

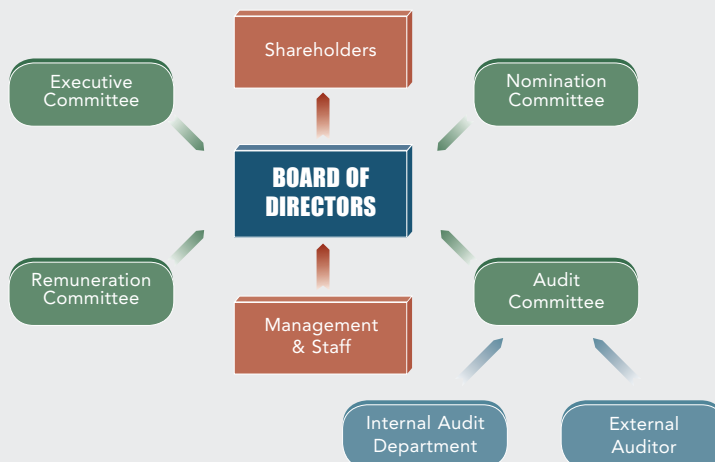
CORPORATE GOVERNANCE REPORT

Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company. The board of directors of the Company (the “Board”) believes that good corporate governance safeguard the long-term interest of the shareholders of the Company (the “Shareholders”) and enhance the Group’s performance. The Board endeavours to uphold a high standard of corporate governance with focuses on internal control, fair disclosure and accountability to all Shareholders.

The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) revised the Code on Corporate Governance Practices (the “Former Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange (the “Listing Rules”) and renamed it as the Corporate Governance Code (the “New Code”) effective 1 April 2012. Throughout the year ended 31 December 2012, the Company has complied with the code provisions (“Code Provisions”) of the Former Code and the New Code for the relevant periods in which they are in force, except for certain deviations specified with considered reason as explained below.

CORPORATE GOVERNANCE STRUCTURE

The corporate governance structure of the Company is as follows:



The corporate governance functions are performed by the Board. The Company adopted paragraph D.3.1 of the New Code as the duties of the Board in performing its corporate governance functions.

During the year of 2012 the Board has performed the following duties in respect of its corporate governance functions:

- a. reviewing the Company’s policies and practices on corporate governance;
- b. reviewing and monitoring the training and continuous professional development of directors and senior management;
- c. reviewing and monitoring the Company’s policies and practices in compliance with legal and regulatory requirements;
- d. reviewing and monitoring the code of conduct applicable to employees; and
- e. reviewing the Company’s compliance with the code of disclosure in the Corporate Governance Report.

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

The Board currently comprises nine Directors, with a majority of whom are non-executive Directors (including independent non-executive Directors), of which three are executive Directors, two are non-executive Directors, and four are independent non-executive Directors. During the year of 2012 and up to the date of this report, the composition of the Board had been changed as follows:

Name of Director

Executive Directors

Mr. Li Ning (*Executive Chairman*)

Mr. Jin-Goon Kim

(Executive Vice Chairman, appointed as non-executive Director on 1 April 2012 and re-designated as executive Director on 4 July 2012)

Mr. Zhang Zhi Yong

Mr. Chong Yik Kay (*resigned on 1 November 2012*)

Non-executive Directors

Mr. James Chun-Hsien Wei

Mr. Chen Yue, Scott (*appointed on 1 April 2012*)

Mr. Lim Meng Ann (*resigned on 1 April 2012*)

Mr. Chu Wah Hui (*resigned on 1 January 2013*)

Independent non-executive Directors

Mr. Koo Fook Sun, Louis

Ms. Wang Ya Fei

Mr. Chan Chung Bun, Bunny

Mr. Su Jing Shyh, Samuel (*appointed on 5 July 2012*)

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 in the section headed "Directors and Senior Management" of this annual report.

All Directors have disclosed to the Company the number and nature of offices held in other public companies or organisations and other significant commitments, with the identity of the public companies or organisations, and an indication of the time involved. They are also reminded to notify the Company and confirm to the Company any change of such information in a timely manner. The Board is of the view that each Director has given sufficient time and attention to the affairs of the Company for the year.

Chairman and Chief Executive Officer

According to provision A.2.1 of the New Code, which came into effect on 1 April 2012, the role of the chairman and chief executive of the Company should be separate and should not be performed by the same individual. During the year under review, from 1 January 2012 to 3 July 2012, this requirement has been complied with as the roles of the chairman and the chief executive officer ("CEO") of the Company had been segregated and performed by Mr. Li Ning and Mr. Zhang Zhi Yong ("Mr. Zhang") respectively.

However, since the stepping down of Mr. Zhang as the CEO from 4 July 2012, the Company has not yet identified a suitable candidate to be the CEO. As a result, the day-to-day responsibilities of the CEO have been assumed by Mr. Li Ning, the Executive Chairman, who manages the external affairs and relationships of the Group, and by Mr. Jin-Goon Kim, the Executive Vice Chairman, who manages the internal affairs and the operations of the Group from 4 July 2012 to 31 December 2012 during the year under review. Therefore, there was no separation of the roles of the chairman and the CEO as both of the roles are currently undertaken by the Executive Chairman and/or the Executive Vice Chairman of the Board. Notwithstanding the above, the Board is of the view that the current management structure remains to be effective for the Group's operations and sufficient checks and balances are in place. The operations and management of the Company is constantly subject to the scrutiny and valuable contributions of the independent non-executive Directors. The Board will continue to review the management structure regularly to ensure that it continues to meet these objectives and is in line with industry practices. The Board will also continue to identify suitable candidates to become the CEO.

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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;

- approving major acquisitions and disposals, formation of joint ventures and capital transactions; and
- developing and reviewing the Company's policies and practices on corporate governance, and performing other duties set out in paragraph D3.1 of the New Code.

Directors' Induction and Continuous Professional Development

All Directors are aware of their 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 October 2012, the Company, together with its legal adviser, organized a half-day training session to provide the Directors with an update on the Listing Rules.

According to the records maintained by the Company, the Directors received the following trainings in 2012:

	Attending seminars and/or conferences and/or forums relating to rules and regulations or duties of directors	Reading newspapers, journals and updates relating to the economy and business management and duties of directors
Executive Directors		
Mr. Li Ning (<i>Executive Chairman</i>)	✓	✓
Mr. Jin-Goon Kim (<i>Executive Vice Chairman, appointed as non-executive Director on 1 April 2012 and re-designated as executive Director on 4 July 2012</i>)	✓	✓
Mr. Zhang Zhi Yong	✓	✓
Mr. Chong Yik Kay (<i>resigned on 1 November 2012</i>)	✓	✓
Non-executive Directors		
Mr. James Chun-Hsien Wei	✓	✓
Mr. Chen Yue, Scott (<i>appointed on 1 April 2012</i>)	✓	✓
Mr. Lim Meng Ann (<i>resigned on 1 April 2012</i>)	✓	✓
Mr. Chu Wah Hui (<i>resigned on 1 January 2013</i>)	✓	✓
Independent Non-executive Directors		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	✓	✓
Mr. Chan Chung Bun, Bunny	✓	✓
Mr. Su Jing Shyh, Samuel (<i>appointed on 5 July 2012</i>)	✓	✓

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 (the "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 have been appointed for a specific term subject to re-election according to applicable Listing Rules and articles of association of the Company.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed four independent non-executive Directors, representing more than 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 in accordance with the Listing Rules.

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. All Directors are subject to retirement by rotation at least once every three years and are eligible for re-election in accordance with the articles of association of the Company. A new Director appointed by the Board is subject to re-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 "Executive Committee"), the nomination committee (the "Nomination Committee"), the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. 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, 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. Li Ning <i>(Chairman of the Committee)</i>	Executive Chairman & Executive Director
Mr. Jin-Goon Kim	Executive Vice Chairman & Executive Director
Mr. Chen Yue, Scott	Non-executive Director

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

- advising on matters relating to, and overseeing the implementation of the Company's strategic objectives, risk management policies and compliances;
- providing the Board with recommendations on policies and specific operational issues, help developing and endorsing major recommendations made to the Board by management, and supervising the management to implement policies and decisions laid down by the Board in relation to the business and operations of the Group;

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- overseeing and guiding the business and operations of all of the business units of the Group; and
- endorsing proposals to change the Company's capital structure, including any reduction of capital, share buy back or issue of new securities.

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 three Directors:

Mr. Jin-Goon Kim <i>(Chairman of the Committee)</i>	Executive Vice Chairman & Executive Director
Mr. Li Ning	Executive Chairman & Executive Director
Mr. Chan Chung Bun, Bunny	Independent non-executive Director

According to the New Code, the chairman of the nomination committee must either be held by the chairman of the board, or an independent non-executive director, and the majority of its members must be independent non-executive directors. In view of the Group currently being amidst a period of reform, the Board hopes to garner greater support from TPG-nominated Directors during this process of reform, and thus has decided to appoint Mr. Jin-Goon Kim as the chairman of the Nomination Committee. The Board also needs the Executive Chairman, Mr. Li Ning, to become more involved with the work of the Nomination Committee. The Board believes this arrangement is necessary for the Company in this current stage.

The primary role of the Nomination Committee is to formulate and execute nomination policies of Board members and the senior management of the Company (the "Senior Management"), to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession planning for Directors in particular, the Chairman, the CEO and the chief financial officer ("CFO") of the Company, to evaluate the structure and organisational strategy of the Group and to assess and identify the appropriate staffing for the Senior Management. 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 shall have sound knowledge, experience and/or expertise in the business operations and development of the Group.

The following is a summary of the major tasks carried out by the Nomination Committee in 2012:

- nomination of Mr. Jin-Goon Kim, Mr. Chen Yue, Scott and Mr. Su Jing Shyh, Samuel to act as the Directors;
- assessment of the independence of each of the independent non-executive Directors;
- identifying candidates for the positions of CEO and CFO for the Group; and
- annual review of the structure, size and composition of the Board; the time involvement, work framework, and duties and responsibilities of the Directors; and keeping records on the information updated by each Director pursuant to Rule 13.51B of the Listing Rules.

The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

Remuneration Committee

The Remuneration Committee has been established since the Company listed in June 2004. The primary responsibility of the Remuneration Committee is to formulate remuneration policies and structure 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 has adopted the terms of reference as outlined under the New Code. The current terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

The Remuneration Committee currently consists of the following three Directors:

Ms. Wang Ya Fei <i>(Chairman of the Committee)</i>	Independent non-executive Director
Mr. Chen Yue, Scott	Non-executive Director
Mr. Chan Chung Bun, Bunny	Independent non-executive Director

The primary goal of the Remuneration Committee is to recommend the Board on the policy and structure of the remuneration package for all Directors and the Senior Management and establish a formal and transparent procedure for formulation of remuneration policy with reference to corporate objectives, operating results and the comparable market conditions. The principal elements of the remuneration package of Directors include basic salary, discretionary bonus, participation in the Company's share schemes and other benefits and allowances by taking into account of the duties and responsibilities of the respective Directors.

No Directors participated in decision making for his or her own remuneration. The emoluments of each Director for the year ended 31 December 2012 are set out in note 28 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2012:

- review and making suggestion on streamlining the organisational structure of the Group;
- recommendation to the Board on the remuneration packages of all Directors and Senior Management for the year 2012;
- review and setting of key performance indicators and bonus plan for year 2013;
- review and determining of the bonus execution plan for year 2012 according to the key performance indicators for year 2012;
- review and setting of the execution plan of the long-term incentive schemes for year 2012; and
- approval of the terms of executive Directors' service contracts.

To discharge its obligations, the Remuneration Committee consults and seeks advice from the Executive Chairman, the Executive Vice Chairman, and the human resources division of the Company during the review of the remuneration policy and incentive plans. External professional consultants are engaged to provide advice on issues when the Remuneration Committee considers necessary.

Audit Committee

The Audit Committee was established since the Company listed 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 New Code. The current terms of reference are available on the websites of the Company and the Stock Exchange.

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
Ms. Wang Ya Fei	Independent non-executive Director
Mr. Chan Chung Bun, Bunny	Independent non-executive Director

The external auditor, the former CEO, the former CFO or the acting CFO and the heads of the internal audit department (the "Internal Audit Department") and the accounting management department of the Company attended the meetings and provided necessary information to the questions addressed by the Audit Committee.

During the year of 2012, the Audit Committee held three meetings with the external auditor of the Company to discuss issues they considered necessary.

The following is a summary of the work performed by the Audit Committee in 2012:

- review of the external auditor's statutory audit plan and the nature and scope of audit before commencement of audit work;

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- review of and recommendation for the Board's approval of the annual results announcement and annual financial statements for the year ended 31 December 2011 and the interim results announcement and interim financial statements for the six months ended 30 June 2012 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;
- 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 2012 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.

Whistleblowing Policy

Whistleblowing policy and system have been established for employees and those who deal with the Company (including suppliers and distributors). They may raise concerns, in confidence, to the Audit Committee about the possible improprieties in any matters related to the Company. A member of the Audit Committee has been appointed as the contact person for channeling any possible irregularities considered by the staff, suppliers and distributors.

Board and Committee Meetings

The Board holds at least four regular Board meetings each 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 sent to the Directors in timely manner and at least 3 days before the date of the meeting in compliance with the New Code.

Directors can at any time access relevant information as requested. 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. For the year ended 31 December 2012, the Executive Chairman of the Company had meetings with the non-executive Directors, including the independent non-executive Directors, without the presence of the Executive Directors.

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

The attendance of the Directors at the meetings of the Board, the Nomination Committee, the Remuneration Committee, and the Audit Committee during the year are as follows:-

Name of Directors	Number of meetings attended/ number of meetings held during the respective tenure in the financial year ended 31 December 2012			
	Board	Nomination Committee	Remuneration Committee	Audit Committee
Executive Directors				
Mr. Li Ning (<i>Executive Chairman</i>)	7/7	3/3	N/A	N/A
Mr. Jin-Goon Kim (<i>Executive Vice Chairman, appointed as non-executive Director on 1 April 2012 and re-designated as executive Director on 4 July 2012</i>)	5/5	2/3	N/A	N/A
Mr. Zhang Zhi Yong	5/7	N/A	N/A	N/A
Mr. Chong Yik Kay (<i>resigned on 1 November 2012</i>)	6/6	N/A	N/A	N/A
Non-executive Directors				
Mr. James Chun-Hsien Wei	7/7	N/A	N/A	N/A
Mr. Chen Yue, Scott (<i>appointed on 1 April 2012</i>)	5/5	N/A	2/2	N/A
Mr. Lim Meng Ann (<i>resigned on 1 April 2012</i>)	1/2	N/A	1/1	N/A
Mr. Chu Wah Hui (<i>resigned on 1 January 2013</i>)	6/7	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Koo Fook Sun, Louis	7/7	N/A	1/1	3/3
Ms. Wang Ya Fei	7/7	N/A	3/3	3/3
Mr. Chan Chung Bun, Bunny	7/7	3/3	1/2	3/3
Mr. Su Jing Shyh, Samuel (<i>appointed on 5 July 2012</i>)	2/3	N/A	N/A	N/A

Note:

Minutes of the foregoing meetings were recorded in sufficient detail of the matters discussed and the decisions made at the meetings, which include the issues raised or dissenting views expressed by Directors. Draft and final version of the minutes are circulated to all Directors for their comments and records within a reasonable time after the relevant meetings.

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ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors, with support from the finance team, acknowledge their responsibilities for preparing the financial statements of the Group and ensure that the financial statements are prepared in accordance with statutory requirements and applicable accounting standards on a going concern basis. The Board also ensures timely publication of the financial statements of the Group.

Prior to commencement of the audit of the Company's accounts for year 2012, 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, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the section headed "Independent Auditor's Report" of this annual report.

During the year of 2012, the management has provided all members of the Board with monthly financial updates for giving a balanced and understandable assessment of the Company's performance, position and prospects.

Internal Control

The Board has the responsibility to review annually the effectiveness of the Group's internal control systems and ensure that the controls are sound and effective to safeguard the Shareholders' investments and the Group's assets. In 2012, the Board, with the support of the Audit Committee, had reviewed the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions of the Company, and their training programmes and budgets.

External Auditor's Remuneration

PricewaterhouseCoopers has been appointed as the external auditor of the Company since the Company listed on the Hong Kong Stock Exchange in 2004. The re-appointment of the 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 Shareholders at forthcoming annual general meeting.

For the year ended 31 December 2012, the fees for the audit services and non-audit services provided by the external auditor are as follows:-

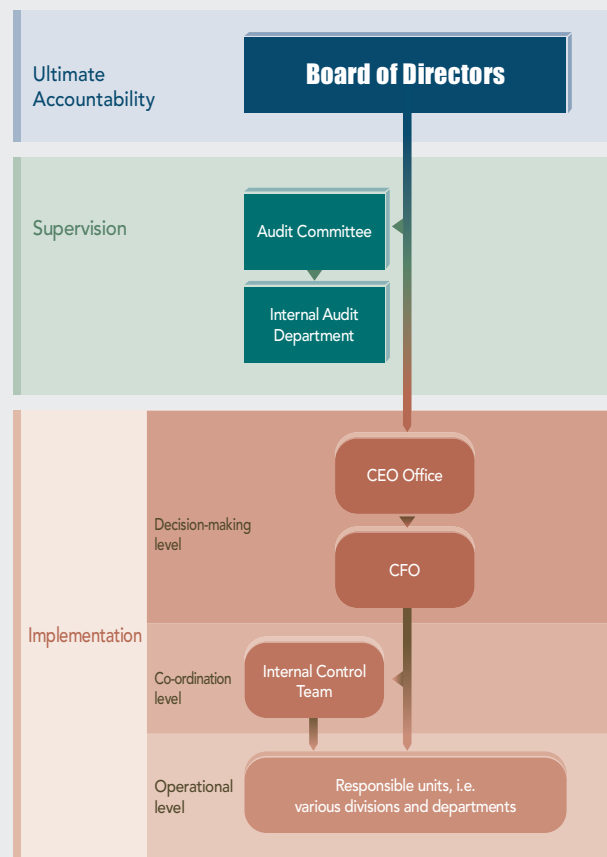
Type of Service	2012	2011
Audit fee for the Group	RMB3,338,000	RMB3,510,000
Tax compliance and other advisory services	RMB1,027,000	RMB919,000
Total	RMB4,365,000	RMB4,429,000

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:

- (1) Continuing to drive the normal operation of the organizational 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 organizational 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, a coordination body

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(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 and functional divisions.

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 organizational 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 reports and monthly financial updates 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 so as 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, so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With centralized arrangement and coordination of the Internal Control Team, key items of

internal control and the specific control procedures set out in the Internal Control Manual were updated by relevant departments during 2012. 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 business diversification of the Group, the Company conducted its annual risk review on a corporate level and assessed risks and risk management controls on the key business aspects based on the "Risk Management Manual of Li Ning Company Limited".

The Company has made huge effort on implementation of internal control and risk management. Internal control and risk management awareness have been promoted by training programmes and regular briefing. Newsletter called "Risk Management Developments" (《風險管理動態》) is issued regularly to share the information with the management staff on the internal control and risk management events in other organizations.

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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 Group's internal control system is subject to continuous review and improvement to enable timely responses to any changing risks faced by the Group.

A comprehensive review on the effectiveness of the Group's internal control system is conducted by the Board 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. Colleagues in-charge of each division and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In 2012, the Company continued to improve methods for self-assessment, which included extending the scope of the self-assessment and increasing the number of interviews. The procedural control of self-assessment has been strengthened to cover various 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 according to the outlines of the COSO internal control system, including control environment and risk assessment information and communication. The review process has enabled the colleagues-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. The head of Internal Audit Department submitted the control self assessment audit report to the Audit Committee and department heads submitted their declaration to the Board certifying the effectiveness of the Group's internal control system.

The results of the review for the year ended 31 December 2012 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 under the New Code for the year ended 31 December 2012.

INTERNAL AUDIT

The Internal Audit Department was established soon after the Company listed on the 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 on-going enhancement on 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 CFO and refers matters to the Audit Committee directly if necessary. The head of the Internal Audit Department attended every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor during 2012. The Internal Audit Department also collaborates with the external auditor where appropriate.

CORPORATE GOVERNANCE REPORT

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 2012, the Internal Audit Department conducted audits on the product division, sales division, marketing division, retail subsidiaries, supply chain division and human resources division of LI-NING brand, as well as on new business areas, including indoor sports business (including Kason) and e-commerce division, and submitted the relevant audit reports to the Audit Committee, and the management whom include the former CFO or the acting CFO.

For significant 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 2012, various audit findings and risk factors had been properly handled by the management, and there were no material irreparable audit findings and risk factors. The Internal Audit Department planned to carry out audits focusing on brands, products and information technology divisions in 2013.

The Internal Audit Department also plays an important role in 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 2012, the Internal Audit Department participated in reviewing the risk management system and internal control, the implementation of the risk management of sales channels, branding, and the human resources division.

INSIDE INFORMATION

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is fully aware of its obligations under the Listing Rules and the overriding principle that inside information should be announced immediately. The Company reviews from time to time its internal guidelines on inside information or potentially price sensitive information by reference to its own and industry circumstances and the Guide on Disclosure of Inside Information issued by the 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 Executive Chairman, Executive Vice Chairman, and CFO are the key spokespersons of the Company 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 2012.

Employees who are likely to be in possession of unpublished inside 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 2012.

COMPANY SECRETARY

Ms. Yim Wai Yin, Lisa has been the company secretary of the Company (the "Company Secretary") since 15 October 2012 and Ms. Lee Hung was the Company Secretary for the period from 1 January 2012 to 15 October, 2012. They were full time employees in their respective tenures and had day-to-day knowledge of the Company's affairs. During their respective tenures in 2012, Ms. Yim and Ms. Lee reported to the Executive Chairman and/or Chief Executive. In addition, both of them have duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company endeavors a number of formal communication channels to provide its Shareholders with accurate, clear, comprehensive and timely information of the Group. These include interim and annual reports, announcements, circulars and other corporate communication on the websites of the Company and/or the Stock Exchange.

Procedures for Shareholders to convene a general meeting/put forward proposals

Pursuant to the Company's articles of association, any one or more members of the Company holding at the date of deposit of the requisition 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, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such requisition can be deposited at the Company's principal place of business in Hong Kong at Suites 1,7-15, L45, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Hong Kong for the attention of the Company Secretary, and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Proposing a Person for Election as a Director

As regards to the procedures for proposing a person for election as a Director, please refer to "Procedures for Shareholders to Propose a Person for Election as a Director" under the section of "Corporate Governance" of the Company's website at www.lining.com.

Procedures for Shareholders to send enquiries to the Board

Shareholders may send their written enquiries which require the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong at Suites 1,7-15, L45, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Hong Kong.

For the year 2012, there was no change made in the Company's articles of association.

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.

Since the Company listed in 2004, all resolutions put forward at Shareholders' meeting were voted by poll, of which each fully paid share of the Company entitled to have one vote. The procedures for demanding and conducting a poll are explained at the beginning of the Shareholders' meeting. The results of the poll are published on the websites of the Company and the Stock Exchange.

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.

Board members (including the chairmen of each of the Nomination Committee, the Remuneration Committee and the Audit Committees) and the Company's external auditor were present at the annual general meeting of Company held on 11 May 2012 (the "2012 AGM"). A question-and-answer session was available for the Shareholders to raise questions. No extraordinary general meeting of the Company was held during the year. The next annual general meeting of the Company will be held on 31 May 2013 (the "2013 AGM"). Details of the 2013 AGM and necessary information on issues to be considered are set out in the circular despatched to the Shareholders together with this annual report.

CORPORATE GOVERNANCE REPORT

The attendance record of the Directors at the 2012 AGM is set out below:

Name of Directors	2012 AGM
Executive Directors	
Mr. Li Ning	1
Mr. Jin-Goon Kim (<i>appointed as non-executive Director on 1 April 2012 and re-designated as executive Director on 4 July 2012</i>)	1
Mr. Zhang Zhi Yong	1
Mr. Chong Yik Kay (<i>resigned on 1 November 2012</i>)	1
Non-executive Directors	
Mr. James Chun-Hsien Wei	1
Mr. Chen Yue, Scott (<i>appointed on 1 April 2012</i>)	1
Mr. Lim Meng Ann (<i>resigned on 1 April 2012</i>)	N/A
Mr. Chu Wah Hui (<i>resigned on 1 January 2013</i>)	-
Independent non-executive Directors	
Mr. Koo Fook Sun, Louis	1
Ms. Wang Ya Fei	1
Mr. Chan Chung Bun, Bunny	1
Mr. Su Jing Shyh, Samuel (<i>appointed on 5 July 2012</i>)	N/A

WAY FORWARD

The Board will continue to review and improve its corporate governance with an aim to maintain a high degree of transparency, accountability and responsibility.

By order of the Board

Li Ning
Executive Director & Executive Chairman

Hong Kong, 25 March 2013