

# Corporate Governance Report

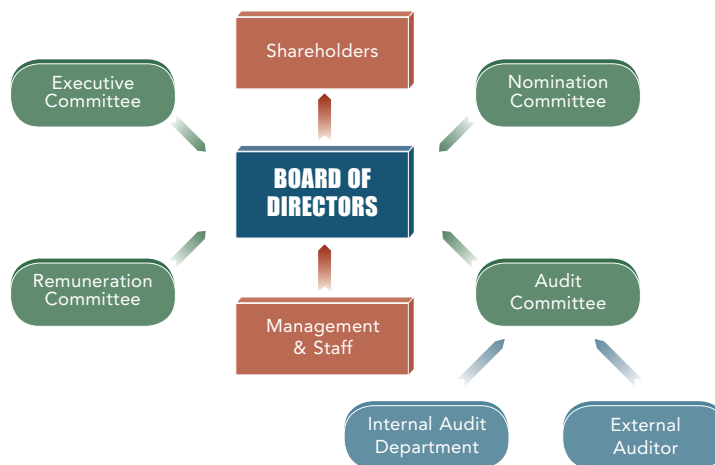
Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. The board of directors of the Company (the "Board") believes that good corporate governance safeguards 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.

Throughout the year ended 31 December 2013, the Company has complied with the code provisions ("Code Provisions") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, 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 Code Provisions as the duties of the Board in performing its corporate governance functions.

During the year of 2013, 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 (the "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 eight Directors, with a majority of whom being non-executive Directors (including independent non-executive Directors), of which three are executive Directors, one is a non-executive Director, and four are independent non-executive Directors. During the year of 2013 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	<i>(Executive Chairman)</i>
Mr. Jin-Goon Kim	<i>(Executive Vice Chairman)</i> <i>(As Interim Chief Executive Officer with effect from 21 March 2014)</i>
Mr. Zhang Zhi Yong	

#### Non-executive Directors

Mr. Chen Yue, Scott	
Mr. Chu Wah Hui	<i>(resigned on 1 January 2013)</i>
Mr. James Chun-Hsien Wei	<i>(resigned on 1 September 2013)</i>

#### Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei
Dr. Chan Chung Bun, Bunny
Mr. Su Jing Shyh, Samuel

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 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.

## Board Diversity Policy

The nomination committee of the Company (the "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 based on its terms of reference.

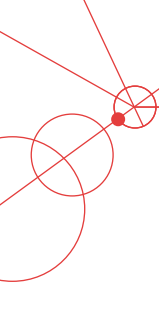
The Nomination Committee made an annual review on the composition of the Board with reference to a number of factors, including but not limited to diversity. The Company has complied with paragraph A.5.6 of the Code Provisions, which became effective on 1 September 2013, with respect to the board diversity during the year. Further details on the review of the composition of the Board are set out in the section headed "Nomination Committee" below.

## Chairman and Chief Executive Officer

According to paragraph A.2.1 of the Code Provisions, the role of the chairman and chief executive of the Company should be separate and should not be performed by the same individual.

During 2013, the day-to-day responsibilities of the Chief Executive Officer ("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 respectively. 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 was of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place.

As at the date of this report, Mr. Jin-Goon Kim, Executive Vice Chairman and an executive Director, has been appointed as Interim CEO of the Company with effect from 21 March 2014. The Board unanimously agreed to formalize the interim CEO role that Mr. Jin-Goon Kim has been playing, continuing an arrangement that has proven to be effective to take on unique challenges of the transformation, until suitable time for transition to permanent leadership. Mr. Kim has been sharing the CEO responsibilities with the Executive Chairman



since the transformation plan was announced in July 2012. The Executive Chairman has primarily focused on external affairs while Mr. Kim has been in charge of internal operations and leading the transformation of the Group. The Board took this action to acknowledge the instrumental role that Mr. Kim continues to play in transforming the Group and believes this is the best arrangement for the Group as it pushes forward with the next phase of the transformation plan. At the same time, the Board will continue to evaluate the right timing for transition to permanent leadership as it continues the search for the right CEO candidate.

The operations and management of the Company are 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 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 D.3.1 of the Code Provisions.

### 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 the applicable rules and requirements. Directors are updated on any developments or changes affecting their obligations from time to time. Professional training and update programmes are provided to the Directors on a regular basis in order to enhance the Board members' knowledge on the professional and regulatory perspectives. In June 2013, the Company, together with its legal adviser, organized a training session to provide the Directors with an update on "Inside Information" under the Securities and Futures Ordinance.

According to the records maintained by the Company, the Directors received the following trainings and updates in 2013:

	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</i> )	✓	✓
Mr. Jin-Goon Kim ( <i>Executive Vice Chairman</i> ) ( <i>As Interim CEO with effect from 21 March 2014</i> )	✓	✓
Mr. Zhang Zhi Yong	✓	✓
<b>Non-executive Directors</b>		
Mr. Chen Yue, Scott	✓	✓
Mr. Chiu Wah Hui ( <i>resigned on 1 January 2013</i> )	N/A	N/A
Mr. James Chun-Hsien Wei ( <i>resigned on 1 September 2013</i> )	✓	✓
<b>Independent non-executive Directors</b>		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	✓	✓
Dr. Chan Chung Bun, Bunny	✓	✓
Mr. Su Jing Shyh, Samuel	✓	✓

## 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 experiences and have participated in the meetings of the Board in a conscientious and responsible manner. They serve actively on the Board and its committees to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They have been appointed for a specific term subject to re-election 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 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, save for the service contract of an executive Director for a term of one year. 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. 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 in accordance with the Articles of Association.

## 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 remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Each of the Board Committees have their own defined and written terms of reference as approved by the Board covering their 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. 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.

### 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 (Chairman of the Committee)	Executive Chairman & Executive Director
Mr. Jin-Goon Kim	Executive Vice Chairman, Executive Director and Interim CEO
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, helping to develop and endorse 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;
- 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. For the year ended 31 December 2013 and from 1 January 2014 to 20 March 2014, the Nomination Committee consisted of the following Directors:

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

On 21 March 2014, the composition of the Nomination Committee was changed as follows:

Mr. Su Jing Shyh, Samuel (Chairman of the Committee)	Independent non-executive Director
Mr. Li Ning	Executive Chairman & Executive Director
Mr. Jin-Goon Kim	Executive Vice Chairman, Executive Director & Interim CEO
Dr. Chan Chung Bun, Bunny	Independent non-executive Director

According to paragraph A.5.1 of the Code Provisions, 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 being amidst a period of reform in 2013, the Board hopes to garner greater support from TPG-nominated Directors during this process of reform, and thus had appointed Mr. Jin-Goon Kim to act 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. With the appointment of Mr. Su Jing Shyh, Samuel as the chairman of the Nomination Committee on 21 March 2014, the Company is now in compliance with the chairman requirement under paragraph A.5.1 of the Code Provisions.

The primary role of the Nomination Committee is 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 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 and functions. 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 2013:

- identified and shortlisted candidates for the position of CFO and proposed to the Board for selection and approval;
- assessment of the independence of each of the independent non-executive Directors;
- identifying candidates for the position of CEO 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.

During the year, the Nomination Committee reviewed the composition of the Board, including diversity, based on a range of perspectives with reference to the Company’s business model and requirements, including but not limited to gender, age, ethnicity, education background and professional expertise, industry experience, skills and 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. As the Group is still in amidst of reform, 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 directives.

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 was listed on the Hong Kong 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 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 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 Committee</i> )	Independent non-executive Director
Mr. Chen Yue, Scott	Non-executive Director
Dr. 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 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 other benefits and allowances by taking into account 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 2013 are set out in note 27 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2013:

- recommendation to the Board on the remuneration packages of all the Directors and Senior Management for the year 2013;
- review and approve the bonus plan for the year 2013;
- review and determine the bonus plan execution;
- review, monitor and approve the implementation of ESOP (employee share option program) for 2013; and
- approve 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 was listed on the Hong Kong Stock Exchange 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 Code Provisions. 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
Dr. Chan Chung Bun, Bunny	Independent non-executive Director

The external auditor, the 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 raised by the Audit Committee.

During the year of 2013, the Audit Committee held four 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 2013:

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

- review of and recommendation for the Board's approval of the annual results announcement and annual financial statements for the year ended 31 December 2012 and the interim results announcement and interim financial statements for the six months ended 30 June 2013 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 2013 and recommendations and approval of 2014 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 a timely manner and at least 3 days before the date of the meeting in compliance with the Code Provisions.

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 2013, 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 the 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 in accordance with the Articles of Association.



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 2013			
	Board	Nomination Committee	Remuneration Committee	Audit Committee
<b>Executive Directors</b>				
Mr. Li Ning ( <i>Executive Chairman</i> )	6/6	1/1	N/A	N/A
Mr. Jin-Goon Kim ( <i>Executive Vice Chairman and Interim CEO</i> )	6/6	1/1	N/A	N/A
Mr. Zhang Zhi Yong	5/6	N/A	N/A	N/A
<b>Non-executive Director</b>				
Mr. Chen Yue, Scott	6/6	N/A	2/2	N/A
Mr. Chu Wah Hui ( <i>resigned on 1 January 2013</i> )	N/A	N/A	N/A	N/A
Mr. James Chun-Hsien Wei ( <i>resigned on 1 September 2013</i> )	5/5	N/A	N/A	N/A
<b>Independent non-executive Directors</b>				
Mr. Koo Fook Sun, Louis	6/6	N/A	N/A	5/5
Ms. Wang Ya Fei	6/6	N/A	2/2	5/5
Dr. Chan Chung Bun, Bunny	6/6	1/1	2/2	5/5
Mr. Su Jing Shyh, Samuel	6/6	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.

## 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 2013, 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 2013, the management had provided all members of the Board with monthly financial updates for giving a balanced and reasonable 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 2013, 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 and the appropriateness of their training programmes and budgets.

### External Auditor's Remuneration

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

For the year ended 31 December 2013, the fees for the audit services and non-audit services provided by the external auditor are as follows:

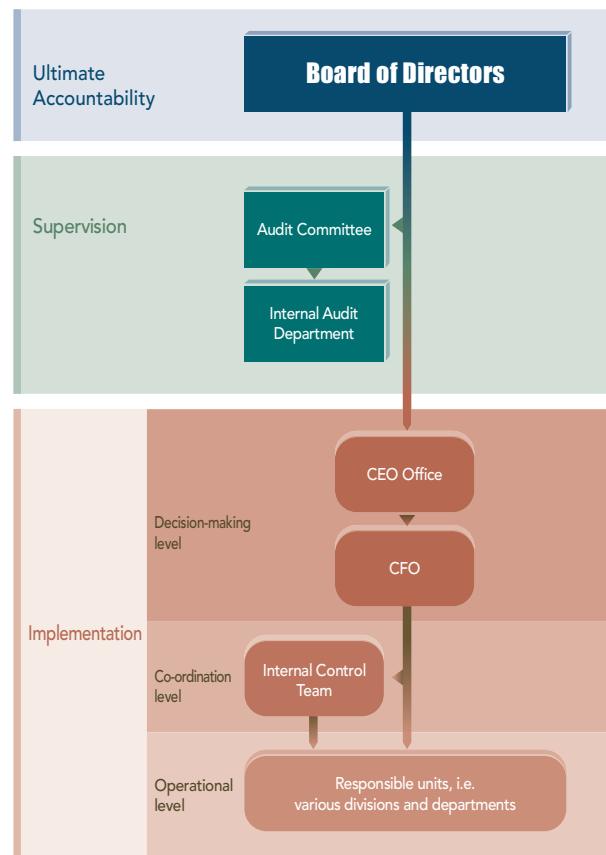
Type of Service	2013 (RMB)	2012 (RMB)
Audit fee for the Group	4,200,000	3,338,000
Tax compliance and other advisory services	2,030,000	1,027,000
Total	6,230,000	4,365,000

## 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 (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 forceful support, reflected mainly in the following aspects:

- (1) The normal operation of the organizational structure of internal control set up on the basis of the COSO internal control framework is promoted continuously, and such framework 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 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; (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 (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

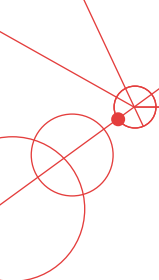
organising examination on the effectiveness of the internal control and assessment of risks) and operational and functional divisions.

During the year, in light of the changes in 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 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 supports 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 are being carried out promptly so as to remedy any significant failures or weaknesses.
- (3) 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, is implemented on an ongoing basis. 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 the relevant departments during 2013. Such updated procedures have been implemented during the year.
- (4) An effective annual self-assessment and evaluation mechanism under the internal control framework has been established, with satisfactory results and attained 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 procedural control, 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 and internal control in relation to 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) In order to support the rapid and healthy development of business diversification of the Group, the Company conducts annual risk review at corporate level and assesses risks and risk management controls on the key business aspects based on the Risk Management Manual of Li Ning Company Limited.

## ANNUAL REVIEW

The Board is fully aware of its accountability in respect of the Group's internal control system and its responsibility for reviewing the effectiveness of the system. The 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 2013, the self-assessment on procedural control covered various divisions or departments in light of the Company's organisational restructuring and business expansion. 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 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, and submitted a declaration to the Audit Committee and the Board certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review for the year ended 31 December 2013 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 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 with regard to 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. 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 qualifications and practicing 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 internal control system is adequate and effective and the Company has complied with the Code Provisions of the Corporate Governance Code for the year ended 31 December 2013.

## INTERNAL AUDIT

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, so as to disclose potential risks, and following up with related remedial measures, with a view to continuously enhancing the 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 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 dialogue with the Company's external auditor during 2013. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk assessment results, and engages in related tasks with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular 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 2013, the Internal Audit Department conducted audits on the product division, sales system, marketing system, retail subsidiaries, supply chain system and human resources system of LI-NING brand, as well as Double Happiness Company, 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 with the improvement progress. As at 31 December 2013, 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 branding, product and financial systems in 2014.

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 2013, the Internal Audit Department participated in reviewing the implementation of the risk management system, internal control system, risk management of sales channels and branding, and the human resources system.

## 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 by 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 unauthorised 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 published the rules and procedures on regulating the disciplines and actions of all employees in external media communications and that the Executive Chairman, Executive Vice Chairman, and CFO 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 preserve the strict confidence of inside information prior to its disclosure.

## 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 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 standard set out in the Model Code throughout the year ended 31 December 2013.

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 the year 2013.

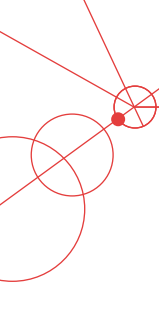
## COMPANY SECRETARY

During the year, Ms. Yim Wai Yin, Lisa ("Ms. Yim") had been the company secretary of the Company (the "Company Secretary") for the period from 1 January 2013 to 30 April 2013. Ms. Tai Kar Lei ("Ms. Tai") was appointed the Company Secretary with effect from 13 May 2013. During the vacation of office of the Company Secretary for the period from 1 May 2013 to 12 May 2013, Mr. Tsang, Terence Wah-fung, the CFO, oversaw the company secretarial function of the Company with the assistance of professional advisers.

Both Ms. Yim and Ms. Tai were full time employees in their respective tenures and had day-to-day knowledge of the Company's affairs. During their respective tenures in 2013, Ms. Yim and Ms. Tai reported to the Executive Chairman, Executive Vice Chairman and/or the CFO. 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 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.



## 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 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](http://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 2013, there was no change in the 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 was listed on the Hong Kong 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 entitled to have 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 20 clear business days' notice and a 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 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 31 May 2013 (the "2013 AGM"). A question-and-answer session was available for the Shareholders to raise questions. The next annual general meeting of the Company will be held on 30 May 2014 (the "2014 AGM"). Details of the 2014 AGM and necessary information on issues to be considered are set out in the circular despatched to the Shareholders together with this annual report.

The attendance record of the Directors at the shareholders' meetings held in the year 2013 are set out below:

	Extraordinary General Meeting held on 21 February 2013	2013 AGM
<b>Executive Directors</b>		
Mr. Li Ning ( <i>Executive Chairman</i> )	✓	✓
Mr. Jin-Goon Kim ( <i>Executive Vice Chairman and Interim CEO</i> )	✓	✓
Mr. Zhang Zhi Yong	–	–
<b>Non-executive Directors</b>		
Mr. Chen Yue, Scott	✓	✓
Mr. Chu Wah Hui ( <i>resigned on 1 January 2013</i> )	N/A	N/A
Mr. James Chun-Hsien Wei ( <i>resigned on 1 September 2013</i> )	–	–
<b>Independent non-executive Directors</b>		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	–	✓
Dr. Chan Chung Bun, Bunny	✓	–
Mr. Su Jing Shyh, Samuel	–	✓

## 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 Executive Director*

Hong Kong, 21 March 2014