

Corporate Governance Report



The Company is committed to maintaining high standard of corporate governance practices. It is the belief of the Board of Directors that good corporate governance practices are essential for the growth of the Group and for safeguarding and maximising shareholders' interests.

Corporate Governance Practices

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which became effective on 1 January 2005 and in replacement of the Code of Best Practice, as its own code of corporate governance practices. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code, and acknowledges the important role of its Board of Directors in providing effective leadership and direction to the Company's business, and ensuring transparency and accountability of the Company's management. The Board has also reviewed the Company's corporate governance practices and is of the opinion that the Company has met the code provisions set out in the CG Code throughout 2005 except that: (1) the roles of chairman and chief executive officer are not separate and are performed by the same individual, (2) the Non-Executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election pursuant to the Company's articles of association, and (3) the Company failed to comply with the CG Code to establish a remuneration committee until 22 September 2005.

The Board

Responsibilities

The Board of Directors ("the Board") of the Company is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and financial performances. The Management is delegated the authority and responsibility by the Board for the management of the Group under the leadership of the Managing Director. In addition, the Board has also delegated various responsibilities to the three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee, to assist the Board in the discharge of its duties and to oversee particular aspects of the Group's activities.

The day-to-day management of the Company is delegated to the Management, with Division Heads responsible for different aspects of the businesses.

Major corporate matters that are specifically delegated by the Board to the Management include the preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant statutory requirements, rules and regulations.

Board Meetings

The Board has four scheduled meetings a year at quarterly intervals and meets as and when required. During 2005, the Board held four meetings. Proposed board meeting dates for a coming financial year are circulated to the Board of Directors in the preceding year. The attendance of the Directors at the Board meetings for the year 2005 are as follows:

Directors' attendance at Board meetings

Executive Directors	Number of attendance
Gan Khian Seng (Managing Director)	4/4
Yong Foo San	4/4
Volker Josef Eckehard Harms (resigned on 19.04.2006)	4/4
Lim Mooi Ying, Marianne	4/4
Poh Yeow Kim Lawrence (appointed on 22.09.2005 and resigned on 19.04.2006)	2/2
Non-Executive Directors	
Langley Christopher Patrick	4/4
Victor Yang	3/4
Lam Kwong Yu (re-designated on 04.08.2005)	4/4
Independent Non-Executive Directors	
Fung Ka Pun	4/4
Hubert Meier	4/4
Alan Howard Smith	4/4

All Board members have access to the advice and services of the Company Secretary. All Directors have access to the Management for enquiries and to obtain information when required. The Directors, upon reasonable requests, may seek independent professional advice at the Company's expenses. The Directors are covered by appropriate insurance on Directors' liabilities from risk exposures arising from the management of the Company.

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are made available to Directors in advance.

Notices of regular Board meetings and Committee meetings are served to all Directors at least 14 days before the meetings. Board papers are sent to all Directors at least 3 days before each Board meeting or Committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions.

The Company Secretary of the Company is responsible for keeping minutes of all Board meetings and Committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Composition

The Board currently comprises three Executive Directors, namely Mr Gan Khian Seng, Mr Yong Foo San and Ms Lim Mooi Ying, Marianne; three Non-Executive Directors, namely Mr Christopher Patrick Langley, Mr Victor Yang and Mr Lam Kwong Yu; and three Independent Non-Executive Directors, namely Mr Fung Ka Pun, Mr Hubert Meier and Mr Alan Howard Smith. The biographies of the Directors are set out under Directors and Senior Management Profiles of the annual report, which demonstrate a diversity of skills, expertise, experience and qualifications for effective leadership of the Company and independence in decision making.

The Non-Executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all Non-Executive Directors make various contributions to the effective direction of the Company.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure that strong independence exists across the Board.

During 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors with at least one Independent Non-Executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received annual confirmation of independence from the three Independent Non-Executive Directors. The Board has assessed their independence and is satisfied that all the Independent Non-Executive Directors are in full compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

Non-Executive Directors

As a deviation from the CG Code, the term of office for Non-Executive Directors is not fixed. The term of office for Non-Executive Directors is the same as for all Directors, that is, no specific term and subject to retirement from office by rotation and be eligible for re-election in accordance with the provisions of the Company's Articles of Association. At every annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to one-third shall retire from office. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

Chairman And Chief Executive Officer

The Company has not appointed a Chairman. As a deviation from the CG Code, the roles of the chairman and chief executive officer are not segregated and are performed by the same individual, Mr Gan Khian Seng. Mr Gan Khian Seng is the Managing Director of the Company. While serving as the chairman of the Company, Mr Gan leads the Board and is responsible for the proceedings and workings of the Board. He is also responsible for running the Group and executing strategies adopted by the Board. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Group. The balance of power and authority is ensured by the operations of the Board which comprises of experienced and professional individuals. The functions reserved to the Board and delegated to the Management are documented in writing. Given the Group's current stage of development, the Board considers that vesting the role of chairman and chief executive officer in the same person facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operations.

However, the Board is also of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the Management. The Board shall therefore review the existing structure from time to time.

Board Committees

The Board has established three Committees with clearly-defined written terms of reference. The main roles and responsibilities of these Committees, including all authorities delegated to them by the Board, as set out in the terms of reference, are published on the Company's website, www.lsh.com. The independent views and recommendations of the three Committees ensure proper control of the Group and the continual achievement of the high corporate governance standards expected of a listed company. The Chairman of each Committee reports the outcome of the Committee's meetings to the Board for further discussions and approvals.

Nomination Committee

The Board established a Nomination Committee in September 2005. The Committee comprises two Independent Non-Executive Directors, Mr Fung Ka Pun and Mr Hubert Meier and one Non-Executive Director, Mr Victor Yang. The Committee was chaired by an Independent Non-Executive Director, Mr Fung Ka Pun. The primary purpose of the Committee is to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes, develop and formulate relevant procedures for nomination and appointment of Directors and assess the independence of the Independent Non-Executive Directors. The Committee makes recommendations to the Board on relevant matters relating to the appointments or re-appointment of Directors. In addition, the Committee identifies suitable individuals who are qualified to become board members, in particular, candidates who can add value to the management through their contributions in strategic business areas and whose appointments will lead to a strong Board.

The meetings of the Committee shall be held at least once a year or when necessary. No meeting of this Committee has been held during 2005. The Committee met once on 18 April 2006 to discuss and recommend to the Board on the re-election of retiring Directors and to review the annual confirmation of independence of the Independent Non-Executive Directors pursuant to Rule 3.13 of the Listing Rules.

Remuneration Committee

The Board has established a Remuneration Committee in September 2005 and is responsible for the formulation of the Group's remuneration policy and the approval of remuneration packages for all Directors and senior management. The Human Resources Department is responsible for the collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Managing Director of the Company about these recommendations on remuneration policy and structure and remuneration packages. The Committee comprises two Independent Non-Executive Directors, Mr Fung Ka Pun and Mr Hubert Meier and one Non-Executive Director, Mr Victor Yang. Mr Fung Ka Pun is the Chairman of the Committee.

There was no meeting of this Committee held during 2005. The Remuneration Committee met once in February 2006 to review and approve the discretionary bonus of the Directors and senior management for 2005 and the remuneration package for 2006.

The Remuneration Committee annually reviews and approves the salary and bonus of all Executive Directors and senior management of the Group. All fees paid to Non-Executive Directors for their services to the Company are subject to annual review and approval by the Remuneration Committee and the Board for recommending to shareholders for approval. The Company also offers its Non-Executive Directors a fixed fee for each Committee the Director serves on. Details of the amount of Directors emoluments are set out in note 7 to the accounts.

In order to attract, retain, and motivate the executives and key employees serving of the Group, the Company adopted a share option scheme in 1997. Such incentive schemes enable the eligible employees to obtain an ownership interest in the Company and thus to reward those employees who contribute to the success of the Group's operations. The scheme expired in 2002. All share options granted prior to the expiration of the scheme remain in full force and effect.

Audit Committee

The Audit Committee comprises two Independent Non-Executive Directors, Mr Fung Ka Pun and Mr Hubert Meier and one Non-Executive Director, Mr Victor Yang. The Audit Committee is chaired by Mr Fung Ka Pun, who possesses the appropriate professional qualifications and extensive experience in, and knowledge of, finance and accounting. All members of this Committee hold the relevant industry and financial experience necessary to advice on Board strategies and other related matters. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee met twice in 2005 to review the Company's internal controls and risk management process, financial reporting and compliance procedures, financial results and reports and to assess the external auditors for re-appointment. The meetings of the Audit Committee are attended by members of the Committee, the Finance Director, the external auditors and internal auditors.

Directors' attendance at Audit Committee meetings

Directors	Number of attendance
Fung Ka Pun (Chairman of the Audit Committee)	2/2
Hubert Meier	2/2
Victor Yang	2/2

The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Group. The Audit Committee reviews the interim and annual reports before submission to the Board for approval. The Group's unaudited interim results and annual audited results for 2005 had been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure had been made.

The Audit Committee is also entrusted with monitoring and assessing the independence and objectivity of the external auditors and the effectiveness of the audit process. The annual fees for audit and non-audit services are subject to close scrutiny by the Audit Committee.

The Audit Committee had, at the meeting held on 18 April 2006, concluded that it was satisfied with its review of the audit and non-audit service fees, process and effectiveness, independence and objectivity of Ernst & Young. The Audit Committee has therefore recommended to the Board that Ernst & Young be re-appointed as the Group's external auditors at the Annual General Meeting in 2006.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("the Model Code") contained in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiries, all Directors have confirmed that they have complied with the required standard set out in the Model Code for 2005.

The Company also has established written guidelines no less exacting than the Model Code (the "Written Guidelines") for securities transactions by the employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Written Guidelines by the employees was noted by the Company.

Full details of individual Directors' interests in the shares and share options of the Company are contained in the Report of the Directors.

Accountability And Audit

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Board is responsible for presenting a clear and balanced view of the Company's annual and interim reports, price-sensitive announcements, disclosures required under the Listing Rules, and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements for the year 2005.

Auditors' Remuneration

During the year under review, the remuneration paid/payable to the auditors of the Group is set out as follows:

Services rendered	Fee paid/payable HK\$
Audit services	4,630,000
Non-audit services: taxation services	312,000
	<u>4,942,000</u>

Communications With Shareholders

The Group reports to its shareholders twice a year. Interim and annual results are announced as early as possible, to keep shareholders informed of the Group's performance and operations. The general meetings of the Company provide a forum for communication between the shareholders and the Board. All shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Group's business. The Managing Director, as well as Chairman of the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meeting. Our corporate website which contains corporate information, interim and annual reports, announcements and circulars issued by the Company as well as the recent developments of the Group, enables the Company's shareholders to access information on the Group on a timely basis.