

# Corporate Governance Report

Good corporate governance is conducive to enhancing overall performance and accountability and is essential in modern corporate administration. The Board of Directors continuously observes the principles of good corporate governance in the interests of Shareholders and devotes considerable effort to identifying and formalizing best practice.

## CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Company has complied with such code provisions during the year ended 31 December 2010 except for the deviation from code provision A.2.1 as disclosed below.

### **(1) Board of Directors**

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board comprises eleven Directors, consisting of six executive Directors, two non-executive Directors and three independent non-executive Directors. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report. Among members of the Board, Mr. Ding Shui Po is the elder brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong, and Mr. Lin Zhang Li is the husband of Ms. Ding Mei Qing. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

### ***Model Code***

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the year ended 31 December 2010.

### ***Chairman and Chief Executive Officer***

Under code provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and chief executive officer. Mr. Ding Shui Po is

the chairman and chief executive officer of the Group. He has extensive experience in sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently consists of six executive Directors, two non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

***Independent Non-Executive Directors***

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions. In particular, they bring an impartial view to bear on issues of the Group's strategies, performance and control. All independent non-executive

Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategies, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Mr. Sin Ka Man, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

**Meetings**

The Board meets regularly either in person or through electronic means of communications. The number of meetings held and the attendance of each Director at these meetings for the year ended 31 December 2010 are set out as follows:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
No. of meetings held	4	3	2	1
<b>No. of meetings attended</b>				
<b>Executive Directors</b>				
Mr. Ding Shui Po (chairman)	4/4	N/A	N/A	1/1
Ms. Ding Mei Qing	4/4	N/A	1/1	N/A
Mr. Lin Zhang Li	4/4	N/A	N/A	N/A
Mr. Ding Ming Zhong	4/4	N/A	N/A	N/A
Mr. Ye Qi	4/4	N/A	N/A	N/A
Mr. Ho Yui Pok, Eleutherius	2/2	N/A	N/A	N/A
<b>Non-Executive Directors</b>				
Mr. Xiao Feng	4/4	N/A	N/A	N/A
Mr. Tan Wee Seng	2/2	N/A	N/A	N/A
<b>Independent Non-Executive Directors</b>				
Mr. Sin Ka Man	4/4	3/3	N/A	N/A
Mr. Xu Peng Xiang	4/4	3/3	2/2	1/1
Dr. Gao Xian Feng	4/4	3/3	2/2	1/1

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures complied with the articles of association of the Company, as well as relevant rules and regulations.

#### ***Appointments, Re-election and Removal of Directors***

Each of the executive Directors, non-executive Directors and independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company. The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be

eligible for re-election. For more details of the service contracts of each of the Directors, please refer to the section headed "Report of the Directors" of this annual report.

#### ***Board Committees***

The Board has established (i) audit committee, (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference which are in line with the code provisions of the Corporate Governance Code. The terms of reference of the board committees which explain their respective roles and the authority delegated to them by the Board are available upon request. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

#### ***Audit Committee***

The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The audit committee consists of three members, namely, Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng, all of whom are independent non-executive Directors. Mr. Sin Ka Man is the chairman of the audit committee.

In accordance with its written terms of reference, the audit committee has held 3 meetings during the year ended 31 December 2010 to discuss the auditing, internal controls and financial reporting matters of the Company, including review of the annual results of the Group for the year ended 31 December 2009, interim results of the Group for the six months ended 30 June 2010 and annual results of the Group for the year ended 31 December 2010 audit planning.

#### **Remuneration Committee**

The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review performance-based remuneration, and ensure none of the Directors determine their own remuneration. The remuneration committee consists of three members, namely, Mr. Xu Peng Xiang, Dr. Gao Xian Feng (both are independent non-executive Directors) and Ms. Ding Mei Qing, an executive Director. Mr. Xu Peng Xiang is the chairman of the remuneration committee.

In accordance with its written terms of reference, the remuneration committee has held 2 meetings during the year ended 31 December 2010 to review and approve the Company's remuneration structure for the directors and senior management of the Company for the year ended 31 December 2010 and the granting of the share options of the Company to eligible persons for the year ended 31 December 2010.

#### **Nomination Committee**

The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The nomination committee consists of three members, namely, Mr. Ding Shui Po, the Group's chairman and two independent non-executive Directors, namely, Mr. Xu Peng Xiang and Dr. Gao Xian Feng. Mr. Ding Shui Po is the chairman of the nomination committee.

In accordance with its written terms of reference, the nomination committee has held 1 meeting during the year ended 31 December 2010 to review the composition of the Board.

## (2) Financial Reporting

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

### *External Auditors' Remuneration*

The Company has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2010. The external auditor is refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The audit committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/ payable to Ernst & Young during the year are as follows:

	2010 HK\$	2009 HK\$
Statutory audit services	<b>3,273,000</b>	2,980,000
Non-audit services	<b>600,000</b>	528,000
<b>Total</b>	<b>3,873,000</b>	3,508,000

### (3) Internal Controls

The Board is responsible for ensuring the reliability and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls. During the year under review, the Board and the audit committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group by the Group's internal audit department.

The Group's internal control department has reported major internal control review findings to the Board and audit committee. There were no major issues but areas for improvement have been identified. All of the recommendations from the Group's internal control department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the audit committee considered that the key areas of the Group's internal control systems, including the adequacy of resources, qualifications and experience of our accounting and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding internal control systems in general for the year ended 31 December 2010.

### (4) Communications with Shareholders

The management endeavours to maintain effective communications with our Shareholders and potential investors.

We meet our Shareholders at the annual general meeting, publish interim and annual reports on the websites of the Company and the Hong Kong Stock Exchange, and release press releases on the Company's website to keep our Shareholders and potential investors abreast of the Group's business and development.

For further details, please refer to the section headed "Investor Relations Report" in this annual report.