

# K-Star

## K-STAR SPORTS LIMITED

(Malaysian Branch Registration No. 995214-D)



ANNUAL REPORT 2016

# Table of Contents

Corporate Information  
**02**

Group Corporate Structure  
**03**

Corporate Milestones  
**04**

Financial Highlights  
**05**

Board of Directors' Profile  
**06**

Key Management's Profile  
**09**

Chairman's Statement  
**11**

Management Discussion and Analysis  
**13**

Corporate Sustainability Statement  
**17**

Corporate Governance Statement  
**19**

Statement on Risk Management and  
Internal Control  
**38**

Audit Committee Report  
**40**

Directors' Responsibilities Statement  
**44**

Financial Statements  
**45**

List of Properties  
**96**

Shareholders' Information /  
Analysis of Shareholdings  
**97**

Additional Compliance Information  
Disclosures  
**99**

Notice of Annual General Meeting 2017  
**101**

Proxy Form

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Ding JianPing (丁建萍)

(Executive Chairman and Chief Executive Officer)

### Ding ZiDi (丁梓迪)

(Executive Director)

### Lee Yew Weng

(Independent Non-Executive Director)

### Xiao LuXi (肖璐茜)

(Independent Non-Executive Director)

### Hong Cheong Liang

(Independent Non-Executive Director)

(Appointed w.e.f. 3 August 2016)

### Teoh Tow Kean

(Independent Non-Executive Director)

(Resigned w.e.f. 29 July 2016)

## AUDIT COMMITTEE

### Lee Yew Weng

(Chairman/Independent Non-Executive Director)

### Xiao LuXi

(Member/Independent Non-Executive Director)

### Hong Cheong Liang

(Member/Independent Non-Executive Director)  
(Appointed w.e.f. 3 August 2016)

## REMUNERATION COMMITTEE

### Hong Cheong Liang

(Chairman/Independent Non-Executive Director)  
(Appointed w.e.f. 3 August 2016)

### Lee Yew Weng

(Member/Independent Non-Executive Director)

### Xiao LuXi

(Member/Independent Non-Executive Director)

## NOMINATION COMMITTEE

### Xiao LuXi

(Chairperson/Independent Non-Executive Director)

### Lee Yew Weng

(Member/Independent Non-Executive Director)

### Hong Cheong Liang

(Member/Independent Non-Executive Director)  
(Appointed w.e.f. 3 August 2016)

## COMPANY SECRETARY

### Thum Sook Fun

## REGISTERED OFFICE IN SINGAPORE

138 Cecil Street,  
#12-01A Cecil Court  
Singapore 069538  
Tel : (65) 6534 0181  
Fax : (65) 6725 0522

## REGISTERED BRANCH OFFICE IN MALAYSIA

Level 7, Menara Milenium,  
Jalan Damanlela,  
Pusat Bandar Damansara,  
Damansara Heights,  
50490 Kuala Lumpur,  
Wilayah Persekutuan, Malaysia  
Tel : (603) 2084 9000  
Fax : (603) 2094 9940

## PRINCIPAL PLACE OF BUSINESS/MANAGEMENT OFFICE

No. 125-127 Jiangtou Qianjin Road  
North Jiangtou Industrial Zone,  
Jiangtou Village, Chendai Town,  
Jinjiang City, Fujian Province  
Postal Code 362211  
People's Republic of China  
Tel : (86) 595 8518 2868  
E-mail : dxshoes@vip.163.com  
Web : www.dixing.com

## CORPORATE WEBSITE

[www.kstarsports.com](http://www.kstarsports.com)

## COMPANY AGENT IN MALAYSIA

Securities Services (Holdings) Sdn. Bhd.  
Level 7, Menara Milenium,  
Jalan Damanlela,  
Pusat Bandar Damansara,  
Damansara Heights,  
50490 Kuala Lumpur,  
Wilayah Persekutuan, Malaysia  
Tel : (603) 2084 9000  
Fax : (603) 2094 9940

## AUDITORS

Messrs Helmi Talib & Co  
133 Cecil Street  
#15-02 Keck Seng Tower  
Singapore 069535  
Tel : (65) 6339 2776

## PRINCIPAL BANKER

China Construction Bank  
Corporation, Jinjiang Branch  
(中国建设银行晋江支行)  
Construction Bank Building  
Zhengjing Xiaoqu  
Chingyang Town  
Jinjiang City, Fujian Province  
Postal Code 362200  
People's of Republic of China

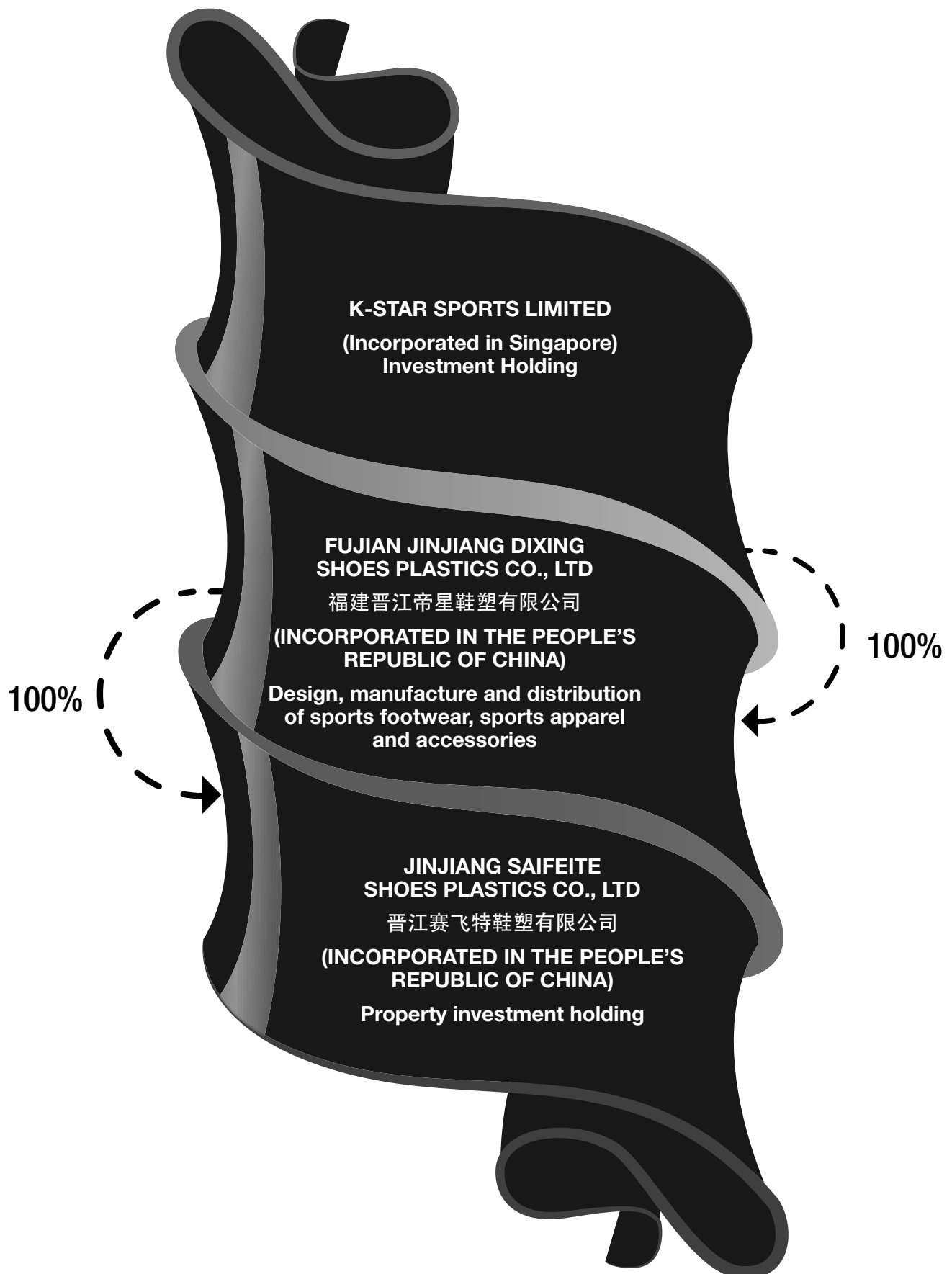
## MALAYSIAN SHARE REGISTRAR

Securities Services (Holdings)  
Sdn. Bhd.  
Level 7, Menara Milenium,  
Jalan Damanlela,  
Pusat Bandar Damansara,  
Damansara Heights,  
50490 Kuala Lumpur,  
Wilayah Persekutuan, Malaysia  
Tel : (603) 2084 9000  
Fax : (603) 2094 9940

## STOCK EXCHANGE LISTING

Listed on Main Market of  
Bursa Malaysia Securities Berhad  
Listing Date : 4 June 2010  
Stock Name : KSTAR  
Stock Code : 5172  
Sector : Consumer

## GROUP CORPORATE STRUCTURE



# CORPORATE MILESTONES

Year	Milestone/Achievement
1992	Established Fujian Dixing in Jinjiang City, Fujian Province, the People's Republic of China
1996	Built Factory A <sup>1</sup> installed first production line and started Original Design Manufacturer ("ODM") for Double Star (青岛双星)
1997	Commenced Original Equipment Manufacturer ("OEM") for Canguro and AE
1999	Built Factory B <sup>2</sup>
2001	Commenced Original Equipment Manufacturer ("OEM") for Canguro and AE
2003	Installed second production line
2004	Installed third production line and started first specialty store
2006	OEM/ODM for Kappa and installed fourth production line
2007	OEM/ODM for Le Coq Sportif
2008	Awarded Quanzhou Well-known Trademark (泉州市知名商标)
2008	Signed 2004 Olympic Diving Champion, Tian Liang (田亮) as "Dixing" spokesperson
2009	Awarded Fujian Famous Trademark (福建省著名商标)
2010	Launched Dixing sports apparel and accessories
2010	Signed 2004 Olympic Diving Champion, Tian Liang (田亮) as "Dixing" spokesperson
2011	Awarded Fujian Famous Trademark (福建省著名商标) for the 2nd consecutive time.
2012	Commenced OEM for PRINCE
2012	Achievement as 25th Annual Singapore 1000 Company
2013	Awarded Jinjiang City Corporate R&D Centre (晋江市企业研发中心) by Jinjiang Technology and Information Bureau (晋江市科技与信息化局)
2016	Showcased the first ever new product featuring KPU material, a breakthrough of conventional fabric shoe upper.
2017	Completion of first private placement following the listing and quotation of 26,640,000 new shares on the Main Market of Bursa Malaysia Securities Berhad

## Notes:

1. Located at No. 125 - 127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC, Postal Code 362211.
2. Located at No.104 Yangding South Road, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC, Postal Code 362211.

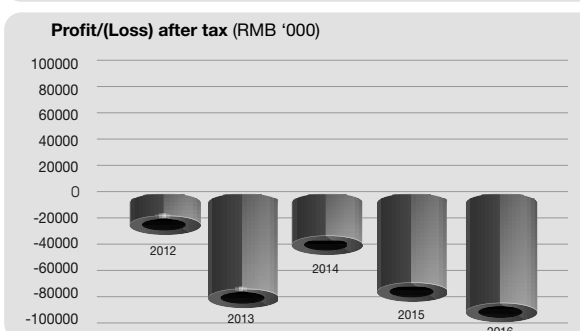
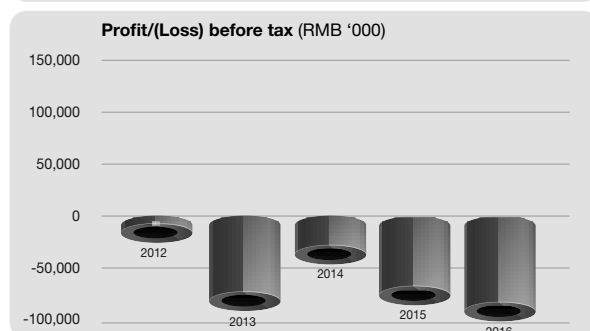
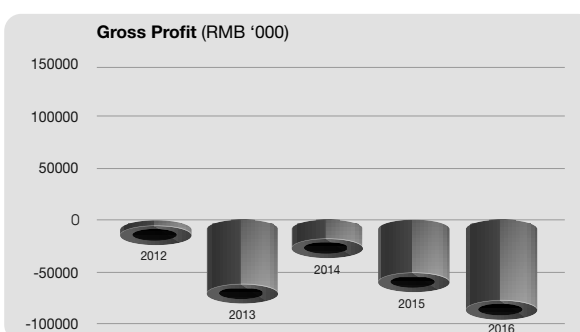
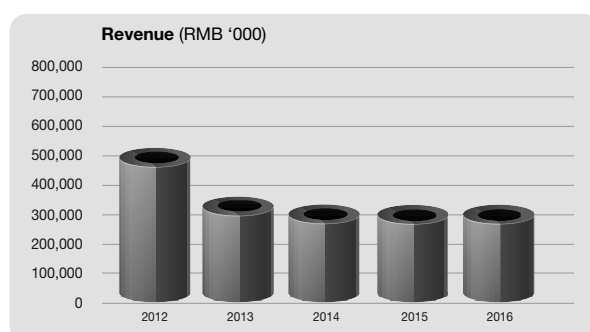
# FINANCIAL HIGHLIGHTS

Summary of financial performance since listing\*

Key results	31 December 2012 (RMB '000)	31 December 2013 (RMB '000)	31 December 2014 (RMB '000)	31 December 2015 (RMB '000)	31 December 2016 (RMB '000)
Revenue	497,720	329,075	300,730	301,352	301,277
EBITDA	(6,307)	(70,365)	(27,746)	(60,105)	(86,778)
Profit/(Loss) before tax	(16,723)	(82,389)	(41,883)	(76,895)	(92,064)
Profit/(Loss) after tax	(26,605)	(82,561)	(41,883)	(76,895)	(92,064)
Net profit/(loss) attributable to equity holders	(26,605)	(82,561)	(41,883)	(76,895)	(92,064)
Total assets	501,165	409,628	359,366	326,245	279,832
Total borrowings	23,330	24,000	23,900	45,900	100,678
Cash & cash equivalents	139,268	91,819	47,938	6,163	164
Shareholders' equity	429,032	346,471	304,588	227,693	135,629
Return on equity (%)	(6.20)	(23.83)	(13.75)	(33.77)	(67.88)
Return on total assets (%)	(5.31)	(20.16)	(11.65)	(23.57)	(32.90)
Gearing ratio (%)	5.44	6.93	7.85	20.16	74.23
Interest cover (times)	(7.09)	(68.47)	(27.47)	(39.13)	10.90
Basic earnings/(loss) per share (cents)	(9.99)	(30.99)	(15.72)	(28.86)	(34.56)
Net assets per share (RMB)	1.61	1.30	1.14	0.85	0.51

Note:

\* K-Star Sports Limited was listed on 4 June 2010.



# BOARD OF DIRECTORS' PROFILE

## Ding JianPing (丁建萍), aged 60

Executive Chairman and Chief Executive Officer  
Chinese, Male

### Date of appointment as Director:

3 November 2008

### Length of service as director since listing on 4 June 2010 (as at 27 April 2017):

6 years 10 months

### Board Committee(s) served on:

Nil

### Academic/Professional Qualification(s):

Graduated from secondary school in 1975

### Directorship(s) in:

- (i) Other Public Listed : Nil  
Companies
- (ii) Public Companies : Nil

### Working Experience:

He is primarily responsible for the business strategy and development, management of the financial affairs, overall administrative management and operations of the Group. He joined the Group since its inception in 1992 and has been instrumental in the expansion of the Group's business to its current status. He has more than thirty (30) years of experience in the shoe manufacturing industry. In 1981, he started his career as a sales supervisor under the employment with Fujian Jinjiang Jiangtou Leather Factory No. 10 (福建省晋江市江头皮革十厂). From 1984 to 1987, he worked as a sales director in Jiangtou Nanfang Leather and Fabric Shoes Factory (江头皮革布鞋厂). From 1988 to 1992, he worked as a factory manager in Jiangtou Nanfang Leather and Plastics Factory (江头南方皮塑厂). His vast experience in the shoe manufacturing industry is integral to the Group's success and growth in the industry. He has been the Deputy President of Russia China Minna Commerce Associate (俄罗斯中国闽南商会) since 2006.

### Time committed

Mr. Ding JianPing attended all the six (6) Board Meetings.

## Ding ZiDi (丁梓迪), aged 33

Executive Director  
Chinese, Male

### Date of appointment as Director:

16 September 2009

### Length of service as director since listing on 4 June 2010 (as at 27 April 2017):

6 years 10 months

### Board Committee(s) served on:

Nil

### Academic/Professional Qualification(s):

Graduated from Xiamen University (厦门大学) with an associate degree in e-business (电子商务) in 2006.

### Directorship(s) in:

- (i) Other Public Listed : Nil  
Companies
- (ii) Public Companies : Nil

### Working Experience:

Mr. Ding is responsible for managing the Design and Development Department, and Human Resource and Administration Department of the Group. He joined the Group as a management associate upon his graduation and was subsequently appointed as a Manager of the research and development department in June 2007. He is a committee member of Jinjiang City Chinese People's Political Consultative Conference Committee (晋江市政协) since 2011.

### Time committed

Mr. Ding ZiDi attended all the six (6) Board Meetings.

## Board of Directors' Profile (Cont'd)

### **Xiao LuXi (肖璐茜), aged 34**

Independent Non-Executive Director  
Singaporean, Female

#### **Date of appointment as Director:**

23 May 2011

#### **Length of service as director since appointment (as at 27 April 2017):**

5 years 11 months

#### **Board Committee(s) served on:**

- Chairperson of Nomination Committee
- Member of Audit Committee
- Member of Remuneration Committee

#### **Academic/Professional Qualification(s):**

Graduated from Quanzhou HuaQiao University, PRC

#### **Directorship(s) in:**

- (i) Other Public Listed Companies : Nil
- (ii) Public Companies : Nil

#### **Working Experience:**

She was a national badminton player of Singapore (ladies' doubles top 10 world ranking in 2001) from 1996 to 2004. In 2004, she started her career as a General Manager in tea industry. From 2009 to present, she is a manager of a trading company and is responsible for the overall management and operations of the company.

#### **Time committed**

Ms. Xiao attended all the six (6) Board Meetings.

### **Lee Yew Weng, aged 39**

Independent Non-Executive Director  
Malaysian, Male

#### **Date of appointment as Director:**

24 March 2014

#### **Length of service as director since appointment (as at 27 April 2017):**

3 years 1 month

#### **Board Committee(s) served on:**

- Chairman of Audit Committee
- Member of Nomination Committee
- Member of Remuneration Committee

#### **Academic/Professional Qualification(s):**

- Bachelor of Commerce from University of Adelaide, Australia in 1999
- Certified Practising Accountant ("CPA") under the membership of CPA Australia since 2003
- Chartered Accountant under the membership of Malaysian Institute of Accountants ("MIA")

#### **Directorship(s) in:**

- (i) Other Public Listed Companies : Nil
- (ii) Public Companies : Nil

#### **Working Experience:**

Upon graduation from the University of Adelaide in 1999, Mr. Lee started his career in auditing with Horwath and KPMG in Kuala Lumpur, Malaysia. He joined Jotech Holdings Berhad, a company listed on Bursa Malaysia Securities Berhad, as its Group Accountant in 2002 handling accounting, finance, treasury, corporate finance and tax matters.

In 2003, he joined the Corporate Finance Department of AmlInvestment Bank Berhad. He rose to the rank of Associate Director in 2008 and was subsequently transferred to the Investment Banking Department of AmlInvestment Bank Berhad in 2008. During his tenure in AmlInvestment Bank Berhad, he was involved in a wide range of corporate finance advisory services, including corporate restructuring, reverse take-overs, mergers and acquisitions, fund raising in equity and debt, initial public offerings and business valuation.

Mr. Lee left AmlInvestment Bank Berhad in 2010 and is currently involved in business advisory and logistics businesses.

#### **Time committed**

Mr. Lee attended all the six (6) Board Meetings.

## Board of Directors' Profile (Cont'd)

**Hong Cheong Liang, aged 37**  
Independent Non-Executive Director  
Malaysian, Male

**Date of appointment as Director:**  
3 August 2016

**Length of service as director since appointment  
(as at 27 April 2017):**  
8 months

**Board Committee(s) served on:**

- Chairman of Remuneration Committee
- Member of Audit Committee
- Member of Nomination Committee

**Academic/Professional Qualification(s):**

- Bachelor of Management (Hons) from Universiti Tun Abdul Razak, Kelana Jaya, Selangor, Malaysia
- Masters of Business from South Australia, Adelaide, South Australia, Australia
- Member of the Malaysian Institute of Accounts ("MIA")
- Certified Practising Accountants ("CPA") under the membership of CPA Australia
- An associate member of Institute of Internal Auditors in Malaysia

**Directorship(s) in:**

- (i) Other Public Listed : ConnectCounty Holdings  
Companies Berhad
- (ii) Public Companies : Nil

**Working Experience:**

Mr. Hong commenced his career as an audit assistant with Russell Bedford LC & Company ("RBLC") in 2004. He is well exposed in the area of internal audits of Public Listed Companies ("PLCs"), external financial audits, tax, liquidation, financial modeling and corporate advisory. Some of his significant assignments include performing internal audits for various PLCs, conducting various financial due diligences for merger and acquisition exercise and developing a financial model for a national level High Impact Project.

He left RBLC to join a boutique investment advisory firm as Assistant Vice President in 2008, where he obtained his corporate finance and management experiences. He was involved in various assignments in advising clients who seek corporate finance advice locally and abroad. He was also assigned to assist the management of a leading shopping mall in Kuala Lumpur.

After his stint in the investment advisory firm, he moved on to provide corporate and management advisory services as well as internal audit and risk management services to small medium enterprises and PLCs. Since then he has also acted as Group Accountant of a PLC, took on the role as Financial Controller of an AIM listed company, and acted as Finance Manager of a large manufacturing corporation based in China.

He was appointed as Chairman of Remuneration Committee, member of the Audit Committee and Nomination Committee, all on 3 August 2016.

**Time committed**

Mr. Hong attended all three (3) Board Meetings during his tenure.

**Notes:**

**1. Family relationship**

Save for the relationship between Ding JianPing and Ding ZiDi as father and son, none of the other Directors and/or major shareholder of the Company are related to each other nor has any family relationship with the substantial shareholder of the Company. In addition, other than as disclosed, each of them do not have any personal interest in any business arrangement involving the Company.

**2. Directors' Shareholdings**

Details of Directors' shareholdings in the Company can be found in the "Analysis of Shareholdings" section of this Annual Report.

**3. Non-Conviction of Offences**

None of the Directors has been convicted of any offences, other than traffic offences, within the past five (5) years.

**4. No Conflict of Interest**

None of the Directors has any conflict of interest with the Company.

**5. Public sanction or penalty imposed by relevant regulatory bodies**

None of the Directors have any particulars of any public sanction or penalty imposed by the relevant regulatory bodies.

# KEY MANAGEMENT'S PROFILE

**Huang Yanbin (黄燕宾), Chinese, Male**

Production Deputy General Manager

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<b>Age</b>	: 45
<b>Qualifications</b>	: He graduated from Anxi District High School No.6 in 1990.
<b>Working experience</b>	: He is primarily responsible for the Group overall production planning and management. Prior joining the Group, he worked as a production worker in Jiangtou Nanfang Leather and Plastics Factory (江头南方皮塑厂) from 1990 to 1992.
<b>Date joining the Group</b>	: 1993
<b>Directorship(s) in</b>	
(i) Public Listed Companies	: Nil
(ii) Public Companies	: Nil
<b>Committee(s)</b>	: Risk Management Committee

**Zhong Ming (钟明), Chinese, Male**

Quality Assurance Deputy General Manager

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<b>Age</b>	: 54
<b>Qualifications</b>	: He graduated from high school in 1981.
<b>Working experience</b>	: He is primarily responsible for the Group overall product's quality assurance. Prior to starting his own brick factory in 1990, he was involved in various trades and small businesses. In 1993, he joined the shoe manufacturing industry as a production supervisor at Jinjiang Hengyu Shoes Co., Ltd. Thereafter, he worked as a factory manager at Rock Lion Strenght Shoe Factory from 1995 to 1996 before joining the Group as an assistant production supervisor.
<b>Date joining the Group</b>	: 1997
<b>Directorship(s) in</b>	
(i) Public Listed Companies	: Nil
(ii) Public Companies	: Nil
<b>Committee(s)</b>	: Risk Management Committee

## Key Management's Profile (Cont'd)

**Ding Mingzhao (丁铭钊), Chinese, Male**  
Sales & Marketing Manager

<b>Age</b>	: 27
<b>Qualifications</b>	: He graduated from Xiamen University Jiageng College (厦门大学嘉庚学院) with a bachelor degree in finance in 2013.
<b>Working experience</b>	: He is primarily responsible for sales and marketing of the Group involving market survey, clientele management, credit control and risk management, sales collection and general expenses of the sales and marketing department. Upon joining the Group, he was is the assistant to the Production Deputy General Manager of the Group from 2014 to 2015. Subsequently, he worked as the assistant to the Group CEO from 2015 to 2016. Prior joining the Group, he worked as an assistant manager in Industrial Securities Co. Ltd (兴业证券), a brokerage, investment banking and asset management company from 2013 to 2014.
<b>Date joining the Group</b>	: 2014
<b>Directorship(s) in</b>	
(i) Public Listed Companies	: Nil
(ii) Public Companies	: Nil
<b>Committee(s)</b>	: Risk Management Committee

**Yang Qingyou (杨清油), Chinese, Male**  
Finance Manager

<b>Age</b>	: 37
<b>Qualifications</b>	: He graduated from Liming Vocational University (黎明职业大学) in 2004.
<b>Working experience</b>	: He is primarily responsible for day-to-day accounting and financial reporting of the Group. Prior joining the Group, he worked as an auditor in a local accounting firm in Guangzhou from 2004 to 2012.
<b>Date joining tthe Group</b>	: 2012
<b>Directorship(s) in</b>	
(i) Public Listed Companies	: Nil
(ii) Public Companies	: Nil
<b>Committee(s)</b>	: Risk Management Committee

### Notes:

- None of the other key management has any family relationship with any Director and/or major shareholder of the Company;
- None of the key management has any conflict of interest with the Company;
- None of the key management has offences (other than traffic offences) within the past five (5) years; and
- None of the key management has any particulars of any public sanction or penalty imposed by the relevant regulatory bodies



# CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of K-Star Sports Limited, I am pleased to present to you the Annual Report together with the Consolidated Financial Statements of the Group for the financial year ended (“FYE”) 31 December 2016 (“current financial year”).

## PERFORMANCE OVERVIEW

The FYE 31 December 2016 has been another tough year for the Group with reported loss before taxation of RMB 92.06 million as distributors demanded a higher sales rebates to sustain their respective retail channel. Albeit the challenging condition facing at the retail front, the Group’s revenue and gross profit margin remained sustainable and were fairly consistent as compared to the previous financial year.

The status of the temporary cessation of our sports apparel section since year 2014 remained unchanged while OEM/ODM segment continue to contribute approximately 15-20% of the Group’s revenue.

We remain cautiously optimistic for year 2017 on the long term potential of the sports footwear industry, more so given the government’s support in promoting public sporting programmes and hosting of international events. Nevertheless, we will continue to work harder and monitor closely our revenue stream while keeping a strict watch on our costs.

## OUR BUSINESS MODEL

Established in 1992, our Group is one of the leading sports footwear company in the PRC. We are principally engaged in the design, manufacture and distribution of sports footwear, sports apparel and accessories under our own Proprietary Brands (“Dixing” and “K-Star” brands, collectively) with strong emphasis on proprietary brand management, product quality and development. We continue to innovate and create product differentiation with our R&D team.

## OUR PRODUCTS

Our products range which has been endorsed by renowned Olympic Champion Tian Liang, comprises athletic footwear designed for specific sporting activities such as running, tennis, basketball and mountain climbing, as well as leisure footwear. In addition, we are also an OEM and ODM for international sports brands including Umbro, Diadora, Kappa, Le Coq Sportif, Canguro, Die Wilden Kerle, Cosby, Bridgestone and Prince as well as PRC footwear brand, Double Star (青岛双星).

## MARKET REVIEW AND BUSINESS OUTLOOK

For the current financial year, due to the intense competition of the sports footwear industry, more and more sports footwear enterprises have begun to focus its efforts to embrace technological and innovation changes. Given this backdrop, we expect the market to progressively adopt new technologies, materials and processes gearing towards a trendiness, superior quality and reasonable pricing of the sportswear.

From reports, the intensifying of competition among industry leaders have provided opportunities for segmentation of the market which is predominantly occupied by the international and domestic brands. As keen competition prolongs, with further segmentation of the market, we foresee opportunities for market development. New strategies are being deployed to capture a bigger market share. This will expect to give rise to the sports footwear being more personalised and specialised which will raise the heat of competition.

Our Group continues to remain resilient in the wake of continued slowdown by devoting time and effort to work closely with our distributors and innovating our products to remain competitive. We continue with our efforts to bridge the highly competitive market to reach our consumers. This would be part of our brand positioning efforts and growing of our distribution networks. Just like the previous years, we continue with our investment in R&D and product patents, advertising and marketing activities to further enhance our Group’s distribution network, product design and development to maintain our competitive edge in order to keep intact with the market development.



## **Chairman's Statement (Cont'd)**

### **MOVING FORWARD**

The China economy has slowed down with declining in manufacturing, falling exports, turbulent capital market, rising debt level and eroding foreign reserves. The gross domestic product ("GDP") growth rate has seen fell from 6.9% in 2015 to 6.7% in 2016. It is envisaged that a challenging time ahead for China economy that the China Government has lower its economic growth target to approximately 6.5% as set in the 13th Five-Year Plan. However, the unveiled 13th Five-Year Plan also sets to promote "Made in China 2025" which encourages the industry to reform its manufacturing practices into high-end manufacturing and encouraging expansion into the international market. Rising participation in sport activities supported by Government policy and advancement of e-commerce are in place to drive growth and recovery of the overall sporting goods industry.

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. With rising disposable income and increasing participation in sports, consumers in lower tier cities are seeking more value in brand identity and product quality.

The Group remains cautious on the uncertainty of the economic recovery 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 2017 would be favourable. Given the overall backdrop in consumer sentiment and intense competition both from foreign and domestic brands as discussed, the Group sees limited upside momentum on the sales growth and remains optimistic on the long term sustainability and potential opportunity given the Group's continuous effort and investment in brand recognition as well as product innovation.

### **ACKNOWLEDGEMENT AND APPRECIATION**

On behalf of the Board, I would like to take this opportunity to record my appreciation to our valued shareholders for their continuing trust and loyalty and for growing the Group with us. My sincere gratitude also extended to our valued customers, bankers, suppliers and business associates for their continuing support and confidence and also to the Malaysian government and various regulatory authorities for their kind understanding, assistance, support and cooperation.

Last but not least, I would like to thank my fellow Board Members for their commitment to the Group and, to the management and staff, my heartfelt thanks for your loyalty, dedication and commitment to our Group.

**DING JIANPING (丁建萍)**  
Executive Chairman



# MANAGEMENT DISCUSSION AND ANALYSIS

## AN OVERVIEW

As consumers are expected to spend in the sports footwear sector, and the anticipated stabilising of the industry, the likely demand in the sports footwear industry will continue. The discerning consumers are on constant lookout for sports footwear that are trendy, outstanding and reasonably priced. The purchasing behaviour of Chinese consumers has become increasingly sophisticated in recent years. With persistent upgrading of consumption in China, consumers are shifting their focus to functionality of sportswear for specific sports categories or physical exercise activities. This propels the need of our Group to continue to innovate and transform ourselves to satisfy these consumers. We need to continue to position ourselves in the market to remain current in the industry. Market differentiation and branding efforts will remain our Group's charted course.

Footwear industry is facing enormous challenges due to slow growth and margin erosion in 2016. On one hand, China's gross domestic product ("GDP") growth slowed further and consumer sentiment is weak. Competition continues to intensify both from local and foreign brand in the industry and the Group had to resort to giving rebates to its distributors and to beef up in product differentiation to remain competitive. In response to this, the Group will continue with its strategy to increase OEM/ODM activities while tightening its costs and exploring opportunities to grow. The focus on OEM/ODM will aid the fragile sportswear business while waiting out for the economy to recover. The Group will continue to reinforce its presence in the market place with investment in research and development and intensive marketing efforts.

## BUSINESS OVERVIEW

Our Group continues to optimise our production activities, reducing operating costs, handling of distributors and customers, offering a mix of incentives and revamping its overall operations. Our proprietary brand will continue with its brand building and product innovation to continue to gain foothold in the sports footwear market.

### (i) Principal products

Sales and distribution of our proprietary brand footwear remain our primary activities in contributing to our revenue stream. Products under our proprietary brand "Dixing" are distributed to PRC domestic market via the authorised regional dealers within PRC, who in turn or through third party retailers, sell our products through Dixing specialty stores and/or shops-in-shops. We also manufacture OEM/ODM products for PRC footwear brand such as Double Star (青岛双星) and international sports brands such as Umbro, Canguro, Die Wilden Kerle, Diadora, Kappa, Le Coq Sportif, Cosby, Bridgestone and Prince.

### (ii) Location of Business Operations

Our main factory with an approximate built-up area of 22,384 square metres are strategically located in Jinjiang City, Fujian Province, the PRC, which is renowned as one of the world's largest sports shoes manufacturing hub. We generate over 600 designs annually and our current annual aggregate production output (including products manufactured by our contract manufacturers) was approximately 3.8 million pairs of quality sports footwear.

### (iii) Principal markets/ Geographical Presence

Our products are distributed across 18 provinces and 13 municipalities in the PRC at over 528 retail outlets managed by our distributors and some are exported to Russia and other overseas market such as Ukraine, Belarus, Czech Republic, Poland, Finland, Romania and Hungary.

We focus on positioning our brand in the niche market, namely mid to mid-low segments whereby our product is targeted to specific consumer groups, namely, the secondary and university students, and the working class which include factory workers and farmers. Dixing brand chooses to focus on a specific consumer group rather than specific tier-city forms as these are the niche market that represents the mid to lower income group of each respective tier-city of the PRC. Therefore, our product can be found in amongst others, Beijing (first-tier city), Chengdu (second-tier city) and Guangxi (third-tier city).

# Management Discussion and Analysis (Cont'd)

## MARKETING STRATEGIES AND BRAND BUILDING

China's sports foot wear industry remained as an exciting and promising market to long established businesses. The current situation of intense competition will remain while trend and development of better sports footwear is in the making. The rush to get sales remained necessary while new strategies are developed to increase sales.

Our proprietary brand will continue with our brand awareness campaign for trend-setting, high quality and fashionable sportswear. Our Group has continuously been building its brand with continuous research and development to create better and new products. Moving forward, our distributors are encouraged to strike a deal with the department store to increase brand exposure and recognition with lesser operating costs as opposed to the independent specialty outlet. The Group is also counting on its OEM/ODM activities and will pursue for other OEM/ODM opportunities as well as the Group has built its name in the OEM/ODM sector.

## FINANCIAL OVERVIEW

The Group's loss before taxation ("LBT") was recorded higher as compared to the previous financial year was mainly due to higher provision of sales rebates to the distributors which in aggregate amounted to RMB 62.47 million.

### Revenue and gross profit margin

For the FYE 31 December 2016, the Group's revenue and gross profit margin were fairly consistent. Whilst there were no major fluctuation in the average unit selling price, the sales of Dixing brand footwear has recorded an increase by approximately 5.72% while the sales of OEM has decreased by approximately 19.70% as compared to the FYE 31 December 2015.

### Sales and distribution expenses

The sales and distribution expenses has increased by 36.25% as compared to the FYE 31 December 2015. This was mainly attributed from the current year increase in sales rebates provided to the distributors amounted to RMB 62.47 million as compared to RMB 32.42 million incurred in the previous financial year. To support and maintain long term sustainability of the distributors and the retailers amid unfavorable market condition, the Group has since the FYE 2012 provided sales rebates to the distributors, save for the FYE 2014. The sales rebate is non-contractual and serve as an alternative incentive substituting subsidies given to the distributors before the FYE 2012.

### Administrative expenses

Comparing to the FYE 31 December 2015, the administrative expense has reduced by 5.49% as the depreciation expenses was recorded lower by 15.26%.

### Finance costs

Finance costs was higher resulting from an additional long term borrowings of RMB 60.50 million from a third party which bear an interest rate of 1.00 – 1.50% per month. During the financial year, the Group reflected a net credit effect on interest expense resulting from fair value adjustment of RMB 18.52 million pertaining to non-current payables amounting to RMB 82.50 million. This fair value adjustment is made in accordance with FRS 39.



## Management Discussion and Analysis (Cont'd)

### FINANCIAL OVERVIEW (CONT'D)

#### Income tax expenses

There were no income taxation for the current year as the Group was in a loss making position.

The Group reported a higher LBT and loss after taxation ("LAT") by RMB 15.17 million for the FYE 31 December 2016 was mainly due to higher finance costs and sales rebates incurred during the financial year.

Despite the loss reported in 2016, the management remained optimistic and to continue with its concerted efforts to increase revenue in 2017 and beyond as the Group would continue to invest in research & development, advertising and marketing activities of the business in line with its strategic plan to continue to enhance market presence, distribution network and expansion of its product range. We will improve our effort to increase sales and stay afloat in the highly challenging industry.

#### Dividend

There were no dividends declared by the Company for the financial year ended 31 December 2016. Pending the recovery of the financial health of the Company, the Company does not plan to adopt any dividend policy at this juncture.

#### Liquidity and financial resources

Net cash outflow from operating activities of the Group for the FYE 2016 amounted to RMB 68.30 million. Cash and cash equivalents at the end of the financial year merely consist of cash on hand and bank balances. The net decrease in cash and cash equivalents was attributable to the operating loss generated from the year. Besides, the Group has also invested in additional patents on designs and product features aggregating to RMB 11.00 million.

On the financing side, the Group raised an additional short-term bank borrowing of RMB 12.8 million during the year and a long term borrowing of RMB 60.50 million from a third party which bear an interest rate of 1.50% - 1.00% per month with principal repayment to be made at the end of the 5 years tenure in 2021.

#### Working capital management

The inventory turnover period remained fairly consistent as compared to the preceding financial year, stood at the age of 13 days as at 31 December 2016.

The average trade receivables turnover period was 129 days as at 31 December 2016. All trade receivables are within 150 days age and were neither considered as past due nor impaired. The Group has been staying in touch with all the distributors and believes that there will be further improvement in the collection of debts.

The trade payables turnover period remained consistent at the 31-60 days age band as compared to the previous financial year.

### KEY RISKS

Our business is operating in a highly competitive sports footwear industry and facing off keen competition from international and domestic brands is a continuous business mantra. Our business model is the appointment of Authorised Regional Dealers and operators who operate Dixing Specialty Stores and shops-in-shops. We supervise and manage these dealers and operators regularly but also take cognisance that there can be no assurance that such supervision and management will be sufficient to avoid our proprietary brand being associated with inappropriate and poor service and any such negative association arising out of low quality or inappropriate and poor management by them which could damage our brand name and reputation and thus, have a material adverse effect in our business and financial performance. During the year 2016, we are not aware of any material non-compliance issues of our dealers and operators.



## **Management Discussion and Analysis (Cont'd)**

### **KEY RISKS (CONT'D)**

The sports footwear manufacturing industry is labour intensive. The continued rising labour costs have greatly impacted our margins with no assurance of stabilising. The increase in cost is not in line with the corresponding increase of the prices of our products. The imbalance is felt greatly with the dwindling of the revenue from the sportswear while the labour costs remained an upscale matter.

Like the past years, our retailers for our proprietary brand products have continued to face increasing competition for suitable retail locations and space for Dixing Speciality Stores and other retail locations to merchandise and sell our proprietary brand products. In securing preferred locations or commercially optimal locations, our retailers incurred higher costs which in turn will affect the business and financial performance of our Authorised Regional Dealers/and or the Group.

### **PROSPECTS**

The future of the sports footwear market continues to be competitive as it eases its way to stabilised growth. The stability of the market continues to have its lingering effects from yesteryears. Until such a time when the market is substantially stabilised, our Group remains optimistic on the long term potential and sustainability of the sportswear industry. The effects of the anticipated domestic consumption remain to be positive that the sports footwear industry will remain robust despite predicted challenges and over supply.

Our strategy will continue into year 2017 to remain a consumer-specific-strategy by catering to the secondary and university students and working class. Our proprietary brand is distributed through our appointed Authorised Regional Dealers and operators in various cities in China. Our products remained to be affordable and branded. We continue to be optimistic of the future of the sports footwear which is undergoing a market rationalisation exercise and based on our years of experience and firm footing in the market, the future remains challenging but positive.



# CORPORATE SUSTAINABILITY STATEMENT

## OUR APPROACH TO SUSTAINABILITY

We have always valued the way how our business is conducted. At K-Star Sports Limited, we perceive corporate sustainability as our commitment to create long term value for our shareholders, environment and society through innovation and excellence. We have been disclosing our Corporate Sustainability Statement since financial year 2012.

To embrace all these, we act with a purpose and conduct our business in a way that protects and preserves the environment, supports our employees and in return contribute to the society.

## GOVERNANCE STRUCTURE

The sustainability is currently governed by the Board to ensure accountability, oversight and review in the identification and management of sustainability matters.

## SCOPE

The Corporate Sustainability Statement focuses on the Group's major business operations for the financial year ended 31 December 2016.

## IDENTIFYING MATERIAL SUSTAINABILITY MATTERS

We are manufacturers of shoes and we consume natural resources. In the manufacturing process, we will inadvertently produce waste which affects the environment. We strive to work closely with our suppliers, employees and customers to minimise the impact to the environment. This is our responsibility. We identified the material sustainability matters that relating to the Group as follows:-

### A. ENVIRONMENT

#### (i) Environment-friendly practices

Significant importance towards preserving the environment and conservation of resources are prioritised. We observe environment friendly practices in our daily operations to use energy and resources in a sustainable manner. Similarly great efforts are expended to seek continuous improvement in our operation to achieve sustainability and the same time protect the environment.

### B. SOCIAL

#### (i) Learning and development

We provide induction training for new staff to familiarise themselves with the new environment. To ensure continuity, we continuously identify key talents to be trained as part of our succession planning. We encourage our employees to work together in harmony to achieve a common vision. Every employee is given equal opportunity to rise up in their positions through hard work and dedication.

#### (ii) Talent attraction and retention

We acknowledge the contribution of our employees in driving the performance of our business. We recognise good talents and reward them accordingly with promotions and incentives.

## **Corporate Sustainability Statement (Cont'd)**

### **IDENTIFYING MATERIAL SUSTAINABILITY MATTERS (CONT'D)**

#### **B. SOCIAL (Cont'd)**

##### **(iii) Employee safety, health and well-being**

We provide a safe and friendly factory for our employees. Our safety policy outlines the safety measures to be observed by our employees. The employees are also provided with adjacent hostels attached with necessary facilities.

##### **(iv) Promoting Diversity**

We remain committed to diversity and support firmly the multi ethnic, multi religion and gender free practice in the working environment.

Presently, one of the Board members is female and the Board comprises of two local members and three foreign members.

As at 31 December 2016, 99.76% of the total employees of the Group comprised foreigners as the factories are based in the People's Republic of China.

### **MOVING FORWARD**

Our Company is committed to promote good corporate governance standards and building sustainability.

We shall also establish a Sustainability Committee to assist the Board in overseeing the Group's principles, policies, and strategies pertaining to Sustainability. This may include establishing new policies and procedures, identifying various sustainability matters, measures, action plans and indicators to manage the identified sustainability matters.

# CORPORATE GOVERNANCE STATEMENT

Being a non-Malaysia domiciled entity listed on the Main Market of Bursa Malaysia Securities Berhad (“**Bursa Securities**”), the Board of Directors of K-Star Sports Limited is committed to extolling transparency and professionalism in all its activities. As part of this commitment, the Board is pleased to present this Statement to provide stakeholders with an overview of the extent of compliance with the Principles as well as the state of adoption of the Recommendations, as set out in the Malaysian Code on Corporate Governance 2012 (“**MCCG 2012**”), under the stewardship of the Board.

The Board also affirmed that this Statement would serve as a compliance to Paragraph 15.25 of the Main Market Listing Requirements (“**Main LR**”) of Bursa Securities for the financial year ended 31 December 2016 (“**FYE 2016**”).

## PRINCIPLE 1 – ESTABLISH ROLES AND RESPONSIBILITIES

### 1.1 Clear functions reserved for Board and those to delegated to management

The Board is responsible for the leadership, oversight and long term success of the Group. The Board has established a Board Charter to provide guidance and clarity for Directors and Management with regard to the functions reserved for Board and those to be delegated to Management.

The Board has reserved a formal schedule of matters for its decision making to ensure that direction and control of the Group are firmly in its hands. As enumerated in the Board Charter, the functions of the Board are to:-

- (a) Monitor the compliance with all relevant statutory and legal obligations.
- (b) Review and set the Group’s strategic plan and direction and ensure that resources are available to meet its objectives.
- (c) Supervise the operations of the Group to evaluate whether established targets are achieved.
- (d) Identify principal risks and ensure the implementation of appropriate systems to manage these risks.
- (e) Promote better investor relations and shareholder communications.
- (f) Ensure that the Group’s core values, vision and mission and shareholders’ interests are met.
- (g) Review the adequacy and the integrity of the Group’s internal control systems including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
- (h) Approving and monitoring the risk management framework.
- (i) Establish such committees, policies and procedures to effectively discharge the Board’s roles and responsibilities.
- (j) Initiate a Board self-evaluation program and follow-up action to deal with issues arising and arrange for directors to attend courses, seminars and participate in development programs as appropriately judged by the Board.
- (k) Ensure that the Company has appropriate corporate governance structures in place including standards of ethical behaviour and promoting a culture of corporate responsibility.

As part of its efforts to ensure the effective discharge of its duties, the Board has delegated certain functions to certain Committees with each operating within it a clearly defined terms of reference. The Chairman of each Committee will report to the Board on the outcome of the Committee’s meetings which also include the key issues deliberated at the Committee’s meetings. Minutes of the Committees’ meetings are a permanent agenda of the Board’s meeting and these are circulated at the Board’s meeting for notation. The ultimate responsibility for decision making lies with the Board.

For the day-to-day operations, the Board has delegated its authorities and responsibilities to the Management Team led by the Executive Chairman/Chief Executive Officer (“**CEO**”). The functions delegated to the Management Team by the Board are, inter alia, as follows:-

- Implementation of business plans and strategies, policies and decisions approved by the Board;
- Managing the daily conduct of the business and affairs;
- Communicating matters of concern to the Board for information and/or decision; and
- Representing the Group in its dealing with the government authorities and other external parties.

# Corporate Governance Statement (Cont'd)

## PRINCIPLE 1 – ESTABLISH ROLES AND RESPONSIBILITIES (CONT'D)

### 1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions

The roles and responsibilities of the Board have been clearly enumerated in the Board Charter. The Board provides effective leadership and manages overall control of the Group's affairs through the discharge of the following principal duties and responsibilities:-

#### (a) Reviewing and adopting a strategic plan for the company

At the beginning of each financial year, the CEO will brief the Board on the overall business plan at its meeting. The business plan would cover the performance targets and long term plans of the Company.

At each quarterly Board Meeting, Mr. Ding JianPing ("Mr. Ding"), the CEO would share with the Board the following matters:-

- Market outlook of the industry; and
- Status of business plan encompassing the update on sales and retail channels, product research and development ("R&D") and fund raising exercise.

Mr. Ding would also share with the Board the overview of the China's economy in general as well as the Management Team's strategic countermeasures.

For FYE 2016, the Board is satisfied with the strategic business plan as presented by the CEO. The Board would continue to monitor the progress made by the Management Team in respect of meeting the objective of the business plan.

#### (b) Overseeing the conduct of the Company's business

The CEO is responsible for the day-to-day operation and financial management of the Group. He is supported by an Executive Director and key senior management personnel (collectively, the "Management Team") to ensure the operations are carried out smoothly. The Board's role is to oversee the performance of the Management Team to determine whether the business is properly managed. The Board received updates from the Management Team at the quarterly Board meetings when reviewing the unaudited quarterly results. During such meetings, the Board participated actively in the discussion on the performance of the Company and assessed the performance of the Management Team for the applicable period.

In addition, the Board has instituted a monitoring system on the financial management of the Management Team on a regular basis vide the insertion of the following regular agenda items in the Board Meetings (the "**Financial Management Emphasis**"):-

- To review the Debtors' Ageing Reports for local and foreign distributors.
- To review the Reports detailing all the transactions which were not in the ordinary course of business and above RM 2 million, if any.
- To review the Reports detailing all the transactions which were above RM 8 million, if any.

#### (c) Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures

The Audit Committee ("**AC**") has been entrusted by the Board to identify, evaluate, monitor and supervise the management of any relevant major risks faced by the Group so that the Group will achieve its business objectives. However, the Group as a whole remains responsible for the all the actions of the AC with regard to the delegated role and this includes the outcome of the review as well as the disclosure on key risks and the state of internal control in the Group's annual reports.

### PRINCIPLE 1 – ESTABLISH ROLES AND RESPONSIBILITIES (CONT'D)

#### 1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions (Cont'd)

##### (c) Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures (Cont'd)

At the Board Meeting held on 11 November 2016, the Board has approved the engagement of alphaOne Governance Sdn. Bhd. (“alphaOne”), a specialist risk management consultant to assist with the preparation of a comprehensive Risk Management Framework. The Proposed Risk Management Framework is expected to be tabled by the alphaOne to the AC for deliberation during the financial year ending 31 December 2017 (“FYE 2017”) and will comprise the following:-

- Definition of risk and risk management;
- Risk oversight structure;
- Enterprise Risk Management process (including the establishment of context, identification and evaluation of risk and controls, proposed risk treatment, management’s action plan, monitoring and review mechanism and communication flows); and
- Administration of Risk Management.

Further details of the Risk Management Framework are set out in the Statement on Risk Management and Internal Control in this Annual Report.

##### (d) Succession Planning

The Board recognises that succession planning is an ongoing process designed to ensure that the Group identifies and develops a talent pool of employees through mentoring, training and job rotation for high level management positions that become vacant due to retirement, resignation, death or disability and/or new business opportunities.

The Board, through the Nomination Committee, is responsible for the succession planning of the Directors of the Company.

For FYE 2016, Mr. Hong Cheong Liang (“Mr. Hong”), a Certified Practising Accountants (“CPA”) of CPA Australia and a Chartered Accountant with the Malaysian Institute of Accountants has been appointed to the Board and AC, to supplement the required mix of skills at the Board level, in line with the Financial Management Emphasis advocated by the Board.

##### (e) Overseeing the development and implementation of a shareholder communications policy for the company

The Board is aware of K-Star’s commitment to enhancing long term shareholders’ value through regular communication with all its shareholders, irregardless of individual or institutional investors.

The Board noted the Company has a website which is assessible at [www.kstarsports.com](http://www.kstarsports.com).

A dedicated “**Investors relation**” section has been established at the Company’s website to enable shareholders to obtain the following information:-

- Corporate Information;
- Financial Information;
- Corporate Governance;
- Newsroom;
- Stock Information; and
- Information Request.

A dedicated “**Contact Us**” section has been established at the Company’s website to enable the shareholders to communicate with the Company with a dedicated email address of [kstar.fin@gmail.com](mailto:kstar.fin@gmail.com).

# Corporate Governance Statement (Cont'd)

## PRINCIPLE 1 – ESTABLISH ROLES AND RESPONSIBILITIES (CONT'D)

### 1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions (Cont'd)

#### (e) Overseeing the development and implementation of a shareholder communications policy for the company (Cont'd)

As enumerated in Clause 2.5 of the Board Charter, the Board has formalised its commitment to serving the best interest of the shareholders in the following manners:-

- (i) The Board will maintain an effective communication policy that enables both the Board and Management to communicate effectively with shareholders and the general public.
- (ii) The Board will ensure that the General Meetings of the Company are conducted in an efficient manner and serve as a mode in shareholders communication. These include the supply of comprehensive and timely information to shareholders and the encouragement of active participation at the General Meetings.

#### (f) Reviewing the adequacy and the integrity of the management information and internal controls system of the company

The Board has established key control processes to ensure there is a sound framework of reporting on internal controls and regulatory compliance.

On the formal reporting level, the Board vide the AC, will review the internal audit reports tabled by the outsourced Internal Auditors and taken note of the audit issues arising from the internal control system of the Company/Group.

For the FYE 2016, the AC has commissioned alphaOne, a professional Internal Audit ("IA") service provider to undertake a mandatory review on the IA function, as required by Bursa Securities. In addition, the AC has also engaged an independent audit professional, i.e. ShenZhen Guang Cheng Certified Public Accountants to conduct an audit on the overall internal control environment conducted in response to the audit findings raised in the past IA reports. The engagement served to provide reasonable assurance to the AC and the Board as to the adequacy and integrity of the overall internal control system of the Company. Details of the abovementioned audits are set out in the Audit Committee Report of this Annual Report.

Details of the internal control system are set out in the Statement on Risk Management and Internal Control of this Annual Report.

### 1.3 Formalise ethical standards through a code of conduct and ensure its compliance

The Board has put in place a code of conduct for the Directors and employees. The code of conduct includes amongst others the respect for the individual, create a culture of open and honest communication, set tone at the top, uphold the law, avoid conflicts of interest, set metrics and report results accurately.

The Board also has in place Whistle Blowing Policies and Procedures for employees to raise genuine concerns, without fear of reprisal, about possible improprieties on matters pertaining to financial reporting, compliance, malpractices and unethical business conduct within the Group.

## PRINCIPLE 1 – ESTABLISH ROLES AND RESPONSIBILITIES (CONT'D)

### 1.4 Ensure the Company's strategy promote sustainability

The Board views the commitment to sustainability and Environmental, Social and Governance (“ESG”) performance as part of its broader responsibility to employees, clients, shareholders and the communities in which it operates.

#### A. Environmental Aspect – *Occupational Health and Safety, Environmental Policy*

The Board has established an Occupational Safety, Health and Environmental Policy to ensure the Group operates its business activities with full commitment in achieving environmental, safety and health excellence under the following principles:

- Comply with prevailing environmental, safety and health laws and regulations in a cost effective manner;
- Raise individual awareness in environmental, safety and health responsibilities through training, education and ownership awareness; and
- Ensure the Occupational Safety, Health and Environmental Policy is highly visible to the employees by publishing it on the wall of the production floors.

#### B. Social Aspect – *Corporate Social Responsibility (“CSR”)*

The Board recognises the importance of CSR whilst pursuing its corporate goals. Please refer to the Corporate Sustainability Statement for CSR activities conducted by the Group for FYE 2016.

#### C. Governance Aspect – *Quality, Environmental, Safety and Health Certifications*

The Board strongly believes in maintaining the quality of its products, and the safety of its processes. As such, the Group has the documentation of its standard operating procedures in place, which encompass all work processes. For example, the quality assurance procedures have been duly documented and a copy has been published on the wall of the production floor for the adherence by the employees of the Group.

The Company's wholly-owned subsidiary, Fujian Jinjiang Dixin Shoes Plastics Co. Ltd. has received the following quality management system certification:-

Certification	Description
ISO 9001:2008	Quality management system certification

Further details of the sustainability efforts are set out in the Corporate Sustainability Statement in this Annual Report.

### 1.5 Procedures to allow Directors access to information and advice

All Board members are supplied with information in a timely manner, where possible the agenda of the Board Meeting is set in consultation with the Executive Chairman. Apart from the ad-hoc meetings, due notice of at least seven (7) days is given to the Directors. This will allow the Directors to plan ahead and to maximise their participation.

Board papers are circulated in advance with a minimum of seven (7) days prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant financial and corporate issues, the Group's performance and any management proposals which require the approval of the Board.

# Corporate Governance Statement (Cont'd)

## PRINCIPLE 1 – ESTABLISH ROLES AND RESPONSIBILITIES (CONT'D)

### 1.5 Procedures to allow Directors access to information and advice (Cont'd)

The Directors have individual and independent access to the advice and dedicated support services of the Company Secretary and Local Agent in Malaysia in ensuring the effective functioning of the Board. The Directors may seek advice from the management on issues under their respective purview. The Directors may also interact directly with the management, or request further explanation, information or updates on any aspect of the Company's operations or business concerns from them.

#### Protocol for seeking of professional advisory services

Where applicable, the Directors whether as a full board or in their individual capacity, are encouraged to seek independent professional advice from the following parties:-

- For corporate and/or governance matters, the Company Secretary and/or the Local Agent in Malaysia;
- For audit and/or audit-related matters, any representatives of the audit engagement team of the External Auditors or the Internal Auditors;
- For any other specific issues where professional advice is required to enable the Board to discharge its duties in connection with specific matters, the Board may proceed to do so, with prior consultation of the Executive Chairman, in relation to the quantum of fees to be incurred.

### 1.6 Ensure Board is supported by suitably qualified and competent company secretary

#### (i) Company Secretary

As an entity incorporated in Singapore, the Board is supported by Ms. Thum Sook Fun, a Company Secretary who is suitably qualified and competent to act as company secretary.

The brief profile of the Company Secretary is as follows:-

#### **Ms. Thum Sook Fun, FCIS, C.A. (M), FCCA**

Ms. Thum is a Chartered Secretary and also a Chartered Accountant. She is therefore qualified to act as company secretary under Section 171(1AA) of the Companies Act (Chapter 50) of Singapore. Ms. Thum is a Fellow member of the Institute of Chartered Secretaries and Administrators ("ICSA") and also a Fellow member of the Association of Chartered Certified Accountants ("ACCA"). Currently, she is also a member of the Institute of Singapore Chartered Accountants ("ISCA"). She has more than twenty years of professional experience in the field of corporate secretarial and advisory services, including corporate restructuring, initial public offering exercise, reverse takeover and other major corporate exercises.

Ms. Thum has been appointed as Company Secretary to the Company with effect from 15 January 2013.

The Board has ready and unrestricted access to the advice and services of the Company Secretary, who is considered capable of carrying out the duties to which the post entails.

The appointment and removal of the Company Secretary is a matter for the Board as a whole. The Board recognises the fact that the Company Secretary should be suitably qualified and capable of carrying out the duties required.

## **PRINCIPLE 1 – ESTABLISH ROLES AND RESPONSIBILITIES (CONT'D)**

### **1.6 Ensure Board is supported by suitably qualified and competent company secretary (Cont'd)**

#### **(ii) Local Agent in Malaysia**

The Company is registered as a foreign branch in Malaysia under the Malaysian Companies Act, 1965. Therefore, in addition to having a Company Secretary who is based in Singapore, the Board is also supported by suitably qualified and competent company secretaries who act as the representatives of the Local Agent in Malaysia.

The principal representative of the Local Agent in Malaysia is Ms. Chua Siew Chuan of Securities Services (Holdings) Sdn. Bhd.

The brief profile of Ms. Chua is as follows:-

#### **Ms. Chua Siew Chuan ("Ms. Chua"), FCIS**

Ms. Chua has been elected as a Fellow Member of the Malaysia Institute of Chartered Secretaries and Administrators ("MAICSA") since 1997. She has more than 35 years of experience in handling corporate secretarial matters, with working knowledge of many industries and government services. She is currently the Immediate Past President of MAICSA.

Ms. Chua is a Chartered Secretary by profession. She is the Managing Director of Securities Services (Holdings) Sdn. Bhd., a prominent corporate secretarial service provider in Malaysia. Ms. Chua is also the named company secretary for a number of public listed companies, public companies, private limited companies and societies.

Securities Services (Holdings) Sdn. Bhd. has been appointed as the Local Agent in Malaysia with effect from 1 November 2016.

The Board has ready and unrestricted access to the advice and services of the Local Agent in Malaysia, who is considered capable of carrying out the duties to which the post entails.

The appointment and removal of the Local Agent in Malaysia is a matter for the Board as a whole.

In performing their duties, the Company Secretary and/or the Local Agent in Malaysia carry out, amongst others, the following tasks:-

- Statutory duties as required under the Companies Act 2016, Main Market Listing Requirements ("**Main LR**") of the Bursa Malaysia Securities Berhad ("**Bursa Securities**"), Capital Market and Services Act, 2007;
- Facilitating and attending Board Meetings and Board Committee Meetings, respectively;
- Facilitating and attending the General Meeting(s);
- Ensuring that Board Meetings and Board Committee Meetings, respectively are properly convened and the proceedings are properly recorded;
- Ensuring timely communication of the Board level decisions to the Management for further action;
- Ensuring that all appointments to the Board and/or Board Committees are properly made in accordance with the relevant regulations and/or legislations;
- Maintaining records for the purpose of meeting statutory obligations of applicable jurisdictions;
- Facilitating the provision of information as may be requested by the Directors from time to time in a timely manner and ensuring adherence to Board policies and procedures;
- Facilitating the conduct of the assessments to be undertaken by the Board and/or Board Committees as well as to compile the results of the assessments for the Board and/or Board Committee's notation and
- Assisting the Board with the preparation of announcements for release to Bursa Securities and Securities Commission Malaysia; and
- Rendering advice and support to the Board and Management.

The Board is satisfied with the performance and support rendered by the Company Secretary and the Local Agent in Malaysia to the Board in discharging their respective functions.

# Corporate Governance Statement (Cont'd)

## PRINCIPLE 1 – ESTABLISH ROLES AND RESPONSIBILITIES (CONT'D)

### 1.7 Board Charter

The Board has adopted a Board Charter which governs how the Board conduct its affairs. The Board Charter sets out the composition and balance, roles and responsibilities and processes of the Board and is to ensure that all Board members acting on behalf of the Company are aware of their duties and responsibilities as Board members.

The Board Charter shall be reviewed by the Board annually to ensure they remain consistent with the Board's objectives and responsibilities, and relevant laws, regulations, guidelines and standards of corporate governance.

The Board Charter has been revised and updated on 11 November 2016.

A copy of the updated Board Charter is available for reference under the "Corporate Governance" section of the Company's website at [www.kstarsports.com](http://www.kstarsports.com).

## PRINCIPLE 2 – STRENGTHEN COMPOSITION

The Board has put in place the following Board Committees to assist in carrying out its fiduciary duties:-

- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

All of these Committees have written Terms of Reference ("TOR") clearly outlining their objectives, duties and powers. The final decisions on all matters are determined by the Board as a whole.

### 2.1 Audit Committee ("AC")

The membership and TOR of the AC is stated in the AC Report of this Annual Report. A summary of the works undertaken by the AC during the year, including an evaluation of the independent audit process, is set out in the AC Report of this Annual Report.

The TOR of AC has been revised and updated on 11 November 2016.

A copy of the updated TOR of the AC is available for reference under the "Corporate Governance" section of the Company's website at [www.kstarsports.com](http://www.kstarsports.com).

### 2.2 Nomination Committee ("NC")

The NC of the Company comprises wholly of Independent Non-Executive Directors ("INEDs") as follows:-

Nomination Committee	Number of NC Meetings attended/held in the financial year under review
Xiao LuXi (Chairperson)	3/3
Lee Yew Weng (Member)	3/3
Hong Cheong Liang (Member) (Appointed on 3 August 2016)	1/1
Teoh Tow Kean (Member) (Resigned on 29 July 2016)	1/1

Having regard to the operations of Group viz-a-viz the size and composition of the Board, the Board has dispensed with the formality of appointing a Senior INED from amongst the Board Members. Any concerns from the shareholders can be conveyed to any of the INED of the Board.

## PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

### 2.2 Nomination Committee (“NC”) (Cont'd)

Notwithstanding the lack of appointed Senior INED, the Chairperson of the Nomination Committee is Ms. Xiao LuXi, the longest serving INED on board and where any concerns from the shareholders can be conveyed to.

The TOR of NC requires that the NC shall meet at least once a year to discharge its responsibilities as spelt out in its TOR and more frequent meetings may be called as the need arises. The NC met three (3) times during the financial year under review.

The principal objective of the NC is to assist the Board of Directors to identify, nominate and orientate new Directors. The TOR of NC should be reviewed by the Board of Directors annually and update as appropriate.

The TOR of NC has been revised and updated on 11 November 2016 to reflect the recent amendment of the Main LR of Bursa Securities.

A copy of the updated TOR of NC is available for reference under the “Corporate Governance” section of the Company’s website at [www.kstarsports.com](http://www.kstarsports.com).

#### (a) **Activities undertaken during the financial year**

For FYE 2016, the NC has undertaken the following activities:-

- (i) Nominated and recommended to the Board, the appointment of Mr. Hong as additional member of the Board and Board Committees based on the designated evaluation criteria as elaborated in item (b)(i) below.
- (ii) Facilitated the self and peers’ assessment on AC Members;
- (iii) Reviewed the effectiveness of the AC as a whole;
- (iv) Reviewed the effectiveness of the individual directors, the Board as a whole;
- (v) Annual review of the composition of the Board and all Board Committees having regard to the mix of skills, character, experience, integrity, competence and time commitment rendered;
- (vi) Reviewed the independence of Independent Directors;
- (vii) Reviewed the required mix of skills, experience and other qualities of the Board;
- (viii) Reviewed and recommended to the Board, the re-election of the Directors who will be retiring at the forthcoming Annual General Meeting (“AGM”) of the Company;
- (ix) Reviewed the attendance records of Directors’ trainings; and
- (x) Reviewed the attendance of Board members at Board and Committees Meetings.

#### (b) **Develop, maintain and review criteria for recruitment process and annual assessment of directors**

- (i) Appointment of the Board and re-election of Directors

##### Appointment of the Board

Pursuant to the TOR of NC, the NC is tasked to identify, nominate and orientating new Directors and to make recommendations to the Board for the appointment of Directors.

The NC reviews the candidate for appointment as Director based on the following criteria:-

- Skills, knowledges, expertise and experience;
- Professionalism;
- Integrity; and
- In the case of the candidates for the position of the INEDs, the NC should also evaluate the candidates’ ability to discharge such responsibilities/functions as expected from INEDs.

# Corporate Governance Statement (Cont'd)

## PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

### 2.2 Nomination Committee (“NC”) (Cont'd)

#### (b) **Develop, maintain and review criteria for recruitment process and annual assessment of directors (Cont'd)**

##### (i) Appointment of the Board and re-election of Directors (Cont'd)

For FYE 2016 and up to the date of this statement, the NC has reviewed and recommended the appointment of the candidate, Mr. Hong, to the Board based on the criteria as abovementioned.

Upon the recommendation of the NC, the Board has approved the appointment of Mr. Hong as the INED with effect from 3 August 2016.

##### Re-election of Directors

Article 91 of the Company's Constitution states that an election of Directors shall take place at each AGM. At each AGM one-third (1/3) of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third (1/3), shall retire from office by rotation. All Directors shall retire from office once at least in each three (3) years, but shall be eligible for re-election. As such, pursuant to Article 91 of the Company's Constitution, the following Directors are to retire at the forthcoming AGM 2017 of the Company (hereinafter referred to as “the Retiring Directors”):-

- Mr. Ding JianPing; and
- Mr. Lee Yew Weng.

The Board has concurred the same and resolved that both Mr. Ding JianPing and Mr. Lee Yew Weng be recommended to the shareholders for approval at the forthcoming AGM 2017.

Pursuant to Article 97 of the Company's Constitution, any Director who are to be appointed either to fill a casual vacancy or as an additional Director, shall hold office only until the next AGM and shall be eligible for re-election, but shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

Upon review, the NC and the Board resolved that the Director, Mr. Hong Cheong Liang, who retires pursuant to Article 97 of the Company's Constitution, be recommended to the shareholders for approval at the forthcoming AGM 2017.

#### (c) **Annual Assessment of the Board**

The NC conducted the following assessments annually:-

##### (i) Directors' self-assessment

In conducting the Survey, the following main criteria were adopted by the NC:-

- Fit and proper;
- Contribution and performance; and
- Calibre and personality.

Based on the Survey conducted for the FYE 2016, the NC was satisfied with the performance of the individual Directors.

##### (ii) Evaluation on the effectiveness of the Board as a whole and Board Committees

Based on the Evaluation conducted for the FYE 2016, the NC was satisfied with the performance of the Board as a whole as well as the Board Committees.

## **PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)**

### **2.2 Nomination Committee (“NC”) (Cont'd)**

#### **(d) Gender, ethnicity, age and nationality diversity**

The Company does not practice any form of gender, ethnicity and age group biasness as all candidates shall be given fair and equal treatment. The Board believes that there is no detriment to the Company in not adopting a formal gender, ethnicity and age group diversity policy as the Company is committed to provide fair and equal opportunities and nurturing diversity within the Company.

Notwithstanding with the above, the Board affirms its commitment to boardroom diversity as a truly diversified board can enhance the board's effectiveness, perspective, creativity and capacity to thrive in good times and to weather the tough times.

In identifying suitable candidates for appointment to the Board, the NC will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

#### ***Gender Diversity***

Currently, there is one female director on the Board of the Company, Ms. Xiao LuXi, an INED, serves as the Chairperson of the Nomination Committee, as well as a member of the Audit Committee and Remuneration Committee respectively.

#### ***Age Diversity***

The Board believes that the Directors with younger age profile will be able to provide a different perspective and bring vibrancy to the Group's strategy making process whilst capitalising on the experience and technical skills of the Executive Chairman and CEO.

While the Executive Chairman and CEO, Mr. Ding JianPing is 60 years of age, the general age profile of the majority of the Directors were between thirties to forties years of age.

#### ***Ethnicity and Nationality Diversity***

Being a Singapore-incorporated entity, with manufacturing plants in China, while being listed on Bursa Securities, the Board composition is made up of Singaporean, PRC Chinese as well as Malaysians, which is reflective of the Company's actual status. The composition of the Board transcends ethnicity and national boundary, thus providing the Board with an international and unique perspective.

#### **(e) Remuneration Committee (“RC”)**

The RC comprises wholly of INEDs as follows:-

<b>Remuneration Committee</b>	<b>Number of RC Meetings attended/held in the financial year under review</b>
Hong Cheong Liang (Chairman) (Appointed on 3 August 2016)	1/1
Lee Yew Weng (Member)	1/1
Xiao LuXi (Member)	1/1
Teoh Tow Kean (Chairman) (Resigned on 29 July 2016)	NIL

The RC met once during the financial year under review.

# Corporate Governance Statement (Cont'd)

## PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

### 2.2 Nomination Committee (“NC”) (Cont'd)

#### (e) Remuneration Committee (“RC”) (Cont'd)

The principal objective of the TOR of RC is to achieve a balance between setting the level and structure of the remuneration package of Executive Directors so as to be able to attract and retain the best against its interest in not paying excessive remuneration.

The Board does not have any formal remuneration policy. Notwithstanding that, the RC is guided by the TOR of RC to recommend to the Board a Remuneration Framework on the fee structure and level of remuneration for the Executive Directors, CEO and Senior Management as well as remuneration package for Non-Executive Directors. The determination of remuneration packages of Non-Executive Directors, is a matter for the Board as a whole.

The TOR of RC has been revised and updated on 11 November 2016.

A copy of the updated TOR of RC is available for reference under the “Corporate Governance” section of the Company’s website at [www.kstarsports.com](http://www.kstarsports.com).

For FYE 2016, the RC had performed its duty to assess annually the remuneration package of its Executive Directors and Senior Management.

The proposed remuneration of Non-Executive Directors is determined by the Board which comprises the following:-

Directors’ Fees	These fees are payable to the Executive Directors and Non-Executive Directors and are recommended by the Board for the approval of the shareholders at annual general meeting.
Meeting Allowance	This allowance is payable only to the Non-Executive Directors for attendance of the Board and Committee meetings. The meeting allowance is determined by the Board.

In addition, the RC had also deliberated on the Directors’ fees payable for the financial year ending 31 December 2017 (“**FYE 2017**”) which is subject to the shareholders’ approval at the forthcoming AGM. Further to the deliberations, the RC had reported to the Board its recommendations and findings. The Directors’ fees recommended to the shareholders’ approval for the FYE 2017 is RMB 320,000. The details of the remuneration of Directors for the FYE 2016 were as follows:-

#### **Company**

	Executive Directors (RMB'000)	Non-Executive Directors (RMB'000)	Total (RMB'000)
Directors’ fees	90	192	282
Salaries, other emoluments and benefits	900	–	900
Allowances	–	6	6
<b>Grand total</b>	<b>990</b>	<b>198</b>	<b>1,188</b>

## Corporate Governance Statement (Cont'd)

### PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

#### 2.2 Nomination Committee (“NC”) (Cont'd)

##### (e) Remuneration Committee (“RC”) (Cont'd)

###### Group

	Executive Directors (RMB'000)	Non-Executive Directors (RMB'000)	Total (RMB'000)
Directors' fees	90	192	282
Salaries, other emoluments and benefits	1,145	–	1,145
Allowances	–	6	6
<b>Grand total</b>	<b>1,235</b>	<b>198</b>	<b>1,433</b>

The aggregate remuneration of Directors analysed into appropriate band of RMB50,000/- were as follows:-

###### Received from the Company

Range of Remuneration	No. Of Directors	
	Executive Directors	Non-Executive Directors
Below RMB50,000	–	2
RMB50,001 – RMB100,000	1	2
RMB900,001 – RMB950,000	1	–

###### Received from the Group

Range of Remuneration	No. Of Directors	
	Executive Directors	Non-Executive Directors
Below RMB50,000	–	2
RMB50,001 – RMB100,000	–	2
RMB150,001 – RMB200,000	1	–
RMB1,150,001 – RMB1,200,000	1	–

Details of the Director's Remuneration are set out in applicable bands of RMB 50,000/- as required by the Main LR. Whilst the MCCG 2012 prescribed for individual disclosure of directors' remuneration packages, the Board is of the view that transparency and accountability aspects of Corporate Governance in respect of the Directors' remuneration are appropriately and adequately addressed by the board disclosure method adopted by the Board.

# Corporate Governance Statement (Cont'd)

## PRINCIPLE 3 – REINFORCE INDEPENDENCE

### 3.1 Board should undertake an assessment of its independent directors annually

The Board, through the NC, assessed the Independent Directors on an annual basis as recommended by Recommendation 3.1 of the MCCG 2012.

The Board noted that Letters of Declaration has been executed by the following INEDs of the Company, confirming their independence to relevant Main LR of Bursa Securities as well as the MCCG 2012:-

- Ms. Xiao LuXi;
- Mr. Lee Yew Weng; and
- Mr. Hong Cheong Liang.

For the FYE 2016, upon review, the Board is satisfied that the abovementioned INEDs have brought independent and objective judgements to the Board and have not been compromised, amongst others, familiarity or close relationship with other Board members.

The Board therefore recommends the re-election of Mr. Lee Yew Weng and Mr. Hong Cheong Liang as Directors of the Company at the forthcoming AGM in 2017.

### 3.2 Tenure of independent director should not exceed cumulative term of nine (9) years. Upon completion of tenure, independent director can continue serving but as non-executive director

The Board is mindful that the tenure of an INED should not exceed a cumulative term of nine (9) years unless it is recommended by the NC and the Board is then satisfied that the proposed candidate is able to continue to bring independent judgement to the board's deliberations.

As a matter of policy, the Board shall provide justifications and seek the approval of the shareholders in the event the Board proposes to retain an INED who has served the Board in that capacity for a cumulative term of more than nine (9) years.

At present, none of the Independent Directors have served more than a cumulative term of nine (9) years. The Board is mindful of the cumulative term of nine (9) years for its INEDs and shall address the issue when the time comes.

### 3.3 Must justify and seek shareholders' approval in retaining independent directors (serving more than 9 years)

This is not applicable to the Company for FYE 2016.

### 3.4 Separation of the Positions of Chairman and CEO

The MCCG 2012 recommends that the positions of the Chairman and CEO should be held by different individuals, and the Chairman must be a Non-executive Director. The Board continues to be mindful of the combined role of the Executive Chairman and CEO positions currently held by Mr. Ding JianPing. In the best interest of the Group, this combined role is maintained as the valuable knowledge in the business operation contributed by Mr. Ding JianPing is essential to the effective management of the Group.

Mr. Ding, the Executive Chairman and CEO, although not an INED, provides strong leadership and objective judgement with regard to ensuring the adequacy and effectiveness of the Board's governance processes.

The role of the Chairman and the role of the CEO are clearly defined in the Board Charter.

The Board is of the view to maintain the combined role of the Executive Chairman and Executive Director in view of the three (3) INEDs on board which provides the Company with sufficient balance of power and authority on the Board.

There is a balance of membership in the Board thus ensuring that no individual dominates the decision making process and the results thereof.

## PRINCIPLE 3 – REINFORCE INDEPENDENCE (CONT'D)

### 3.5 Board must comprise a majority independent directors if Chairman is not an independent director

The Chairman is an Executive Director and the Board has a majority of Independent Directors to ensure that balance of power and authority is maintained at Board level.

The Board consists of five (5) members comprising two (2) Executive Directors and three (3) INEDs and therefore the prescribed requirement for one-third (1/3) of the membership of the Board to be independent Board members is fulfilled. The independent element brings an objective and independent judgement to the decision-making process of the Board. The biographical details of the Board members are set out in the Board of Directors' Profile section of this Annual Report.

## PRINCIPLE 4 – FOSTER COMMITMENT

### 4.1 Board should set expectations on time commitment for its members and protocols for accepting new directorships

The Board is required to meet at least four (4) times a year to consider all matters relating to the overall control, business performance and strategy of the Company. Additional meeting will be called when and if necessary. The relevant reports and Board Papers are distributed to all Directors in advance of the Board Meeting to allow the Directors sufficient time to peruse for effective discussion and decision making during the meetings. All pertinent issues discussed at the meetings in arriving at decisions and conclusions are properly recorded in the discharge of the Board's duties and responsibilities.

The Board is satisfied with the level of time commitment of the Directors from their attendance at the Meetings. The record of the Directors' attendance at Board Meeting and various Committees' Meeting for the FYE 2016 is contained in the table below:-

Directors	Attendance	Percentage of Attendance (%)
Ding JianPing	6 out of 6	100
Ding ZiDi	6 out of 6	100
Lee Yew Weng	6 out of 6	100
Xiao LuXi	6 out of 6	100
Hong Cheong Liang (appointed on 3 August 2016)	3 out of 3	100
Teoh Tow Kean (Resigned on 29 July 2016)	3 out of 3	100

For FYE 2016, the Board members achieved 100% attendance at the Board Meetings held. In the intervals between Board Meetings, for any matters requiring Board's decisions, the Board's approvals are obtained through circular resolutions. These resolutions would be tabled at the next Board Meeting for notation.

#### ***Protocol for Acceptance of New Directorships***

The Directors observe the recommendation of the MCCG 2012 that they are required to notify the Chairman of the Board before accepting any new directorships and to indicate the time expected to be spent on the new appointment. Generally, Directors are at liberty to accept other Board appointments so long as such appointments are not in conflict with the business of the Company and do not adversely affect the Director's performance as a member of the Board.

For the FYE 2016, the Company did not receive any written notification from the Directors.

# Corporate Governance Statement (Cont'd)

## PRINCIPLE 4 – FOSTER COMMITMENT (CONT'D)

### 4.2 Board should ensure members have access to appropriate continuing education programme

The Directors are encouraged to attend continuing education programmes and seminars to keep abreast with current developments in the market place and with new statutory and regulatory requirements.

All members of the Board have attended the Mandatory Accreditation Programme prescribed by Bursa Securities.

During the FYE 2016, the training programmes and seminars attended by the Directors were as follows:

Directors	List of Training/ Conference/ Seminar/ Workshop Attended/ Participated
Ding JianPing	<ul style="list-style-type: none"> <li>ISO9001:2008 International Quality Management System</li> <li>Briefing on the principal activities and businesses of K-Star Sports Limited and Group as well as reconnaissance trip to the premises of K-Star Sports Limited and Group</li> </ul>
Ding ZiDi	<ul style="list-style-type: none"> <li>ISO9001:2008 International Quality Management System</li> <li>Briefing on the principal activities and businesses of K-Star Sports Limited and Group as well as reconnaissance trip to the premises of K-Star Sports Limited and Group</li> </ul>
Lee Yew Weng	<ul style="list-style-type: none"> <li>Tax Seminar 2016</li> <li>Briefing on the principal activities and businesses of K-Star Sports Limited and Group as well as reconnaissance trip to the premises of K-Star Sports Limited and Group</li> </ul>
Xiao LuXi	<ul style="list-style-type: none"> <li>ISO9001:2008 International Quality Management System</li> <li>Briefing on the principal activities and businesses of K-Star Sports Limited and Group as well as reconnaissance trip to the premises of K-Star Sports Limited and Group</li> </ul>
Hong Cheong Liang	<ul style="list-style-type: none"> <li>The New Auditor's Report – Sharing the UK Experience</li> <li>Corporate Governance Breakfast Series: Improving Board Risk Oversight Effectiveness</li> <li>Case Study Workshop for Independent Directors</li> <li>CPA Congress in Kuala Lumpur</li> <li>Briefing on the principal activities and businesses of K-Star Sports Limited and Group as well as reconnaissance trip to the premises of K-Star Sports Limited and Group</li> <li>Feng Shui Talk: 2017 Year of the Fire Phoenix</li> </ul>

The Company Secretary regularly updates the Board on changes to Main LR of Bursa Securities and other relevant guidelines/legislation at Board meetings. The Directors will continue to undergo relevant training programmes to further enhance their skills and knowledge in the discharge of their stewardship role.

Upon review, the Board concluded that the 2016 Directors' Trainings were adequate.

### 2017 Training Needs

Upon review of the training needs of the Directors for the FYE 31 December 2017 and recognising the need to keep abreast with the fast changing business and regulatory environment, the Board has encouraged its members to attend at least two (2) continuing education programmes, whereby one (1) of those should be in relation to the Main LR of Bursa Securities.

## **PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING**

### **5.1 Audit Committee should ensure financial statements comply with applicable financial reporting standards**

The Board provides the shareholders with the Audited Consolidated Financial Statements and quarterly reports on a timely basis. The AC reviews the quarterly results and Audited Consolidated Financial Statements, before the approval by the Board, focusing particularly on:

- (1) changes in or implementation of major accounting policy changes;
- (2) key audit matters;
- (3) significant and unusual events; and
- (4) compliance with accounting standards and other legal requirements.

### **5.2 Audit Committee should have policies and procedures to assess suitability and independence of external auditors**

On an annual basis, the AC would review and monitor the suitability and independence of the External Auditors. The AC sets policy and procedures on the provision of non-audit services by the External Auditors. For the financial year under review, there were no non-audit services rendered by the External Auditors. The AC is satisfied with the competence and independence of the External Auditors and had recommended the re-appointment of the External Auditors to the Directors at the forthcoming AGM.

For FYE 2016, the AC has vide an annual assessment to assess the suitability and independence of external auditors.

In its assessment, the AC considered, inter alia, the following factors:-

For assessment on “Suitability” of External Auditors:-

- the External Auditors are not disqualified under Section 10(1) of the Companies Act (Chap 50) of Singapore;
- The External Auditors have the adequate resources, skills, knowledge and experience to perform their duties with professional competence and due care in accordance with approved professional auditing standards and applicable regulatory and legal requirements;
- The External Auditors do not have relationships with, or interests in, the Company or any other entity that are likely to impair their objectivity or independence.
- To the knowledge of the AC, the External Auditors do not have any record of disciplinary actions taken against them for unprofessional conduct by the Institute of Singapore Chartered Accountants (“ISCA”).
- The engagement partner has not served for a continuous period of more than five (5) years with the Company.
- The external audit firm has the geographical coverage required to audit the Company.
- The external audit firm advises the AC on significant issues and new developments pertaining to risk management, corporate governance, financial reporting standards and internal controls on a timely basis.
- The external audit firm consistently meets the deadlines set by the Company.
- The level of quality control procedures in the external audit firm, including the audit review procedures.
- The external audit scope is adequate to cover the key financial and operational risks of the Company.

For assessment on “Independence” of the External Auditors:-

- The engagement partner has not served for a continuous period of more than five (5) years with the Company;
- The AC receives written assurance from the external auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.
- The external auditors do not provide non-audit services to the Company/Group for the current financial year end.

## Corporate Governance Statement (Cont'd)

### PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING (CONT'D)

#### 5.2 Audit Committee should have policies and procedures to assess suitability and independence of external auditors (Cont'd)

The AC noted for the FYE 2016, Messrs. Helmi Talib & Co., the External Auditors of the Company confirmed in writing that the engagement quality control reviewer and members of the engagement team in the course of their audits were and had been independent for the purpose of the audit in accordance with the terms of relevant professional and regulatory requirements.

Upon completion of its assessment, the AC was satisfied with Messrs. Helmi Talib & Co's technical competency and audit independence during the financial year under review and recommended to the Board the re-appointment of Messrs. Helmi Talib & Co as External Auditors for the financial year ending 31 December 2017.

The Board has in turn, recommended the same for shareholders' approval at the forthcoming AGM 2017 of the Company.

During the FYE 2016, the AC met twice with the External Auditors without the presence of the Executive Board members and Management to discuss issues of concern to the External Auditors.

### PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS

#### 6.1 Board should establish a sound framework to manage risks

The Risk Management Committee of the Company oversees the risk management of the Group. The Risk Management Framework was adopted by the Directors. The Board through the AC would obtain report from the Internal Auditors on the periodic check on the internal control system.

The Risk Management ("RM") Committee comprises of four (4) members from the Senior Management Team. The composition of the RM Committee is as follows:-

Name	Position	Designation
Huang Yanbin (黄燕宾)	Member	Production Deputy General Manager
Zhong Ming (钟明)	Member	Quality Assurance Deputy General Manager
Ding Mingzhao (丁铭钊)	Member	Sales & Marketing Manager
Yang Qingyou (杨清油)	Member	Finance Manager

The details of the risk management are set out in the Statement on Risk Management and Internal Control in this Annual Report.

#### 6.2 Board should establish an internal audit function which reports directly to Audit Committee

The internal audit function of the Group is outsourced to a professional firm, namely alphaOne Governance Sdn. Bhd. ("alphaOne") to provide the AC and the Board with the assurance they require pertaining to the adequacy and effectiveness of internal control.

Please refer to the AC Report of this Annual Report for further particulars in relation to the summary of works undertaken by the AC for FYE 2016. Meanwhile, the details of the internal control system are set out in the Statement on Risk Management and Internal Control in this Annual Report.

### PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

#### 7.1 Ensure company has appropriate corporate disclosure policies and procedures

The Board has in place a Corporate Disclosure Policy in line with the Main LR of Bursa Securities. The Executive Chairman is the spokesperson of the Company on all matters relating to the Company to ensure compliance with the disclosure obligations as well as overseeing and co-ordinating disclosure of information. The Board has delegated the authority to the Executive Chairman to approve all announcements. The Executive Chairman works closely with the Board, the Senior Management and the company secretary who are privy to the information to maintain strict confidentiality of the information.

#### 7.2 Encourage company to leverage on information technology for effective dissemination of information

The Company's website incorporated an "Investor Relations" section where all announcements of the Company would be captured under the Newsroom section. The Board ensures that shareholders are kept fully informed through information provided on the Company's website at [www.kstarsports.com](http://www.kstarsports.com).

### PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

#### 8.1 Take reasonable steps to encourage shareholder participation at general meetings

The Company encourages its shareholders to attend the Annual General Meeting ("AGM"). The Annual Report and Notice of the AGM are sent to all shareholders in accordance with the provisions of the Main LR of Bursa Securities and the Company's Constitution. The Notice of AGM is also published in a national newspaper. The Notice would include explanatory statements for proposed resolutions to facilitate understanding and evaluation of issues involving the shareholders.

The AGM is the primary forum for the Directors to communicate with shareholders. The Board provides opportunities for shareholders to raise questions pertaining to issues in the Annual Report, corporate developments in the Group, the resolutions being proposed and the business of the Group.

#### 8.2 Poll voting

The Chairman of the AGM would remind the shareholders, proxies and corporate representatives on their rights to demand for a poll in accordance with the provisions of the Company's Constitution.

The voting process at the general meetings shall be by way of poll, as required by the Main LR of Bursa Securities since 1 July 2016.

#### 8.3 Board should promote effective communication and proactive engagements with shareholders

At each general meeting, all the Directors and management of the Company would be present to respond to shareholders' queries. The Chairman of the meeting would provide time for the shareholders to ask questions for each agenda in the notice of the general meeting before putting the resolutions to vote. The External Auditors would also attend the general meeting to clarify any questions relating to the audited financial statements.

### CONCLUSION

The Board is satisfied that for FYE 2016, the Company has complied substantially with the principles and recommendations of the MCCG 2012.

This statement is made in accordance with the resolution of the Board dated 10 April 2017.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## INTRODUCTION

Pursuant to paragraph 15.26 (b) of the Main Market Listing Requirements and as guided by the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers (“the Guidelines”), the Board of Directors of K-Star Sports Limited (“K-STAR” or “the Company”) is pleased to include a statement on the state of the Group’s internal controls in this annual report.

## BOARD’S RESPONSIBILITIES

The Board recognises the importance of good risk management practices and sound internal controls as a platform to good corporate governance. The Board acknowledges its overall responsibility for maintaining a sound system of risk management and internal control, and for reviewing its adequacy and integrity.

In addition, the Board has received assurance from the Executive Chairman / CEO and Finance Manager that the Group’s system of risk management and internal control is operating adequately and effectively in all material aspects.

Due to inherent limitations in any risk management and internal control system, such system put into effect by the management is designed to manage rather than eliminate risks that may impede the achievement of the Group’s business objectives. Therefore, the risk management and internal control system can only provide reasonable and not absolute assurance against material misstatement or loss.

## KEY FEATURES OF THE GROUP’S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Key elements of the Group’s risk management and internal control system that have been established to facilitate the proper conduct of the Group’s businesses are described below:

### A. RISK MANAGEMENT SYSTEM

During the financial year under review, the Risk Management Committee comprising the heads of department and the Executive Chairman / CEO reviewed the existence of new risks and assessed the relevance of the Group’s existing risk profile to ensure that adequate and effective measures are in place to mitigate the risks identified. The significant risks affecting the Group’s business objectives are monitored closely by the Executive Chairman / CEO. The results of the risk assessments are brought to the attention of the Audit Committee at their scheduled meetings.

The abovementioned risk management practices of the Group serve as the on-going process used to identify, evaluate and manage risks. This process has been in place for the year under review and up to the date of approval of this Statement. The Board shall re-evaluate the existing risk management practices, and where appropriate and necessary, revise such practices accordingly.

### B. INTERNAL CONTROL SYSTEM

- Organisation Structure & Authorisation Procedures

The Group maintains a formal organisational structure that includes clear delegation of responsibilities and accountability. The Executive Chairman and CEO heads the organisational structure and assisted by his team of key management, are well in place to monitor the internal control system of the Group.

- Group Policies and Procedures

The policies and procedures are documented and reviewed in order to be current.



## Statement on Risk Management and Internal Control (Cont'd)

### KEY FEATURES OF THE GROUP'S RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM (CONT'D)

#### B. INTERNAL CONTROL SYSTEM

- Information and Communication

Critical information is communicated to the staff to ensure that matters that require the Board and Senior Management's attention are highlighted for review on a timely basis.

- Monitoring and Review

Management meetings are held to discuss and review the business plans, financial and operational performances of the Group. Monthly management accounts containing key financial results and operational performance are presented to the management team for monitoring and review. The quarterly financial statements are presented to the Board for their review, consideration and approval.

#### C. INTERNAL AUDIT FUNCTION

The Group's internal audit function is outsourced to a professional services firm, to assist the Board and Audit Committee in providing an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control system.

During the financial year ended 31 December 2016, an internal audit review was carried out as directed by the Audit Committee based on their assessment of risks faced by K-STAR and matters of concern to them. The business process reviewed was credit control and receivables collection and the entity reviewed was Fujian Jinjiang Dixin Shoes Plastics Co., Ltd. The results of the review were discussed with Senior Management and subsequently, the audit findings, including the recommendations for improvement were reported to the Audit Committee at the scheduled meeting held on 17 February 2017. In addition, a follow up review was conducted to ascertain the status of implementation of the agreed upon management action plans and updating of risk management framework. The results of the follow up review and risk management framework were also reported to the Audit Committee at the scheduled meeting held on 17 February 2017.

Based on the internal audit review conducted, none of the weaknesses noted have resulted in any material losses, contingencies or uncertainties that would require separate disclosure in this annual report.

The professional fees paid for outsourcing of internal audit function for the year ended 31 December 2016 was RMB 70,155.

### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement for inclusion in the annual report and reported to the Board that nothing has come to their attention that caused them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in reviewing the adequacy and effectiveness of the Group's risk management and internal control system.

This Statement is made in accordance with the resolution of the Board of Directors dated 10 April 2017.

# AUDIT COMMITTEE REPORT

## A. COMPOSITION AND ATTENDANCE

The Audit Committee (“AC”) comprised of three (3) members, all of whom are independent and non-executive directors. The current composition complies with Paragraph 15.09(1)(a) and (b) of the Main Market Listing Requirements (“**Main LR**”) of Bursa Malaysia Securities Berhad (“**Bursa Securities**”).

Six (6) AC Meetings were held during the year and the attendance of the committee members were as follows:-

Members	Designation	Attendance
Lee Yew Weng	Chairman, Independent Non-Executive Director	6 out of 6 meetings
Teoh Tow Kean (Resigned on 29 July 2016)	Member, Independent Non-Executive Director	3 out of 3 meetings
Xiao LuXi	Member, Independent Non-Executive Director	6 out of 6 meetings
Hong Cheong Liang (Appointed on 3 August 2016)	Member, Independent Non-Executive Director	3 out of 3 meetings

Mr. Lee Yew Weng, the Chairman of the AC is Certified Practising Accountants (“CPA”) of CPA Australia as well as a member of the Malaysian Institute of Accountants (“MIA”), thereby comply with Paragraph 15.10 of the Main LR of Bursa Securities as well as Clause 3 of the Terms of Reference of the AC.

Mr. Hong Cheong Liang, a newly appointed AC member on 3 August 2016, is also a CPA of CPA Australia, as well as a member of the MIA and associate member of the Institute of Internal Auditors in Malaysia.

With two (2) AC members both being CPA and a member of the MIA, the Company has thereby well exceeded the minimum requirements as set forth under Paragraph 15.09(1)(c) of the Main LR of Bursa Securities.

## B. ASSESSMENT ON TERM OF OFFICE AND PERFORMANCE OF THE AC

In respect of the financial year ended 31 December 2016 (“**FYE 2016**”), the Nomination Committee had on 11 November 2016 reviewed the term of office and performance of the AC as well as whether its members have carried out their duties in accordance with the Terms of Reference of AC.

Upon review, the Nomination Committee was satisfied the overall performance of the AC and its individual members for FYE 2016.

## C. TERMS OF REFERENCE

In view of the recent amendments of the Main LR of Bursa Securities, the Terms of Reference (“**TOR**”) of the AC has been reviewed and revised by the AC and recommended the same to the Board of Directors’ approval for adoption. Accordingly, the revised TOR of the AC was approved by the Board of Directors on 11 November 2016.

The revised TOR of the AC is available for reference under “Corporate Governance” section of the Company’s website at [www.kstarsports.com](http://www.kstarsports.com).

## **D. MEETINGS**

For the FYE 2016, the AC members have attended and participated all in total of six AC meetings held.

The Chief Executive Officer and Executive Director were invited to attend all AC Meetings to highlight and provide clarifications on audit issues arising from the Group's operations.

For FYE 2016, two (2) private sessions were held with the External Auditors without the presence of the executive Board Members and employees on 25 February 2016 and 11 November 2016, respectively.

The notice of the AC meetings is served at least one week before each AC meeting and the meeting papers would be e-mailed in advance to each AC member. As a standing practice, the AC Chairman would brief the Board at the Board of Directors' Meeting on the matters discussed during the AC Meeting held earlier.

Minutes of the AC Meetings were recorded by the Secretarial Agent in attendance and tabled for confirmation at the next following AC Meeting and subsequently be presented to the Board for notation. The AC Chairman conveyed the Board on issues of significant concern raised by the AC, Internal Auditors and/or External Auditors.

## **E. SUMMARY OF THE WORKS OF THE AUDIT COMMITTEE**

The works undertaken by the AC during the FYE 2016 were summarised as follows:-

### **(i) Oversight of Financial Reporting matters**

- Reviewed the unaudited quarterly results and year-end financial statements, prior to submission to the Board for deliberation and approval for the announcement to be released.
- Reviewed the Audited Consolidated Financial Statements, Directors' Statement and Independent Auditors' Report and other significant accounting issues from the audit of the FYE 2016.

### **(ii) Oversight of External Audit**

- Reviewed with the External Auditors, Messrs. Helmi Talib & Co., the Audit Planning Memorandum for FYE 2016, which cover their audit focus, key audit matters, compliance with Financial Reporting Standards, group audit materiality, audit timetable, and proposed audit fees and thereafter recommended the same to the Board for notation.
- Updated by the External Auditors on changes to the relevant guidelines on the regulatory and statutory requirements.
- Two (2) private sessions held with the External Auditors without the presence of executive Board members and employees to discuss on issues of concern.
- Evaluated the performance of the External Auditors for FYE 2016 before recommending to the Board their re-appointment at the forthcoming AGM 2017.
- Conducted the annual assessment on the suitability and independence of the External Auditors and satisfied with the External Auditors' technical competency and audit independence.

### **(iii) Oversight of Internal Audit function**

- Please refer to the Summary of Works undertaken by the Internal Audit Function below for FYE 2016.

### **(iv) Other activities**

- Reviewed the quarterly status of any related party transactions, debtors' ageing reports for local and foreign distributors.
- Reviewed the Corporate Sustainability Statement, Corporate Governance Statement, Audit Committee Report and Statement on Risk Management and Internal Control prior to submission to the Board for approval and inclusion in the Annual Report 2016.
- Reviewed the status of the land-use-rights application on a quarterly basis.

## Audit Committee Report (Cont'd)

### F. SUMMARY OF THE WORKS OF THE INTERNAL AUDIT FUNCTION

The Audit Committee is supported by the internal audit team whose primary responsibility is to evaluate and report on the adequacy, integrity and effectiveness of the overall system of internal control of the Group.

The Internal Audit (“IA”) function of the Group is outsourced to an external consultant who reports directly to the AC with its findings and recommendations. Any necessary corrective actions after reporting to the Board of Directors by the AC will be directed by the Board.

#### Assessment and Review of the Internal Audit Function

Bursa Securities has vide letter dated 24 November 2015 requested the AC to undertake an assessment and review of the internal audit in regards to its scope, functions, competency, IA programme, processes and whether or not appropriate action has been taken etc and to report to the Board and Bursa Securities no later than five (5) months from 24 November 2015, i.e. on or before 24 April 2016 (“the **Mandatory IA Review**”). The AC has reviewed the above letter at the AC Meeting held on 25 February 2016. The AC has also engaged an independent audit professional to conduct an audit on the overall internal control environment conducted in response to the audit findings raised in the past IA reports. The engagement served to provide reasonable assurance to the AC whether overall internal control of the Company (established in response to past IA recommendations) was adequate and in good order. The said audit concluded that all past IA recommendations have been duly attended to and addressed by Management. The AC has on 8 April 2016 received the review report from the internal auditors and recommended the same to the Board for notation. The Board in turn noted the said report and provided confirmation to Bursa Securities on successful completion of the Mandatory IA Review.

#### Appointment of New IA Service Provider

To provide a fresh perspective to the IA function, the AC has engaged alphaOne Governance Sdn. Bhd. (“alphaOne”) as the new IA service provider on 11 November 2016.

#### Competency

The principal engagement lead of alphaOne to the Company is Mr. Steven Choo, a Certified Internal Auditor, USA; a Member of the Association of Chartered Certified Accountants as well as a member of the MIA, with 15 years of experience in providing internal audit, risk management advisory as well as financial management advisory services.

#### IA Approach

The AC noted alphaOne would perform their IA programmes using a two-pronged approaches:-

##### (i) Risk-based IA Approach

A structured method to provide the assurance that “auditable” risks have been included in the IA plan with sufficient coverage on the effectiveness as well as the compliance level of the underlying internal controls.

##### (ii) Top-down Approach

To ensure that the organisation’s corporate governance, strategy, and operations are aligned:

- Preliminary risk assessment to first identify the key risk areas and issues.
- Construct an audit work programme for the business processes/ units with the corresponding objectives and audit procedures and observations.

**F. SUMMARY OF THE WORKS OF THE INTERNAL AUDIT FUNCTION (CONT'D)**

**IA Plan**

AlphaOne is expected to table its full IA Plan for year 2017 for AC's review and consideration in early 2017.

**Initial Audit Review by alphaOne**

For the FYE 2016, alphaOne has managed to conduct an internal audit review on the following functional area of Fujian Jinjiang Dixing Shoes Plastics Co. Ltd., being the sole active wholly-owned subsidiary of the Company:-

Credit Controls and Collection (Trade Receivables)

- Credit Assessment of New Customers;
- Periodic Credit Evaluation of Existing Customers; and
- Credit Monitoring and Collection.

The period of review was from 1 January 2016 to 30 November 2016. alphaOne has tabled the above IA Report at the AC Meeting held on 17 February 2017 for AC's review and adoption. The AC has in turn recommended the same to the Board for notation whilst requesting the Management to attend to the IA issues as highlighted by alphaOne.

The cost incurred for the IA function in respect of the FYE 2016 was approximately RMB 70,155 equivalent to RM 45,320 (2015: RMB 35,604 equivalent to RM 23,000).

# DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are required by the Singapore Companies Act (Chapter 50) to prepare financial statements that are in accordance with the Singapore Financial Reporting Standards and reflect a true and fair view of the state of affairs of the Group at the end of the financial year and of the results and cash flows of the Group for the financial year.

The Directors are responsible to ensure that the financial statements give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year, and of the results and cash flows of the Group and the Company for the financial year.

In preparing the financial statements, the Directors have:

- adopted suitable accounting policies and applied them consistently;
- made judgements and estimates that are prudent and reasonable;
- ensured that applicable accounting standards have been followed;
- prepared the financial statements on a going concern basis; and
- ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to detect and prevent fraud and other irregularities.

This Statement is made in accordance with the resolution of the Board dated 10 April 2017.



# Financial **Statements**

Directors' Statement  
**46**

Statutory Declaration  
**48**

Independent Auditors' Report  
**49**

Consolidated Statement of  
Profit or Loss and Other  
Comprehensive Income  
**53**

Statements of Financial Position  
**54**

Consolidated Statement of Changes  
in Equity  
**55**

Statements of Changes in Equity  
**56**

Consolidated Statement of  
Cash Flows  
**57**

Notes to the Financial Statements  
**58**

# DIRECTORS' STATEMENT

The directors present their statement to the members together with the audited consolidated financial statements of K-Star Sports Limited (the “Company”) and its subsidiary corporations (collectively, the “Group”) and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2016.

## 1 OPINION OF THE DIRECTORS

In the opinion of the directors:

- (i) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 53 to 95 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards; and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The supplementary information set out in Note 30 to the financial statements has been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

## 2 DIRECTORS

The directors of the Company in office at the date of this statement are:

Ding JianPing  
Ding ZiDi  
Lee Yew Weng  
Xiao LuXi  
Hong Cheong Liang (Appointed on 3 August 2016)

## 3 ARRANGEMENTS TO ENABLE THE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares and debentures of the Company or any other body corporate.

## 4 DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register of directors' shareholdings, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Chapter 50 (the “Act”), none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or any other related corporation either at the beginning of the financial year, or at the date of appointment if later, or at the end of the financial year.

## 5 SHARE OPTIONS

There were no options granted during the financial year to subscribe for unissued shares of the Company or any corporation in the Group.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or any corporation in the Group whether granted before or during the financial year.

There were no unissued shares of the Company or any corporation in the Group under option at the end of

## **6 AUDIT COMMITTEE**

The members of the Audit Committee during the year and at the date of this statement are:

Lee Yew Weng (Chairman)  
Hong Cheong Liang (Member)  
Xiao LuXi (Member)

The Audit Committee performs its functions in accordance with Section 201B (5) of the Singapore Companies Act, Chapter 50, Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”) and the Malaysian Code on Corporate Governance 2012. In performing those functions, the committee had reviewed, amongst others, the followings:

- (i) Overall scope of both the internal and external audits and assistance given by the Group’s officers to the auditors. The audit committee met with the Company’s internal and external auditors to discuss the results of their respective examinations and their evaluation on the adequacy, integrity and effectiveness of the Group’s overall system of internal accounting controls;
- (ii) The audit plan of the independent auditors and any recommendations on internal accounting control arising from the statutory audit;
- (iii) The quarterly financial information and the consolidated financial statements of the Group for the financial year ended 31 December 2016 as well as the auditors’ report thereon; and
- (iv) Interested parties transactions.

The audit committee has full access to management and is given the resources required to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The audit committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The audit committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, Helmi Talib & Co, be nominated for re-appointment as the auditors at the forthcoming Annual General Meeting of the Company.

## **7 AUDITORS**

The auditors, Helmi Talib & Co, have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board of Directors

**DING JIANPING**  
Director

**DING ZIDI**  
Director

Date: 10 April 2017

# STATUTORY DECLARATION

Pursuant to Paragraph 9.27 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

I, Ding JianPing (Passport No. E21763110), being the director primarily responsible for the financial management of K-STAR SPORTS LIMITED, do solemnly and sincerely declare that the accompanying financial statements set out on pages 53 to 95 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the prevailing laws governing declarations for oaths in China.

**DING JIANPING**

Director

Subscribed and solemnly declared by the above mentioned in Fujian Jinjiang.  
This day of 10 April 2017.

Before me:



# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF K-STAR SPORTS LIMITED**

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### ***Opinion***

We have audited the financial statements of K-STAR SPORTS LIMITED (the “Company”) and its subsidiary corporations (the “Group”) which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards (“FRS”) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

### ***Basis for Opinion***

We conducted our audit in accordance with Singapore Standards on Auditing (“SSAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (“ACRA”) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditors' Report to the members of K-STAR SPORTS LIMITED (Cont'd)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

### Key Audit Matters (Cont'd)

Matter	Audit response
<p><b>Valuation of non-financial assets (Notes 15, 16 and 19)</b></p> <p>The Group holds a significant nonfinancial assets pertaining to property, plant and equipment, intangible assets and land use rights with carrying value totaling to RMB 153,994,000, representing 55% of the Group's total assets.</p> <p>Management determines at the end of each reporting period the existence of any objective evidence through which the Group's nonfinancial assets may be impaired. If there are indicators of impairment, the deficit between the recoverable amount of the nonfinancial assets and its carrying value would be recognised in profit and loss.</p> <p>The Group determines the recoverable amount of non-financial assets at the higher of fair value less costs of disposal and value in use. The recoverable amount is determined for value in use using the discounted cash flow model approach. Management's assessment involves significant estimation, principally relating to the key assumptions for revenue growths, profit margins, terminal growth rates and discount rates. The subjectivity of the principal assumptions required a significant amount of judgement and audit effort.</p> <p>Inappropriate judgement and estimates made in the impairment assessment would result in a significant impact on the carrying amount of the nonfinancial assets.</p> <p>Disclosure on the above significant judgement has been made in Note 3 to the financial statements.</p>	<p>Our audit procedures include critically assessing management's assumptions including challenging its forecasted revenues, growth rates, profit margins and discount rates based on our knowledge of the CGUs' operations and by comparing them to historical data and applicable data available in the market to consider whether the assumptions fell within an acceptable range.</p> <p>We assessed the historical accuracy of management's forecasts and compared current performance to forecasts. We studied recent analyst market reports to obtain an understanding of the industries' actual growth rates and outlook. We also tested the mathematical accuracy of the model. We challenged management's sensitivity assessments and performed our own sensitivity calculations in respect of the key assumptions.</p> <p>Based on our procedures, we found the estimates applied in the value-in-use model to be reasonable. We concurred with management that no impairment was required for the CGUs.</p> <p>We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.</p>

### Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our independent auditors' report thereon, which we obtained prior to the date of this report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## **Independent Auditors' Report to the members of K-STAR SPORTS LIMITED (Cont'd)**

### ***Responsibilities of Management and Directors for the Financial Statements***

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



## **Independent Auditors' Report to the members of K-STAR SPORTS LIMITED (Cont'd)**

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)**

#### ***Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)***

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is See John Kuan.

### **OTHER REPORTING RESPONSIBILITIES**

The supplementary information set out in Note 30 to the financial statements are disclosed to meet the requirements of Bursa Malaysia Securities Berhad and are not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information are prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

**HELMİ TALİB & CO**  
Public Accountants and  
Chartered Accountants

Singapore

Date: 10 April 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		GROUP	
	Note	2016 RMB'000	2015 RMB'000
Revenue	4	301,277	301,352
Cost of Sales	5	(281,298)	(280,584)
Gross profit		19,979	20,768
Other income	6	44	123
Selling and distribution expenses		(100,465)	(73,737)
Administrative expenses		(20,921)	(22,133)
Finance costs	7	9,299	(1,916)
Loss before taxation	8	(92,064)	(76,895)
Income tax expense	10	–	–
Loss for the year		(92,064)	(76,895)
Total comprehensive loss for the year, attributable to the owners of the Company		(92,064)	(76,895)
<b>Loss per share attributable to owners of the Company</b>			
<b>(cents per share)</b>			
Basic	11	(34.56)	(28.86)
Diluted		(34.56)	(28.86)

The accompanying notes form an integral part of these financial statements.

# STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		GROUP		COMPANY	
	Note	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
<b>Assets</b>					
<b>Current assets</b>					
Cash and bank balances	12	164	6,163	80	–
Trade and other receivables	13	115,882	153,294	31,986	33,162
Inventories	14	9,792	9,209	–	–
Total current assets		125,838	168,666	32,066	33,162
<b>Non-current assets</b>					
Property, plant and equipment	15	47,397	53,573	–	–
Intangible assets	16	37,675	33,458	–	–
Prepayment for purchase of non-current assets	17	–	–	–	–
Investments in subsidiary corporations	18	–	–	155,177	234,140
Land-use rights	19	68,922	70,548	–	–
Total non-current assets		153,994	157,579	155,177	234,140
Total assets		279,832	326,245	187,243	267,302
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
<b>Current liabilities</b>					
Loans and borrowings	20	36,700	23,900	–	–
Trade and other payables	21	38,604	69,731	3,070	3,633
Total current liabilities		75,304	93,631	3,070	3,633
<b>Non-current liabilities</b>					
Other payables	21	63,978	–	–	–
Deferred tax liabilities	22	4,921	4,921	–	–
Total non-current liabilities		68,899	4,921	–	–
Total liabilities		144,203	98,552	3,070	3,633
<b>Equity</b>					
<b>Capital and reserves attributable to equity owners of Company</b>					
Share capital	23	285,075	285,075	285,075	285,075
Retained earnings/(Accumulated losses)		(2)	92,062	(100,902)	(21,406)
Other reserves	24	(149,444)	(149,444)	–	–
Total equity		135,629	227,693	184,173	263,669
Total liabilities and equity		279,832	326,245	187,243	267,302

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

GROUP	2016				
	Share Capital RMB'000	Merger Reserve RMB'000	Statutory Common Reserve RMB'000	Retained Earnings/ (Accumulated Losses) RMB'000	Total RMB'000
<b>Statement of changes in equity</b>					
<b>Equity</b>					
Balance at beginning of the financial year	285,075	(174,156)	24,712	92,062	227,693
<b>Comprehensive income</b>					
Loss for the year, representing total comprehensive loss	–	–	–	(92,064)	(92,064)
Balance at end of the financial year	285,075	(174,156)	24,712	(2)	135,629

GROUP	2015				
<b>Statement of changes in equity</b>					
<b>Equity</b>					
Balance at beginning of the financial year	285,075	(174,156)	24,712	168,957	304,588
<b>Comprehensive income</b>					
Loss for the year, representing total comprehensive loss	–	–	–	(76,895)	(76,895)
Balance at end of the financial year	285,075	(174,156)	24,712	92,062	227,693

The accompanying notes form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## COMPANY

	Share Capital RMB'000	2016 Retained Earnings/ (Accumulated Losses) RMB'000	Total RMB'000
<b>Statement of changes in equity</b>			
<b>Equity</b>			
Balance at beginning of the financial year	285,075	(21,406)	263,669
<b>Comprehensive income</b>			
Loss for the year, representing total comprehensive loss	–	(79,496)	(79,496)
Balance at end of the financial year	285,075	(100,902)	184,173

## COMPANY

2015

<b>Statement of changes in equity</b>			
<b>Equity</b>			
Balance at beginning of the financial year	285,075	(18,460)	266,615
<b>Comprehensive income</b>			
Loss for the year, representing total comprehensive loss	–	(2,946)	(2,946)
Balance at end of the financial year	285,075	(21,406)	263,669

The accompanying notes form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		GROUP	
	Note	2016 RMB'000	2015 RMB'000
<b>Statement of cash flows</b>			
<b>Cash flows used in operating activities</b>			
Loss before taxation		(92,064)	(76,895)
<b>Adjustments for</b>			
Depreciation expense		6,176	7,288
Amortisation of patents		6,783	5,959
Amortisation of land-use rights		1,626	1,627
Interest expense		(9,299)	1,916
Interest income		(39)	(115)
Loss on disposal of property, plant and equipment		–	61
Total adjustments to loss account		5,247	16,736
Total operating cash flows before movement in working capital		(86,817)	(60,159)
<b>Changes in working capital</b>			
Increase in inventories		(583)	(2,980)
Decrease (increase) in trade and other receivables		37,412	(7,808)
(Decrease) increase in trade and other payables		(11,523)	43,332
Total changes in working capital		25,306	32,544
Cash used in operations		(61,511)	(27,615)
Interest received		39	115
Interest paid		(6,827)	(1,474)
Net cash flows used in operating activities		(68,299)	(28,974)
<b>Cash flows used in investing activities</b>			
Purchase of intangible assets		(11,000)	(11,000)
Purchase of property, plant and equipment		–	(1,801)
Net cash flows used in investing activities		(11,000)	(12,801)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		60,500	–
Proceeds from bank borrowings		36,700	23,900
Repayment of borrowings		(23,900)	(23,900)
Net cash flows from financing activities		73,300	–
Net decrease in cash and bank balances		(5,999)	(41,775)
Cash and bank balances at beginning of the financial year		6,163	47,938
Cash and bank balances at end of the financial year	12	164	6,163
<b>Net cash flows</b>			
Net cash flows used in operating activities		(68,299)	(28,974)
Net cash flows used in investing activities		(11,000)	(12,801)
Net cash flows from financing activities		73,300	–

The accompanying notes form an integral part of these financial statements.

# NOTE TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

## 1 CORPORATE INFORMATION

K-Star Sports Limited (the “Company”) with a registration number of 200820976H is a limited liability company incorporated in Singapore and registered in Malaysia as a foreign company. It is listed on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The Company has two registered offices which are located in Singapore and Malaysia. The registered office of the Company in Singapore is at 138 Cecil Street, #12-01A Cecil Court, Singapore 069538; while the registered office in Malaysia is at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights 50490 Kuala Lumpur, Wilayah Persekutuan, Malaysia. The principal place of business of the Group is located at No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, The People’s Republic of China (“PRC”).

The principal activity of the Company is that of investment holding. The principal activities of subsidiary corporations are disclosed in Note 18 to the financial statements.

The immediate and ultimate holding company of the Company is K-Star Sports International Limited, a company incorporated in Bermuda.

There have been no significant changes in the nature of these activities during the financial year.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards (“FRS”). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates. The consolidated financial statements of the Group and the statement of financial position of the Company are presented in Chinese Renminbi (“RMB”) which is also the functional currency of the Company, and all values presented are rounded to the nearest thousand (“RMB’000”), unless otherwise indicated.

The preparation of the financial statements in conformity with FRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events, actions, historical experiences and various other factors that are believed to be reasonable under the circumstances, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a high degree of judgment in applying accounting policies, or areas where assumptions and estimates have a significant risk of resulting in material adjustment within the next financial year are disclosed in Note 3 to the financial statements.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.1 Basis of preparation (Cont'd)

In the current financial year, the Group has adopted all the new and revised FRS that are relevant to its operations and effective for annual period beginning on or after 1 January 2016. The adoption of these new/revised FRS did not have any material effect on the financial result or position of the Group and the Company reported for the current financial year.

New standards, amendments to standards and interpretations that have been issued at the reporting date but are not yet effective for the financial year ended 31 December 2016 have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and the Company.

Description		Effective for annual periods beginning on or after
FRS 7	: Amendments to FRS 7: Disclosure Initiative	1 January 2017
FRS 115	: Revenue from Contracts with Customers	1 January 2018
Amendments to FRS 115	: Clarifications to FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 109	: Financial Instruments	1 January 2018
FRS 116	: Leases	1 January 2019

#### FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Key issues for the Group include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

The new standard will supersede all current revenue recognition requirements under FRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

#### *Transition*

The following practical expedients are available when applying FRS 115 retrospectively.

- For completed contracts, an entity need not restate contracts that begin and end with the same annual reporting period or are completed contracts at the beginning of the earliest period presented.
- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods; and
- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.1 Basis of preparation (Cont'd)

##### FRS 115 Revenue from Contracts with Customers (Cont'd)

##### *Transition (Cont'd)*

- identifying the satisfied and unsatisfied performance obligations;
  - determining the transaction price; and
  - allocating the transaction price to the satisfied and unsatisfied performance obligations.
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

The Group plans to adopt the new standard on the required effective date using the full retrospective method and apply all the practical expedients available for full retrospective approach under FRS 115 as listed above.

##### FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

##### FRS 116 Leases

FRS 116 requires lessees to recognise most leases on the statement of financial position to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees - leases of 'low value' assets and short-term leases which do not contain any purchase options. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date.

#### 2.2 Basis of consolidation and business combinations

##### *(a) Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiary corporations as at the end of the reporting period. The financial statements of the subsidiary corporations used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiary corporations are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.



# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Basis of consolidation and business combinations (Cont'd)

#### (a) Basis of consolidation (Cont'd)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

#### (b) Business combinations

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

The Group elects for each individual business combination, whether noncontrolling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another FRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

### 2.3 Foreign currencies

#### (a) Functional and presentation currency

Items included in the financial statements are measured using the currency best reflects the economic substance of the underlying events and circumstances relevant to the Company ("functional currency"). The financial statements are presented in RMB, which is the functional currency of the Company and its subsidiary corporations, and all values presented are rounded to the nearest thousand ("RMB'000"), unless otherwise indicated.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.3 Foreign currencies (Cont'd)

#### (b) *Transactions and balances*

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

#### (c) *Consolidated financial statements*

For consolidation purpose, the assets and liabilities of foreign operations are translated into RMB at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

### 2.4 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

#### (a) *Sale of goods*

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Revenue excludes value added taxes and is arrived at after deduction of trade discounts. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### (b) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

### 2.5 Government grants

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Company will comply with all the attached conditions.

Government grants receivable are recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income.

Government grants relating to assets are deducted against the carrying amount of the assets.



# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.6 Employee benefits

#### (a) *Employment pension benefits*

The Group participates in the national pension schemes as defined by the laws in the PRC. Pension contributions are provided at rates stipulated by the PRC regulations and are contributed to a pension fund managed by the government agencies, which are responsible for administering these amounts for the employees. Pension contributions are charged to the statement of comprehensive income in the period which the contributions relate.

#### (b) *Employee leave entitlement*

Employee entitlement to annual leave is recognised when it accrues to employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

No provision for employee leave entitlement is made as any unconsumed annual leave will be forfeited.

### 2.7 Finance costs

Interest expense and similar charges are expensed in the profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use or sale. The interest component of finance lease payments is recognised in the profit or loss using the effective interest method.

### 2.8 Income tax

#### (a) *Income tax and deferred tax*

Current income tax liabilities for current and prior periods are recognised at the amounts expected to be paid to the tax authorities, using the tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax assets/liabilities are recognised for all deductible and taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at:

- (i) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date; and
- (ii) the tax consequence that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.8 Income tax (Cont'd)

##### (a) Income tax and deferred tax (Cont'd)

Current and deferred income taxes are recognised as income or expense in the profit or loss, except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity respectively.

##### (b) Value added tax ("VAT")

The Group's sales of goods in the PRC are subject to VAT at the applicable tax rate of 17% for the PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the consolidated statements of financial position.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- (a) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- (b) receivables and payables that are stated with the amount of VAT included.

#### 2.9 Property, plant and equipment

##### (a) Measurement

All items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

##### Component of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to the acquisition of the asset and costs of bringing the asset to working condition for its intended use. Dismantlement, removal or restoration costs are included as part of the cost of asset if the obligation for dismantlement, removal or restoration costs is incurred as a consequence of acquiring or using the asset. Expenditure for additions, improvements and renewals are capitalised. The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

##### (b) Depreciation

Depreciation of property, plant and equipment is calculated on the straight-line basis to write off the cost less residual value of the assets over its estimated useful lives as follows:

	<u>Useful lives</u>
Buildings	- 20 years
Plant and machineries	- 5 to 10 years
Motor vehicles	- 5 to 10 years
Furniture, fixtures and office equipment	- 5 years
Renovation	- 5 years



# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.9 Property, plant and equipment (Cont'd)

#### (b) Depreciation (Cont'd)

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each financial year end. The effects of any revision are recognised in profit or loss when the changes arise.

#### (c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

#### (d) Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the profit or loss in the period the asset is derecognised.

### 2.10 Land-use rights

Land-use rights represent prepayments to acquire long-term interests in the usage of land and are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged so as to write off the cost of the land-use rights, using the straight-line method, over the period of the lease term of 50 years.

### 2.11 Intangible assets

Intangible assets acquired separately are measured initially at cost. Following initial acquisition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.11 Intangible assets (Cont'd)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

(a) *Research and development costs*

Research costs are expensed as incurred.

(b) *Patents*

Patents acquired are amortised on a straight-line basis over its estimated useful lives of 5 years.

#### 2.12 Subsidiary corporations

A subsidiary corporation is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investment in a subsidiary corporation is accounted for at cost less accumulated impairment losses. On disposal of the investment, the difference between the disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

#### 2.13 Inventories

Inventories are valued at the lower of cost and net realisable value. Raw materials comprise purchase costs accounted for on a first-in first-out basis.

Work-in-progress and finished goods comprise cost of direct materials, direct labour and attributable proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any allowance for write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any allowance for write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### 2.14 Impairment of non-financial assets

The carrying amounts of the Company's and the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value-in-use. In assessing the value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

# Note to the Financial Statements for the Financial Year ended 31 December 2016 (Cont'd)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.14 Impairment of non-financial assets (Cont'd)

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss has been recognised. Reversal of impairment loss is recorded in profit or loss. After such a reversal, the depreciation charge is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### 2.15 Financial assets

#### (a) *Initial recognition and measurement*

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

#### (b) *Subsequent measurement*

##### *Loans and receivables*

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less impairment losses. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

#### (c) *Derecognition*

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

### 2.16 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

#### (a) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in profit or loss.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.16 Impairment of financial assets (Cont'd)

#### (a) *Financial assets carried at amortised cost (Cont'd)*

When the financial asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written-off against the carrying value of the financial assets.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred; the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of the reversal is recognised in profit or loss.

#### (b) *Financial assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

### 2.17 Cash and bank balances

Cash and bank balances comprise cash on hand, bank deposits and highly liquid investments which are readily convertible to cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts which are repayable on demand and which form an integral part of the Group's and the Company's cash management. Restricted deposits are excluded from cash and bank balances.

### 2.18 Financial liabilities

#### (a) *Initial recognition and measurement*

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value, plus, in the case of other financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

#### (b) *Subsequent measurement*

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

#### (c) *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.



# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.19 Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and the Company if that person:
  - (i) has control or joint control over the Group and the Company;
  - (ii) has significant influence over the Group and the Company; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group or Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
  - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary corporation and fellow subsidiary corporation is related to the others);
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) both entities are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

### 2.20 Loans and borrowings

#### (a) *Bank borrowings*

All bank borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Gains and losses are recognised in profit or loss through the amortisation process.

#### (b) *Other borrowings*

Other borrowings are initially recorded at fair value, net of transaction costs incurred and subsequently accounted for at amortised costs using the effective interest method. Other borrowings which are due to be settled within twelve months after the reporting date are included in current borrowings in the consolidated statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the consolidated financial statements are authorised for issue. Other borrowings due to be settled more than twelve months after the reporting date are included in non-current borrowings in the consolidated statement of financial position.

# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.21 Provisions

Provisions are recognised when the Group and the Company has a present obligation (legal or constructive), as a result of a past event, and it is probable that an outflow of resources embodying economic benefits and will be required to settle the obligation and a reliable estimate can be established on the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. In respect of temporary differences associated with investment in its subsidiary corporation, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

#### 2.22 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

### 3 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and assumptions concerning the future and judgments are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Judgements made in applying accounting policies*

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### *Impairment of trade receivables*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Allowance for impairment of receivables is based on the assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of receivables requires the use of judgement and estimates. Where expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed. The carrying amount of the Group's trade receivables at the end of the reporting period is disclosed in Note 13 to the financial statements.

#### *Income taxes*

The Group has exposure to income taxes arising from their operations in the PRC. Significant judgments are involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 3 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONT'D)

### *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### Useful lives of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The Group reviews the useful lives and residual values of property, plant and equipment at each reporting date in accordance with the accounting policy in Note 2.9. The estimation of the useful lives and residual amount involves assumptions concerning the future and estimations of the assets' common life expectancies and expected level of usage. The net carrying amount of property, plant and equipment as at 31 December 2016 and the annual depreciation charge for the financial year ended 31 December 2016 are disclosed in Note 15.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

#### Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Management has evaluated the recoverability of the investment based on such estimates.

As at 31 December 2016, management evaluated the recoverability of the investment in subsidiary corporations as there are indicators of impairment. Accordingly, an allowance for impairment loss of RMB 78,963,000 was made.

If the present value of estimated future cash flows differs from management's estimates, the Group's allowance for impairment of investment in subsidiary corporations and investment in subsidiary corporations' balance at the end of the reporting period will be affected accordingly.

The carrying amounts of the Group's property, plant and equipment, intangible assets, investment in subsidiary corporations and land-use rights as at 31 December 2016 are disclosed in Note 15, 16, 18 and Note 19.

#### Allowance for inventory obsolescence

The Group periodically reviews the inventories, and makes allowance (if any) for obsolete and slow moving inventory items identified that are no longer suitable for sale and declare in net realisable values below cost. The net realisable values for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

If net realisable value of the inventory decreases by 10% (2015:10%) from management's estimates, the Group loss will decrease by RMB 979,200 (2015: RMB 920,900).

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 4 REVENUE

	2016 RMB'000	Group 2015 RMB'000
Sales of goods	301,277	301,352

Revenue represents the net invoiced amounts, after discounts and sales related taxes.

## 5 COST OF SALES

	2016 RMB'000	Group 2015 RMB'000
Opening inventories of finished goods	4,083	3,318
Cost of manufacturing	280,952	280,439
Local education contribution fees	196	182
Urban maintenance and construction tax fee	490	455
Additional education contribution fee	294	273
	286,015	284,667
Less: Closing inventories of finished goods (Note 14)	(4,717)	(4,083)
	281,298	280,584

## 6 OTHER INCOME

	2016 RMB'000	Group 2015 RMB'000
Interest income	39	115
Foreign exchange gain	5	8
	44	123

## 7 FINANCE COSTS

	2016 RMB'000	Group 2015 RMB'000
Interest expense on bank borrowings	1,571	1,474
Interest expense on related party loan (Note 25)	3,941	442
Interest expense on loan payables	3,916	—
Interest expense on discounting of related party loan (Note 25)	(4,994)	—
Interest expense on discounting of loan payables	(13,733)	—
	(9,299)	1,916
Weighted average effective interest rate per annum	12.38%	7.2%

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 8 LOSS BEFORE TAXATION

This item includes the following charges:

	2016 RMB'000	Group 2015 RMB'000
Employee compensation (Note 9)	44,402	44,668
Amortisation of patents	6,783	5,959
Depreciation of property, plant and equipment	6,176	7,288
Amortisation of land-use rights	1,626	1,627
Directors' fee - Directors of the Company	282	290
Loss on disposal of property, plant and equipment	–	61

## 9 EMPLOYEE COMPENSATION

	2016 RMB'000	Group 2015 RMB'000
<u>Directors' remuneration other than fee</u>		
Salary of the Company	900	1,200
Salary of the subsidiary corporations	237	516
Defined contribution	4	8
Other related cost	4	–
	1,145	1,724
<u>Key management personnel (excluding Directors)</u>		
Salaries and related cost	949	1,127
Defined contribution	58	57
	1,007	1,184
<u>Other than Directors and key management personnel</u>		
Salaries and related cost	38,794	38,566
Defined contribution	3,456	3,194
	42,250	41,760
<b>Total</b>	<b>44,402</b>	<b>44,668</b>

# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

### 10 INCOME TAX EXPENSE

The tax expense on loss before taxation differs from the amount that would arise using the Singapore and Republic of China standard rate of income tax are as follows:

	2016 RMB'000	Group 2015 RMB'000
Loss before income tax	(92,064)	(76,895)
Tax calculated at a Singapore tax rate of 17% (2015: 17%)	(8,804)	(13,073)
Tax calculated at a Republic of China tax rate of 25% (2015: 25%)	(15,651)	(5,916)
Expenses not deductible for tax purposes	(6,680)	8,768
Income not taxable for tax purposes	(283)	–
Deferred tax not recognised	11,711	9,782
Losses not allowed to be carried forward	19,707	439
	–	–

No provision for Singapore income tax has been made as the Group had no assessable income arising from or derived in Singapore during the financial year.

The subsidiary corporations are subject to the PRC income tax. The provision for the PRC income tax on profits arising from operations in the PRC is calculated based on statutory income tax rate of 25% in accordance with the PRC relevant income tax rules and regulations.

As at the reporting date, no deferred tax liability has been recognised for the withholding tax that will be payable on the unremitted earnings of the PRC subsidiary corporations when remitted as dividends to the Company, as their subsidiaries either have no distributable earnings due to their accumulated losses or are not material, as the Company is entitled to the tax exemption for unremitted foreign source income under the Singapore Income Tax Act.

### 11 LOSS PER SHARE

The loss per share is calculated based on the consolidated losses attributable to owners of the parent divided by the weighted average number of shares in issue of 266,400,000 (2015: 266,400,000) shares during the financial year.

There are no potential dilutive ordinary shares as at the respective statement of financial position date.

The following table reflects the profit or loss and share data used in the computation of basic and diluted earnings per share for the financial year ended 31 December:

	2016	Group 2015
Net loss attributable to owners of the parent (RMB'000)	(92,064)	(76,895)
Weighted average number of ordinary shares in issue for the purpose of basic loss per share ('000)	266,400	266,400
Basic and diluted loss per share (RMB cents)	(34.56)	(28.86)

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 12 CASH AND BANK BALANCES

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Cash at banks	151	6,139	80	–
Cash on hand	13	24	–	–
	164	6,163	80	–

Cash at banks earn interest at floating rates based on daily bank deposit rates. The effective interest rates as at 31 December 2016 for the Group and the Company were 0.35% and NIL (2015: 0.35% to 0.36% and NIL), respectively.

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Chinese Renminbi	84	6,163	–	–
Malaysia Ringgit	80	–	80	–
	164	6,163	80	–

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Group	
	2016 RMB'000	2015 RMB'000
Cash and bank balances (as above)	164	6,163

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
<u>Trade receivables</u>				
Outside parties	106,442	141,642	–	–
<u>Other receivables</u>				
Prepayments	9,384	11,596	–	–
Others	54	54	–	–
Deposits	2	2	2	2
Subsidiary corporation	–	–	31,984	33,160
	9,440	11,652	31,986	33,162
	115,882	153,294	31,986	33,162
Total trade and other receivables (excluding prepayments)	106,498	141,698	31,986	33,162
Add: Cash and bank balances (Note 12)	164	6,163	80	–
Total loans and receivables	106,662	147,861	32,066	33,162

Trade receivables are non-interest bearing and are generally on 90 days terms (2015: 90 days). They are recognised at their original invoice amounts which represent their fair values on initial recognition.

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

Non-trade amounts due from subsidiary corporation are unsecured, interest-free and are repayable on demand.

The carrying amounts of trade and other receivables approximate their fair value.

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Chinese Renminbi	115,880	153,292	1,701	4,535
Malaysia Ringgit	2	2	7,644	7,459
United States Dollar	–	–	20,850	19,493
Hong Kong Dollar	–	–	1,791	1,675
	115,882	153,294	31,986	33,162

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 13 TRADE AND OTHER RECEIVABLES (CONT'D)

### Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are substantially customers with a good collection track record with the Group are as follows:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Current	76,247	99,281	–	–

### Receivables that are past due but not impaired

The Group and the Company has trade receivables amounting to RMB 30,195,000 (2015: RMB 42,361,000) and NIL (2015: NIL) respectively, that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Trade receivables that are past due				
- Less than 30 days	22,267	25,263	–	–
- 31 - 60 days	7,928	17,098	–	–
	30,195	42,361	–	–

Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables past due but not impaired. These receivables are mainly arising from customers that have a good credit record with the Group.

### Receivables that are impaired

There are no receivables that are past due and/or impaired.

## 14 INVENTORIES

	Group	
	2016 RMB'000	2015 RMB'000
<u>Statement of financial position</u>		
Raw materials	1,642	2,567
Work-in-progress	3,433	2,559
Finished goods	4,717	4,083
	9,792	9,209
<u>Statement of profit or loss and other comprehensive income</u>		
Inventories recognised as an expense in cost of sales	9,792	279,674

During the financial year, management is not aware of any circumstance which would render it necessary to write off any inventory or to make any allowance for slow moving inventory.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 15 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Plant & machineries RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Renovation RMB'000	Total RMB'000
<b>Cost</b>						
At 31.12.2014	67,838	9,519	1,289	4,997	19,172	102,815
Additions	-	1,700	101	-	-	1,801
Disposals	-	(606)	-	-	-	(606)
At 31.12.2015	67,838	10,613	1,390	4,997	19,172	104,010
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31.12.2016	67,838	10,613	1,390	4,997	19,172	104,010
<b>Accumulated depreciation</b>						
At 31.12.2014	21,520	6,015	862	3,795	11,502	43,694
Charge for the financial year	3,051	628	125	234	3,250	7,288
Disposals	-	(545)	-	-	-	(545)
At 31.12.2015	24,571	6,098	987	4,029	14,752	50,437
Charge for the financial year	3,053	614	119	225	2,165	6,176
Disposals	-	-	-	-	-	-
At 31.12.2016	27,624	6,712	1,106	4,254	16,917	56,613
<b>Net carrying amount</b>						
At 31.12.2015	43,267	4,515	403	968	4,420	53,573
At 31.12.2016	40,214	3,901	284	743	2,255	47,397

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 15 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

- (a) Depreciation expense charged to:

	2016 RMB'000	Group 2015 RMB'000
Cost of sales	1,507	1,521
Administrative expenses	4,669	5,767
	6,176	7,288

- (b) All property, plant and equipment held by the Group are located in the PRC.

- (c) The leasehold buildings are located at:

Location	Approximately build-up area (sq m)	Ownership
No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (晋江市陈埭江头前进北路125-127号)	22,384	Fujian Dixing
Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (晋江市陈埭江头村前进北路)	2,144	Saifeite
No.104 Yangding South Road, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (晋江市陈埭江头洋顶南金路104号)	4,200	Villagers Committee of Jiangtou Huizu Village, Chendai Town, Jinjiang City (晋江市陈埭江头回族村民委员会)

- (d) Bank borrowings of RMB 9,950,000 (2015: RMB 9,950,000) are secured on a building of the Group with net book value of approximately RMB 21,024,000 (2015: RMB 23,901,000) at the reporting date (Note 20).
- (e) Loans payable to a related party of RMB 22,000,000 (2015: RMB 22,000,000) and loans payable to an outside party of RMB 25,000,000 (2015: NIL) are jointly secured on buildings of the Group with net book value of approximately RMB 10,809,000 (2015: RMB 6,733,000) at the reporting date (Note 21).
- (f) Loans payable to the outside party of RMB 35,500,000 are secured on buildings of the Group with net book value of approximately RMB 8,381,000 (2015: Nil) at the reporting date (Note 21).
- (g) Motor vehicles with net book value of approximately RMB 743,000 (2015: RMB945, 000) are registered in the names of certain employees of the Group and are held in trust for the Group at the reporting date.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 16 INTANGIBLE ASSETS

	2016 RMB'000	Group 2015 RMB'000
<b>Patents</b>		
<i>Cost</i>		
Beginning of the financial year	44,000	22,000
Additions	11,000	11,000
Transfer from prepayment (Note 17)	–	11,000
End of the financial year	55,000	44,000
<i>Accumulated amortisation</i>		
Beginning of the financial year	10,542	4,583
Amortisation	6,783	5,959
End of the financial year	17,325	10,542
<i>Net book value</i>		
At 31 December	37,675	33,458

Amortisation expense is charged to administrative expenses.

## 17 PREPAYMENT FOR PURCHASE OF NON-CURRENT ASSETS

Prepayment pertained to the purchased patents to manufacture new types of sports shoes. The initial payment made was recognised as prepayments and this was subsequently classified as intangible assets (Note 16).

## 18 INVESTMENTS IN SUBSIDIARY CORPORATIONS

	2016 RMB'000	Group 2015 RMB'000
Unquoted equity shares at cost	234,140	234,140
Less: Allowance for impairment loss	(78,963)	–
	155,177	234,140

The Company provided an allowance of RMB 78,963,000 (2015: NIL) during the financial year. Events that led to impairment includes negative net exposure (cost of investment in subsidiary group exceeded net total assets of the subsidiary group), consecutive 3 years of operating losses and incurring net losses by the subsidiary group.

Based on the effective discount rate of 3.4% used, recoverable amount of RMB 155,177,000 was determined.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 18 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONT'D)

The particulars of the subsidiary corporations are as follows:

Name of subsidiary corporations (Country of incorporation)		Principal activities (Place of business)	Cost of investment		Equity held by Company	
			2016 RMB'000	2015 RMB'000	2016 %	2015 %
<u>Held by the Company</u>						
(i)	Fujian Jinjiang Dixing Shoes Plastics Co., Ltd ("FujianDixing") 福建省晋江市帝星鞋塑有限公司 (People's Republic of China)	Design, manufacture and distribution of sports footwear, apparel and accessories (People's Republic of China)	234,140	234,140	100	100
			234,140	234,140		
<u>Held by a subsidiary corporation</u>						
(ii)	Jinjiang Saifeite Shoes Plastics Co., Ltd ("Saifeite") 晋江市赛飞特鞋塑有限公司 (People's Republic of China)	Property investment holding (People's Republic of China)	27,000	27,000	100	100
			27,000	27,000		

(i) and (ii) are audited by other firm of public accountants.

## 19 LAND-USE RIGHTS

	2016 RMB'000	Group 2015 RMB'000
<u>Cost</u>		
Beginning of the financial year	78,384	78,384
Additions	—	—
End of the financial year	78,384	78,384
<u>Accumulated amortisation</u>		
Beginning of the financial year	7,836	6,209
Amortisation	1,626	1,627
End of the financial year	9,462	7,836
<u>Net book value</u>		
At 31 December	68,922	70,548

(a) Amortisation expense is charged to administrative expenses.

# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

### 19 LAND-USE RIGHTS (CONT'D)

- (b) The land-use rights are the rights of using the land with the in-principle approval from the land owner who has contractually transferred the ownership of the title, subject to registration with the Jinjiang State-owned Land Resource Bureau (晋江市国土资源局). The lands are located at:

Location	Land area (sq m)	Ownership	Effective date
No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (晋江市陈埭江头前进北路 125 - 127 号)	2,581	Fujian Dixing	24 November 2014
*No. 104 Yangding South Road, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (*晋江市陈埭江头洋顶南路 104 号)	3,100	Villagers Committee of Jiangtou Huizu Village, Chendai Town, Jinjiang City (晋江市陈埭江头回族村民委员会)	1 December 2005
*Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (*晋江市陈埭江头工业区)	26,973	Villagers Committee of Jiangtou Huizu Village, Chendai Town, Jinjiang City (晋江市陈埭江头回族村民委员会)	25 June 2010
*No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (*晋江市陈埭江头前进北路 125 - 127 号)	2,410	Villagers Committee of Jiangtou Huizu Village, Chendai Town, Jinjiang City (晋江市陈埭江头回族村民委员会)	20 October 2006
No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (晋江市陈埭江头前进北路 125 - 127 号)	2,675	Fujian Dixing	20 October 2006
Jiangtou Village, Chendai Town, Jinjiang City (晋江市陈埭江头村)	675	Saifeite	9 January 2007

- \* Pursuant to the letter of confirmation dated 9 February 2017, Villagers Committee of Jiangtou Huizu Village, Chendai Town, Jinjiang City (晋江市陈埭江头回族村民委员会) has confirmed that these lands have been sold to Fujian Dixing.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 19 LAND-USE RIGHTS (CONT'D)

- (c) Bank borrowing of RMB 9,950,000 (2015: RMB 9,950,000) is secured on land-use rights of the Company at No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City (晋江市陈埭江头前进北路125 - 127号) (land area: 2,675 sq m) with carrying amount of approximately RMB11,087,000 (2015: RMB 11,409,000) at the reporting date (Note 20).
- (d) Loans payable to a related party of RMB 22,000,000 (2015: RMB 22,000,000) and loans payable to an outside party of RMB 25,000,000 (2015: NIL) are jointly secured on buildings of the Group with net book value of approximately RMB 29,230,000 (2015: RMB 30,005,000) at the reporting date (Note 21).
- (e) Loans payable to the outside party of RMB 35,500,000 are secured on buildings of the Group with net book value of approximately RMB 28,605,000 (2015: Nil) with carrying amount of approximately RMB 2,273,356 (2014: RMB 2,330,190) at the reporting date (Note 21).

## 20 LOANS AND BORROWINGS

	2016 RMB'000	Group 2015 RMB'000
<u>Current Liabilities</u>		
Bank loans - China Construction Bank		
- Secured	9,950	9,950
- Unsecured	26,750	13,950
	36,700	23,900

	Note	2016 RMB'000	2015 RMB'000
Bank loans comprises of:			
#1 (unsecured)	(a)	2,000	—
#2 (unsecured)	(b)	5,200	—
#3 (unsecured)	(c)	800	—
#4 (unsecured)	(d)	2,700	—
#5 (unsecured)	(e)	2,000	—
#6 (unsecured)	(f)	900	—
#7 (secured)	(g)	7,200	—
#8 (unsecured)	(h)	2,100	—
#9 (unsecured)	(i)	2,400	—
#10 (unsecured)	(j)	2,700	—
#11 (secured)	(k)	2,750	—
#12 (unsecured)	(l)	5,950	—
#13 (unsecured)	(m)	—	2,000
#14 (unsecured)	(n)	—	6,000
#15 (secured)	(o)	—	7,200
#16 (secured)	(p)	—	950
#17 (unsecured)	(q)	—	1,800
#18 (unsecured)	(r)	—	5,950
		36,700	23,900

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 20 LOANS AND BORROWINGS (CONT'D)

- (a) The unsecured bank loan facility #1 of RMB 2,000,000 granted to Fujian Dixing is repayable on or before 16 March 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 4.57% per annum.
- (b) The unsecured bank loan facility #2 of RMB 5,200,000 granted to Fujian Dixing is repayable on or before 8 June 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 5.35% per annum.
- (c) The unsecured bank loan facility #3 of RMB 800,000 granted to Fujian Dixing is repayable on or before 8 June 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 5.35% per annum.
- (d) The unsecured bank loan facility #4 of RMB 2,700,000 granted to Fujian Dixing is repayable on or before 17 June 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 5.35% per annum.
- (e) The unsecured bank loan facility #5 of RMB 2,000,000 granted to Fujian Dixing is repayable on or before 17 June 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 5.35% per annum.
- (f) The unsecured bank loan facility #6 of RMB 900,000 granted to Fujian Dixing is repayable on or before 5 August 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 5.66% per annum.
- (g) The secured bank loan facility #7 of RMB 7,200,000 granted to Fujian Dixing is repayable on or before 15 August 2017.
- Interest is charged at 5.44% per annum.
- (h) The unsecured bank loan facility #8 of RMB 2,100,000 granted to Fujian Dixing is repayable on or before 2 September 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 5.66% per annum.
- (i) The unsecured bank loan facility #9 of RMB 2,400,000 granted to Fujian Dixing is repayable on or before 8 September 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 5.66% per annum.
- (j) The unsecured bank loan facility #10 of RMB 2,700,000 granted to Fujian Dixing is repayable on or before 13 September 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.
- Interest is charged at 5.66% per annum.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 20 LOANS AND BORROWINGS (CONT'D)

- (k) The secured bank loan facility #11 of RMB 2,750,000 granted to Fujian Dixing is repayable on or before 8 November 2017.

Interest is charged at 5.44% per annum.

- (l) The unsecured bank loan facility #12 of RMB 5,950,000 granted to Fujian Dixing is repayable on or before 15 December 2017. The loan is jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling.

Interest is charged at 5.66% per annum.

- (m) The unsecured bank loan facility #13 of RMB 2,000,000 granted to Fujian Dixing is repayable on or before 18 March 2016. The loan is jointly guaranteed by third party corporation, Quanzhou Chaoshengda Sportswear Co., Ltd (泉州超盛达体育用品有限公司) and a Director, Ding Jianping and his spouse, Wang Liling. The loan has been fully paid during the financial year.

Interest is charged at 5.89% per annum.

- (n) The unsecured bank loan facility 14 of RMB 6,000,000 granted to Fujian Dixing is repayable on or before 5 June 2016. The loan is jointly guaranteed by third party corporation, Quanzhou Chaoshengda Sportswear Co., Ltd (泉州超盛达体育用品有限公司) and a Director, Ding Jianping and his spouse, Wang Liling. The loan has been fully paid during the financial year.

Interest is charged at 5.61% per annum.

- (o) The secured bank loan facility # 15 of RMB 7,200,000 granted to Fujian Dixing is repayable on or before 18 August 2016. The loan is secured by a mortgage over the land use right and building of the Company and jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling. The loan has been fully paid during the financial year.

Interest is charged at 5.72% per annum.

- (p) The secured bank loan facility #16 of RMB 950,000 granted to Fujian Dixing is repayable on or before 11 November 2016. The loan is secured by a mortgage over the land use right and building of the Company and jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling. The loan has been fully paid during the financial year.

Interest is charged at 5.35% per annum.

- (q) The unsecured bank loan facility #17 of RMB 1,800,000 granted to Fujian Dixing is repayable on or before 13 November 2016. The loan is secured by a mortgage over the land use right and building of the Company and jointly guaranteed by a Director, Ding Jianping and his spouse, Wang Liling. The loan has been fully paid during the financial year.

Interest is charged at 5.13% per annum.

- (r) The unsecured bank loan facility #18 of RMB 5,950,000 granted to Fujian Dixing is repayable on or before 16 December 2016. The loan is jointly guaranteed by third party corporation, Quanzhou Chaoshengda Sportswear Co., Ltd (泉州超盛达体育用品有限公司) and a Director, Ding Jianping and his spouse, Wang Liling. The loan has been fully paid during the financial year.

Interest is charged at 5.13% per annum.

The table below analyses the maturity profile of the Company's borrowings based on contractual undiscounted cash flows.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 20 LOANS AND BORROWINGS (CONT'D)

	2016 Carrying amount RMB'000	2016 Contractual cash flows RMB'000	2015 Carrying amount RMB'000	2015 Contractual cash flows RMB'000
Fixed interest rate loans				
Less than one year	36,700	37,427	23,900	25,237

The bank borrowings are denominated in Chinese Renminbi. The carrying amounts approximate their fair values.

## 21 TRADE AND OTHER PAYABLES

	2016 RMB'000	Group 2015 RMB'000	Company 2016 RMB'000	2015 RMB'000
<b>Current</b>				
<u>Trade payables</u>				
Outside parties	29,497	37,775	–	–
<u>Other payables</u>				
Accrued expenses	4,139	5,346	939	837
Outside parties	2,141	1,394	254	22
Due to a director	1,877	2,774	1,877	2,774
Related party (Note 25)	950	22,442	–	–
	9,107	31,956	3,070	3,633
	38,604	69,731	3,070	3,633
<b>Non-current</b>				
<u>Other payables</u>				
Outside party	46,951	–	–	–
Related party (Note 25)	17,027	–	–	–
	63,978	–	–	–
Total trade and other payables	102,582	69,731	3,070	3,633
Add: Loans and borrowings (Note 20)	36,700	23,900	–	–
Total financial liabilities carried at amortised cost	139,282	93,631	3,070	3,633

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 21 TRADE AND OTHER PAYABLES (CONT'D)

Trade payables generally have credit terms ranging from 30 days to 90 days and are expected to be repaid within 12 months from the end of the reporting period.

The amounts due to a related party are secured-loans, repayable by the 4th quarter of 2021 (5th year from date of loan agreements). Interest is charged at 1% to 1.50% per month. (Note 15e and 19d)

The amounts due to an outside party are secured-loans, repayable by the 4th quarter of 2021 (5th year from date of loan agreements). Interest is charged at 1% to 1.50% per month. (Note 15f and 19e)

The amount due to a director are unsecured, repayable on demand and non-interest bearing. This amount is to be settled in cash.

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Chinese Renminbi	101,390	68,872	1,877	2,774
Singapore Dollar	510	471	510	471
Malaysia Ringgit	682	388	683	388
	102,582	69,731	3,070	3,633

## 22 DEFERRED TAX LIABILITIES

	Group	
	2016 RMB'000	2015 RMB'000
Beginning and end of the financial year	4,921	4,921

Deferred tax liabilities comprised the excess of carrying amounts of qualifying property, plant and equipment over their corresponding tax written down values.

## 23 SHARE CAPITAL

Issued and fully paid ordinary share capital, with no par value

	Group and Company			
	2016 No. of shares	2016 RMB'000	2015 No. of shares	2015 RMB'000
Balance at beginning and end of the financial year	266,400,000	285,075	266,400,000	285,075

The Company has only one class of shares, being ordinary shares which are all ranked pari passu. The holders of ordinary shares are entitled for voting rights and any dividends, rights, allotments and/or other forms of distribution that may be declared, made or paid.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 24 OTHER RESERVES

	2016 RMB'000	Group 2015 RMB'000
Statutory common reserve	24,712	24,712
Merger reserve	(174,156)	(174,156)
	(149,444)	(149,444)

Movement in reserve is as follows:

### (a) Statutory common reserve

	2016 RMB'000	Group 2015 RMB'000
Balance at beginning and end of the financial year	24,712	24,712

In accordance with the relevant laws and regulations of the PRC, the subsidiary corporation of the Group established in the PRC is required to transfer 10% of its profits after taxation prepared in accordance with the accounting regulation of the PRC to the statutory common reserve until the reserve balance reaches 50% of the subsidiary corporation's registered capital. Such reserve may be used to offset accumulated losses or increase the registered capital of the subsidiary corporations subject to the approval from the PRC relevant authority, and are not available for dividend distribution to the shareholders.

### (b) Merger reserve

	2016 RMB'000	Group 2015 RMB'000
Balance at beginning and end of the financial year	(174,156)	(174,156)

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

Other reserves are non-distributable.

## 25 RELATED PARTY TRANSACTIONS

The transactions with related parties on terms mutually agreed during the financial year are as follows:

### (a) Compensation of key management personnel

	2016 RMB'000	Group 2015 RMB'000
- Short term employee benefits	1,145	1,724
- Directors' fee	282	290

Key management personnel are the Group's directors.

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 25 RELATED PARTY TRANSACTIONS (CONT'D)

### (b) Significant related party transactions

	2016 RMB'000	Group 2015 RMB'000
<u>Director related party, Shi Shanya</u>		
- Loan	-	22,000
- Interest expense on loan - net	(1,053)	442

As at 31 December 2016, the Group has other payables of RMB 17,977,000 (2015: RMB 22,442,000) representing loan due to the director related party, Shi Shanya (Note 21).

## 26 OPERATING SEGMENTS

No separate analysis of segment information by business or geographical segments is presented as the Group has only one operating segment, which is the design, manufacture and sale of sports footwear, sports apparel and accessories in the PRC. The Group's revenue, assets and capital expenditure are principally attributable to a single geographical region, which is the PRC.

Group revenue derived from solely sale of sports footwear.

## 27 FINANCIAL ASSETS AND LIABILITIES

The carrying amounts presented in the statements of financial position relate to the following categories of assets and liabilities:

		GROUP		COMPANY	
	Note	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
<b>Financial assets</b>					
Cash and bank balances	12	164	6,163	80	-
Trade and other receivables	13	106,498	141,698	31,986	33,162
		106,662	147,861	32,066	33,162
<b>Financial liabilities</b>					
<i>Financial liabilities measured at amortised cost:</i>					
Current:					
Bank borrowings	20	36,700	23,900	-	-
Trade and other payables	21	38,604	69,731	3,070	3,633
Non-current:					
Other payables	21	63,978	-	-	-
		139,282	93,631	3,070	3,633

# Note to the Financial Statements

## for the Financial Year ended 31 December 2016 (Cont'd)

### 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. It is, and has been throughout the current financial period, the Group's policy that no derivative and forward foreign exchange contracts shall be undertaken for hedging and speculative purposes. The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

#### (a) Market risk

##### (i) Currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group has currency exposures arising from the exchange rate movements of Singapore Dollar ("SGD"), Malaysia Ringgit ("RM"), United States Dollar ("USD") and Hong Kong Dollar ("HKD") to Chinese Renminbi ("RMB"), which is the Company's functional currency. As at the end of the reporting period, foreign currency balances for cash and bank balances, trade and other receivables and trade and other payables are disclosed in Notes 12, 13 and 21 to the financial statements.

There are no formal policies in place to mitigate the effect of this currency risk exposures.

#### *Sensitivity analysis for currency risk*

The following tables demonstrate the sensitivity to a reasonably possible change in the SGD, RM, USD and HKD (against RMB), with all other variables held constant, of the Group's loss net of tax and equity.

	2016		2015	
	Loss after taxation RMB'000	Equity RMB'000	Loss after taxation RMB'000	Equity RMB'000
<b>Group</b>				
<b>SGD</b>				
- Strengthened 3% (2015: 3%)	(13)	(13)	(12)	(12)
- Weakened 3% (2015: 3%)	13	13	12	12
<b>RM</b>				
- Strengthened 3% (2015: 3%)	(15)	(15)	(10)	(10)
- Weakened 3% (2015: 3%)	15	15	10	10

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (a) Market risk (Cont'd)

#### (i) Currency risk (Cont'd)

##### *Sensitivity analysis for currency risk (Cont'd)*

	2016		2015	
	Loss after taxation RMB'000	Equity RMB'000	Loss after taxation RMB'000	Equity RMB'000
<b>Company</b>				
<b>SGD</b>				
- Strengthened 3% (2015: 3%)	(13)	(13)	(12)	(12)
- Weakened 3% (2015: 3%)	13	13	12	12
<b>RM</b>				
- Strengthened 3% (2015: 3%)	175	175	176	176
- Weakened 3% (2015: 3%)	(175)	(175)	(176)	(176)
<b>USD</b>				
- Strengthened 3% (2015: 3%)	519	519	485	485
- Weakened 3% (2015: 3%)	(519)	(519)	(485)	(485)
<b>HKD</b>				
- Strengthened 3% (2015: 3%)	45	45	42	42
- Weakened 3% (2015: 3%)	(45)	(45)	(42)	(42)

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (a) Market risk (Cont'd)

#### (ii) Price risk

Price risk is the risk that the value of financial instruments will fluctuate due to changes in market prices.

No sensitivity analysis is prepared as the Group does not expect any material effect on the Group's profit or loss arising from the effects of reasonably possible changes to share price.

#### (iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and Company's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their interest bearing borrowings, other payables and cash at bank balances. The Group ensures that it is not exposed to significant fluctuation in future cash flows arising from changes in market interest rates by maintaining its borrowings and other payables. Management does not expect cash at bank rates to fluctuate materially in the coming year from current level and hence, does not present the sensitivity analysis.

### (b) Credit risk

Credit risk is a risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposures to credit risk arise primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increase in credit risk exposure. The Group trades with all third parties but will only provide credit terms upon approval of the management. The receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

#### Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

The Group and Company does not identify specific concentrations of credit risk with regards to trade receivables.

#### Exposure to credit risk

The carrying amount of cash and bank balances and trade and other receivables represents the Group's and the Company's maximum exposure to credit risk in relation to financial assets. No other financial asset carries a significant exposure to credit risk.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 13 to the financial statements

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (b) Credit risk (Cont'd)

#### Credit risk concentration profile

The Group and the Company determines concentration of credit risk by monitoring the geographical areas of its trade and other receivables on an on-going basis. At the end of the reporting period, 100% (2015: 100%) of the Group's and Company's trade and other receivables are due from outside parties and subsidiary company, respectively, located in China.

#### Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and bank balances are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

#### Financial assets that are either past due or impaired

Information regarding financial assets that are either part due or impaired is disclosed in Note 13 to the financial statements.

### (c) Liquidity risk

The objective of liquidity management is to ensure that the Group and the Company has sufficient funds to meet its contractual and financial obligations. To manage liquidity risk, the management monitors net cash flow and maintains a level of cash and cash equivalents deemed adequate for working capital purposes so as to mitigate the effects of fluctuations in cash flow. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the support from Directors or shareholders.

The table below summarises the maturity profile of the Group's and Company's financial liabilities at the statement of financial position based on contractual undiscounted payments.

	1 year or less RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
<b>Group</b>					
<b>2016</b>					
Trade and other payables	38,604	82,500	–	121,104	102,582
Borrowings	36,700	–	–	36,700	36,700
	75,304	82,500	–	157,804	139,282
<b>2015</b>					
Trade and other payables	69,731	–	–	69,731	69,731
Borrowings	23,900	–	–	23,900	23,900
	93,631	–	–	93,631	93,631
<b>Company</b>					
<b>2016</b>					
Trade and other payables	3,070	–	–	3,070	3,070
<b>2015</b>					
Trade and other payables	3,633	–	–	3,633	3,633

# Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

## 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (d) Capital risk

The Group's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a capital structure so as to maximise shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented in the statement of financial position.

There were no changes in the Group's approach to capital management during the financial year.

The Company and its subsidiary corporations are not subject to any externally imposed capital requirements.

Gearing has no significant influence on the Group's capital structure.

### (e) Fair value measurements

The carrying amounts of the financial assets and financial liabilities at the statement of financial position date approximate the fair values due to the relatively short term maturity of these financial instruments, except for non-current other payables (Note 21).

The fair value of non-current other payables representing secured loans to a related party and an outside party amounting to RMB 17,027,000 and RMB 46,951,000 (2015: NIL and NIL), respectively, as at the reporting date as estimated by discounting expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period.

## 29 EVENTS AFTER REPORTING PERIOD

### Private Placement of 26,640,000 new ordinary shares ("Placement Shares") in K-Star Sports Limited ("Company")

On 17 March 2017, the Company announced that the Private Placement of 26,640,000 Placement Shares amounting to MYR 1,358,640 in the Company to identified independent third party investors is deemed completed. This is following the listing of and quotation for 26,640,000 Placement Shares on the Main Market of Bursa Malaysia Securities Berhad at the issue price of MYR 0.051 per Placement Share.

The issue price of MYR 0.0510 per Placement Share represents a discount of approximately 9.89% from the 5 days weighted average market price of the Company's shares from 1 March 2017 to 7 March 2017 of approximately MYR 0.0566.

## Note to the Financial Statements

for the Financial Year ended 31 December 2016 (Cont'd)

### 30 SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The following analysis of realised and unrealised accumulated profits of the Group at 31 December 2016 is presented in accordance with the directive issued by Bursa Securities dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Listing Requirements, as issued by the Malaysia Institute of Accountants.

The breakdown of the retained earnings of the Group as at the financial year end, into realised and unrealised profits, pursuant to the directive, is as follows:

	2016 RMB'000	Group 2015 RMB'000
<b>Total retained earnings of the Group</b>		
Realised	(18,528)	92,063
Unrealised	18,526	(1)
	(2)	92,062

The disclosure of realised and unrealised profits or losses above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

### 31 AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the directors on the same date as per the Directors' Statement.

# LIST OF PROPERTIES

Location	Description/ Existing use	(i) Land area (ii) Built-up area (square metres)	Tenure	Approximate age of building (years)	Carrying amounts at 31 December 2016 RMB '000	Date of Acquisition
No. 125-127 Jiangtou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC	Industrial	(i) 7,666 (ii) 22,384	50 years up to 2056	16	25,145 (land) 31,833 (building)	20 October 2006
No. 104 Yangding South Road, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC	Industrial	(i) 3,100 (ii) 4,200	50 years up to 2055	12	- (land) 2,424 (building)	1 December 2005
Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, Fujian Province, PRC	Industrial	(i) 26,973 (ii) Not applicable	50 years up to 2060	Not applicable	24,136 (land)	25 June 2010
Jiantou Qianjin Road North, Jiangtou Industrial Zone, Jiangtou Village, Chendai Town, Jinjiang City, 36211 Fujian Province, PRC	Industrial	(i) 675 (ii) 2,144	50 years up to 2056	21	19,641 (land) 5,957 (building)	18 October 2011

# SHAREHOLDERS' INFORMATION / ANALYSIS OF SHAREHOLDINGS

## AS AT 28 MARCH 2017

Issued and paid-up Ordinary Share Capital	:	SGD 60,332,654 comprising of 293,040,000 ordinary shares
Class of shares	:	Ordinary shares
Voting rights	:	One vote per ordinary share

## DISTRIBUTION OF SHAREHOLDINGS AS AT 28 MARCH 2017

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
Less than 100	1	0.063	10	0.000
100 – 1,000	225	14.240	89,300	0.030
1,001 – 10,000	502	31.772	3,444,200	1.175
10,001 – 100,000	683	43.227	27,699,690	9.452
100,001 – 14,651,999*	167	10.569	147,333,300	50.277
14,652,999 and above **	2	0.126	114,473,500	39.064
Total	1,580	100.000	293,040,000	100.000

Notes:

- \* Less than 5% of issued shares  
 \*\* 5% and above of issued shares

## DIRECTORS' SHAREHOLDINGS AS AT 28 MARCH 2017

No.	Name	No. of Shares	Direct interest %	No. of Shares	Deemed interest %
1.	Ding JianPing (丁建萍) <sup>(1)</sup>	–	–	–	–
2.	Ding ZiDi (丁梓迪)	–	–	–	–
3.	Hong Cheong Liang	–	–	–	–
4.	Xiao LuXi (肖璐茜)	–	–	–	–
5.	Lee Yew Weng	–	–	–	–

Note:

- (1) An agreement has been entered into between Chan Kai Fly, being the sole shareholder of K-Star Sports International Limited and Ding JianPing for a right of first refusal to be given to Ding JianPing to purchase the Company's shares held under K-Star Sports International Limited after the initial public offering and the moratorium period.

## Shareholders' Information / Analysis of Shareholdings (Cont'd)

### SUBSTANTIAL SHAREHOLDERS AS AT 28 MARCH 2017

No.	Name	Direct interest		Deemed interest	
		No. of Shares	%	No. of Shares	%
1.	K-STAR SPORTS INTERNATIONAL LIMITED	87,973,500	30.020	–	–
2.	DATIN TAN SIEW CHING	26,500,000	9.043	–	–
3.	CHAN KAI FLY	–	–	87,973,500	30.020

### THIRTY LARGEST SHAREHOLDERS AS AT 28 MARCH 2017

No.	Shareholders	No. of Shares	% of issued share capital
1.	K-STAR SPORTS INTERNATIONAL LIMITED	87,973,500	30.020
2.	DATIN TAN SIEW CHING	26,500,000	9.043
3.	LEONG WAI KWIN	13,320,000	4.545
4.	SU PEK FUANG	13,320,000	4.545
5.	JONG VOON HOO	13,200,200	4.504
6.	DATO' NG AIK KEE	12,282,500	4.191
7.	SKYLITECH RESOURCES SDN. BHD.	11,814,500	4.031
8.	UOB KAY HIAN NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS)	11,120,000	3.794
9.	NG DER SIAN (HUANG DEXIANG)	9,682,900	3.304
10.	ONG SAY KIAT	5,000,000	1.706
11.	JF APEX NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LUM YET CHONG (MARGIN)	3,201,000	1.092
12.	TAN KIN CHUAN	2,171,200	0.740
13.	CHIA SUN KIA	1,980,000	0.675
14.	CIMSEC NOMINEES (TEMPATAN) SDN. BHD. CIMB FOR YEOH YIH SEAN (PB)	1,840,900	0.628
15.	LEW YUEN KEE @ LEW AH KEE	1,500,000	0.511
16.	WONG MIIN YEH	1,328,000	0.453
17.	YAP CHIN PUEK @ YAP CHIN YICK	1,300,000	0.443
18.	DATO' TAN EE SENG	1,155,100	0.394
19.	GOH POH CHEE	1,017,000	0.347
20.	OOI CHIENG SIM	1,000,000	0.341
21.	LEE MEE YOKE	957,000	0.326
22.	KENANGA NOMINEES (ASING) SDN. BHD. EXEMPT AN FOR GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED	843,200	0.287
23.	MAYBANK NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR ANG ENG TIONG	801,600	0.273
24.	OOI LENG HWA	800,000	0.273
25.	TAY WOI YEE	727,300	0.248
26.	LEE HEAN GUAN	720,000	0.245
27.	TAN BEE CHING	635,000	0.216
28.	PUBLIC NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR LIM JIT SOON (E-KLC)	607,000	0.207
29.	HLIB NOMINEES (TEMPATAN) SDN. BHD. PLEDGED SECURITIES ACCOUNT FOR ZULKARNAIN BIN ABDULLAH ANAS & ANAS (CCTS)	600,000	0.204
30.	HONG SIOK LENG	600,000	0.204

# ADDITIONAL COMPLIANCE INFORMATION DISCLOSURES

In compliance with the Main LR of Bursa Securities, the following are provided:

## 1. Utilisation of proceeds raised from corporate proposals

The Company had on 17 March 2017, announced that the private placement of 26,640,000 new ordinary shares of the Company at an issue price of RM0.051 per placement share amounting to RM 1,358,640 to identified independent third party investors is deemed completed. As at 28 March 2017, the utilisation of the proceeds raised from the said private placement was as follows:-

Details of Utilisation	Status of Utilisation	Amount Utilised RM'000	Amount Unutilised RM'000
General working capital	Yet to be utilised	–	1,283
Expenses for the Proposed Private Placement	Fully utilised	76	–
<b>Total</b>		<b>76</b>	<b>1,283</b>

## 2. Share buy-back

The Company did not undertake any share buy-back exercise.

## 3. Audit and Non-Audit Fees

There were no non-audit fees paid by the Group to the External Auditors during the financial year.

## 4. Recurrent Related Party Transactions ("RRPT")

Save as disclosure below, there were no related party transactions during the financial year:

	FYE 31 December 2016	
	RMB'000	RM'000
Interest expense	(1,053)	(680)
Interest payable	950	614
	Current quarter ended and FYE 31 December 2016	
	RMB'000	RM'000
Amount due to a related party	22,000	14,212
Less: Fair value discounting	(4,973)	(3,213)
Amount due to a related party	17,027	10,999



## **Additional Compliance Information Disclosures (Cont'd)**

### **5. Material Contracts**

During the financial year under review, there was no material contract entered into by the Company and its subsidiary corporations which involved the Directors' and major shareholders' interest.

### **6. Corporate Social Responsibilities**

The Company is mindful of its corporate social responsibilities towards the shareholders, communities, other stakeholders and the environment. The Group also supports the community through various sponsorships of education and cultural activities. Our Group has been in compliance with the applicable laws and regulations in the countries which we operate in and was not involved in any significant litigation, arbitrations or claims during the financial year. We have been accredited with ISO 9001:2000 and great emphasis is placed on quality assurance in all aspect of our operations, from procurement to production, to ensure that we satisfy our customers' quality requirements and minimise wastage due to inefficiencies.

### **7. Statement pertaining to the allocation of Share Options to Employees**

To date, the Company has not established any share options for employees. In the event the Company establishes such employees share options scheme ("ESOS"), the Audit Committee would carry the responsibility of reviewing all allocations granted to eligible employees to ensure compliance with the criteria as would have been spelt out in the by-laws of the Company's proposed ESOS.



# NOTICE OF ANNUAL GENERAL MEETING 2017

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting 2017 ("AGM 2017") of the Company will be held at Permai 1, First Floor, Kota Permai Golf & Country Club, No. 1, Jalan 31/100A, Kota Kemuning, Section 31, 40460 Shah Alam, Selangor Darul Ehsan, Malaysia on Friday, 23 June 2017 at 3:00 p.m. for the following purposes:-

## AGENDA

### As Ordinary Business:-

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Directors' Statement and Auditors' Report thereon. **(refer to Note 8)**
2. To re-elect Mr. Ding JianPing, who is retiring pursuant to Article 91 of the Company's Constitution. **(Ordinary Resolution 1)**
3. To re-elect Mr. Lee Yew Weng, who is retiring pursuant to Article 91 of the Company's Constitution. **(Ordinary Resolution 2)**
4. To re-elect Mr. Hong Cheong Liang, who is retiring pursuant to Article 97 of the Company's Constitution. **(Ordinary Resolution 3)**
5. To re-appoint Messrs. Helmi Talib & Co. as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 4)**

### As Special Business:-

To consider and if thought fit, to pass the following resolution with or without modifications:-

6. **ORDINARY RESOLUTION NO. 1  
PAYMENT OF DIRECTORS' FEES** **(Ordinary Resolution 5)**

"THAT the Directors' Fees amounting to RMB 320,000 for the financial year ending 31 December 2017, be and is hereby approved for payment."

## **Notice of Annual General Meeting 2017 (Cont'd)**

### **7. ORDINARY RESOLUTION NO. 2**

**(Ordinary Resolution 6)**

#### **AUTHORITY TO ISSUE NEW ORDINARY SHARES PURSUANT TO SECTION 161 OF THE COMPANIES ACT (CHAPTER 50) OF SINGAPORE ("THE ACT")**

"THAT pursuant to Section 161 of the Act and the Company's Constitution and subject to the approvals from Bursa Malaysia Securities Berhad and other relevant government/ regulatory authorities, where such approval is necessary, the Directors of the Company be and are hereby empowered pursuant to Section 161 of the Act to issue shares in the capital of the Company at any time until the conclusion of the next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, and upon such terms and conditions and for such purposes and to such persons as the Board of Directors may, in their absolute discretion, deem fit, provided that the value of shares to be issued, when aggregated with the value of any such shares issued during the preceding twelve (12) months does not exceed 10% of the value of the issued share capital (excluding treasury shares) of the Company for the time being AND THAT the Board of Directors be and is also empowered to obtain approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad."

8. To transact any other business of which due notice shall be given.

#### **BY ORDER OF THE BOARD**

**THUM SOOK FUN**

Company Secretary

Date: 27 April 2017



## Notice of Annual General Meeting 2017 (Cont'd)

### Notes:-

#### (A) Information for Shareholders/Proxies

1. A Member may appoint not more than two (2) proxies to attend and vote at the same General Meeting. In any case where a form of proxy appoints more than one (1) proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy. A member of the Company entitled to attend, participate, speak and vote at a meeting of the Company, shall be entitled to appoint any person as his proxy to attend, participate, speak and vote instead of a Member at the meeting. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the Member to participate and speak at the meeting.
2. An instrument appointing a proxy shall be in writing in any usual or common form or in any other form which the Directors may approve and in the case of individual, shall be signed by the appointor or his attorney. In the case of a corporation, shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.
3. The signature on such instrument need not be witnessed. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter of power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy in accordance with item 5 below, failing which the instrument may be treated as invalid.
4. An instrument appointing a proxy whether executed in the States of Malaysia or outside the States of Malaysia shall be attested by a solicitor, commissioner of oaths, notary public, consul or magistrate, but the Directors may from time to time waive or modify this requirement either generally or in a particular case.
5. An instrument appointing a proxy must be left at the Share Registrar of the Company situated at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, Kuala Lumpur, Wilayah Persekutuan, Malaysia, not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.
6. Where a member of the Company is an Exempt Authorised Nominee as defined under the Securities Industry (Central Depositories) Act, 1991, which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
7. For the purpose of determining a member who shall be entitled to attend the AGM 2017, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 51(B) (b) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositor as at 16 June 2017. Only a depositor whose name appears therein shall be entitled to attend the said meeting or appoint a proxy to attend and/ or vote on his stead.

#### (B) Audited Financial Statements for the financial year ended 31 December 2016

8. This Agenda item is meant for discussion only, as the provision of Section 201(1) of the Companies Act (Chapter 50) of Singapore does not require a formal approval for the Audited Financial Statements from the shareholders. Therefore, this Agenda is not put forward for voting.

## Notice of Annual General Meeting 2017 (Cont'd)

### (C) Re-election of Directors

9. Article 91 of the Company's Constitution states that one-third (1/3) of the Directors shall retire from office and shall be eligible for re-election at each AGM. All Directors shall retire from office at least once in each three (3) years but shall be eligible for re-election.

Article 97 of the Company's Constitution states that any Director who is appointed either to fill a casual vacancy or as an addition to the existing Directors, shall hold office until the next AGM and shall be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotations at that meeting.

In determining the eligibility of the Directors to stand for re-election at the forthcoming AGM 2017, the Nomination Committee ("NC") has considered the following:-

- (i) Evaluation on the effectiveness of the Individual Directors, the Board as a Whole and all Board Committees; and
- (ii) For Independence Non-Executive Directors ("INEDs") only, the level of independence demonstrated by the INEDs and their ability to act in the best interest of the Company.

In line with Recommendation 3.1 of the Malaysian Code on Corporate Governance 2012 ("MCCG 2012"), the Board has conducted a separate assessment of independence of the INEDs, the evaluation criteria adopted as well as the process of assessment by the Board have been duly elaborated in the Corporate Governance Statement of the Annual Report 2016 of the Company.

The Board approved the NC's recommendation for the retiring Directors pursuant to Article 91 and 97 of the Company's Constitution, respectively. All the retiring Directors have consented to their re-election, and abstained from deliberation as well as decision on their own eligibility to stand for re-election at the relevant NC and Board meetings, where applicable.

### (D) Re-appointment of Auditors

10. The Audit Committee ("AC") have assessed the suitability and independence of the External Auditors and recommended the re-appointment of Messrs. Helmi Talib & Co. as External Auditors of the Company for the financial year ending 31 December 2017. The Board has in turn reviewed the recommendation of the AC and recommended the same be tabled to the shareholders for approval at the forthcoming AGM 2017 of the Company under Resolution 4. The evaluation criteria adopted as well as the process of assessment by the AC and Board, respectively, have been duly elaborated in the Corporate Governance Statement of the Annual Report 2016 of the Company.

### (E) Payment of Directors' Fees

11. The Directors' fees proposed for the financial year ending 31 December 2017 are calculated based on the number of scheduled Board and Committee meetings for 2017 and assuming that all Directors will hold office until the end of the financial year. This resolution is to facilitate payment of Directors' fees on a current financial year basis. In the event the Directors' fees proposed is insufficient (e.g. due to additional meetings or enlarged Board Size), approval will be sought from the shareholders at the next Annual General Meeting for additional fees to meet the shortfall.

## Notice of Annual General Meeting 2017 (Cont'd)

**(F) Authority to Issue Shares pursuant to Section 161 of the Companies Act (Chapter 50) of Singapore**

12. The Company wishes to renew the mandate on the authority to issue shares pursuant to Section 161 of the Companies Act (Chapter 50) of Singapore at the Annual General Meeting 2017 of the Company (hereinafter referred to as the "General Mandate").

The Company had been granted a general mandate by its shareholders at the Annual General Meeting 2016 of the Company held on 24 June 2016 to issue and allot shares not exceed ten per centum (10%) of the value of the issued share capital of the Company (hereinafter referred to as the "Previous Mandate").

Pursuant to the Previous Mandate, the Company has undertaken a private placement exercise which has been completed on 17 March 2017 where 26,640,000 new ordinary shares have been issued at an issued price of RM0.051 per placement share. The total proceeds raised from the said private placement exercise was RM1,358,640.

The details of utilisation of the proceeds from the abovementioned corporate exercise were as follows:-

Details of Utilisation	Status of Utilisation	Amount Utilised RM'000	Amount Unutilised RM'000
General working capital	Yet to be utilised	–	1,283
Expenses for the Proposed Private Placement	Fully utilised	76	–
<b>Total</b>		76	1,283

The purpose to seek the General Mandate is to enable the Directors of the Company to issue and allot shares at any time to such persons in their absolute discretion without convening a general meeting as it would be both time and cost-consuming to organise a general meeting solely for such issuance and allotment of shares. This authority unless revoked or varied by the Company in a general meeting, will expire at the next Annual General Meeting. The proceeds raised from the General Mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

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**Proxy Form**

# 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)

**CDS Account No****No. of shares held**

I/We \_\_\_\_\_

*[name of shareholder as per NRIC, in capital letters]*NRIC No./ID No./Company No. \_\_\_\_\_ (new) \_\_\_\_\_ (Old) of \_\_\_\_\_  
*[full address]*

being a Member/Members of K-Star Sports Limited, hereby appoint \_\_\_\_\_

*[name of shareholder as per NRIC, in capital letters]*

NRIC No. \_\_\_\_\_ (new) \_\_\_\_\_ (Old) of \_\_\_\_\_

*[full address]*

and/or failing him/her \_\_\_\_\_

*[name of shareholder as per NRIC, in capital letters]*

NRIC No. \_\_\_\_\_ (new) \_\_\_\_\_ (Old) of \_\_\_\_\_

*[full address]*

or failing him/her, the Chairman of the Meeting as my/our proxy to attend and to vote for me/our behalf and, if necessary, to demand a poll at the Annual General Meeting 2017 of the Company to be held at Permai 1, First Floor, Kota Permai Golf & Country Club, No. 1, Jalan 31/100A, Kota Kemuning, Section 31, 40460 Shah Alam, Selangor Darul Ehsan, Malaysia on Friday, 23 June 2017 at 3:00 p.m. or any adjournment thereof, and to vote as indicated below:-

The proportion of \*my/our holdings to be represented by \*my/our proxy(ies) are as follows:-

First Proxy	%
Second	%
	<u>100%</u>

In the case of a vote by a show of hands, my proxy \_\_\_\_\_ (one only) shall vote on \*my/our behalf.

Please indicate with an "X" in the spaces provided below how you wish your votes to be casted. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.

Resolution		FOR	AGAINST
Resolution 1	Re-election of Mr. Ding JianPing as Director		
Resolution 2	Re-election of Mr. Lee Yew Weng as Director		
Resolution 3	Re-election of Mr. Hong Cheong Liang as Director		
Resolution 4	Re-appointment of Messrs. Helmi Talib & Co. as Auditors and to fix their remuneration		
Resolution 5	Ordinary Resolution No.1 - Payment of Directors' fees for the financial year ending 31 December 2017		
Resolution 6	Ordinary Resolution No.2 - Authority to issue new ordinary shares		

Dated this ..... day ....., 2017 .

.....  
Signature of Shareholder/Common Seal

**Notes:**

1. A Member may appoint not more than two (2) proxies to attend and vote at the same General Meeting. In any case where a form of proxy appoints more than one (1) proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy. A member of the Company entitled to attend, participate, speak and vote at a meeting of the Company, shall be entitled to appoint any person as his proxy to attend, participate, speak and vote instead of a Member at the meeting. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same rights as the Member to participate and speak at the meeting.
2. An instrument appointing a proxy shall be in writing in any usual or common form or in any other form which the Directors may approve and in the case of individual, shall be signed by the appointor or his attorney. In the case of a corporation, shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.
3. The signature on such instrument need not be witnessed. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter of power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy in accordance with item 5 below, failing which the instrument may be treated as invalid.
4. An instrument appointing a proxy whether executed in the States of Malaysia or outside the States of Malaysia shall be attested by a solicitor, commissioner of oaths, notary public, consul or magistrate, but the Directors may from time to time waive or modify this requirement either generally or in a particular case.
5. An instrument appointing a proxy must be left at the Share Registrar of the Company situated at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, Kuala Lumpur, Wilayah Persekutuan, Malaysia, not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.
6. Where a member of the Company is an Exempt Authorised Nominee as defined under the Securities Industry (Central Depositories) Act, 1991, which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each Omnibus Account it holds.
7. For the purpose of determining a member who shall be entitled to attend the Annual General Meeting 2017, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd, in accordance with Article 51(B) (b) of the Company's Constitution and Section 34(1) of the Securities Industry (Central Depositories) Act, 1991 to issue a General Meeting Record of Depositor as at 16 June 2017. Only a depositor whose name appears therein shall be entitled to attend the said meeting or appoint a proxy to attend and/ or vote on his stead.



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AFFIX  
STAMP

THE REGISTRAR  
**K-STAR SPORTS LIMITED**  
(Company Registration Number 200820976H)  
(Malaysian Branch Registration Number 995214-D)  
SECURITIES SERVICES (HOLDINGS) SDN. BHD.  
COMPANY NO. 36869-T  
Level 7, Menara Milenium, Jalan Damanlela,  
Pusat Bandar Damansara, Damansara Heights,  
50490 Kuala Lumpur, Wilayah Persekutuan,  
Malaysia

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# K-Star

**K-STAR SPORTS LIMITED**

(Malaysian Branch Registration No. 995214-D)

