

Corporate Governance Report

The Board is committed to promoting and upholding good corporate governance in order to fulfil its mission of creating value for and maximising returns to the Shareholders.

Throughout the year 2009, the Company applied all the principles and fully complied with all the code provisions, and where appropriate, adopted the recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code"). The corporate governance structure and major corporate governance practices adopted by the Company are described below.

Corporate Governance Structure

The Company's corporate governance structure is as follows:



The Board of Directors

Accountable to the Shareholders, the Board has the responsibility for providing leadership and monitoring and controlling the Company and is collectively responsible for promoting the success of the Group by directing and supervising the Company's affairs.

Composition of the Board

As at the date of this report, the Board comprised the following ten Directors, with a majority of whom are non-executive Directors (including the independent non-executive Directors):

Category and name of Director	Date of first appointment to the Board	Date of last re-election by the Shareholders
<i>Executive Directors</i>		
Mr. Li Ning (<i>Chairman</i>)	3 April 2004	11 May 2007
Mr. Zhang Zhi Yong (<i>Chief Executive Officer</i>)	6 May 2004	15 May 2009
Mr. Chong Yik Kay (<i>Chief Financial Officer</i>)	9 February 2009	15 May 2009
<i>Non-executive Directors</i>		
Mr. Lim Meng Ann	6 May 2004	15 May 2009
Mr. Stuart Schonberger	6 May 2004	9 May 2008
Mr. Chu Wah Hui	1 June 2007	9 May 2008
Mr. James Chun-Hsien Wei	1 September 2007	9 May 2008
<i>Independent non-executive Directors</i>		
Mr. Koo Fook Sun, Louis	6 May 2004	11 May 2007
Ms. Wang Ya Fei	6 May 2004	15 May 2009
Mr. Chan Chung Bun, Bunny	6 May 2004	9 May 2008

The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group. Biographical details of the Directors are set out on pages 59 to 63 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the success of the Group. Every newly appointed Director receives a comprehensive, formal and tailored induction to ensure that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

Chairman and Chief Executive Officer

To ensure a balance of power and authority, the roles of the Chairman and the Chief Executive Officer are segregated and performed by Mr. Li Ning and Mr. Zhang Zhi Yong, respectively. There is a clear distinction between the Chairman's responsibility for providing leadership for the Board and the Chief Executive Officer's responsibility for managing the day-to-day operations of the Group's business.



All members of the Board

Non-executive Directors and Independent Non-executive Directors

Each of the non-executive Directors and independent non-executive Directors has entered into a service contract with the Company for a term of three years. The incumbent non-executive and independent non-executive Directors have extensive professional experience and have participated in the meetings of the Board in a conscientious and responsible manner. Non-executive Directors serve actively on Board committees to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They play an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole.

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. One of the independent non-executive Directors has the appropriate qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of his or her independence as required under the Listing Rules. Independence of each of the independent non-executive Directors has been assessed by the Board and the Board considers that all independent non-executive Directors are independent as required under the Listing Rules.

Principal Responsibilities of the Board

While delegating authority and responsibility for implementing business strategy and managing the day-to-day operations of the Group's business to the management, the Board is collectively responsible for formulating the strategic business direction of the Group and setting objectives for the management, overseeing its performance and assessing the effectiveness of management strategies. The Board reviews the operating performance against agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term objectives and strategies;
- approving strategic, operational and financial plans;
- monitoring and controlling the Group's operational and financial performance;
- approving financial statements and public announcements;
- setting the dividend policy; and
- carrying out major acquisitions and disposals, formation of joint ventures and capital transactions.

Responsibilities for Accounts

The Directors are responsible for preparation of the financial statements of the Group for each financial year and ensuring that these financial statements give a true and fair view of the state of affairs of the Group, its results and cash flows for that period. The Directors are also responsible for ensuring that proper accounting records which disclose the financial position of the Group are kept at all times.

Board Meetings

The Board holds at least four regular Board meetings a year at approximately quarterly intervals and additional Board meetings are held as and when necessary. Regular Board meetings are scheduled a year ahead to facilitate maximum attendance of Directors. The meeting agenda is set after consulting with members of the Board. The agenda and accompanying papers are normally sent to Directors one week before the date of the meeting.

Directors can at any time request relevant information in their role as Directors. The management has provided comprehensive reports on the Group's business progress, financial objectives, strategic and development plans to the Board at all Board meetings to enable the Directors to make informed decisions on matters submitted for their

approval. The Board has also made arrangements for relevant members of the senior management to attend their meetings and report the latest situation about operations and respond to queries of the Board.

Directors are required to declare their direct or indirect interests, if any, in any matter to be considered at Board meetings and interested Directors are required to abstain from voting and will not be counted in the quorum present in the Board meetings.

The Board held four meetings in 2009 and the attendance record of the Directors is set out below:

Members of the Board	Number of Board meetings attended
<i>Executive Directors</i>	
Mr. Li Ning	3 out of 4
Mr. Zhang Zhi Yong	4 out of 4
Mr. Chong Yik Kay	4 out of 4
<i>Non-executive Directors</i>	
Mr. Lim Meng Ann	4 out of 4
Mr. Stuart Schonberger	4 out of 4
Mr. Chu Wah Hui	4 out of 4
Mr. James Chun-Hsien Wei	4 out of 4
<i>Independent non-executive Directors</i>	
Mr. Koo Fook Sun, Louis	4 out of 4
Ms. Wang Ya Fei	4 out of 4
Mr. Chan Chung Bun, Bunny	4 out of 4

Directors' Appointment and Re-election

In compliance with the Listing Rules and the articles of association of the Company, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election. A new Director appointed by the Board is subject to election by the Shareholders at the first general meeting after his or her appointment.

Directors' and Officers' Liability Insurance

The Company has arranged for appropriate insurance cover in respect of possible legal actions against its Directors and officers. The scope of coverage of the insurance is subject to review annually.

Board Committees

The Board is supported by a number of committees, including the Executive Committee, the Nomination Committee, the Remuneration Committee and the Audit Committee. Each Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The Committees are provided with sufficient resources to discharge their duties and report regularly to the Board, addressing major issues and findings, and making valuable recommendations to assist the Board in its decision making.

Executive Committee

The Board has established the Executive Committee to enhance management efficiency since December 2004. The Executive Committee currently comprises six members, namely:

Mr. Zhang Zhi Yong	Executive Director & Chief Executive Officer
<i>(Chairman of the Committee)</i>	
Mr. Li Ning	Chairman of the Board & Executive Director
Mr. Chong Yik Kay	Executive Director & Chief Financial Officer
Mr. Guo Jian Xin	Vice President & Chief Operating Officer
Mr. Fang Shih Wei	Vice President & Chief Marketing Officer
Mr. Zhang Hui	Vice President

The Board has delegated the following duties to the Executive Committee:

- setting the Group's strategic, operational and financial plans for approval by the Board;

- examining and approving the strategic business directions at subsidiary level;
- examining and approving financial arrangements of member companies of the Group within a limit approved by the Board; and
- deciding on the appointment and removal of senior management members of the Group.

The Board reviews the terms of reference of the Executive Committee regularly to ensure that proper and appropriate delegation of authority is achieved.

Nomination Committee

The Nomination Committee has been established since June 2005 and currently consists of the following Directors:

Mr. Lim Meng Ann	Non-executive Director
<i>(Chairman of the Committee)</i>	
Mr. Koo Fook Sun, Louis	Independent non-executive Director
Ms. Wang Ya Fei	Independent non-executive Director
Mr. Chu Wah Hui	Non-executive Director

The Nomination Committee adopts the recommended terms of reference set out in the Corporate Governance Code as its terms of reference which are available on the Company's websites. Its primary role is to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession of Directors based on certain criteria adopted by the Committee, including appropriate skills, knowledge and industry experience, personal ethics and integrity and time commitment to the Board's affairs. The process ensures that the Board comprises a sufficient number of Directors and consists of Directors having sound knowledge, experience and/or expertise pertaining to the business operations and development of the Group. The Nomination Committee considers the current structure, size and composition of the Board suitable for directing the Group's development and made no recommendations to the Board on any proposed changes during the year.

In 2009, the Nomination Committee, together with the Board, assessed the independence of each of the independent non-executive Directors and considers that all independent non-executive Directors are independent as required under the Listing Rules. The Nomination Committee itself did not hold any meeting during the year.

Remuneration Committee

The Remuneration Committee has been established since the Company's listing in June 2004. The primary responsibility of the Remuneration Committee is to formulate remuneration policies and practices for Directors and senior executives to enable the Company to attract, retain and motivate quality personnel which is essential to the long-term success of the Company.

The Remuneration Committee currently consists of following three Directors:

Ms. Wang Ya Fei (Chairman of the Committee)	Independent non-executive Director
Mr. Lim Meng Ann	Non-executive Director
Mr. Koo Fook Sun, Louis	Independent non-executive Director

The Remuneration Committee has adopted the terms of reference as outlined under the Corporate Governance Code. The current terms of reference of the Remuneration Committee are available on the Company's websites.

The Remuneration Committee met two times in 2009 and the attendance record of the members of the committee is set out below:

Members of the Remuneration Committee	Number of committee meetings attended
Ms. Wang Ya Fei	2 out of 2
Mr. Lim Meng Ann	2 out of 2
Mr. Koo Fook Sun, Louis	2 out of 2

The following is a summary of the major tasks carried out by the Remuneration Committee in 2009:

- annual review and determining of remuneration packages for Directors and senior executives;
- review and determining of the bonus execution plan for year 2009 according to the key performance indicators for year 2009; and
- review and setting of key performance indicators and bonus plan for year 2010.

In discharge of its functions, the Remuneration Committee consults and seeks advice from the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Human Resources Division of the Company. External professional consultants are engaged to provide advice on issues when the Remuneration Committee considers necessary.

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance as measured against the Group's corporate objectives and operating results, taking into account also the comparable market conditions. The principal elements of the remuneration package of an executive Director include director's fee, basic salary, discretionary bonus, participation in the Company's share schemes and other benefits and allowances. Remuneration of non-executive Directors (including independent non-executive Directors) includes mainly director's fee which is a matter for the Board to decide by reference to the duties and responsibilities of non-executive Directors (including independent non-executive Directors) and the comparable market conditions. Non-executive Directors are also be invited to participate in the Company's share schemes. The Company reimburses reasonable out-of-pocket expenses incurred by the Directors in the course of performing their duties as Directors.

Directors do not participate in decisions or attend meetings approving their own remuneration. The emoluments of each Director for the year ended 31 December 2009 are set out in note 25 to the consolidated financial statements.

Audit Committee

The Audit Committee was established since the Company's listing in June 2004. Its role is to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, overseeing the Group's financial reporting systems, internal control procedures and the Company's relationship with the external auditor.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Corporate Governance Code. To ensure compliance with the amended Corporate Governance Code effective from 1 January 2009, the terms of reference of the Audit Committee have been revised by the Board to include the oversight role of the Audit Committee to review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The current terms of reference are available on the Company's websites.

The Audit Committee currently consists of the following three Directors:

Mr. Koo Fook Sun, Louis <i>(Chairman of the Committee)</i>	Independent non-executive Director
Mr. Stuart Schonberger	Non-executive Director
Ms. Wang Ya Fei	Independent non-executive Director

The Audit Committee met three times in 2009 and the attendance record of the members of the committee is set out below:

Members of the Audit Committee	Number of committee meetings attended
Mr. Koo Fook Sun, Louis	3 out of 3
Mr. Stuart Schonberger	3 out of 3
Ms. Wang Ya Fei	3 out of 3

The external auditor, Chief Executive Officer, Chief Financial Officer and the heads of the Internal Audit Department and Accounting Management Department attended the meetings and provided necessary information and addressed questions from the Audit Committee. During the year, the Audit Committee also held a meeting with the external auditor without the presence of the management.

The following is a summary of the work performed by the Audit Committee in 2009:

- review of and recommendation for the Board's approval of the 2008 annual financial statements and 2009 interim financial statements with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;
- review of the external auditor's statutory audit plan and the nature and scope of audit before commencement of audit work;
- discussion with the external auditor and the management on possible accounting risks;

- review of internal audit findings in 2009 and recommendations and approval of 2010 internal audit plan;
- review of the effectiveness of the Company's internal control system, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions, and their training programmes and budget;
- approval of the audit fees and terms of engagement of the external auditor; and
- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor.

External Auditor

For the year ended 31 December 2009, the total remuneration for the audit services provided by the external auditor amounted to RMB4,050,000 (2008: RMB4,150,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2009, the total remuneration for permissible non-audit services provided by the external auditor and its affiliates amounted to RMB1,386,000 (2008: RMB1,461,000). The non-audit services mainly comprised tax compliance and other tax advisory services. The Audit Committee had been notified with the non-audit services and fees and was satisfied that such services did not (in terms of the nature of services and the related fee levels) affect the independence of the external auditor.

Prior to commencement of the audit of the Company's accounts for year 2009, the Audit Committee had received a confirmation from the external auditor on their independence and objectivity.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on page 94 of this annual report.

PricewaterhouseCoopers has been appointed as the external auditor of the Company since the Company's listing on the Hong Kong Stock Exchange in 2004. The re-appointment of PricewaterhouseCoopers as the external auditor of the Company has been recommended by the Audit Committee, endorsed by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

Internal Control

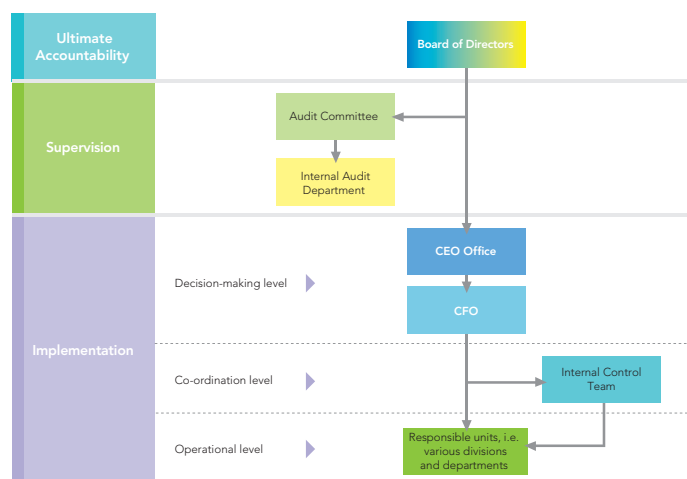
The Board has the responsibility to ensure that the Group's internal control system is sound and effective to safeguard the Shareholders' investment and the Company's assets. Accordingly, the Board has always attached great importance to internal control and offered support thereto. Particularly, in light of the impact of the global financial crisis in 2009, the Group had further strengthened its internal control in various operational and financial aspects so that it has managed to deliver continuous satisfactory results under the challenging economic environment.

Internal Control System

Based on the experience in operation control over the years, the Company has streamlined all major operational procedures, and has identified major risks and formulated control measures necessary to reduce such risks, putting in place an integrated system of internal control. The system adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"), with the Group's business, operational and financial risks, corporate culture and management philosophy being taken into account. The system is designed to achieve (i) effectiveness and efficiency of operations; (ii) enhancement of reliability of internal and external financial reporting; and (iii) compliance with applicable laws and regulations. The system serves to provide reasonable, but not absolute, assurance against material misstatement, fraud or loss.

During the year, the Group continued to improve its internal control system aiming at providing effective control and forceful support, which are reflected in the following aspects:

- (1) Continued to drive the normal operation of the organisational structure of internal control set up on the basis of the COSO internal control framework depicted as follows:



The Company has established a top-down organisational and management structure with clear-cut responsibilities and authorities for internal control purposes, embracing three levels which are responsible for ultimate accountability, supervision and implementation, respectively: (i) the Board has the ultimate accountability and authority in internal control management. It is externally accountable to the Shareholders for corporate governance, whereas internally it acts as the highest authority to foster internal control; (ii) the Audit Committee is responsible for supervising the establishment and operation of the internal control system by the management, monitoring the Group's internal control procedures and advising the Board on the effectiveness thereof. Preliminary assessment on the effectiveness of internal control is conducted by the Internal Audit Department which reports directly to the Audit Committee; (iii) the implementation level comprises a decision-making group (which is an executive team led by the Chief Executive Officer and the Chief

Financial Officer being responsible for the daily internal control management), a coordination body (namely, the Internal Control Team, which is responsible for supporting the planning and establishment of the Group's internal control system, coordinating the promotion and implementation of the internal control structures in different systems, and organising examination on the effectiveness of the internal control and assessment of risks) and operational level (which are the units being responsible for execution of the internal control, including various operational and functional divisions and departments that are accountable to the establishment, enhancement and effectiveness of the internal control system).

During the year, in light of the changes of organisational structure, staff and business flow, the staff organisation under the internal control organisational structure was promptly updated and necessary training was carried out. The Internal Control Team convenes regular internal control work meetings and reports to the Audit Committee at least twice a year in relation to the Group's internal control work plans and progress for the supervision and guidance of the Audit Committee and the Board.

- (2) Possession of effective and forward-looking strategic management and operation management information and financial and accounting management systems to support the supervision of implementation and performance of business strategies and plans. Timely and regular operational and financial reports are submitted to and reviewed by the senior management, the Board or its designated committees. This allows them to monitor and control situations against the established annual operating and financial targets and to consider necessary actions as well as to ensure such actions being carried out promptly to remedy any significant failures or weaknesses.
- (3) Continued the implementation of the Internal Control Manual of Li Ning Company Limited (the "Internal Control Manual"), which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system. The Internal Control Manual currently covers areas comprising the management procedures in respect of sales and trade receivables, procurement and trade payables, inventories, capital, financial reporting, taxation, management functions of the Group, administration and human resources, intellectual

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property rights, export and fixed assets. The Internal Control Manual is updated at least once a year, depending on the needs for business changes and procedural refinement, so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With the coordination of the Internal Control Team, 276 detailed control procedures of the Internal Control Manual were amended by relevant departments during the year 2009, with such amended procedures implemented during the year.

- (4) Establishment of an effective annual self-assessment and evaluation mechanism under the internal control framework, with satisfactory results and attaining the following goals:
- (i) testing the reasonableness of the existing internal control mechanism, evaluating control risk, so as to provide a way to rectify any inadequacy of internal control in a timely and effective manner;
 - (ii) prompting the middle to senior management and personnel in key positions to review, evaluate and reinforce the implementation of internal control regarding their respective areas of duties; and
 - (iii) assisting the Audit Committee and the Board in assessing the effectiveness of the Group's internal control system.
- (5) Independent reviews of risks associated with and internal control on key operations and financial and compliance functions are performed by the Internal Audit Department. Significant issues, if any, together with recommendations for improvement, are reported in detail to the Audit Committee or the Board.
- (6) In order to ensure rapid and healthy development of the Group in terms of business diversification and internationalisation, based on the internal control foundation of the Company and assisted by an external consulting firm, risk management theory and methodology were introduced into the Company during the year 2009 on the basis of the COSO risk management framework (COSO-ERM). These efforts have put in place the initial establishment of a risk management system framework,

including the preliminary establishment of a risk management organisational system for the Group on the basis of the internal control organisational system described above and the formulation of the "Risk Management Manual of Li Ning Company Limited (Trial)" for the guidance of risk management mechanism of the Company and support of risk management functions at the corporate level as well as individual division and department levels. It serves the purpose of an extension of the existing internal control to risk management regime. The various functions of the aforesaid risk management system will be gradually implemented from 2010, and it is believed that, based on the new risk management system, the existing internal control management will be more focused and efficient, thereby enhancing the overall risk management capability of the Group.

The Company pays much attention to the internal promotion on implementation of internal control and risk management. Internal control awareness was raised among the Company in various manners such as training programmes, regular briefing sessions and posters. An in-house newsletter "Internal Control Developments" (內控動態) is issued regularly to share with management staff material internal control and risk related events in the external environment, and to raise their attention to internal control and risk management.

Annual Review

The Board is fully aware of its accountability in respect of the Group's internal control system and the responsibility for reviewing the effectiveness of the system. The enhancement of internal control is a continuous process and needs to be responsive and remain relevant over time in the continuously evolving business environment. The Group's internal control system is therefore subject to continuous review and improvement to enable the Group to have appropriate responses to any changing risks faced by the Group.

A comprehensive review on the effectiveness of the Group's internal control system is conducted annually, covering all material controls concerning financial, operational and compliance controls and risk management functions. The review is performed internally on a self-assessment approach (CSA) with a complete set of reporting forms. Persons in-charge of each division and department are requested to fill in the self-assessment

review questionnaire against key items of internal control. In 2009, the Company made improvements to the methods and strategies for the self-assessment, which included simplifying questionnaires, completing the questionnaires on information technology platform, increasing the number of interviews and extending the self-assessment to cover more than 70 systems or departments in line with the Company's organisational restructuring and business expansion. In addition, senior management members are requested to assess the effectiveness of the internal control system against the elements outlined by the COSO internal control system, including control environment, risk assessment, information and communication, and control. Through the review process, the persons in-charge are able to verify whether the internal control system is working as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department will also carry out independent examination and analysis on the reviewing process and results. Based on the results, the Chief Executive Officer and the Chief Financial Officer will submit a declaration to the Audit Committee and the Board, certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review conducted for the year ended 31 December 2009 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. Deficiencies and weaknesses have been identified and remedial actions have either been taken or designated to be taken. No material deficiencies have been identified so far and there were no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board received also the annual review results with regard to the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting, and their training programmes and budget. In accordance with such results, the Audit Committee and the Board are of the view that the Group has an adequate number of accounting and financial reporting staff, so as to effectively perform the accounting and financial reporting functions, and all accounting and financial reporting staff have the professional qualification and practicing experience needed for their respective functions, and there has been sufficient training programmes and related budget for the staff.

The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the code provisions in respect of internal control under the Corporate Governance Code for the year ended 31 December 2009.

Internal Audit

The Internal Audit Department has been established soon after the Company's listing on the Hong Kong Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing operational and financial conditions of the Group free from all restrictions, so as to disclose potential risks, and to follow up with related remedy measures, with a view to continue to enhance operation effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the Group's internal control and risk management framework with an aim to provide objective assurance to the Audit Committee and the Board that a sound internal control system is maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented. The Internal Audit Department reports directly to the Chief Financial Officer and can refer matters to the Audit Committee directly. The head of the Internal Audit Department attends each and every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk level, and engages in related jobs with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audit and evaluation of the operation effectiveness and efficiency of various business and functional systems; and (ii) special reviews in various concerned areas identified by the management and the Audit Committee based on the assessment of risks. In the year 2009, the Internal Audit Department conducted audit on various business systems of the LI-NING brand such as product, marketing, sales and supply chain management, and various functional systems including the finance system, as well as on new business areas such as Double Happiness and the badminton business division, and submitted the relevant audit reports to the Audit Committee, Chief Executive Officer and Chief Financial Officer.

For material audit discoveries and risks, the Internal Audit Department will notify the Audit Committee and the management timely of such risks, and will regularly follow up with the improvement progress. As at 31 December 2009, various audit findings and risks had been or were being properly handled by the management, and there were no material irreparable audit findings or risk points. Based on the risk assessment and the Group's strategic focus, the Internal Audit Department has planned to carry out audits focusing on brand, sales channel, supply chain, overseas business and new business in 2010.

The Internal Audit Department plays an important role in the realm of internal control and is responsible for reviewing and assessing the adequacy and compliance level of the Group's internal control system and formulating an independent and impartial opinion on the effectiveness of the system. Following the establishment of the Group's risk management system, the Internal Audit Department will also evaluate the operation efficiency of the risk management system.

Price-sensitive Information

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is fully aware of its obligations under the Listing Rules and the overriding principle that price-sensitive information should be announced immediately when it is the subject of a decision. The Company's policy contains a strict prohibition on the unauthorised use of confidential or insider information and has established and implemented procedures for responding to external enquiries about the Group's affairs. The Chief Executive Officer and the Chief Financial Officer are identified and authorised to act as the Company's spokespersons to respond to enquiries made in relation to the Group's affairs.

During the year, the Company had reviewed its internal guidelines on price sensitive or potentially price sensitive information by reference to its own and industry circumstances and the "Guide on Disclosure of Price-Sensitive Information" issued by the Hong Kong Stock Exchange.

Compliance with the Model Code on Share Dealings

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by its Directors. Directors are reminded regularly of their obligations under the Model Code. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2009.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to the compliance with guidelines on no less exacting terms than the Model Code. During the year, certain internal procedures to regulate employees in dealing shares of the Company were reviewed and streamlined. No incident of non-compliance was noted by the Company in year 2009.

Shareholders' Rights

Under the Company's articles of association, any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for transactions of any business specified in such requisition.

The Company has adopted poll voting in its general meetings since listing before poll voting was made mandatory for all general meetings effective from 1 January 2009 under the Listing Rules. All resolutions put forward at any Shareholders' meeting are voted by poll so that each Share is entitled to one vote.

For the year 2009, there was no change made in the Company's articles of association.

Shareholders may send their enquiries which require the Board's attention to the Company's principal place of business in Hong Kong. Relevant contact information is set out on page 5 of this annual report and is also available on the Company's websites. Important Shareholders' dates are set out on page 68 of this annual report and posted on the Company's websites.

Shareholders' Meetings

The annual or extraordinary general meeting provides a principal channel of direct communication between the Company and the Shareholders. It provides an opportunity for Shareholders to better understand the Company's operation, financial performance, business strategies and outlook. To encourage Shareholders to attend the meeting, more than 20 clear business days' notice and a circular containing necessary information is given to Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered in the meeting. A question and answer section is available for Shareholders to raise questions and the Directors present would respond to such questions at the meeting.

The last annual general meeting, which was also the last Shareholders' meeting of the Company, was held on 15 May 2009. The full Board and the Company's external auditor were present at the meeting. At the last annual general meeting, separate resolutions were proposed for the following businesses and were voted by poll:

- adopting the audited financial statements for the year ended 31 December 2008;
- declaration of final dividend;
- re-election of four Directors;
- re-appointment of auditor and the authorisation of the Directors to fix their remuneration;

- amendments to share option scheme adopted by the Company on 5 June 2004; and
- providing Directors with general mandates to repurchase and issue and allot shares of the Company subject to the relevant limits under the Listing Rules.

All the resolutions proposed at the last annual general meeting were approved by Shareholders. Details of the poll results were declared at the meeting and the poll results announcement made pursuant to the Listing Rules has been published on the Company's websites.

No extraordinary general meeting was held during the year. The next annual general meeting of Shareholders will be held on 14 May 2010. Details of the meeting and necessary information on issues to be considered in the meeting are set out in the circular dispatched to Shareholders together with the Company's annual report 2009.

Way Forward

Corporate governance is a continuous process. The Board will continue to review and improve its corporate governance regime in response to internal and external changes with an aim to maintain a high degree of transparency, accountability and independence.

By order of the Board

Zhang Zhi Yong
Executive Director &
Chief Executive Officer

Chong Yik Kay
Executive Director &
Chief Financial Officer

Hong Kong, 17 March 2010