



The Board of Directors recognizes their mission of creating values and maximizing returns to the Shareholders, while at the same time fulfilling their corporate responsibilities. To this end, we strive to promote and uphold the highest standard of corporate governance.

The Hong Kong Stock Exchange has promulgated a new Code on Corporate Governance Practices (the "Corporate Governance Code") which came into effect in January 2005. The Company has put in place corporate governance practices to comply with all the provisions and most of the recommended best practices of the Corporate Governance Code in 2005.

BOARD OF DIRECTORS

Accountable to the Shareholders, the Board of Directors is collectively 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 Directors

Currently, the Board comprises nine Directors, including the Chairman and two other Executive Directors, three Non-Executive Directors and three Independent Non-Executive Directors. The biographical details of the Directors are set out on pages 48 to 50 of this annual report. The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All 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.

Each of the Non-Executive and Independent Non-Executive Directors has entered into a service contract with the Company for a term of three years commencing on 28 June 2004 and thereafter shall continue from year to year until terminated by either party giving the other party one month's notice in writing.

All Directors should be subject to retirement by rotation at least once every three years, but are eligible for re-election. A new Director appointed by the Board is subject to election by Shareholders at the general meeting immediately after his or her appointment.

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. The Company considers all Independent Non-Executive Directors to be independent.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers with the extent of this insurance being reviewed each year.

Responsibilities of the Board

The Board reviews the performance of the operating divisions against their agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term strategy;
- approving annual budget;
- approving public announcements including the interim and annual financial statements;
- setting dividend policy;
- approving material borrowings and treasury policy; and
- committing to major acquisitions, disposal, formation of joint ventures and capital transactions.

The Directors are responsible for the preparation of the financial accounts of the Company for each financial year and ensuring that these accounts give a true and fair view of the state of affairs of the Group, its results and cash flows for that period. The Directors are also responsible for ensuring that proper accounting records of the Company which disclose the financial position of the Group are kept at all times.

To ensure a balance of power and authority, the role of the Chairman and the Chief Executive Officer is segregated. The Chairman of the Board is Mr. Li Ning. The Chief Executive Officer of the Company is Mr. Zhang Zhi Yong. 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.

Board meetings

Board meetings are scheduled in advance to facilitate maximum attendance of Directors. The meeting agenda is set after consulting with members of the Board. The Board held six meetings in 2005. Individual attendance of each Director at the meetings is set out below:

Member of the Board	Number of Board meetings attended	Attendance rate
<i>Executive Directors</i>		
Li Ning	6 out of 6	100%
Zhang Zhi Yong	6 out of 6	100%
Tan Wee Seng	6 out of 6	100%
<i>Non-Executive Directors</i>		
Lim Meng Ann	3 out of 6	50%
Stuart Schonberger	6 out of 6	100%
Fong Ching, Eddy	5 out of 6	83%
<i>Independent Non-Executive Directors</i>		
Koo Fook Sun, Louis	6 out of 6	100%
Wang Ya Fei, Jane	6 out of 6	100%
Chan Chung Bun, Bunny	5 out of 6	83%

EXECUTIVE COMMITTEE

The Board has established the Executive Committee to enhance management efficiency. The Executive Committee comprises three Executive Directors, namely, Mr. Zhang Zhi Yong (Chairman of the Committee), Mr. Li Ning, Mr. Tan Wee Seng and Ms. Tina Leh, the General Manager of the LI-NING brand. The Executive Committee is delegated by the Board of Directors to perform mainly the following duties:

- formulate the Group's overall operational and financial plans for the approval by the Board;
- examine and approve strategic business directions at the subsidiary level;
- examine and approve financial arrangements of the companies of the Group within a limit approved by the Board; and
- decide 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 is in place.

In furtherance of good corporate governance, the Board has set up a number of other committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee. Each of these Committees reports regularly to the Board, addressing major issues and findings with valuable recommendations for the decision making of the Board. The particulars of each of these Committees are set out hereunder.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the Group's financial information, overseeing the Group's financial reporting systems and internal control procedures, making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor. The Audit Committee comprises its Chairman, Mr. Koo Fook Sun, Louis, an Independent Non-Executive Director and two other members, namely, Mr. Stuart Schonberger, a Non-Executive Director and Ms. Wang Ya Fei, Jane, an Independent Non-Executive Director. All Audit Committee members possess appropriate professional qualifications or accounting or related financial management expertise in discharging their responsibilities of being a member of the Audit Committee.

The terms of reference of the Audit Committee, which are available on the Company's website www.lining.com, follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and have been revised in 2005 to comply with the Corporate Governance Code.

The Audit Committee held three meetings in 2005 and had attended to the following matters:

- review the internal and external audit findings, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance in relation to financial reporting; and
- discuss auditing, internal controls, risk management and financial reporting matters including the interim and annual accounts, before recommending them to the Board for approval.

The external auditors, the Chief Executive Officer, the Chief Financial Officer and the manager of the Internal Audit Department also attended these meetings. Individual attendance of each Audit Committee member at the meetings is set out as follows:

Member of the Audit Committee	Number of Committee meetings attended	Attendance rate
Koo Fook Sun, Louis	3 out of 3	100%
Stuart Schonberger	2 out of 3	67%
Wang Ya Fei, Jane	3 out of 3	100%

NOMINATION COMMITTEE

The Nomination Committee was established in June 2005 and is chaired by Mr. Lim Meng Ann, a Non-Executive Director, with Mr. Koo Fook Sun, Louis and Ms. Wang Ya Fei, Jane as the other two members, both being Independent Non-Executive Directors.

The Nomination Committee adopts the recommended terms of reference as set out in the Corporate Governance Code as its terms of reference which are also published on the Company's website. Its main role is to evaluate the composition of the Board, make recommendations to the Board on the appointment and succession of Directors by reference to pre-set guidelines including appropriate professional knowledge and industry experience, personal ethics, integrity and skills and time commitment of Directors to the Board. The Nomination Committee carries out the process of selecting and recommending candidates for directorship including consideration of referrals and engagement of professional recruitment consultants when necessary.

The Nomination Committee met once in 2005 with full attendance of its members. At that meeting, the Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and concluded that the current Board comprises a sufficient number of directors and is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Ms. Wang Ya Fei, Jane, an Independent Non-Executive Director and with two other members, Mr. Lim Meng Ann, a Non-Executive Director and Mr. Koo Fook Sun, Louis, an Independent Non-Executive Director.

The primary role of the Remuneration Committee is to regularly review human resources management policies, make recommendations on the compensation and benefit plans of Directors and senior executives, and set performance goals for senior executives of the Group.

The Remuneration Committee has revised its terms of reference in 2005 to comply with the Corporate Governance Code. The current terms of reference of the Remuneration Committee are published on the Company's website.

The Remuneration Committee met four times in 2005 and had attended to the following:

- review and approve Directors' and senior executives' remuneration including, among others, granting of share options and annual bonus;
- discuss and consider the financial impact of expensing share options in the Company's income statement; and
- review remuneration policy and set key performance indicators for senior management.

In discharge of its functions, the Remuneration Committee consulted and sought advice from external consultants, the Chairman, the Chief Executive Officer and the director of Human Resources of the Company.

Individual attendance of each of its members at the Remuneration Committee meetings is set out as follows:

Member of the Remuneration Committee	Number of Committee meetings attended	Attendance rate
Wang Ya Fei, Jane	4 out of 4	100%
Lim Meng Ann	4 out of 4	100%
Koo Fook Sun, Louis	3 out of 4	75%

The primary goal of the Group's remuneration policy for Executive Directors is to enable the Company to retain and motivate Executive Directors by linking their compensation with their individual performance as measured against the corporate objectives and the Group's operating results, taking into accounts also of the comparable market conditions.

The principal elements of the remuneration package of an Executive Director include director's fee, basic salary, discretionary bonus and share options.

Remuneration of a Non-Executive Director includes mainly the director's fee which is a matter for the Board to decide.

The Company reimburses reasonable out-of-pocket expenses incurred by Directors in the course of performing their duties as Directors.

Directors do not participate in decisions or meetings approving their own remuneration.

The emoluments paid to each Director for the year ended 31 December 2005 are set out in note 7 to the accounts.

EXTERNAL AUDITORS

For the year ended 31 December 2005, the total remuneration for the audit services provided by the external auditors amounted to RMB2,788,000. The audit fee was approved by the Audit Committee.

For the year ended 31 December 2005, the total remuneration for the permissible non-audit services provided by the external auditors (including any entity under common control, ownership or management with the auditors) amounted to RMB1,000,000. The non-audit services mainly comprised tax compliance and other tax advisory services. The Audit Committee had been briefed in respect of the non-audit services and related fees and was satisfied that such services did not (in terms of the nature of services and the amount of fees charged) affect the independence of the external auditors.

The re-appointment of PricewaterhouseCoopers as auditors of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

INTERNAL CONTROL

Internal control system

The Board has the overall responsibility for the Company's system of internal control and evaluation of its effectiveness through the review by the Audit Committee. The Company's system of internal control plays a key role in the management of risks that are significant to the fulfillment of its business objectives. Procedures have been designed for safeguarding assets against unauthorized use or disposition; maintaining proper accounting records and the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed for compliance with applicable laws, rules and regulations.

During the year of 2005, the Company engaged external professional advisers and initiated a project to review and standardize internal control manuals for its financial, operational and compliance controls and risk management functions for the Group with a view to further enhancing the effectiveness of the Group's internal control system.

A review of the effectiveness of the Company's internal control system covering all material control, including financial, operational and compliance controls and risk management functions, is conducted annually. The review is conducted by reference to the COSO (The Committee of Sponsoring Organization) internal control framework, which assesses the Group's internal control system against the five elements of control environment, risk assessment, control activities, communication and monitoring. The results of the review for the year ended 31 December 2005 were reported to the Audit Committee and the Board.

The Board confirms that systems and procedures are in place to identify, control and report on significant risks involved in achieving the Company's strategic objectives. Exposures to these risks are monitored by the Board with the support of various committees and senior management. No material deficiencies had been identified so far and there were no significant areas of concern. The Board considered that the Company's internal control system is adequate and effective and the Company has complied with the provisions on internal control of the Corporate Governance Code.

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is fully aware of its obligations under the Listing Rules and the overriding principle that price-sensitive information should be announced immediately when it is the subject of a decision. The Company's policy has included a strict prohibition on the unauthorized use of confidential or insider information and has established and implemented procedures for responding to external enquiries about the Group's affairs. The Chief Financial Officer, the Chief Executive Officer and the Chairman are identified and authorized to act as the Company's spokespersons to respond to enquiries made about the Group's affairs.

Internal audit

The Group has an Internal Audit Department which plays an important role in the Group's internal control framework. The tasks of the Department include regular review and audit of the practices, procedures and internal control systems on those areas of the Group's activities with the greatest perceived risks and special review of areas of concern identified by management or the Audit Committee. The Internal Audit Department reports directly to the Chief Financial Officer and has direct access to refer matters to the Audit Committee.

The annual work plan of internal audit is reviewed and endorsed by the Audit Committee and a summary of major audit findings is reported regularly to the Audit Committee. During the year of 2005, the Internal Audit Department reviewed the key operations of the Group, identified areas of concern and held constructive communications with the Audit Committee.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by its Directors. Having made specific and reasonable enquiries of all Directors, the Company is satisfied that all Directors complied with their obligations under the Model Code regarding their securities transactions during the year.

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in 2005.

SHAREHOLDERS' RIGHTS

Under the Company's articles of association, any one or more Shareholders holding 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 to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

To safeguard Shareholders' rights, the Company adopts the policy of voting by poll for all resolutions put forward at any Shareholders' meetings.

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Other general enquiries can be directed to the Company through its Investor Relations Manager, whose contact information is published on the Company's website.

INVESTOR RELATIONS

The Company believes that effective communication with the investment community is essential for enhancing investors' knowledge and understanding of the Company's business performance and strategies. To achieve this, the Company pursues a proactive policy of promoting investor relations and communications. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

In 2005, as part of the regular program of investor relations, the Chief Financial Officer and the Investor Relations team of the Company held regular briefings, attended investor forums and participated in road shows with institutional investors and financial analysts in the PRC, Hong Kong and other overseas countries to keep them abreast of the Company's development and promote two-way communications. When the Company announced its interim and annual results, the Chairman, the Chief Executive Officer and the Chief Financial Officer conducted briefings with analysts and the press to apprise them of the Group's operating results as well as business strategies and outlook. The public could access details of these events and the relevant presentation materials through the Company's websites.

The Company believes that Shareholders' meeting is an important channel and the best opportunity for face-to-face dialogue with Shareholders. At the last annual general meeting held on 12 May 2005, all Executive Directors and most of the Non-Executive Directors and Independent Non-Executive Directors were present at the meeting to address or provide explanation to Shareholders on questions raised in respect of the Group's business strategies and financial results.

During the year of 2005, investors continued to have access to up-to-date corporate information of the Group through the corporate websites of www.lining.com and www.irasia.com/listco/hk/lining. These websites enable the public to obtain information on the Group's establishment, financial performance and latest business developments. Financial calendar for Shareholders are set out on page 122 of this annual report. Shareholders may also find the relevant information on the Company's websites.

By order of the Board

ZHANG Zhi Yong

Executive Director & Chief Executive Officer

TAN Wee Seng

Executive Director & Chief Financial Officer

Hong Kong, 22 March 2006