
Unsecured	<u>15,129</u>	<u>15,738</u>	
	<u>21,100</u>	<u>21,709</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.

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The Group's long-term other payables as at 31 March 2020 were as follows:

	<b>31 March 2020 RMB'000</b>	<b>31 March 2019 RMB'000</b>	<b>Changes %</b>
Long-term other payables:			
Secured	<u>44,500</u>	<u>44,500</u>	-

	<b>31 March 2020 RM'000</b>	<b>31 March 2019 RM'000</b>
Long-term other payables:		
Secured	<u>27,114</u>	<u>27,114</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.

## **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 31 March 2020.

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

#### a) Basic loss per share

	Individual quarter/ Cumulative year to date ended 31 March			
	2020 RMB'000	2019 RMB'000	2020 RM'000	2019 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(1,148)	(164)	(699)	(100)
Weighted average number of ordinary shares in issue ('000)	439,235	380,952	439,235	380,952
Basic earning/(loss) per share (RMB cents/RM sen)	<u>(0.26)</u>	<u>(0.04)</u>	<u>(0.16)</u>	<u>(0.02)</u>

#### b) Diluted earnings per share

	Individual quarter/ Cumulative year to date ended 31 March			
	2020 RMB'000	2019 RMB'000	2020 RM'000	2019 RM'000
Profit/(Loss) attributable to equity holders of the Company (RMB'000)	(1,148)	(164)	(699)	(100)
Weighted average number of ordinary shares in issue ('000)	439,235	380,952	439,235	380,952
Warrants outstanding ('000)	126,406	152,380	126,406	152,380
Diluted earning/(loss) per share (RMB cents/RM sen)	<u>(0.20)</u>	<u>(0.03)</u>	<u>(0.12)</u>	<u>(0.02)</u>

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

	<b>FPE 31 March</b>		<b>FPE 31 March</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RM'000</b>	<b>RM'000</b>
Realised	73,170	85,242	44,583	51,938
Unrealised	(4,921)	(5,090)	(2,998)	(3,101)
<b>Total retained profits/(losses)</b>	<b>68,249</b>	<b>80,152</b>	<b>41,585</b>	<b>48,837</b>

  

	<b>Preceding quarter ended</b>	
	<b>31 December 2019</b>	
	<b>RMB'000</b>	<b>RM'000</b>
Realised	74,360	45,308
Unrealised	(4,963)	(3,024)
<b>Total retained profits/(losses)</b>	<b>69,397</b>	<b>42,284</b>

By Order of the Board

Ding JianPing  
Executive Chairman and  
Chief Executive Officer  
26 June 2020