

李宇 (荆门) 服  
开易 (荆门) 宏冠三茂基



# Corporate Governance Report

The Board is committed to promoting and upholding good corporate governance in order to achieve its mission of creating value for and maximising returns to the Shareholders. This report sets out the corporate governance structure and major corporate governance practices adopted by the Company.

## Compliance with the Corporate Governance Code

Throughout the year ended 31 December 2011, 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").

## Corporate Governance Structure

The corporate governance structure of the Company is as follows:



## The Board of Directors

Being 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 long-term sustainable and healthy development of the Group by directing and supervising the Company's affairs.

## Composition of the Board

As of the date of this report, the Board comprised the following nine 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 Shareholders
<b>Executive Directors</b>		
Mr. Li Ning ( <i>Chairman</i> )	3 April 2004	14 May 2010
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
<b>Non-executive Directors</b>		
Mr. Lim Meng Ann	6 May 2004	15 May 2009
Mr. Chu Wah Hui	1 June 2007	13 May 2011
Mr. James Chun-Hsien Wei	1 September 2007	13 May 2011
<b>Independent non-executive Directors</b>		
Mr. Koo Fook Sun, Louis	6 May 2004	14 May 2010
Ms. Wang Ya Fei	6 May 2004	13 May 2011
Mr. Chan Chung Bun, Bunny	6 May 2004	14 May 2010

# Corporate Governance Report

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. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. Biographical details of the Directors are set out on pages 59 to 61 of this annual report.

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 development 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. Directors are updated on any developments or changes affecting their obligations from time to time. In May 2011, the Company, together with its legal adviser, organised a half-day training session to provide the Directors with an update on the directors' duties and responsibilities under the Listing Rules. In December 2011, the Company also arranged the Directors to visit the "LI-NING Logistics Centre" in Jingmen, Hubei Province with a view to facilitate the Board members to know more about the business and operations of the Group.

## 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.

## Non-executive Directors and Independent Non-executive Directors

Non-executive Directors and independent non-executive Directors play an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole, and will take the lead when potential conflicts of interests arise. 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. They serve actively on the Board and its 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.

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors, representing one-third of the Board. 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 continues to consider each of them independent as required under the Listing Rules.

## Principal Responsibilities of the Board

While delegating authority and responsibility for implementing business strategies 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;
- carrying out major acquisitions and disposals, formation of joint ventures and capital transactions; and
- developing and review of the Company's policies and practices on corporate governance.

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Against the backdrop of China's macroeconomic conditions and the overall industry landscape, the Group's operations faced various challenges in 2011. During the year, the Board, together with the management, kept close watch on external changes against its development strategies and continued to proactively implement reform initiatives to strengthen operational efficiency and the effective execution of strategic reforms, with a view to adapt to the development of the industry as well as to meet the corporate growth needs in the current phase.

## 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 by the Directors. The meeting agenda is set after consulting with members of the Board so that all Directors have the opportunity to include matters in the agenda. The agenda and accompanying papers are normally sent to the Directors one week before the date of the meeting.

Directors can at any time request relevant information in their role as Directors. The management provides comprehensive reports on the Group's business progress, financial objectives, strategic and development plans to the Directors to enable them to make informed decisions on matters submitted for their approval at the Board meetings. The Board arranges, where appropriate, relevant members of the senior management to attend their meetings and report the latest situation about operations and respond to queries from the Directors.

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 five meetings in 2011 and the attendance record of the Directors is set out below:

Members of the Board	Number of Board meetings attended
<b>Executive Directors</b>	
Mr. Li Ning	5 out of 5
Mr. Zhang Zhi Yong	5 out of 5
Mr. Chong Yik Kay	5 out of 5
<b>Non-executive Directors</b>	
Mr. Lim Meng Ann (Note)	3 out of 5
Mr. Chu Wah Hui	5 out of 5
Mr. James Chun-Hsien Wei	5 out of 5
<b>Independent non-executive Directors</b>	
Mr. Koo Fook Sun, Louis	5 out of 5
Ms. Wang Ya Fei	5 out of 5
Mr. Chan Chung Bun, Bunny	5 out of 5

Note:

Since Mr. Lim Meng Ann had interest in respect of the matters considered in one of the meetings, he was required to abstain from voting in that meeting and was not required to attend that meeting.

Minutes of Board meetings record in sufficient detail the matters discussed and the decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final version of the minutes are circulated to all Directors for their comments and records within a reasonable time after the meeting.

## Directors' Appointment and Re-election

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service agreement with the Company for a term of three years. Such term is subject to retirement by rotation at least once every three years and the Directors who are subject to retirement by rotation are eligible for re-election in accordance with the articles of association of the Company and the Listing Rules. 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 internal and external resources to discharge their duties. Each Committee reports the outcome of the Committee's meetings to the Board, regularly addressing major issues and findings, and making 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 three members, namely:

Mr. Zhang Zhi Yong <i>(Chairman of the Committee)</i>	Executive Director & Chief Executive Officer
Mr. Li Ning	Chairman of the Board & Executive Director
Mr. Chong Yik Kay	Executive Director & Chief Financial Officer

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

- formulating the Group's strategic, operational and financial plans for approval by the Board;
- examining and approving the strategic business directions at subsidiary level;
- promoting the implementation of the Group's strategies through the quarterly/half-yearly performance review; 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, and the delegation remains appropriate to the Company's needs.

## Nomination Committee

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

Mr. Lim Meng Ann <i>(Chairman of the Committee)</i>	Non-executive Director
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. 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 planning for 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 Nomination Committee normally engages professional recruitment consultants in discharge of its duties. Candidates who satisfy the criteria are short-listed and met by the Nomination Committee before the final candidate is nominated to the Board for consideration. 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 met twice in 2011. The attendance record of the members of the committee is set out below:

Members of the Nomination Committee	Number of committee meetings attended
Mr. Lim Meng Ann	2 out of 2
Mr. Koo Fook Sun, Louis	1 out of 2
Ms. Wang Ya Fei	2 out of 2
Mr. Chu Wah Hui	2 out of 2

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The following is a summary of the major tasks carried out by the Nomination Committee in 2011:

- review and making suggestion on streamlining the organisational structure and strengthening the business execution and performance evaluation to support the Company's reforms and implementation of its strategies;
- review the performance of Mr. Chong Yik Kay, an executive Director and the Chief Financial Officer of the Company with the recommendation to the Board to renew his service contract for a further term of three years from 9 February 2012; and
- assessment of the independence of each of the independent non-executive Directors together with the Board.

In light of the amended Corporate Governance Code to be effective from 1 April 2012, the terms of reference of the Nomination Committee have been revised by the Board with effect from 9 December 2011, such that the Nomination Committee will (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; and (ii) regularly review the time required from a Director to perform his responsibilities to the Company, and whether each Director is spending sufficient time as required. The current terms of reference of the Nomination Committee are available on the Company's website.

## 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 structure for Directors and senior management 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 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 website.

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 met two times in 2011 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 2011:

- annual review and recommendation for the Board's approval of remuneration packages for executive Directors (who are respectively also the Chairman, Chief Executive Officer and Chief Financial Officer of the Company), non-executive Directors and independent non-executive Directors;
- review and determining of the bonus execution plan for year 2011 according to the key performance indicators for year 2011;
- review and setting of key performance indicators and bonus plan for year 2012; and
- review and setting of the execution plan of the long-term incentive schemes for year 2012.

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.

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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 basic salary, discretionary bonus, participation in the Company's share schemes and other benefits and allowances. Remuneration of non-executive Directors and 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 and independent non-executive Directors and the comparable market conditions. Non-executive Directors and independent non-executive Directors are also 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 2011 are set out in note 27 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. In light of the amended Corporate Governance Code to be effective from 1 April 2012, the terms of reference of the Audit Committee have been revised by the Board to include the establishment of a whistleblowing policy and system for those who deal with the Group (e.g. distributors and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Group. The current terms of reference are available on the Company's website.

The Audit Committee currently consists of the following three Directors:

Mr. Koo Fook Sun, Louis (Chairman of the Committee)	Independent non-executive Director
Ms. Wang Ya Fei	Independent non-executive Director
Mr. Chan Chung Bun, Bunny	Independent non-executive Director

The Audit Committee met three times in 2011 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
Ms. Wang Ya Fei	3 out of 3
Mr. Chan Chung Bun, Bunny	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 two meetings with the external auditor without the presence of the management to discuss issues they considered necessary.

The following is a summary of the work performed by the Audit Committee in 2011:

- review of the external auditor's statutory audit plan and the nature and scope of audit before commencement of audit work;
- review of and recommendation for the Board's approval of the annual results announcement and annual financial statements for the year ended 31 December 2010 and the interim results announcement and interim financial statements for the six months ended 30 June 2011 with focus particularly on changes in accounting policies and practices, compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;

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- discussion with the external auditor and the management on possible accounting risks and major findings in the course of audit/review;
- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor;
- approval of the audit fees and terms of engagement of the external auditor;
- review of internal audit findings in 2011 and recommendations and approval of 2012 internal audit plan; and
- review of the effectiveness of the Company's risk management functions and internal control system, including the financial reporting and compliance functions.

## External Auditor

For the year ended 31 December 2011, the total remuneration for the audit services provided by the external auditor amounted to RMB3,510,000 (2010: RMB3,900,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2011, the total remuneration for permissible non-audit services provided by the external auditor and its affiliates amounted to RMB919,000 (2010: RMB1,029,000). 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 2011, the Audit Committee had received a confirmation from the external auditor on their independence and objectivity. External audit partners are subject to periodic rotation.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on page 84 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.

In 2011, the Group further strengthened its internal control in various operational, financial and compliance aspects.

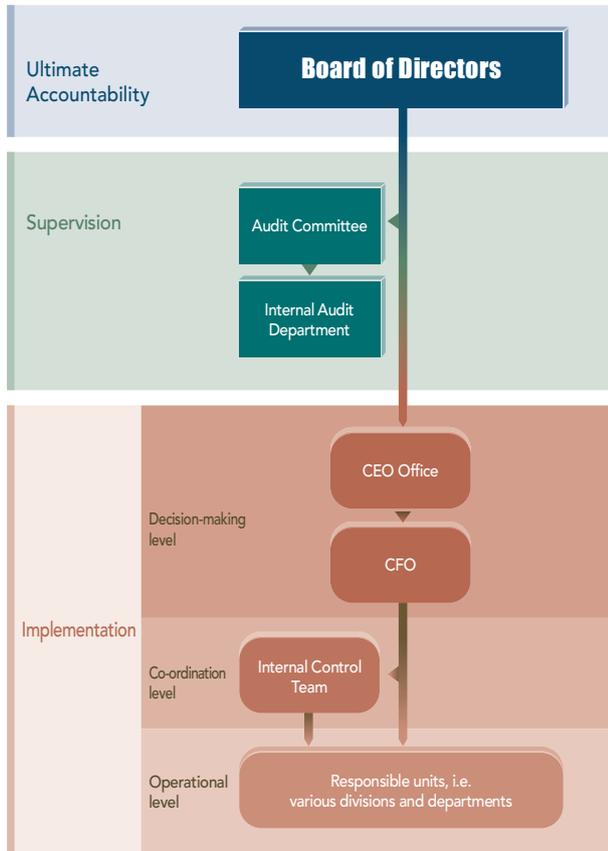
## Internal Control System

Based on the experience in operation control over the years, the Company has put 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 mainly in the following aspects:

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- (1) Continuing to drive the normal operation of the organisational structure of internal control set up on the basis of the COSO internal control framework which is 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 responsibility, 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 the Company's organisational structure, staff and business flow, the staff arrangement under the internal control organisational structure was promptly updated and necessary training was carried out by the Company. The Internal Control Team convened regular internal control meetings and reported at every meeting of the Audit Committee in relation to the Group's internal control plans and progress for the supervision and guidance of the Audit Committee and the Board.

- (2) Possession of effective and forward-looking information on strategic management and operation management 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) Ongoing 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 property rights, export and fixed assets. Systematic changes to the Internal Control Manual have to be carried out at least once a year, depending on the needs for business changes and procedural refinement,

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so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With centralised arrangement and coordination of the Internal Control Team, 185 key items of internal control and the specific control procedures set out in the Internal Control Manual were updated by relevant departments during 2011. Such updated procedures have been 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) fostering middle and senior management to review and comment whether control targets on corporate level can be achieved, and to identify inadequacy and make improvement in a timely manner;
  - (ii) prompting the persons in charge of business processes to actively conduct process review on process level, test the design and execution effectiveness, identify problems in a timely manner and formulate improvement measures; and
  - (iii) assisting the Audit Committee and the Board in assessing the effectiveness of the Company's internal control system as a whole.
- (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 to the Audit Committee or the Board.
- (6) During the year, in order to support rapid and healthy development of the Group in terms of business diversification, based on the "Risk Management Manual of Li Ning Company Limited (Trial)" which was published in 2009 for the guidance of risk management mechanism of the Company, the Company continued with its annual risk review on a corporate level and assessed risks and corresponding importance on a corporate level and implemented risk management controls over key business concerns, including distributing channels and branding, for supporting the daily operational management of key businesses and promoting the extension of the existing internal control to risk management regime.

The Company pays much attention to the internal promotion on implementation of internal control and risk management. Internal control and risk management awareness was raised among the Company in various manners such as training programmes and regular briefing sessions. An in-house newsletter "Risk Management Developments" (《風險管理動態》) is issued regularly to share with management staff material internal control and risk-related events in the external environment as well as the internal control and risk management, and draws 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 its 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 including 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 2011, the Company continued to improve methods for self-assessment, which included extending the scope of the self-assessment, consistent use of information technology systems to complete the questionnaires and increasing the number of interviews. The procedural control of self-assessment has been strengthened to cover more than 70 divisions or departments in light of the Company's organisational restructuring and business expansion. In addition, members of senior management were required to assess the effectiveness of the corporate internal control system against the elements outlined by the COSO internal control system, including control environment, risk assessment, information and communication, and control. The review process has enabled the persons-in-charge to verify whether the internal control system is operated as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department also carried out independent examination and analysis on the reviewing process and the results. Based on the results, the Chief Executive Officer and the Chief Financial Officer submitted a declaration to the Audit Committee and the Board, certifying the adequacy and effectiveness of the Group's internal control system.

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The results of the review for the year ended 31 December 2011 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. The areas of the systems and procedures pending further improvement have been identified and remedial actions have either been taken or designated to be taken. No material weaknesses have been identified so far and there were no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board have also received the annual review results with regard to the adequacy of resources, qualifications and experience of the Group's accounting and financial reporting staff, 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 adequate workforce to fulfill accounting and financial reporting duties. These personnel possess necessary professional qualification and practicing experience to effectively perform their respective functions, and there have 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 2011.

## 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, so as to disclose potential risks, and to follow up with related remedial 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 providing objective assurance to the Audit Committee and the Board that an effective internal control system and risk management 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 every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk assessment results, and engages in related tasks with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audit and evaluation of the operational effectiveness and efficiency of various business and functional systems; and (ii) special audits in various concerned areas designated by the management and the Audit Committee based on the assessment of risks. In the year 2011, the Internal Audit Department conducted audits on the product division, sales division, marketing division, retail subsidiaries, finance division, information technology division and human resources division of LI-NING brand, as well as on new business areas, including Double Happiness, Lotto, indoor sports business (including Kason) and e-commerce division, and submitted the relevant audit reports to the Audit Committee, Chief Executive Officer and Chief Financial Officer.

For material audit findings and risk factors, the Internal Audit Department will notify the Audit Committee and the management of such risks in a timely manner, and will regularly follow up with the improvement progress. As at 31 December 2011, various audit findings and risk factors had been or were being properly handled by the management, and there were no material irreparable audit findings and risk factors. Based on the risk assessment and the Group's strategic focus, the Internal Audit Department has planned to carry out audits focusing on brands, sales channels (including all regions and retail subsidiaries), products and information technology divisions in 2012.

The Internal Audit Department also plays an important role in the realm of internal control and risk management system and is responsible for reviewing and assessing the adequacy and compliance level of the Group's internal control system and risk management system and providing an independent and objective opinion on the effectiveness of the systems. In 2011, the Internal Audit Department participated in certain parts of the relevant work on reviewing the risk management system and internal control, and also conducted audits on the implementation of the risk management review of sales channels and branding, and the internal control review of the human resources division.

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## 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 reviews from time to time 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. 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 Company has authorised personnel to act as the Company's spokespersons to respond to enquiries made in relation to the Group's affairs.

## 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 2011.

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. No incident of non-compliance was noted by the Company in year 2011.

## Shareholders' Rights

Article 58 of the Company's articles of association provides that 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 or the company secretary of the Company (the "Company Secretary") to require an extraordinary general meeting to be called by the Board for transactions of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. Such requisition can be deposited at the Company's principal place of business in Hong Kong for the attention of the Board or the Company Secretary. Shareholders may also send their enquiries which require the Board's attention to the same address.

Article 88 of the Company's articles of association provides that if a Shareholder duly qualified to attend and vote at the meeting wishes to propose a person other than a Director of the Company for election as a Director at the general meeting, he/she/it shall deposit a written notice to that effect at the principle place of business of the Company in Hong Kong for the attention of the Board or the Company Secretary. Such notice should also be signed by the nominated candidate indicating his/her willingness to be elected. In order to ensure that Shareholders have sufficient time to receive and consider the information of the nominated candidate, such notice should be given to the Company within seven days after the dispatch of the notice of annual general meeting of the Company. Details of the Shareholders' right to propose a person for election as a Director and the related procedures are set out on the Company's website at [www.lining.com](http://www.lining.com).

For the year 2011, there was no change made in the Company's articles of association.

# Corporate Governance Report

## Shareholders' Meetings

Shareholders' meetings provide a principal channel of direct communication between the Company and the Shareholders. They provide an opportunity for Shareholders to better understand the Group's operation, financial performance, business strategies and outlook.

The Company has adopted poll voting in its Shareholders' meetings since listing in 2004. All resolutions put forward at any Shareholders' meeting are voted by poll so that each Share is entitled to one vote. The procedures for conducting a poll are explained at the beginning of the meeting.

The last annual general meeting, which was also the last Shareholders' meeting of the Company, was held on 13 May 2011. To encourage Shareholders to attend the meeting, more than 20 clear business days' notice and a circular containing necessary information were given to Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered in the meeting. Eight out of nine Directors, including all executive Directors, two non-executive Directors and all independent non-executive Directors, and the Company's external auditor were present at the meeting. A question and answer session was available for Shareholders to raise questions.

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 2010;
- declaration of final dividend;
- re-election of three Directors and authorisation to the Board to fix the remuneration of the Directors;
- re-appointment of auditor and the authorisation to the Directors to fix their remuneration; and
- providing Directors with general mandates to repurchase and issue and allot Shares subject to the relevant limits under the Listing Rules.

All the resolutions proposed at the last annual general meeting were approved by Shareholders. The poll was scrutinised by the Company's Hong Kong branch share registrar in the meeting. Details of the poll results were declared at the meeting and the poll results announcement made pursuant to the Listing Rules was published on the same day of the meeting.

No extraordinary general meeting was held during the year. The next annual general meeting of Shareholders will be held on 11 May 2012. Details of the meeting and necessary information on issues to be considered in the meeting are set out in the circular dispatched to the Shareholders together with the Company's annual report 2011.

## Way Forward

During the year, the Company was honoured to be one of the awardees at the "Recognition Award Class of 2011 The Best of Asia" again by *Corporate Governance Asia*, one of the most authoritative publications on corporate governance in Asia. This award is proof of the Group's continued efforts to ensure that its business is conducted in an ethical, transparent and responsible manner.

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, 29 March 2012