

Corporate Governance Report

The Board of Directors and the management of the Company recognise their mission of creating values and maximising returns to the Shareholders, while at the same time fulfilling their social responsibilities. To this end, we are committed to promoting and upholding good corporate governance. Since the Company's listing on the Hong Kong Stock Exchange in June 2004, the Board of Directors and management have been devoted to achieving a high standard of corporate governance and maintaining a high level of transparency. We will continue to pursue this to ensure that the interests of the Group align with those of the Shareholders'.

THE BOARD OF DIRECTORS

Accountable to the Shareholders, the Board of Directors is responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies.

The Board of Directors comprises 10 Directors, including four executive Directors ("Executive Directors"), three non-executive Directors ("Non-Executive Directors") and three independent non-executive Directors ("Independent Non-Executive Directors"). The composition of the Board of Directors is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. The Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the year under review.

The roles of the Chairman and the Chief Executive Officer are segregated. There is a clear distinction between the Chairman's responsibility for the management of the Board of Directors and the Chief Executive Officer's responsibility for the management of the day-to-day operations of the Group's business.

The Board of Directors meets at least four times a year and the Directors' attendance records for the meetings held during the year under review was 100%.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his or her independence as required under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). As such, the Company considers all Independent Non-Executive Directors to be independent.

The Board of Directors has set up a number of committees to oversee the particular management and administrative functions of the Group, including:

- the Executive Committee;
- the Audit Committee; and



Corporate Governance Report

- the Remuneration Committee.

Each Committee reports regularly to the Board of Directors, addressing major issues and findings with valuable recommendations for the decision making of the Board of Directors. The particulars of these Committees are set out hereunder.

EXECUTIVE COMMITTEE

The Board of Directors has established an Executive Committee to enhance its efficiency. The Executive Committee comprises four Executive Directors, namely, Mr. Zhang Zhi Yong (chairman of the Committee), Mr. Li Ning, Mr. Tan Wee Seng and Mr. Chen Yi Hong and is delegated by the Board of Directors mainly for the following functions:

- formulating the Group's overall operational and financial plans for the approval by the Board of Directors;
- examining and approving strategic business directions at the subsidiary level;
- examining and approving financial arrangements of the companies of the Group within a limit approved by the Board of Directors; and
- deciding on the appointment and removal of the senior management staff of subsidiary companies.

The Board of Directors reviews the terms of reference of the Executive Committee annually to ensure the proper and appropriate delegation of authority to the Executive Committee.

AUDIT COMMITTEE

The Audit Committee is responsible for the review and supervision of the Group's financial reporting process and internal control system. Its members are all appointed from among the Company's Non-Executive Directors, with a majority being Independent Non-Executive Directors with professional qualifications and related financial management expertise. Headed by Mr. Koo Fook Sun, Louis as chairman of the Audit Committee, the other committee members include Ms. Wang Ya Fei and Mr. Stuart Schonberger. The main duties of the Audit Committee include:

- reviewing the completeness and accuracy of half yearly and annual financial statements;
- reviewing the internal control system and the internal audit programme and ensuring the smooth coordination between internal and external auditors;

- considering the appointment of the external auditors and the associated audit fees;
- reviewing the external auditors' qualifications, independence and performance;
- discussing with the external auditors before the audit commences, the nature and scope of the audit; and
- reviewing the external auditors' management letter and the management's response.

The Audit Committee met twice during the year under review to discharge its duties as mentioned above and the meetings were attended by all members of the Audit Committee, with attendance rate being 100%.

REMUNERATION COMMITTEE

The primary role of the Remuneration Committee is to regularly review human resource management policies, make recommendations on the compensation and benefit plans of directors and senior executives, as well as setting performance goals for senior executives of the Group. During the year under review, the Remuneration Committee consisted of five members, including Mr. Li Ning, Mr. Lim Meng Ann, Mr. Stuart Schonberger, Mr. Chan Chung Bun, Bunny and Ms. Wang Ya Fei. The Remuneration Committee met once in 2004 to discharge its functions and all members attended the meeting.

In the meeting of the Directors held on 29 March 2005, the composition of the Remuneration Committee has been adjusted and the members of the Remuneration Committee now comprise Ms. Wang Ya Fei as chairman of the Committee, Mr. Lim Meng Ann and Mr. Koo Fook Sun, Louis. This is in compliance with the new Appendix 14 – Code on Corporate Governance Practices of the Listing Rules effective mostly on 1 January 2005.

DIRECTORS' SECURITIES TRANSACTIONS

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers issued by the Hong Kong Stock Exchange as its own code governing securities transactions of the Directors. Since the Company's listing on the Hong Kong Stock Exchange on 28 June 2004, all the Directors complied with their obligations under the said Code regarding their securities transactions.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules (in force before 1 January 2005) since the Company's listing on the Hong Kong Stock Exchange on 28 June 2004.



Corporate Governance Report

INTERNAL CONTROL

We endeavour to establish sound and efficient internal control to safeguard the Company's assets and Shareholders' investment. The Chief Executive Officer and the Chief Financial Officer, in joint effort with the Audit Committee, the Internal Audit Department and the external auditors, regularly review the Group's operations at financial and operational levels, ensuring that compliance controls and risk management measures and procedures are properly implemented. The Internal Audit Department, which plays a crucial role in monitoring day-to-day internal control, has direct access to the Audit Committee and reports directly to the Chief Financial Officer. The Internal Audit Department, external auditors and the management have joined hands to improve the internal control systems and procedures. During the year under review, the Internal Audit Department reviewed the key operations of the Group, identified areas of concern and held constructive communications with the Audit Committee.

COMMUNICATION WITH SHAREHOLDERS

The Board of Directors recognises the importance of maintaining clear, timely and effective communication with Shareholders and investors. We are dedicated to providing quality and timely disclosure of information to enhance transparency. Information on the Group's business activities and financial performance is disseminated through the distribution of press releases, press conferences, announcements, and interim and annual reports.

With a view to achieve timely and fair disclosure, we have established an Investor Relations Department, which works closely with external professional consultants to handle enquiries from Shareholders and investors throughout the year. In addition, the Company participates in investor forums held in Mainland China, Hong Kong and abroad. It also organises briefings and meetings with analysts and fund managers to enhance their understanding of the Group.

As a further step to offer easily accessible corporate information to investors and media, the Group also maintains an up-to-date corporate website www.lining.com and www.irasia.com/listco/hk/lining that provide information on the Group's establishment, financial performance and latest business developments.

The Company apprizes its annual general meeting as an important channel for having face-to-face dialogue with Shareholders. The first annual general meeting of the Company will be held on 12 May 2005. There, the Directors and key executives of the Group will answer and explain to Shareholders issues relating to the Group's business strategies and financial results.