

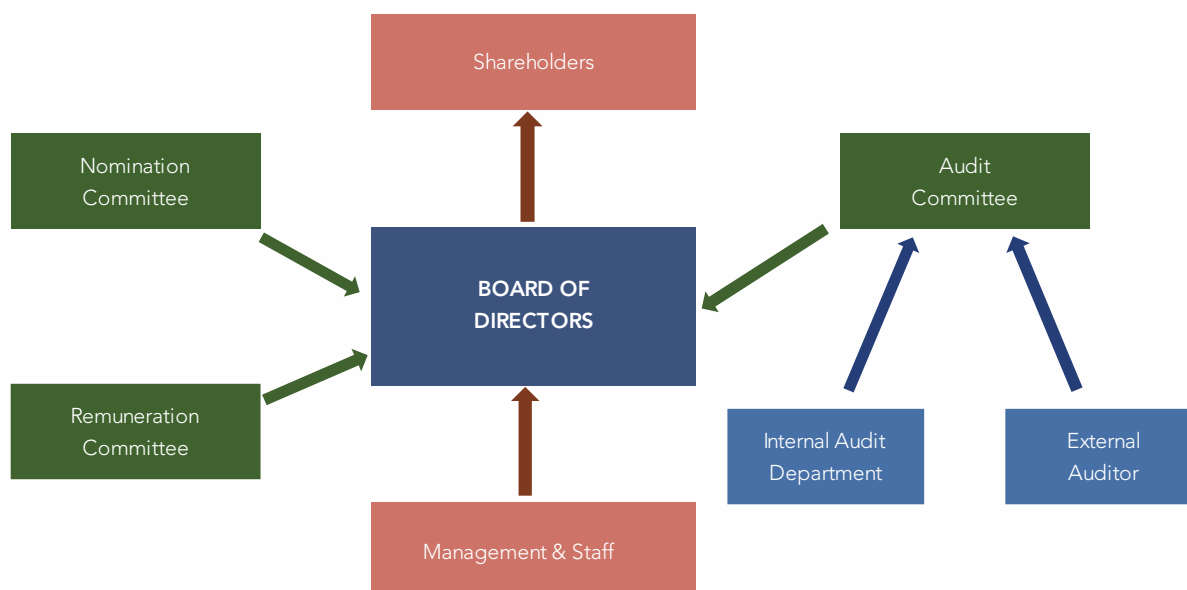
# CORPORATE GOVERNANCE REPORT

Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. The Board believes that good corporate governance safeguards the long-term interest of the Shareholders and enhances 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.

Throughout the year ended 31 December 2023, the Company has complied with the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix C1 to the Listing Rules, except for certain deviations specified with considered reasons 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 code provision A.2.1 of the CG Code as the duties of the Board in performing its corporate governance functions.

During the year of 2023, 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 the Directors and the senior management of the Company ("Senior Management");
- c. reviewing and monitoring the Company's policies and practices to ensure they are in compliance with legal and regulatory requirements;

- d. reviewing and monitoring the code of conduct applicable to employees and Directors; and
- e. reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## **THE BOARD OF DIRECTORS**

Being accountable to the Shareholders, the Board has the responsibility of providing leadership for 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 seven Directors, of which three are executive Directors and four are independent non-executive Directors. During the year of 2023 and up to the date of this report, the composition of the Board are as follows:

#### **Name of Directors**

##### **Executive Directors**

Mr. Li Ning	<i>Executive Chairman and Joint Chief Executive Officer</i>
Mr. Kosaka Takeshi	<i>Joint Chief Executive Officer</i>
Mr. Li Qilin	

##### **Independent non-executive Directors**

Mr. Koo Fook Sun, Louis  
Ms. Wang Ya Fei  
Dr. Chan Chung Bun, Bunny, *GBM, GBS, SBS, BBS, JP*  
Ms. Wang Yajuan

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. Except that Mr. Li Qilin is the nephew of Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer of the Company, there are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. Biographies 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 they 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 pursuant to the disclosure requirements of the Listing Rules. The Board is of the view that each Director has given sufficient time and attention to the affairs of the Company for the year under review.

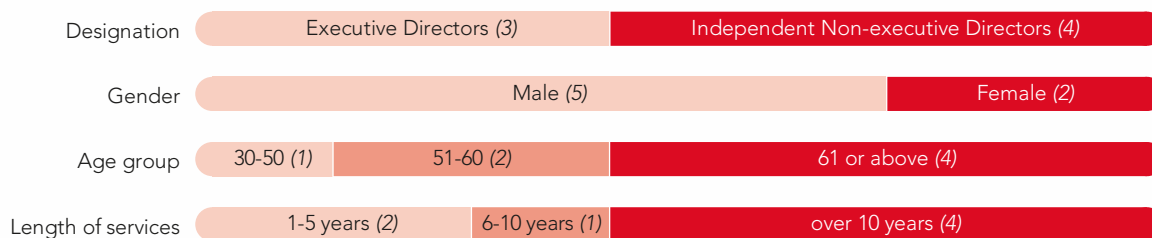
# CORPORATE GOVERNANCE REPORT

## Board Diversity Policy

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Board has approved and adopted a board diversity policy of the Company (“Diversity Policy”) setting out the approach to achieve diversity of the Board members.

In designing the Board’s composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments are based on meritocracy, and candidates are considered using objective criteria having due regard to the benefits of diversity on the Board, and the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board’s diversified composition was summarized as follows:



The nomination committee of the Company (“Nomination Committee”) reviews and assesses the composition of the Board and makes recommendations to the Board on the appointment of new Directors and Senior Management in accordance with its terms of reference and the Diversity Policy.


The Nomination Committee made an annual review on the composition of the Board with reference to a number of factors, including but not limited to diversity, and monitored the implementation and effectiveness of Diversity Policy. The Company has complied with Rule 13.92 of the Listing Rules, with respect to board diversity during the year. Further details on the review of the composition of the Board are set out in the section headed “Nomination Committee” below.

The Group also continues to adopt employee diversity measures to promote the diversity at all levels of its workforce. All eligible employees enjoy the equal opportunities for employment, training and career development without discrimination. Currently, the male to female ratio in the workforce of the Group (including Senior Management) is approximately 1:1, which is in line with the distribution in the same industry and the Board considers that the gender diversity in workforce is currently achieved.

## Nomination Policy

The Board has approved and adopted a nomination policy of the Company (“Nomination Policy”) setting out the guidelines for the administration of the nomination, evaluation and termination of each Board member. Nomination Policy shall be administered by the Board, and the Board shall authorize the Nomination Committee to revise, replace or abolish any term in the Nomination Policy, and delegate the Nomination Committee to execute the functions of appointment and termination under the Nomination Policy.

The Board shall consist of the number and ratio of Directors as required by the Articles of Association and the Listing Rules, and shall be composed of members with a balance of skills, experience and diversity of perspectives. All Board appointments will be based on meritocracy, and with respect to the selection of candidates, the Board should consider the board diversity from a number of aspects including but not limited to gender, skill and length of service etc as well as the contribution that the selected candidates will bring to the Board.



The Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy. The Nomination Committee will also discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

## Chairman and Chief Executive Officer

According to code provision C.2.1 of the CG Code, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. During the year of 2023, Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer (the "Joint CEO"), and Mr. Kosaka Takeshi, the Executive Director and the Joint CEO, jointly assumed the role of chief executive officer of the Company. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles were undertaken by Mr. Li Ning during the year. Notwithstanding the above, the Board is of the view that given that Mr. Li Ning is familiar with the business operations and management of the Group, the assumption of the roles of Executive Chairman and the Joint CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group's business strategies. The Board also believes that Mr. Li Ning and Mr. Kosaka Takeshi can complement with each other in performing the roles of the Joint CEOs, and create synergy effect which is in the interest of the Company and its Shareholders as a whole.

In addition, 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.

## Principal Responsibilities of the Board

While delegating the 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 directions of the Group and setting objectives for the management, overseeing its performance and assessing the effectiveness of management strategies. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. 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 code provision A.2.1 of the CG Code.

# CORPORATE GOVERNANCE REPORT

## 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 or she has a proper understanding of the business and operations of the Group and that he or she is fully aware of his or her duties and responsibilities and ongoing obligations as a Director under the applicable rules and requirements. Directors are updated on any developments or changes of the laws and regulations affecting their obligations from time to time. Professional trainings and update programmes are provided to the Directors on a regular basis in order to enhance the Board members' professional and regulatory knowledge. During the year, the Company organized training sessions for the Directors on "Trial Measures for the Administration of Overseas Issuance and Listing of Securities by Domestic Enterprises", "Responsibilities of Listed Companies in Anti-money Laundering" and "Environmental, Social and Governance".

According to the records maintained by the Company, the Directors received the following trainings and updates in 2023:

Name of Directors	Attending seminars and/or conferences and/or forums relating to rules and regulations or duties of the directors	Reading newspapers, journals and updates relating to the economy and business management and duties of directors
<b>Executive Directors</b>		
Mr. Li Ning ( <i>Executive Chairman and Joint CEO</i> )	✓	✓
Mr. Kosaka Takeshi ( <i>Joint CEO</i> )	✓	✓
Mr. Li Qilin	✓	✓
<b>Independent non-executive Directors</b>		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	✓	✓
Dr. Chan Chung Bun, Bunny, <i>GBM, GBS, SBS, BBS, JP</i>	✓	✓
Ms. Wang Yajuan	✓	✓

## Independent Non-executive Directors

Independent non-executive Directors play an important check-and-balance role in safeguarding the interests of the Company and the Shareholders as a whole, and will take the lead when potential conflicts of interests arise. The incumbent independent non-executive Directors have extensive professional experiences and have participated in the meetings of the Board in a conscientious and responsible manner. They actively serve 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. They have been appointed for a specific term and are subject to re-election and rotation according to the applicable Listing Rules and the Articles of Association.

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 Rule 3.13 of the Listing Rules, which confirmed to the Company that he/she has met the independence guidelines set out in 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 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. New Director appointed to fill casual vacancy shall subject to re-election by the Shareholders at the first general meeting after his or her appointment in accordance with the Articles of Association. To further enhance accountability, any further appointment of an independent non-executive Director who has served the Company's Board for more than nine years will be subject to a separate resolution to be approved by the Shareholders.

## 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 Nomination Committee, the remuneration committee ("Remuneration Committee") and the audit committee ("Audit Committee") of the Company. Each of the Board committees has its own defined and written terms of reference as approved by the Board covering its duties, powers and functions, which are in compliance with the Listing Rules and have taken into account the specific business needs of the Company. The Board committees are provided with sufficient internal and external resources to discharge their duties, and upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense. Each Board 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. Meetings of the Board committees are convened and conducted in accordance with the Articles of Association and its terms of reference.

## Nomination Committee

The Nomination Committee has been established since June 2005. The primary duties of the Nomination Committee are to formulate and execute nomination policies of the Board members and 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 the Directors, the chairman, the chief executive officer 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 has adopted the terms of reference as outlined under the CG Code. The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee currently consists of the following three Directors:

Mr. Li Ning ( <i>Chairman of the Nomination Committee</i> )	Executive Chairman, Joint CEO & Executive Director
Ms. Wang Ya Fei	Independent non-executive Director
Dr. Chan Chung Bun, Bunny, <i>GBM, GBS, SBS, BBS, JP</i>	Independent non-executive Director

The Nomination Committee normally engages professional recruitment consultants in discharging its duties and functions. Candidates who satisfy the criteria are short-listed and interviewed by the Nomination Committee before the final candidate is nominated to the Board for consideration. The process ensures that the Board and the Senior Management have sound knowledge, experience and/or expertise required in the business operations and development of the Group.

# CORPORATE GOVERNANCE REPORT

The following is a summary of the major tasks carried out by the Nomination Committee in 2023:

- nomination of Mr. Song Chun Tao to act as the Chief Human Resources Officer and nomination of Mr. Wang Yi to act as the Chief Marketing Officer;
- assessing the independence of each of the independent non-executive Directors;
- reviewing the structure, size and composition of the Board, the time involvement, work framework, duties and responsibilities of the Directors on an annual basis, and keeping records of the most updated information of each Director pursuant to Rule 13.51B of the Listing Rules;
- reviewing the Nomination Policy and the Diversity Policy; and
- reviewing the Board performance during the year.

During the year, the Nomination Committee reviewed the composition of the Board, including its diversity, based on a range of perspectives with reference to the Company's business model and the Diversity Policy requirements, including but not limited to gender, age, cultural and educational background, ethnicity, professional expertise, skills, knowledge and length of service.

The Nomination Committee considered that the current composition of the Board is balanced in terms of diversity and is able to meet the objectives of the Board. The Board's diversity provides the Company with experienced individuals and professionals with proven and extensive industry experience whose opinions and expertise are useful for the decision-making of the Board and the implementation of its business objectives.

## Remuneration Committee

The Remuneration Committee has been established since the Company was listed on the Stock Exchange in June 2004. The primary responsibility of the Remuneration Committee is to formulate remuneration policies and structure for the Directors and the Senior Management to enable the Company to attract, retain and motivate talents which are essential to the long-term success of the Company.


The Remuneration Committee has adopted the terms of reference as outlined under the Code Provisions. 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>Chairperson of the Remuneration Committee</i> )	Independent non-executive Director
Mr. Li Qilin	Executive Director
Dr. Chan Chung Bun, Bunny, <i>GBM, GBS, SBS, BBS, JP</i>	Independent non-executive Director

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

No Directors participated in deciding his or her own remuneration. The emoluments of each Director for the year ended 31 December 2023 are set out in note 36 to the consolidated financial statements. The remuneration of Senior Management for the year ended 31 December 2023 are set out in note 34 to the consolidated financial statements.



The following is a summary of the major tasks carried out by the Remuneration Committee in 2023:

- making recommendations to the Board on the remuneration packages of all the Directors and Senior Management for the year 2023;
- reviewing and approving the bonus plan for the year 2023;
- reviewing and approving the salary adjustment plan for the year 2023;
- reviewing, monitoring and approving the implementation of employee share option program (ESOP) and the 2016 Restricted Share Award Scheme for the year 2023;
- Based on the performance of the Company and considering the post contribution and individual performance of each Director and employee of the Group, reviewing and approving the name list and amount of grants in 2023 under the 2016 Restricted Share Award Scheme, to establish a competitive remuneration system to push the management to take responsibility for achieving the strategic objectives of the Group;
- reviewing and approving the recommendation of short-term and long-term incentives for the year 2023;
- reviewing, monitoring and approving the human resources work plans for the year 2023; and
- approving the budget of human resources expenses for the year 2024.

To discharge its obligations, the Remuneration Committee consults and seeks advice from the Joint CEOs 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 was listed on the Stock Exchange in June 2004. The primary responsibilities of the Audit Committee are assisting the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, overseeing the Group's financial reporting systems, risk management and internal control procedures and the Company's relationship with the external auditor.

The Audit Committee has adopted the terms of reference, which follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the CG Code. The current terms of reference of the Audit Committee 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 Audit Committee</i> )	Independent non-executive Director
Ms. Wang Ya Fei	Independent non-executive Director
Dr. Chan Chung Bun, Bunny, <i>GBM, GBS, SBS, BBS, JP</i>	Independent non-executive Director

The external auditor, the CFO, the head of the internal audit department ("Internal Audit Department") and the head of the accounting management department of the Company attended the meetings and provided necessary information to the questions raised by the Audit Committee.

During the year of 2023, the Audit Committee held three meetings with the external auditor of the Company to discuss issues they considered necessary.



# CORPORATE GOVERNANCE REPORT

The following is a summary of the work performed by the Audit Committee in 2023:

- reviewing the external auditor’s statutory audit plan and the nature and scope of audit before commencement of audit work;
- reviewing and recommending for the Board’s approval for the annual results announcement and annual financial statements for the year ended 31 December 2022 and the interim results announcement and interim financial statements for the six months ended 30 June 2023 with particular focus on changes in accounting policies and practices, compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;
- discussing with the external auditor and the management on possible accounting risks and major findings in the course of audit/review;
- reviewing the independence of the external auditor and recommending to the Board on the re-appointment of the external auditor;
- approving the audit fees and terms of engagement of the external auditor;
- reviewing 2023 internal audit findings and recommendations and approving 2024 internal audit plan;
- reviewing the effectiveness of the Company’s risk management functions and internal control system, including the financial reporting and compliance functions; and
- approving and adopting the concurrence policy/framework for non-assurance services.

## Anti-Corruption and Anti-Bribery System and Complaint and Whistleblowing Procedure

The Company has implemented a number of Group-wide governance policies and systems, which are subject to regular review, to support its commitment to high standards of business, professional, and ethical conduct, and to ensure best practices across the organization:

- “Anti-Corruption and Anti-Bribery System” has been established in order to strengthen the internal governance and compliance management, reduce operation risks and maintain business reputation of the Group; and
- “Complaint and Whistleblowing Procedure” has been set out for all employees and stakeholders (e.g. investors, direct suppliers, partners, customers, etc.) of the Company to raise concerns, in confidence, to the Audit Committee about the possible improprieties in any matters related to the Company.

For further details in relation to the Anti-Corruption and Anti-Bribery System and Complaint and Whistleblowing Procedure, please refer to relevant information in the section headed “Corporate Governance” of the Company’s website at <http://ir.lining.com>.

## 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 achieve the maximum attendance of the Directors. Notice of at least fourteen days is served for regular Board meetings. 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 a timely manner before the date of the meeting in compliance with the CG Code. Directors can also seek independent professional advice in performing their duties at the Company's expense, if necessary.

Directors can access relevant information as requested at any time. The management provides the Directors with comprehensive reports on the Group's business progress, financial objectives and strategic and development plans 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 the Board or committee meetings. Interested Directors are required to abstain from voting and will not be counted in the quorum present in the Board or Committee meetings in accordance with the Articles of Association. Before voting, Directors are given ample time to speak, express their view and raise any concerns. When going through each agenda item, the chairman of the meeting asks the Directors whether they have any objections or any questions to raise for discussion, ensuring that each Director can present his or her independent views.

The Board will review the implementation and effectiveness of the mechanisms for the independent views of the Board annually. The Board has reviewed the implementation and effectiveness of the mechanisms during the year and considered that the mechanisms remain effective.

The attendances 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 2023			
	Board	Nomination Committee	Remuneration Committee	Audit Committee
<b>Executive Directors</b>				
Mr. Li Ning ( <i>Executive Chairman and Joint CEO</i> )	6/6	3/3	N/A	N/A
Mr. Kosaka Takeshi ( <i>Joint CEO</i> )	6/6	N/A	N/A	N/A
Mr. Li Qilin	6/6	N/A	2/2	N/A
<b>Independent non-executive Directors</b>				
Mr. Koo Fook Sun, Louis	6/6	N/A	N/A	3/3
Ms. Wang Ya Fei	6/6	3/3	2/2	3/3
Dr. Chan Chung Bun, Bunny, <i>GBM, GBS, SBS, BBS, JP</i>	6/6	3/3	2/2	3/3
Ms. Wang Yajuan	6/6	N/A	N/A	N/A

Notes:

- 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.
- All such minutes are kept by the company secretary of the Company and are open for inspection at any reasonable time on request by any Director.

# CORPORATE GOVERNANCE REPORT

## 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 the year of 2023, 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, the management had provided all members of the Board with monthly financial updates in order to give a balanced and reasonable assessment of the Company's performance, position and prospects.

### External Auditor's Remuneration

PricewaterhouseCoopers has been appointed as the external auditor of the Company since the Company was listed on the 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 Shareholders at the forthcoming annual general meeting.

For the year ended 31 December 2023, the fees for the audit services and non-audit services provided by the external auditor are as follows:

Type of Service	2023 (RMB)	2022 (RMB)
Audit fee for the Group	6,680,000	6,220,000
Tax compliance and other advisory services	2,675,000	1,345,000
Total	9,355,000	7,565,000

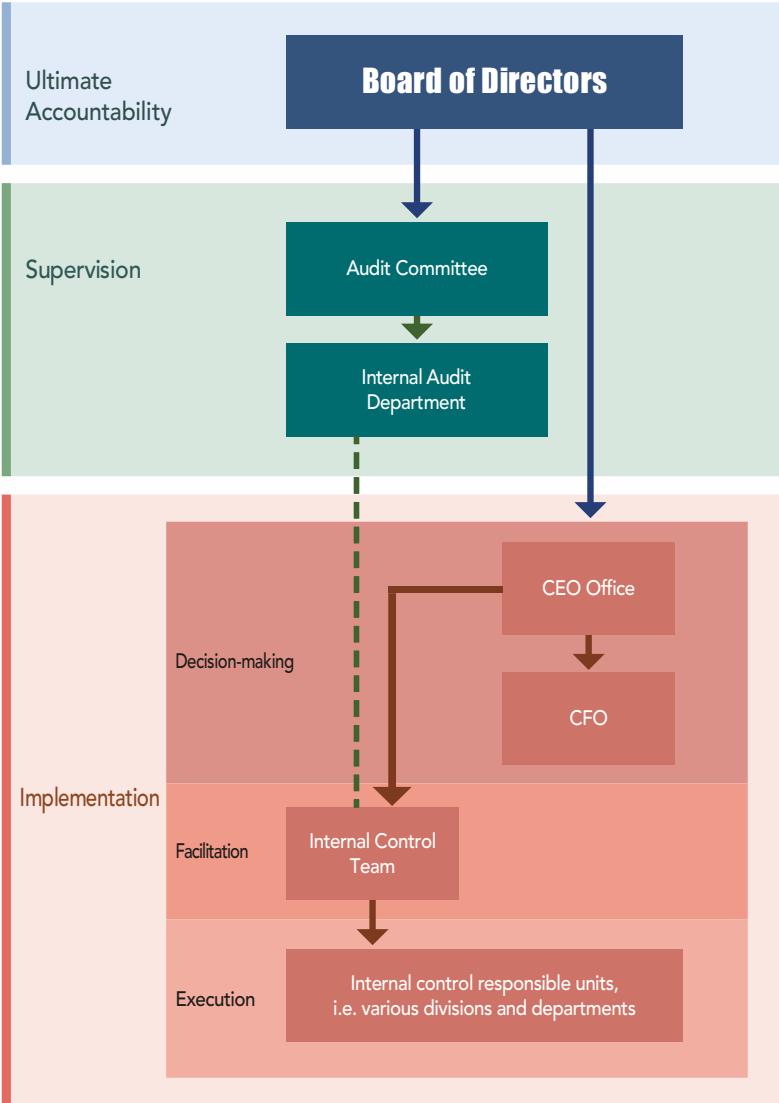
### Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives and reviewing the effectiveness of the Group's risk management and internal control systems on an annual basis. In 2023, the Board, with the support of the Audit Committee, reviewed the adequacy of resources, qualifications and experience of staff in performing the accounting and financial reporting functions, and the appropriateness of their training programmes and budgets.

## Risk Management and Internal Control System

Based on the experience in operation control over the years, the Company has put in place an integrated system of risk management and internal control. The system adopts the globally recognised framework outlined by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), taking into account the Group’s business, operational and financial risks, corporate culture and management philosophy. The system is designed to (i) achieve effectiveness and efficiency of operations; (ii) enhance the reliability of internal and external financial reporting; and (iii) ensure compliance with the 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 strong support, reflected mainly in the following aspects:

- (1) With an optimized organizational structure of internal control and risk control, the normal operation of the organizational structure set up on the basis of the COSO risk management and internal control framework is promoted continuously, which is depicted as follows:




# CORPORATE GOVERNANCE REPORT

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 bears the ultimate accountability and has the ultimate 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 management; (ii) the Audit Committee is responsible for supervising the establishment and operation of the internal control system by the management, monitoring the Group's risk management and internal control procedures and advising the Board on the effectiveness thereof. Independent test and assessment on the effectiveness of risk management and internal control are conducted by the Internal Audit Department which reports directly to the relevant management and the Audit Committee; and (iii) the implementation level comprises a decision-making group, a facilitation body (namely, the Internal Control Team, which is responsible for supporting the planning and establishment of the Group's internal control system and facilitating the promotion and implementation of the internal control structures in different systems) and execution units (namely, the operational and functional divisions, which are responsible for executing various management and control measures).

During the year, in light of the changes in the Company's organizational structure, staff and business flow, the staff arrangement under the Internal Audit Department and Internal Control Team structure was promptly updated and necessary training was carried out by the Company. The Internal Audit Department reported at every meeting of the Audit Committee in relation to the progress of the examination on the effectiveness of the Group's risk management and internal control 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 supports the supervision of the implementation and performance of business strategies and plans. Operational reports and monthly financial updates are timely and regularly submitted to and reviewed by the Senior Management, the Board or its designated committees. This allows them to monitor and manage the established annual operating and financial targets, and to consider necessary actions as well as to ensure such actions are being carried out promptly so as to remedy any significant mistakes or inadequacies.
- (3) The Internal Control Manual of Li Ning Company Limited ("Internal Control Manual"), which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system, is implemented on an ongoing basis. The Internal Control Manual currently covers areas including the management procedures in respect of wholesale sales, direct sales marketing, procurement and trade payables, assets, capital, financial reporting, administration and human resources, intellectual property rights, contracts management, and research and development management process system. The Internal Control Manual is revised from time to time on the circumstances, 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.
- (4) An effective annual self-assessment and evaluation mechanism under the internal control framework was established with satisfactory results and attained the following goals:
  - (i) fostering middle management and Senior Management to review and comment on whether control targets at 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 procedural control, assess the design and effectiveness of execution, 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.

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- (5) Independent reviews of risk management and internal control in relation to key operations, 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.

## **ANNUAL REVIEW**

The Board is fully aware of its accountability in respect of the Group's risk management and internal control systems and its responsibility of reviewing the effectiveness of the systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group's internal control system is subject to continuous review and improvement to enable timely responses to any changing risks the Group faces with.

A comprehensive review on the effectiveness of the Group's risk management and internal control system is conducted by the Board annually, covering all material controls including financial, operational and compliance monitoring. The review is performed internally on a self-assessment approach 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 2023, the Company continued to improve methods for self-assessment. In accordance with the Company's organizational structure and business expansion, the process of self-assessment covers numerous divisions and departments. In addition, members of the 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 persons-in-charge to verify whether the internal control system is operated as intended, to identify deficiencies or inadequacies, and to take relevant remedial actions. The Internal Audit Department also carried out independent examination and analysis on the review process and the results, and submitted a declaration to the Audit Committee and the Board certifying the adequacy and effectiveness of the Group's risk management and internal control systems.

The results of the review for the year ended 31 December 2023 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 risk management and 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 by the Group so far and there are no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board have also received the annual review results regarding the adequacy of resources, qualifications and experience of the Group's accounting and financial reporting staff and the sufficiency of their training programmes and budget. Based on such results, the Audit Committee and the Board are of the view that the Group has adequate workforce to fulfil accounting and financial reporting duties. These personnel possess necessary professional qualifications and practical experience to effectively perform their respective functions, and there have been appropriate training programmes and related budget for the staff.

The Board considers that the Group's risk management and internal control system is adequate and effective and the Company has complied with the CG Code for the year ended 31 December 2023.

# CORPORATE GOVERNANCE REPORT

## **INTERNAL AUDIT AND INTERNAL CONTROL AND MANAGEMENT**

The Internal Audit Department was established soon after the Company's listing on the Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing the operational and financial conditions of the Group to disclose potential risks, and following up with related remedial measures, with a view to continuously enhancing the operational effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the Group's internal control and risk management framework with an aim to provide the Audit Committee and the Board with objective assurance that the internal control system and risk management system are effectively 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 maintained constructive communications with the Company's external auditor during year 2023. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the annual 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 audits and evaluation of the operational effectiveness and efficiency of various business and functional systems; and (ii) special audits in areas designated by the management and the Audit Committee based on the assessment of risks. In the year of 2023, the Internal Audit Department conducted audits on the sales system, product system, retail subsidiaries, supply chain system and non-core business systems of LI-NING brand, as well as internal control and risk management systems, and submitted the relevant audit reports to the Audit Committee and the management.

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 on the improvement progress. The Internal Audit Department submits formal work report to the Audit Committee three times a year, which enables the Board to assess control of the Group and the effectiveness of risk management. As at 31 December 2023, 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 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.

The Internal Control Team of the Company is responsible for designing the Company's internal control system framework, instructing business departments to design the specific systems and processes, arranging and urging business departments to thoroughly implement the systems, as well as coordinating and sorting out various issues that may arise during the implementation of the systems, with a view to lowering the operational risks of the Company and ensuring that the Company has a sound risk control system in place.

The Internal Control Team evaluates and optimizes the internal control system, improves the development of the systems and processes, and prompts business departments to thoroughly implement the systems based on the Group's risk assessment and warning on an annual basis. In 2023, it refined the internal control in a number of areas, including the management of sales, the supply chain, non-productive procurement, IT, the table tennis, badminton and football business division, product planning and marketing of the LI-NING brand.

## **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 Chapter 13 of the Listing Rules and the overriding principle that inside information of the Company should be announced immediately. The Company reviews from time to time its internal guidelines on inside information or potentially price sensitive information with reference to its own and industry circumstances and the Guide on Disclosure of Inside Information issued by the Securities and Futures Commission. The Company's policy contains a strict prohibition on unauthorized use of confidential or inside information and has established and implemented procedures for responding to external enquiries about the Group's affairs.



During the year, the Company followed the rules and procedures on regulating the disciplines and actions of all employees in external media communications and that the designated authorized persons of the Company are the key spokespersons of the Company in all external media communications. The human resources division of the Company is responsible for monitoring and reviewing the due compliance by all staff of the Group. The purpose of streamlining the communications of the Group with the media is to regulate all media communication activities, protect the interests of the Company and keep inside information strictly confidential prior to its disclosure.

### **COMPLIANCE WITH THE MODEL CODE ON SHARE DEALINGS**

The Company has adopted the Model Code regarding securities transactions by the 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 standards set out in the Model Code throughout the year ended 31 December 2023.

Employees of the Group who are likely to be in possession of unpublished inside information of the Group are also subject to guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in the year of 2023.

### **COMPANY SECRETARY**

During the year, Ms. Tai Kar Lei is the company secretary of the Company ("Company Secretary"). Ms. Tai is a full-time employee of the Company and is familiar with the daily affairs of the Company, and is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. All Directors have access to the advice and services of the Company Secretary with a view to ensure that the Board procedures, all applicable rules and regulations are followed. During the year, Ms. Tai reported to the Executive Chairman and/or the CFO. In addition, she has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

### **SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS**

The Company has a number of formal communication channels to provide the 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.

In terms of shareholder communication strategy, the Board has approved and adopted a shareholders' communication policy of the Company ("Shareholders Communication Policy"), which enable Shareholders to engage actively with the Company and exercise their rights as Shareholders in an informed manner such as corporate communications, general meetings, the Company's website, Shareholders' enquiries and investors' engagement. The Company will review the Shareholders Communication Policy annually to ensure the effectiveness of the policy. For further details in relation to the Shareholders Communication Policy, please refer to "Shareholders Communication Policy" in the section headed "Corporate Governance" of the Company's website at <http://ir.lining.com>.

The implementation and effectiveness of the Shareholders Communication Policy has been reviewed by the Board during the year. In view of the formal communication channels have been setup, the Board considered the current channels would be sufficient for the Company to communicate with the Shareholders.

### **Procedures for Shareholders to Convene a General Meeting/Put Forward Proposals**

Pursuant to the 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 the Board to hold an extraordinary general meeting to put forward proposals 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 Unit 3301, 33/F., BEA Tower, Millennium City 5, 418 Kwun Tong Road, Kowloon, Hong Kong for the attention of the Company Secretary, and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself or herself (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.



# CORPORATE GOVERNANCE REPORT

## 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" in the section headed "Corporate Governance" of the Company's website at <http://ir.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 Unit 3301, 33/F., BEA Tower, Millennium City 5, 418 Kwun Tong Road, Kowloon, Hong Kong.

## **CHANGE IN CONSTITUTIONAL DOCUMENTS**

The Company has passed a special resolution at the annual general meeting held on 14 June 2023 to adopt the amended and restated memorandum and articles of association of the Company (the "Amended and Restated Memorandum and Articles of Association"). Details of the amendments were set out in the circular of the Company dated 18 April 2023. The Amended and Restated Memorandum and Articles of Association have been published on the websites of the Company and the Stock Exchange.

Save as disclosed above, there was no change in the memorandum and articles of association of the Company during the year.

## **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 was listed on the Stock Exchange in 2004, all resolutions put forward at the Shareholders' meeting were voted by way of poll, of which each fully paid share of the Company is entitled to one vote. The procedures for demanding and conducting a poll with reference to the Articles of Association 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 meetings, more than twenty clear business days' annual general meeting notice and ten clear business days' extraordinary general meeting notice, and the circular containing necessary information are given to the Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered at the meetings.

Board members (including the chairman of the Board, the chairmen/chairperson of each of the Audit Committee, the Nomination Committee and the Remuneration Committee) and the Company's external auditor were present at the annual general meeting and extraordinary general meeting of Company both held on 14 June 2023. A question-and-answer session was held for the Shareholders to raise questions. The next annual general meeting of the Company will be held on 13 June 2024. Details of the 2024 AGM and necessary information on issues to be considered are set out in the circular to be despatched to the Shareholders.

The attendance records of the Directors at the Shareholders' meetings held in the year of 2023 are set out below:

<b>Name of Directors</b>	<b>Number of meetings attended/number of meetings held</b>
<b>Executive Directors</b>	
Mr. Li Ning ( <i>Executive Chairman and Joint CEO</i> )	2/2
Mr. Kosaka Takeshi ( <i>Joint CEO</i> )	2/2
Mr. Li Qilin	2/2
<b>Independent non-executive Directors</b>	
Mr. Koo Fook Sun, Louis	2/2
Ms. Wang Ya Fei	2/2
Dr. Chan Chung Bun, Bunny, <i>GBM, GBS, SBS, BBS, JP</i>	1/2
Ms. Wang Yajuan	2/2

## **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 Chairman and Joint CEO*

Hong Kong, 19 March 2024