

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 Board of Directors of the Company (the "Board") is pleased to present its Corporate Governance Report in the Group's annual report for the year ended 31 December 2006.

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") as its own code of corporate governance practices. It also puts in place certain Recommended Best Practices as set out in the CG Code. The Company reviews its corporate governance practices periodically to ensure that its continuance compliance with the requirements of the CG Code, and it acknowledges the important role of the Board in providing effective leadership and direction to the Company's business and ensuring the 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 2006 except that: (1) the roles of chairman and chief executive officer are not separated and are performed by the same individual. On 1 March 2007, Mr. David Park was appointed as an Executive Director of the Company and the Chairman of the Board. In view of the aforesaid appointment, the roles of chairman and chief executive officer have been segregated with effect from 1 March 2007, and the Company has since the same day, been fully complying with the code A.2.1 of the CG Code; and (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. Subsequently on 19 April 2007, the Board agreed to fix the term of service of non-executive directors of the Company for a period not exceeding three years. Once the service contracts have been signed by all the non-executive directors, the Company will be in full compliance with the code A.4.1 of the CG Code.

The Board

Responsibilities

The Board 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 discharging its duties and to oversee particular aspects of the Group's activities.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior 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.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises four Executive Directors, namely Mr. David Park, 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 the section headed “Directors and Senior Management Profiles” of the annual report.

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 2006, 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 for 2006. The term of office for Non-Executive Directors is subject to retirement from office by rotation and is 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.

Subsequently on 19 April 2007, the Board agreed to fix the term of service of non-executive directors of the Company for a period not exceeding three years. Once the service contracts have been signed by all the non-executive directors, the Company will be in full compliance with the code A.4.1 of the CG Code.

Training for Directors

Every newly appointed Director of the Company shall receive an information package from the company secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director. In addition, the package includes materials on the operations and business of the Company. The senior management and / or the company secretary will subsequently conduct such briefing as is necessary, to ensure that the Directors have a proper understanding of the operations and business of the Company and that they are aware of their responsibilities under the laws and applicable regulations.

Board Meetings

Number of Meetings and Directors' Attendance

Board meetings are held regularly, at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Proposed board meeting dates for a coming financial year are circulated to the Board in the preceding year. The attendance record of the Directors at the Board meetings for the year 2006 is set out below:

<i>Executive Directors</i>	<i>Attended / Eligible to attend</i>
David Park (appointed and elected as the Chairman of the Board on 01.03.2007)	N/A
Gan Khian Seng (Managing Director)	3/4
Yong Foo San	2/4
Lim Mooi Ying, Marianne	4/4
Volker Josef Eckehard Harms (resigned on 19.04.2006)	1/1
Poh Yeow Kim Lawrence (resigned on 19.04.2006)	1/1
 <i>Non-Executive Directors</i>	
Christopher Patrick Langley	3/4
Victor Yang	4/4
Lam Kwong Yu	4/4
 <i>Independent Non-Executive Directors</i>	
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 also 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 comments 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.

Chairman And Chief Executive Officer

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company did not separate the roles of chairman and chief executive officer for 2006. As a deviation from the CG Code, the roles of the chairman and chief executive officer were not separated and were 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 in 2006, Mr. Gan Khian Seng led the Board and was responsible for the proceedings and workings of the Board. He was also responsible for running the Group and executing strategies adopted by the Board. Subsequently on 1 March 2007, Mr. David Park was appointed as an Executive Director of the Company and the Chairman of the Board. This allows Mr. Gan Khian Seng, the Managing Director, to concentrate on his role of chief executive officer to meet the rapid growth of the business of the Group.

In view of the above appointment, the roles of chairman and chief executive officer have been segregated with effect from 1 March 2007, and the Company has since the same day, been fully complying with the code provision A.2.1 of the CG Code. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the Managing Director, taking the role of chief executive officer, is responsible for the implementation of policies and strategies approved by the Board and the day to day management of the business of the Group.

For ensuring the balance of power and authority, the division of responsibilities between the Chairman of the Board and the Managing Director are clearly defined and have been set out in writing which was approved by the Board on 1 March 2007 by way of circular resolutions.

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.

The majority of the members of each Board Committees are Independent Non-Executive Directors. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Nomination Committee

The Board established a Nomination Committee, which 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. For 2006, 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. The attendance record of the Nomination Committee for the year 2006 is set out below:

<i>Directors</i>	<i>Attended / Eligible to attend</i>
Fung Ka Pun (Chairman of the Nomination Committee)	1/1
Hubert Meier	1/1
Victor Yang	1/1

The Nomination Committee met on 8 February 2007 and recommended the Board to appoint Mr. David Park as an Executive Director of the Company and the Chairman of the Board.

Remuneration Committee

The Remuneration Committee is responsible for the formulation of the Group's remuneration policy and the approval of remuneration packages for all Directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his / her associates will participate in deciding his / her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. 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.

The Remuneration Committee met once in February 2006 and reviewed the existing remuneration policy and structure of the Company and remuneration packages of the Directors and senior management for 2006. The attendance record of the Remuneration Committee for the year 2006 is set out below:

<i>Directors</i>	<i>Attended / Eligible to attend</i>
Fung Ka Pun (Chairman of the Remuneration Committee)	1/1
Hubert Meier	1/1
Victor Yang	1/1

The Remuneration Committee, in August 2006, by way of circular resolutions recommended to the Board about their proposals on the remuneration packages of three senior management staff.

The Remuneration Committee met in February 2007 to review the service contract and the remuneration package of Mr. David Park. The Remuneration Committee also met in March 2007 and reviewed the discretionary bonus of the Directors and senior management for 2006 and the remuneration package for 2007 and recommended to the Board to approve the proposals on the directors' fees of the Non-Executive Directors.

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 the annual report under the notes to financial statements.

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. In accordance with the terms and conditions of the Share Option Scheme approved on 25 June 1997, the exercise rights in respect of 4,585,000 share options granted on 2 August 1997 will lapse in August 2007.

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 advise 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 2006 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. The attendance record of the Audit Committee for the year 2006 is set out below:

<i>Directors</i>	<i>Attended / Eligible to attend</i>
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 2006 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 requirements and that adequate disclosure had been made.

The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

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 services are subject to close scrutiny by the Audit Committee.

The Audit Committee had, at the meeting held on 18 April 2007, concluded that it was satisfied with its review of the audit fee, process and effectiveness, independence and objectivity of Messrs. Ernst & Young. The Audit Committee has therefore recommended to the Board that Messrs. Ernst & Young be re-appointed as the Group's external auditors at the Annual General Meeting in 2007.

Model Code for 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. After making specific enquiries, all Directors have confirmed that they have complied with the required standard set out in the Model Code for 2006.

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.

Responsibilities in respect of the Financial Statements

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 2006.

Auditors' Remuneration

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

<i>Services rendered</i>	<i>Fee paid / payable</i>
	HK\$
Audit services	5,708,047
Non-audit services: taxation services	254,900
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	5,962,947
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Internal Control

The Board is responsible for internal control of the Group and for reviewing its effectiveness. The Board requires management to establish and maintain sound and effective internal controls.

The internal control framework includes central direction, resource allocation and risk management of the activities of various business units, supported by the human resources, information systems and financial practice. As such, the Group has a clear organizational structure including appropriate segregation of duties and reporting systems. Limits of authorities have been established. Starting from the top, there is a list of matters reserved for Board approval. In carrying out key functions, management staff are assigned levels of authority and accountability commensurate with their positions and duties. There are also relevant policies and procedures applicable to all business units to guide their business operations. All business units are required to produce annual budgets for the Management's approval. The heads of all business units are required to assess the risk factors attributed to their businesses. In addition, all business units shall submit monthly management reports with comparison between actual and budget results and give explanations and solutions for major variances.

Extensive financial controls, procedures, self-assessment exercises and risk activities are reviewed by the Group's internal auditors, who are responsible for the review of the Group's internal control systems, operational efficiency and compliance with the policies and procedures on a regular basis, ensuring the existence of an effective internal control system in all business units. The Internal Audit Department performs independent reviews of risks associated with and controls over principal operations and critical applications, and reports to the Audit Committee of the Board with its findings and makes recommendations to improve the internal controls of the Group.

Commercial and financial responsibility, however, is clearly delegated to local business units, supported by a divisional management structure. These principles are designed to provide an environment of central leadership coupled with local operating autonomy as the framework for the exercise and accountability and control within the Group.

All key controls within the framework will be tested periodically by process owners and the internal auditors. External auditors will also test key controls for those processes which are most critical to producing complete and accurate financial reports. Semi-annual confirmations from chief executives of principal subsidiary companies are obtained as to whether the internal controls are working properly or not and if any remedial actions are required on areas where control weaknesses are noted. Internal and external auditors also advise Management whether the controls are in place and effective to ensure a proper financial controlling and reporting process of the Group.

The role of the Audit Committee is, through discussion with management and employment of internal audit, to review the effectiveness of the internal control system, including financial, operational and compliance controls and risk management functions.

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Group conducts its affairs with close regard to the “Guide on Disclosure of Price-Sensitive Information” issued by the Hong Kong Exchanges and Clearing Limited, and has also implemented guidelines and procedures for the dealings in its securities by the Directors and relevant employees.

During the year 2006, the Board, through the Audit Committee, had conducted the review of the effectiveness of the internal control system of the Company, and considered the internal control system to be effective and adequate and that there were no significant areas of concern which might affect shareholders' interests.

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 Chairman of the Board and / or 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. Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the re-election of directors. 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.