

K-Star

K-STAR SPORTS LIMITED
(Malaysian Branch Registration No. 995214-D)

ANNUAL REPORT **2015**





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OUR PRODUCTS



Our Products (cont'd)



CORPORATE INFORMATION

BOARD OF DIRECTORS

Ding JianPing

(Executive Chairman and Chief Executive Officer)

Ding ZiDi

(Executive Director)

Lee Yew Weng

(Independent Non-Executive Director)

Teoh Tow Kean

(Independent Non-Executive Director)

Xiao LuXi

(Independent Non-Executive Director)

AUDIT COMMITTEE

Lee Yew Weng

(Chairman/Independent Non-Executive Director)

Xiao LuXi

(Member/Independent Non-Executive Director)

Teoh Tow Kean

(Member/Independent Non-Executive Director)

REMUNERATION COMMITTEE

Teoh Tow Kean

(Chairman/Independent Non-Executive Director)

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)

Teoh Tow Kean

(Member/Independent Non-Executive Director)

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

B-11-10 Level 11 Megan Avenue II
Jalan Yap Kwan Seng 50450
Kuala Lumpur
Malaysia
Tel : (603) 2166 9718
Fax : (603) 2166 9728

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
Email : dxshoes@vip.163.com
Web : www.dixing.com

WEB

www.kstarsports.com

COMPANY AGENT IN MALAYSIA

JLPW Business Solutions Sdn Bhd
B-11-10 Level 11 Megan Avenue II
Jalan Yap Kwan Seng
50450 Kuala Lumpur
Malaysia
Tel : (603) 2166 9718
Fax : (603) 2166 9728

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 Republic of China

MALAYSIAN SHARE REGISTRAR

Tricor Investor & Issuing House
Services Sdn Bhd
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue
3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur
Malaysia
Tel : (603) 2783 9299
Fax : (603) 2783 9222

STOCK EXCHANGE LISTING

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

GROUP CORPORATE STRUCTURE

K-STAR SPORTS LIMITED
(Incorporated in Singapore)
Investment Holding

100%

**FUJIAN JINJIANG DIXING
SHOES PLASTICS CO., LTD**

福建晋江帝星鞋塑有限公司

(INCORPORATED IN PEOPLE'S
REPUBLIC OF CHINA)

Design, manufacture and distribution of sports footwear,
sports apparel and accessories

100%

**JINJIANG SAIFEITE
SHOES PLASTICS CO., LTD**

晋江赛飞特鞋塑有限公司

(INCORPORATED IN PEOPLE'S
REPUBLIC OF CHINA)

Business of shoe and shoe sole production
and has ceased its business operation

CORPORATE MILESTONES

| Year | Milestone/Achievement |
|------|--------------------------------------------------------------------------------------------------------------------------------------|
| 1992 | Established Fujian Dixing in Jinjiang City, Fujian Province, the People's Republic of China |
| 1996 | Built Factory A ¹ 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 ² |
| 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 | ODM/OEM for Kappa and installed fourth production line |
| 2007 | ODM/OEM 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 | Launch 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 2 nd 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) |

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.

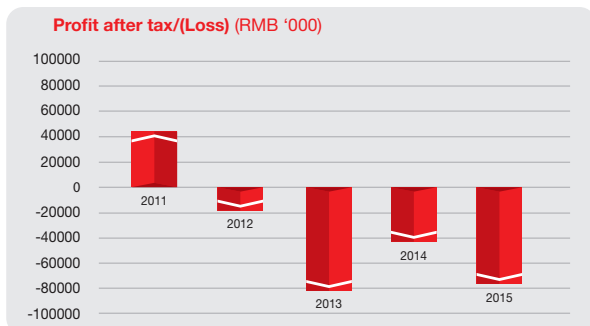
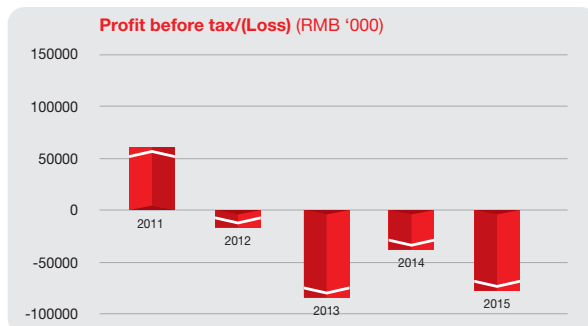
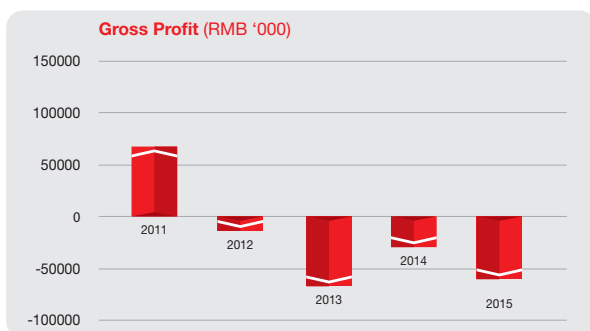
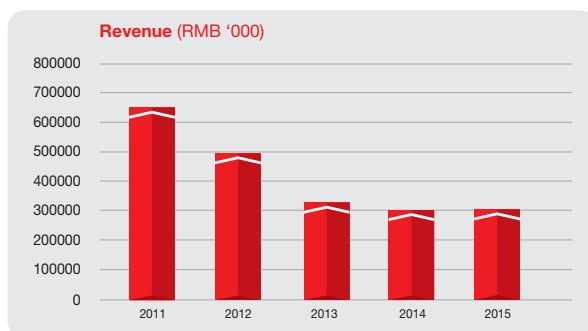
FINANCIAL HIGHLIGHTS

Summary of financial performance since listing*

| Key results | 31 December 2011 (RMB '000) | 31 December 2012 (RMB '000) | 31 December 2013 (RMB '000) | 31 December 2014 (RMB '000) | 31 December 2015 (RMB '000) |
|--------------------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Revenue | 652,553 | 497,720 | 329,075 | 300,730 | 301,352 |
| EBITDA | 70,581 | (6,307) | (70,365) | (27,746) | (60,105) |
| Profit/(Loss) before tax | 63,229 | (16,723) | (82,389) | (41,883) | (76,895) |
| Profit/(Loss) after tax | 44,257 | (26,605) | (82,561) | (41,883) | (76,895) |
| Net profit/(loss) attributable to equity holders | 44,257 | (26,605) | (82,561) | (41,883) | (76,895) |
| Total assets | 530,722 | 501,165 | 409,628 | 359,366 | 326,245 |
| Total borrowings | 24,980 | 23,330 | 24,000 | 23,900 | 23,900 |
| Cash & cash equivalents | 216,975 | 139,268 | 91,819 | 47,938 | 6,163 |
| Shareholders' equity | 455,637 | 429,032 | 346,471 | 304,588 | 227,693 |
| Return on equity (%) | 9.71 | (6.20) | (23.83) | (13.75) | (33.77) |
| Return on total assets (%) | 8.34 | (5.31) | (20.16) | (11.65) | (23.57) |
| Gearing ratio (%) | 5.48 | 5.44 | 6.93 | 7.85 | 10.50 |
| Interest cover (times) | 57.20 | (7.09) | (68.47) | (27.47) | (39.13) |
| Basic earnings/(loss) per share (cents) | 16.61 | (9.99) | (30.99) | (15.72) | (28.86) |
| Net assets per share (RMB) | 1.71 | 1.61 | 1.30 | 1.14 | 0.85 |

Note:

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



BOARD OF DIRECTORS' PROFILE

Ding JianPing (丁建萍), **Chinese**

Executive Chairman and Chief Executive Officer

Age : 59

Qualifications : He graduated from secondary school in 1975.

Working experience : He is primarily responsible for the business strategy and development, management of the financial affairs, overall administrative management and operations of our Group. He joined the Group since its inception in 1992 and has been instrumental in the expansion of our Group's business to its current status. He has more than 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 Jiangtuo 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 Jiangtuo Leather and Fabric Shoes Factory (江头皮革布鞋厂). From 1988 to 1992, he worked as a factory manager in Jiangtuo Nanfang Leather and Plastics Factory (江头南方皮朔厂). His vast experience in the shoe manufacturing industry is integral to our Group's success and growth in the industry. He has been the Deputy President of Russia China Minnan Commerce Association (俄罗斯中国闽南商会) since 2006.

Date appointed to the Board : 3 November 2008

Board Committee(s) : None

Ding ZiDi (丁梓迪), **Chinese**

Executive Director

Age : 33

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

Working experience : He is responsible for managing the design and development department, and human resource and administration department of our 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.

Date appointed to the Board : 16 September 2009

Board Committee(s) : None

Teoh Tow Kean, **Malaysian**

Independent Non-Executive Director

Age : 34

Qualifications : He graduated with BA (Honours) from the University of Central Lancashire at Lancashire County, United Kingdom.

Working experience : He started his career with one of the top 10 international accounting and consulting firms and was later promoted to be the senior project director. He is currently the head of an international consultancy firm based in Malaysia and Singapore which provides business consultancy and corporate governance services. He has years of experiences in the manufacturing industry and is currently providing consultation to clients of SMEs, public listed companies as well as multinational corporations. He is also a member of Institute of Internal Auditors Malaysia and a member of Institute of Internal Auditors Singapore.

Date appointed to the Board : 31 August 2010

Board Committee(s) : Chairman of Remuneration Committee and member of Audit Committee and Nomination Committee.

Board Of Directors' Profile (cont'd)

Xiao LuXi (肖璐茜), Singaporean

Independent Non-Executive Director

Age : 33

Qualifications : She graduated from Quanzhou HuaQiao University, PRC.

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.

Date appointed to the Board : 23 May 2011

Board Committee(s) : Chairperson of Nomination Committee and member of Audit Committee and Remuneration Committee.

Lee Yew Weng, Malaysian

Independent Non-Executive Director

Age : 38

Qualifications : He graduated from the University of Adelaide, Australia with Bachelor of Commerce in 1999. Mr. Lee is a certified public accountant under the membership of CPA Australia since 2003. Mr. Lee is also a Chartered Accountant under the membership of Malaysian Institute of Accountants.

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 F&B businesses.

Date appointed to the Board : 24 March 2014

Board Committee(s) : Chairman of Audit Committee and member of Nomination Committee and Remuneration Committee.

Notes:

1. Directorship in Public Companies.

None of the Directors hold any directorship in any public companies incorporated in Malaysia or companies which are the subsidiaries of public companies incorporated in Malaysia.

2. Family Relationship

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

3. Directors' Shareholdings

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

4. Non-Conviction of Offences

None of the Directors has been convicted of any offences, other than traffic offences, within the past ten (10) years.

5. No Conflict of Interest

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

6. Attendances at Board Meetings

The details of the Directors' attendance at the Board Meetings are set out in the Corporate Governance Statement of this Annual Report.

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 2015 ("current financial year").



PERFORMANCE OVERVIEW

For the FYE 31 December 2015, the Group recorded a total revenue of RMB 301.35 million, fairly consistent as compared to the FYE 31 December 2014. The overall gross profit margin fell 0.8% from 7.69% as compared to FYE 31 December 2014. This was mainly attributable to the escalating cost of labour whereby the average labour costs per unit for both in-house and outsourced labour has increased by approximately 5.88% and 5.07% respectively during the FYE 31 December 2015. The Group reported a loss of RMB 76.89 million for the FYE 31 December 2015 mainly contributed from the sales rebates, amortisation and diminishing margin.

The sales and distribution expenses were recorded higher by approximately 72.59% as compared to the FYE 31 December 2014 mainly due to the sales rebate of RMB 32.42 million were extended to distributors during the last quarter of 2015 as an incentive to support and maintain long term sustainability of the distributors and the retailers amid unfavorable market condition.

The administrative expenses for the FYE 31 December 2015 has increased by approximately 4.88% as compared to the preceding year corresponding quarter. This was mainly contributed from the higher amortisation cost arising from additional patents acquired since 2nd half of 2014.

In view of the above unfavourable persistent factors, the Group reported a loss of RMB 76.89 million for the FYE 31 December 2015.

During the current financial year, the slowdown since year 2012 continued its onslaught with intense competition and consolidation of the sports footwear industry. The industry has yet to benefit from the projected rationalisation of the sports footwear industry. The industry continued to witness the oversupply of sports footwear which continued to weigh down heavily on the margins.

The status of the temporary cessation of our sports apparel section since year 2014 remained unchanged due to the substantial slowdown of sales recorded. The Group like the previous year, will continue with its OEM operation which will continue to support the Group. The effects of the past years continued to besiege the Group with lower gross margins due to higher cost of operations.

We remain cautiously optimistic for year 2016 on the long awaited recovery of the sports footwear industry. Nevertheless, we will continue to work harder and monitor closely our revenue stream while keeping a strict watch on our costs.

Chairman's Statement (cont'd)



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 (青島雙星).

OUR MARKET

Our proprietary products are distributed across 18 provinces and 13 municipalities in the PRC at over 528 retail locations and exported to Russia and other overseas markets, such as Ukraine, Belarus, the Czech Republic, Poland, Finland, Romania and Hungary.

OUR DESIGN AND PRODUCTION CAPACITY

We 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.

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. With that, the market will see progressive development in technology, materials and processes towards a trendiness, superior quality and reasonable pricing of the sportswear.

From reports, the intensifying of competition among the market 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, this created gaps 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.

Chairman's Statement (cont'd)

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, 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.

FUTURE PROSPECT

The sports footwear and apparel market in China has reached a certain level of maturity and has entered a phase of stabilised growth after a period of rapid expansion with double digit growth rate from 2008 to 2010. Thereafter, it had undergone a prolonged downturn since 2011 due to intense industry rivalry resulting in oversupply of sports apparel and footwear in the market. Accordingly, many distributors and retailers have to reduce the inventories and relieve the dilemma through shutting down shops, industrial promotion and channel transformation. In addition, consistent high level of inflationary pressure has also affected the consumer sentiment, hindering the overall market growth as well as the Group's performance.

However, the Group remains optimistic on the long term potential and sustainability of the sports industry in China witnessed by a combination of government's support which include promotion of public sporting programmes, hosting of international events and increasing media exposure.

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. It is envisaged that the oversupply situation in the sportswear industry in China will ease over time, however challenges on offline channels from online channels is inevitable. While the distributors are still focusing on rationalising its retail channel and improving profitability, the Group as the brand owner will undertake necessary measures by extending mix of incentives to support and ensure the sustainability of the distributors' business amid the current market environment will continue to be faced with numerous challenges.



The Board of Directors of K-Star envisages that the Group's prospects for the financial year ending 31 December 2016 would be challenging in view of the China's growth slowdown in the short and medium term perspective. In addition, the Group is expected to extend some sales rebates to incentivise the distributors which may affect the profitability of the Group in the financial year ending 2016.

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. 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 2015. On the one hand, China's gross domestic product (GDP) growth slowed further and consumer sentiment is weak. Competition continues to intensify in the industry and the Group had to resort to giving rebates to remain competitive. In response to this, the Group will continue with its strategy to increase OEM activities while tightening its costs and exploring opportunities to grow. The focus on OEM will aid the fragile sportswear business while waiting out for the economy to recover. During the financial year, the sales of OEM has increased by approximately 46.18% as compared to the preceding financial year. The Group will continue to reinforce its presence in the market place with investment in research and development and intensive marketing efforts.

BUSINESS OVERVIEW

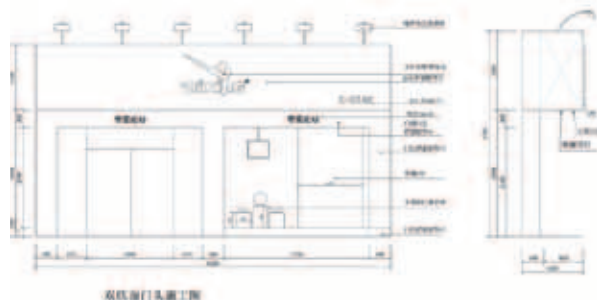
Our Group continues to optimise our production activities, reducing operating costs, handling of distributors and customers, offering a mix of incentives and revamping its overall operations. Our proprietary brand will continue with its brand building and product innovation to continue to gain foothold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

Sales and distribution of our proprietary brand footwear remain our primary activities in contributing to our revenue stream. The sales of Dixing brand sports footwear remained consistent in FYE 2015 as compared to the FYE 2014.

MARKETING STRATEGIES AND BRAND BUILDING

China's sports footwear 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 land a deal with the departmental 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 activities and will pursue for other OEM opportunities as well as the Group has built its name in the OEM sector.



Management Discussion And Analysis (cont'd)



FINANCIAL OVERVIEW

For the FYE 31 December 2015, the Group recorded a total revenue of RMB 301.35 million, fairly consistent as compared to the FYE 31 December 2014. The overall gross profit margin fell 0.8% from 7.69% as compared to FYE 31 December 2014. This was mainly attributable to the escalating cost of labour whereby the average labour costs per unit for both in-house and outsourced labour has increased by approximately 5.88% and 5.07% respectively during the FYE 31 December 2015.

The sales and distribution expenses were recorded higher by approximately 72.59% as compared to the FYE 31 December 2014 mainly due to the sales rebate of RMB 32.42 million were extended to distributors during the last quarter of 2015 as an incentive to support and maintain long term sustainability of the distributors and the retailers amid unfavorable market condition.

The administrative expenses for the FYE 31 December 2015 has increased by approximately 4.88% as compared to the preceding year corresponding quarter. This was mainly contributed from the higher amortisation cost arising from additional patents acquired since 2nd half of 2014.

In view of the above unfavourable persistent factors, the Group reported a loss of RMB 76.89 million for the FYE 31 December 2015.

Despite the loss reported in 2015, the management remained optimistic and to continue with its concerted efforts to increase revenue in 2016 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 range of fashion apparel and accessories. We will improve our effort to increase sales and stay afloat in the highly challenging industry.

Management Discussion And Analysis (cont'd)

KEY RISKS

Our business is operated 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 2015, we are not aware of any material non-compliance issues of our dealers and operators.

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 respectively 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 2016 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 COMMITMENT

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.

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 gives back to the society.

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.

ENVIRONMENT

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.

FACTORY AND EMPLOYEES

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

MOVING FORWARD

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



Corporate Governance Statement

The Board of Directors of K-Star Sports Limited recognises the importance of adopting good corporate governance. The statement below sets out how the Group has applied the principles and recommendations of the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”). The Company also has stated any specific Recommendation of the MCCG 2012 that has not been observed during the financial year under review.

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

1.1 Board should establish clear functions reserved for Board and those to delegated to management

The Board understands the importance of the roles and responsibilities between the Board and the management. The Board has established a Board Charter to document these roles and responsibilities to ensure accountability of both parties. The Board Charter is reviewed by the Board annually to ensure the charter remains consistent with the Board’s objectives and responsibilities, and relevant laws, regulations, guidelines and standards of corporate governance.

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.

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

Reviewing and adopting a strategic plan for the company

The Board reviewed the strategic plan of the Company tabled by Management at its meeting. The strategic plan would cover the performance targets and long term plans of the Company. On an annual basis, the Chief Executive Officer (“CEO”) shared with the Board the outlook of the industry and revealed the proposed strategic plan of the Company for the following financial year. The strategic plan encompassed the performance targets and long term goals of the Company to be met by the CEO.

The Board is satisfied with the strategic plan of the Company as presented by the CEO. The Board would continue to review the strategic plan to ensure its implementation.

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 the management team to ensure the operations are carried out smoothly. The Board’s role is to oversee the performance of the management to determine whether the business is properly managed. The Board gets updates from management 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.

The Remuneration Committee under its terms of reference would review the performance of the CEO and Executive Director on an annual basis. The assessment process is based on the remuneration framework for the Executive Directors.

Corporate Governance Statement (cont'd)

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

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

Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures

The Company has in place a Risk Management Framework. The Risk Management Committee adopted the Risk Management Framework as approved by the Board. The Risk Management Committee assisted the Audit Committee and Board to identify the principal risks and ensure the implementation of the appropriate internal controls and mitigation measures.

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

Succession planning

The Board views succession planning as important for business continuity. The Nomination Committee in line with its terms of reference assessed the CEO and Executive Director of the Company on an annual basis. The Nomination Committee also discussed the succession planning for the Executive Chairman. As the Executive Director is the son of the CEO, there is a clear line of succession planning in the Company. Across the Group, the management had planned for succession planning for the key posts.

Overseeing the development and implementation of a shareholder communications policy for the company

The Company has a website to ensure that the shareholders are able to communicate with the Company.

Reviewing the adequacy and the integrity of the management information and internal controls system of the company

The Board is responsible for the adequacy and the integrity of the management information and internal controls system of the Company. The details of the Internal Control systems are set out in the Statement on Risk Management and Internal Control in 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.

1.4 Ensure the Company's strategy promote sustainability

The Board promotes sustainability in the Company and Group as this would enhance the performance of the Company and Group.

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

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

1.5 Procedures to allow Directors access to information and advice

The Board has access to reports, papers on specific issues, information on major financial and operational matters. The management supplied accurate and complete information to the Board in a timely manner to enable the Board to discharge its duties effectively. In this way the Board has full access to all information on the Company's affairs to enable the proper discharge of duties.

All Board members have access to the advice and services of the Company Secretaries and senior management. The Board, whether as a full board or in their individual capacity, in the furtherance of their duties, may seek independent professional advice in discharge of their duties and responsibilities at the Company's expense.

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

The Board is supported by suitably qualified and competent company secretary who is a member of a professional body. In addition, the Company is registered as a foreign branch in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Board is also supported by suitably qualified and competent company secretaries who are members of professional bodies. The company secretaries keep the Board abreast with the latest regulatory updates. They also ensure that all Board and Board Committee meetings are properly convened and that deliberations, proceedings and resolutions are properly minuted and documented.

The Board has ready and unrestricted access to the advice and services of the company secretaries, who are considered capable of carrying out the duties to which the post entails.

1.7 Formalise periodically review and make public the Board Charter

The Board Charter is published in the Company's website. 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 its relevance in assisting the Board to discharge its duties with the changes in the corporate laws and regulations that may arise from time to time and to remain consistent with the Board's objectives and responsibilities.

PRINCIPLE 2 – STRENGTHEN COMPOSITION

2.1 Establish a Nomination Committee comprising exclusively non-executive directors, with majority independent

The Nomination Committee of the Company comprises wholly of Independent Non-Executive Directors. Being a Board with a relatively small number of Directors, the Board feels that it is not necessary to identify a Senior Independent Non-Executive Director amongst the Board members. Any concerns from the shareholders can be conveyed to any of the Independent Non-Executive Directors. The Nomination Committee meets at least twice a year or whenever the need arises.

The terms of reference of the Nomination Committee provides that members of the Nomination Committee shall be appointed by the Board and shall consist of not less than two (2) members who shall be exclusively non-executive directors, the majority of whom shall be independent directors. The terms of reference of the Nomination Committee also outlined the responsibilities and duties in relation to selection and assessment of new and existing directors.

Corporate Governance Statement (cont'd)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

2.2 Nomination Committee should develop, maintain and review criteria for recruitment process and annual assessment of directors

The Nomination Committee is tasked to assess any proposed candidates based on selection criteria expected of a Director. Further to the assessment and if the candidate is suitable, he or she will be recommended to the Board for approval. The Board upon the recommendation of the Nomination Committee shall consider the appointment of these proposed candidates.

In addition to the above, the Nomination Committee is required to assess the Board's effectiveness in terms of its composition, roles and responsibilities, and whether the Board Committees have discharged their functions and duties in accordance with the terms of reference. The Board is assessed based on the character, competence, experience, integrity and time availability of each Director as well as their abilities to contribute positively at meetings and in decision making. The Nomination Committee assesses on annual basis the composition of the Board to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies for effective functioning and informed decision-making.

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. In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. Currently, there is one female director on the Board of the Company.

During the financial year under review, the Nomination Committee conducted an annual assessment of the Board as a whole and individually of the required mix of skills, independence and diversity (including gender diversity), experience, and other qualities, including core competencies which Non-Executive Directors should bring to the Board and the effectiveness of the Board of Directors as a whole, the Board Committees and contribution of each individual Director. The assessment of the Directors also covered the assessment of character, integrity, competence and time in discharging their roles. The Directors had discussed about these requirements and concurred that they meet these requirements based on the outcome of the assessment. It also conducted an assessment of the Directors who are subject to retirement at the forthcoming annual general meeting in accordance with the provisions of the Articles of Association of the Company.

2.3 Board should establish formal and transparent remuneration policies and procedures to attract and retain directors

The terms of reference of the Remuneration Committee are as follows:

- (1) ensuring that all the Executive Directors, CEO and Senior Management are fairly rewarded for their individual contributions to the Company's overall performance;
- (2) ensuring that the compensation and other benefits encourage Executive Directors to act in ways that enhance the Company's long term profitability and value;
- (3) ensuring that the remuneration offered to the CEO and Senior Management is commensurate with the level of executive responsibilities and is appropriate in light of the Company's performance;
- (4) recommending to the Board a Remuneration Framework on the fee structure and level of Remuneration for the Executive Directors, CEO and Senior Management;
- (5) recommending to the Board a remuneration package for Non-Executive Director and remuneration packages for each Executive Director, CEO and Senior Management;
- (6) performing an annual review of the remuneration of employees related to the Board and Substantial Shareholders to ensure that their remuneration packages are in line with the Company's staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities; and
- (7) reviewing and recommending any bonuses, salary increment and/or promotions for the Executive Directors, CEO and Senior Management to the Board.

Corporate Governance Statement (cont'd)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

2.3 Board should establish formal and transparent remuneration policies and procedures to attract and retain directors (cont'd)

The Remuneration Committee had performed its duty to assess annually the remuneration package of its Executive Directors and Senior Management.

The remuneration of Non-Executive Directors proposed 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 each annual general meeting. |
| Meeting Allowances | These allowances are 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 Remuneration Committee had also deliberated on the Directors' fees payable for the financial year ending 31 December 2016 which is subject to the shareholders' approval at the forthcoming annual general meeting. Further to the deliberations, the Remuneration Committee had reported to the Board its recommendations and findings. The Directors' fees recommended to the shareholders' approval for the financial year ending 31 December 2016 is RMB 350,000.

The details of the remuneration of Directors for the financial year ended 31 December 2015 are as follows:

| | Executive Directors (RMB'000) | Non-Executive Directors (RMB'000) | Total (RMB'000) |
|-----------------------------------------|----------------------------------|--------------------------------------|--------------------|
| Directors' fees and allowances | 120 | 183 | 303 |
| Salaries, other emoluments and benefits | 1,724 | – | 1,724 |
| Grand total | 1,844 | 183 | 2,027 |

The aggregate remuneration of Directors analysed into appropriate band of RMB 50,000 are as follows:

| Range of Remuneration | No. of Directors | |
|---------------------------|---------------------|-------------------------|
| | Executive Directors | Non-Executive Directors |
| Below RMB50,000 | – | – |
| RMB50,001-RMB100,000 | – | 3 |
| RMB300,001-RMB350,000 | 1 | – |
| RMB1,500,001-RMB1,550,000 | 1 | – |

Details of the Director's Remuneration are set out in applicable bands of RMB 50,000 which comply with Listing Requirements. 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 Nomination Committee assessed the Independent Directors on an annual basis. The Board also received confirmation in writing from the Independent Directors of their independence. The Board is satisfied with the assessment of the Independent Directors.

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

None of the Independent Directors have served more than a cumulative term of 9 years. The Board is mindful of the cumulative term of 9 years for its Independent Non-Executive Directors 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.

3.4 Positions of Chairman and CEO to be held by different individuals

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. The balance of authorisation is ensured by the operation of the senior management and the Board, which comprises experienced and fair minded individuals. The Board currently comprises two (2) Executive Directors and three (3) Independent Non-Executive Directors and therefore has a strong independence element in its composition. There is a balance of membership in the Board thus ensuring that no individual dominates the decision making process and the results thereof.

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.

PRINCIPLE 4 – FOSTER COMMITMENT

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

The Board meets at least four 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 financial year ended 31 December 2015 is contained in the table below.

PRINCIPLE 4 – FOSTER COMMITMENT (CONT'D)

4.1 Board should set expectations on time commitment for its members and protocols for accepting new directorships (cont'd)

| Directors | Board of Directors | Audit Committee | Nomination Committee | Remuneration Committee |
|---------------|--------------------|-----------------|----------------------|------------------------|
| Ding JianPing | 5/5 | N/A | N/A | N/A |
| Ding ZiDi | 5/5 | N/A | N/A | N/A |
| Lee Yew Weng | 5/5 | 7/7 | 2/2 | 3/3 |
| Teoh Tow Kean | 5/5 | 7/7 | 2/2 | 3/3 |
| Xiao LuXi | 4/5 | 5/7 | 1/2 | 2/3 |

All the Directors have complied with the minimum 50% attendance requirement in respect of Board Meeting as stipulated in the Listing Requirements. 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.

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.

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.

During the financial year ended 31 December 2015, the training programmes and seminars attended by the Directors are as follows:

| Name | List of Training / Conference / Seminar / Workshop Attended / Participated |
|---------------|--------------------------------------------------------------------------------------------------|
| Ding JianPing | ISO9001 : 2008 International Quality Management System |
| Ding ZiDi | ISO9001 : 2008 International Quality Management System |
| Lee Yew Weng | Tax Seminar by SBY |
| Teoh Tow Kean | Risk Management & Internal Control workshop Corporate Governance Statement Reporting workshop |
| Xiao LuXi | ISO9001 : 2008 International Quality Management System |

The Company Secretary regularly updates the Board on changes to Listing Requirements 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.

Corporate Governance Statement (cont'd)

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 Audit Committee 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) significant and unusual events; and
- (3) compliance with accounting standards and other legal requirements.

The Internal Auditors provided an independent assessment of the internal control systems of the Group and report to the Audit Committee.

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

On an annual basis, the Audit Committee would review and monitor the suitability and independence of the External Auditors. The Audit Committee sets policy and procedures on the provision of non-audit services by the External Auditors. For the financial year 2015, there were no non-audit services rendered by the External Auditors. The Audit Committee 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 annual general meeting.

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 Audit Committee would obtain report from the Internal Auditors on the periodic check on the internal control system.

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 to provide the Audit Committee and the Board with the assurance they require pertaining to the adequacy and effectiveness of internal control. The Internal Auditors reported to the Audit Committee on the annual internal audit plan and internal audit reports on the audit conducted in accordance with the annual audit plan.

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 Listing Requirements. 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 secretaries 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

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 Listing Requirements and Articles of Association. 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 Board should encourage poll voting

The Chairman of the meeting would remind the shareholders, proxies and corporate representatives on their rights to demand for a poll in accordance with the provisions of the Articles of Association of the Company for any resolutions. The voting process at the general meetings shall be by way of show of hands unless a poll is demanded. The Chairman may demand for a poll for any substantive resolutions put forward for voting at the general meetings. The Company's share registrar's computer system is well equipped for any poll voting should the circumstances arise.

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 question relating to the audited financial statements.

This statement is made in accordance with the resolution of the Board dated 28 March 2016.

Risk Management and Internal Control Statement

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 organizational 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.

- 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.

Risk Management and Internal Control Statement (cont'd)

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

B. INTERNAL CONTROL SYSTEM (cont'd)

- 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 2015, 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 Inventory Management 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 11 November 2015. In addition, a follow up review was conducted to ascertain the status of implementation of the agreed upon management action plans and the results of the follow up review was also reported to the Audit Committee at the scheduled meeting held on 11 November 2015.

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 2015 was RM 23,000.

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.

CONCLUSION

The Board is of the view that the Group's system of internal control and risk management is adequate to safeguard shareholders' investments and the Group's assets. However, the Board is also cognizant of the fact that the Group's system of internal control and risk management practices must continuously evolve to meet the changing and challenging business environment. Therefore, the Board will, when necessary, put in place appropriate action plans to further enhance the system of internal control and risk management framework.

This statement was approved by the Board of Directors on 28 March 2016.

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 the Listing Requirements of Bursa Malaysia Securities Berhad.

The members of the AC are as follows:

Lee Yew Weng (Chairman/Independent Non-Executive Director)
Teoh Tow Kean (Member/Independent Non-Executive Director)
Xiao LuXi (Member/Independent Non-Executive Director)

The meeting attendance of the AC is provided in the Corporate Governance Statement.

B. TERMS OF REFERENCE OF AUDIT COMMITTEE

Composition and Size

The Audit Committee should be appointed by the Board of Directors based on the recommendation of the Nomination Committee from amongst the Directors of the Company which fulfils the following requirements:

- (1) the Audit Committee must be composed of no fewer than 3 members;
- (2) all committee members must be non-executive directors, with a majority of them being independent directors;
- (3) all committee members should be financially literate; and
- (4) at least one member of the Audit Committee must fulfil the financial expertise requisite of the Listing Requirements as follows:
 - (a) he must be a member of the Malaysian Institute of Accountants (“MIA”); or
 - (b) if he is not a member of the MIA, he must have at least 3 years’ working experience and:
 - (aa) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
 - (bb) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
 - (c) fulfils such other requirements as prescribed or approved by the Bursa Securities.

The Board of Directors must ensure that no Alternate Director is appointed as a committee member.

In the event of any vacancy in the committee resulting in the non-compliance of the Listing Requirements pertaining to composition of Audit Committee, the Board of Directors must fill the vacancy within 3 months of the occurrence of that event.

The Board of Directors should assess the effectiveness of the Audit Committee and each of its members at least once every 3 years to determine whether such committee and members have carried out their duties in accordance with their Terms of Reference.

B. TERMS OF REFERENCE OF AUDIT COMMITTEE (CONT'D)

Rights

- (1) The Audit Committee should have explicit authority to investigate any matter within its Terms of Reference, the resources to do so and full access to information.
- (2) Each committee member has full and unrestricted access to information and is entitled to ask for further information required to make informed decisions and has right to obtain independent professional or other advice for the performance of its duties.
- (3) The Audit Committee may use the services of outside expertise or advisors and invite outsiders with relevant experience to attend meeting, if necessary, at the cost of the Company in accordance with a procedure to be determined by the Board of Directors towards performance of its duties.
- (4) The Audit Committee must have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any, which can be outsourced).
- (5) The committee must be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other Directors and employees, whenever deemed necessary.

Responsibilities and How the Committee Works

The Audit Committee shall review and report to the Board on the following key matters:

- (a) To assess the risks and control environment;
- (b) To review conflict of interest situations and related party transactions;
- (c) To review the quarterly and yearly financial statements, prior to the approval of the Board; and
- (d) To review the appointment, resignation, conduct and audit plans with the external auditors and internal auditors.

C. MEETINGS

There were seven meetings held in the financial year 2015. During those meetings, the Audit Committee held two private sessions with the External Auditors without the presence of the Executive Directors and the management.

The Audit Committee planned its meetings for the year and would obtain the consensus of the members before fixing the dates of the meetings to ensure the attendance of each member. The notice is served at least one week before each meeting and the meeting papers would be emailed to each member.

The Chairman of the Audit Committee would brief the Board at its meeting on the matters discussed during the Audit Committee's meeting held earlier.

Audit Committee Report (cont'd)

D. SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

The principal activities undertaken by the Audit Committee during the financial year are summarised as follows:

- (1) Reviewed the unaudited quarterly financial results, cash flows and financial position for each financial quarter prior to submission to the Board for deliberation and approval for the announcement to be released.
- (2) Reviewed the Audited Consolidated Financial Statements, Directors' and Auditors' Reports and other significant accounting issues arising from the audit of the financial year ended 31 December 2015.
- (3) Reviewed with the External Auditors their audit planning memorandum and salient features memorandum for the financial year ended 31 December 2015 and conducted private meetings with them without the presence of the Executive Directors and the management.
- (4) Reviewed with the Internal Auditors' on their audit findings and the status of management's action plans.
- (5) Reviewed the 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 2015 annual report.
- (6) Reviewed the quarterly status of any related party transactions, debtors' ageing report for local and foreign distributors.
- (7) Reviewed the status of the land use rights application on a quarterly basis.

E. 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 function of the Group is outsourced to an external consultant who reports directly to the Audit Committee with its findings and recommendations. Any necessary corrective actions after reporting to the Board of Directors by the Audit Committee will be directed by the Board.

For the financial year ended 31 December 2014, the internal audit team has developed a two years risk-based internal audit plan to support the execution of internal control reviews based on the risk profile established by the Audit Committee. An internal audit assignment in accordance to the audit plan as approved by the Audit Committee for the FYE 2014 and 2015 covering the area of inventory management, human resources management and receivables management were completed by the internal audit team and the report had been presented to the Audit Committee for its review. The report also includes recommendations as well as proposed corrective actions to be adopted by the management. In the subsequent financial year, follow-up audits will then be carried out to determine whether the management has taken the recommended corrective actions in the previous internal audit report.

The cost incurred for the internal audit function in respect of the financial year ended 31 December 2015 was approximately RMB 34,748 (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 Company at the end of the financial year and of the results and cash flows of the Company 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 28 March 2016.