

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Lam Soon (Hong Kong) Limited**, you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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## **LAM SOON (HONG KONG) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 411)**

### **PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME**

**AND**

### **CONTINUING CONNECTED AND POSSIBLE DISCLOSEABLE TRANSACTIONS**

**Independent financial adviser to the Independent Shareholders**



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A letter from Access Capital Limited, the independent financial adviser to the Independent Shareholders, containing its advice to the Independent Shareholders, is set out on pages 13 to 24 of this circular.

A notice convening an extraordinary general meeting of Lam Soon (Hong Kong) Limited to be held at 50th Floor, The Center, 99 Queen's Road Central, Hong Kong on Tuesday, 18 April 2006 at 9:30 a.m. is set out on pages 47 to 48 of this circular. Whether or not you intend to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting as the case may be. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context requires otherwise:*

“Access Capital”	Access Capital Limited, a licensed corporation under the SFO which engages in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities, and the independent financial adviser to the Independent Shareholders in relation to the Grant of Options and the Grant of Loans
“associate”	has the meaning ascribed to it in the Listing Rules
“associated company”	any company in which LSHK directly or indirectly holds between 20% to 50% of its issued share capital
“Board”	the board of Directors
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Directors”	the directors of LSHK
“EGM Notice”	the notice dated 1 April 2006 convening the Extraordinary General Meeting as set out on pages 47 to 48 of this circular
“Eligible Employee(s)”	(i) any employee and director (including non-executive director and independent non-executive director) of any company of the Group; and (ii) any employee of any associated company
“Extraordinary General Meeting”	the extraordinary general meeting of LSHK to be held at 50th Floor, The Center, 99 Queen’s Road Central, Hong Kong on Tuesday, 18 April 2006 at 9:30 a.m. to approve: (i) the proposed amendments to the Share Option Scheme; and (ii) the Grant of Option and the Grant of Loans
“Grant of Loans”	the granting of Loans by the Group to the Trust, the beneficiaries of which may include connected persons of LSHK from time to time pursuant to the Trust Deed

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## DEFINITIONS

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“Grant of Options”	the granting of Options by LSHK to any Eligible Employee (who may include connected persons of LSHK) pursuant to the Share Option Scheme
“Group”	LSHK and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Shareholders”	Shareholders other than those who are connected persons of LSHK who fall within the definition of beneficiaries under the Trust Deed (or are their associates)
“Latest Practicable Date”	28 March 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loans”	revolving loans or other financial assistance or amounts (including but not limited to any guarantee given to third parties for the benefit of the Trust) that may be granted or provided by the Group to the Trust pursuant to the Trust Deed, with a maximum subsisting amount of HK\$90,000,000 or its equivalent amount in other currencies
“LSHK”	Lam Soon (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 411)
“Option”	the right to acquire Scheme Shares granted or to be granted pursuant to the Share Option Scheme
“Option Holder(s)”	the holder(s) of Options
“Scheme Share(s)”	Share(s) to be issued and/or transferred under the Share Option Scheme
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Share(s)”	ordinary share(s) of HK\$1.00 each in the capital of LSHK
“Share Option Scheme”	the share option scheme of LSHK adopted and approved by the Shareholders at the annual general meeting of LSHK on 23 May 2003
“Shareholder(s)”	shareholder(s) of LSHK
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust”	the trust constituted by the Trust Deed
“Trust Deed”	the trust deed to be entered into between LSHK and the Trustee to constitute the Trust
“Trustee”	the trustee of the Trust which is a wholly-owned subsidiary of LSHK
“%”	per cent.



**LAM SOON (HONG KONG) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 411)**

*Directors:*

Whang Tar Choung, *Chairman*

Ng Ping Kin, Peter, M.Sc., J.P., *Vice Chairman\**

Leung Wai Fung, *Executive Director*

Whang Sun Tze

Lo Kwong Chi, Clement\*

Kwek Leng Hai

Tan Lim Heng

James Eng, Jr.

Tsang Cho Tai

Ho King Cheung

Takagi Shigeyoshi\*

Ding Wai Chuen\*

Yong Weng Chye

– *alternate director to Whang Tar Choung*

Ikeda Hiromi

– *alternate director to Takagi Shigeyoshi*

*Registered Office:*

21 Dai Fu Street

Tai Po Industrial Estate

Tai Po

New Territories

Hong Kong

*\* Independent Non-Executive Director*

1 April 2006

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED AMENDMENTS  
TO THE SHARE OPTION SCHEME**

**AND**

**CONTINUING CONNECTED  
AND POSSIBLE DISCLOSEABLE TRANSACTIONS**

The purpose of this circular is to provide you with the relevant information regarding the proposed amendments to the Share Option Scheme and the continuing connected and possible discloseable transactions of LSHK and to seek your approval of the ordinary resolutions relating to these matters at the Extraordinary General Meeting.

### PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

The Share Option Scheme was approved and adopted by the Shareholders at the annual general meeting of LSHK on 23 May 2003 in compliance with Chapter 17 of the Listing Rules. LSHK proposes to amend certain provisions of the Share Option Scheme which currently provides for the issue of new Shares by LSHK in respect of the exercise of Options granted to the Eligible Employees, so as to provide flexibility to LSHK in providing alternatives for the satisfaction of the exercise of Options through:

- (a) the issue of new Shares by LSHK;
- (b) the transfer of existing Shares by the Trust; or
- (c) a combination of both.

In considering which alternative to be used to satisfy the exercise of Options, factors such as the prevailing market price of the Shares, funding consideration of the Group, dilutive effects on the share capital of LSHK and other relevant factors will be taken into account.

Pursuant to the Share Option Scheme (if amended as proposed, which will continue to comply with Chapter 17 of the Listing Rules), the Trust will be set up by LSHK and the Trustee will acquire existing Shares for the purpose of satisfying outstanding Options to be granted under the Share Option Scheme from time to time. The Group intends to make Loans to the Trust from time to time to enable the Trust to acquire existing Shares from the market for the purpose of the Share Option Scheme, and the Loans are expected to be repaid from the exercise price received by the Trust upon the exercise of Options. As at the Latest Practicable Date, no option has been granted under the Share Option Scheme.

### MAJOR TERMS OF THE PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME

Amendments to the Share Option Scheme are proposed as a result of providing alternatives for the satisfaction of the exercise of Options through the transfer of existing Shares by the Trust or a combination of both the issue of new Shares by LSHK and the transfer of existing Shares by the Trust. New definitions such as “Exercise Price”, “Scheme Shares”, “Trust”, “Trustee” and “Trust Deed” are proposed to be added in the “Definitions and Interpretation” section of the Share Option Scheme in order to implement the above. Other proposed amendments to the Share Option Scheme include (i) the circumstances under which an Option Holder can exercise an Option under rule 7 of the Share Option Scheme; (ii) the termination of Options in specific circumstances such as the cessation of employment or directorship, bankruptcy and death of an Option Holder under rule 9 of the Share Option Scheme; and (iii) other amendments to improve the existing drafting of the Share Option Scheme which are in line with current practice.

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## LETTER FROM THE BOARD

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The proposed amendments to the Share Option Scheme in relation to the transfer of existing Shares to satisfy the exercise of the earned Options shall take effect subject to the passing of the necessary resolutions by the Shareholders in the Extraordinary General Meeting to approve the proposed amendments to the Share Option Scheme, the Grant of Options and the Grant of Loans.

The proposed amendments to the rights attaching to the Shares under the Share Option Scheme provide that Scheme Shares issued by LSHK or transferred from the Trust upon the exercise of an earned Option shall rank *pari passu* in all respects with the other Shares in issue on the date of such exercise and will be subject to all the provisions of the memorandum and articles of association of LSHK for the time being in force. Accordingly, the holders of the Scheme Shares issued or transferred will be entitled to all dividends and other distributions declared or recommended or resolved to be paid or made on or after the date of the issue or transfer other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of issue or transfer.

Furthermore, the proposed amendments to the Share Option Scheme also provide that in the event that the Board decides to satisfy the exercise of any earned Options by the transfer of existing Shares to any Eligible Employee, (i) the Board may direct the Trustee to acquire existing Shares and to hold such Shares in trust for the Eligible Employees for the purpose of the Share Option Scheme, and to transfer such Shares to the Eligible Employees in satisfaction of the exercise of any earned Options by any Eligible Employee; and (ii) the Group may provide money or other permissible financial assistance under the Companies Ordinance to enable the Trustee to acquire existing Shares to be held in trust for the Eligible Employees for the purpose of the Share Option Scheme.

The proposed amendments to rule 9 of the Share Option Scheme provide that:

1. Upon the cessation of employment or directorship (as the case may be) of an Option Holder with the Group and the associated companies for whatever reason prior to the exercise of his Option or any part thereof whether earned or unearned, such unexercised Option shall forthwith cease and become incapable of exercise as if the same had never been granted in the first place, provided that subject to the written approval of the Board in its discretion where the Option Holder ceases his employment or directorship (as the case may be) with the Group and the associated companies by reason of (i) ill-health, injury or disability; or (ii) other reasons or circumstances which are acceptable to the Board, he may exercise in whole or in part his unexercised earned Option within such period as the Board may allow.
2. Where an Option Holder retires and is immediately re-employed by the Group or an associated company, upon his re-employment, the Board may at its discretion allow the Option Holder to either (i) exercise in whole or in part his unexercised earned Option within such period as the Board may allow; or (ii) be bound by the provisions of sub-paragraph (1) above as if that Option Holder has never ceased employment.



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## LETTER FROM THE BOARD

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3. In respect of an Option Holder employed under a fixed term employment contract, any Option remaining unexercised upon the (i) cessation of his employment; or (ii) expiry of the original period of employment or any extension thereof, whichever shall first happen, shall, together with the remainder of the Option, forthwith lapse and be of no further effect.
4. Upon the bankruptcy of an Option Holder, any and all unexercised portion of the Option shall immediately become null and void and of no further effect as if the same had never been granted in the first place.
5. In the event an Option Holder dies before the expiry of the Option period and at the date of his death holds an earned Option unexercised in whole or in part, his legal or personal representatives may exercise his entire unexercised earned Option within such period as the Board may allow.
6. If an Option lapses in accordance with the terms of its option certificate, any and all unexercised portion of that Option shall immediately become null and void and of no further effect as if the same had never been granted in the first place.

The proposed amendments to the adjustments under the Share Option Scheme pursuant to Rule 17.03(13) of the Listing Rules provide that upon the occurrence of any reduction of share capital or subdivision or consolidation of share capital or the issue of Shares in or other securities of LSHK by way of capitalisation of profits or reserves or by way of rights under an offer made pro rata to Shareholders, the number or nominal amount of Shares comprised in each Option and/or the Option Price thereunder may be adjusted in such manner as the Board (having received a confirmation in writing from the auditors or an independent financial adviser, acting as experts and not as arbitrator, that the adjustment satisfies the requirement set out in the Note to Rule 17.03(13) of the Listing Rules) may deem appropriate provided that such confirmation from the auditors or the independent financial adviser (as the case may be) shall be required other than in the case of an adjustment on a capitalisation issue.

Details of the proposed amendments to implement the above and various other amendments to the Share Option Scheme are set out in Appendix I to this circular. The revised Share Option Scheme, if approved by the Shareholders, shall take effect from the passing of the relevant resolution at the Extraordinary General Meeting. Save as disclosed, there are no other proposed amendments to the Share Option Scheme and other existing terms of the Share Option Scheme will remain unchanged.

### **CONTINUING CONNECTED AND POSSIBLE DISCLOSEABLE TRANSACTIONS**

In accordance with the Trust Deed, the Group may make Loans to the Trust from time to time upon such terms and conditions as LSHK and the Trustee may agree. The total number of Scheme Shares which may be issued by LSHK and/or transferred by the Trust to Option Holders upon exercise of Options to be granted under the Share Option Scheme and any other share option schemes of LSHK adopted under Chapter 17 of the Listing Rules will not in

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## LETTER FROM THE BOARD

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aggregate exceed 10% of the total number of Shares in issue as at the date of approval of the Share Option Scheme, unless LSHK obtains an approval from its Shareholders in general meeting for refreshing such 10% limit. Further, no Option may be granted to any Eligible Employee on the terms that would enable such Eligible Employee, if his Options were exercised in full, becoming entitled to acquire, in any 12 month period, such Scheme Shares exceeding in nominal value 1% of the share capital of LSHK in issue immediately before such exercise, unless LSHK obtains an approval from its Shareholders in general meeting.

Loans that will be provided by the Group to the Trust will be of a revolving nature and subject to the maximum subsisting amount of HK\$90,000,000 or its equivalent amount in other currencies which is determined by reference to the aforesaid 10% limit and the expected acquisition price of the Shares by reference to the price immediately prior to the publication of the announcement of LSHK dated 10 March 2006 and allowing for the possibility that the Share price may increase in the future based on the historical growth of the Share price in the past four years. The Grant of Options will cease at the expiry of the Share Option Scheme on 23 May 2013 while the Grant of Loans may continue after such expiry for a period of not later than 10 years after the last date of grant of the relevant Options until all outstanding Options have been exercised, cancelled or lapsed.

The Loans will enable the Trust to acquire existing Shares for the purpose of the Share Option Scheme. Before the relevant Shares are transferred to the Option Holders upon exercise of the relevant Options, any income derived from the holding of such Shares will be used by the Trust to pay for its establishment and administrative expenses, interest (if any) on the Loans and as financing for further acquisitions of existing Shares.

The Group may or may not charge interest on the Loans subject to arm's length negotiation with the Trustee. In the event that interest is charged, it will be at a rate which will be determined by reference to the costs of fund incurred by the Group from time to time (which may or may not be based on market rate) and that such interest rate will be fair and reasonable and in the interests of LSHK and its Shareholders as a whole. Based on the accounting treatment of the Trust, the Trust will be deemed as a special purpose entity under the control of LSHK, that is, the assets, liabilities, income and expenses of the Trust will be consolidated in the accounts of the Group. The interest on the Loans (if any) will be eliminated upon the aforesaid consolidation. Therefore, LSHK is of the view that there is no significant financial impact on the Group as a whole irrespective as to whether or not LSHK charges interest on the Loans.

LSHK will establish the Trust as soon as practicable after the Grant of Options and the Grant of Loans have been approved by the Independent Shareholders and the amendments to the Share Option Scheme have been approved by the Shareholders, at the Extraordinary General Meeting. Upon the establishment of the Trust, the Board may direct the Trustee to acquire existing Shares and to hold such Shares in trust for the Eligible Employees for the purpose of the Share Option Scheme. In considering whether to direct the Trustee to acquire the Shares and/or to transfer such Shares or to issue new Shares to the Option Holders in satisfaction of the exercise of any Options, factors such as the prevailing market price of the Shares, funding consideration of the Group, dilutive effects on the share capital of LSHK and other relevant factors will be taken into account.

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## LETTER FROM THE BOARD

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As set out in the Trust Deed, the Trustee will be entitled to utilise (i) the proceeds of the sale of the Shares which are held by the Trustee under the Trust remaining after the termination of the Trust; (ii) the option price in respect of Options exercised by the Trust's beneficiaries paid to the Trustee through LSHK; (iii) dividends from the Shares which are held by the Trustee under the Trust; or (iv) any other funds then held by the Trustee, to repay or discharge the Loans.

In addition, if the Trustee receives dividends on Shares which are held by the Trust, it may (i) apply them to or for the benefit of any one or more beneficiaries of the Trust; (ii) accumulate such income; (iii) use the income to meet expenses of the Trust; (iv) retain the income for repayment of loans made to it by any company within the Group to enable the Trust to acquire Shares for the purpose of the Trust and the payment of interest payable for such loans (if any); or (v) retain the income for the repayment of loans made to it by any other party (not being a company within the Group) to enable the Trust to acquire Shares for the purpose of the Trust and the payment of interest payable for such loans (if any).

Immediately upon termination of the Trust, and after satisfying any expenses or obligations of the Trust including (a) all debts of the Trust other than loans taken by the Trust for purchasing Shares pursuant to the Trust Deed, as well as (b) all loans taken by the Trust for the acquisition of Shares pursuant to the Trust Deed, the Trustee shall sell all remaining Shares and other assets then held by the Trust (if any) and return the proceeds thereof to LSHK (after which such proceeds will be vested with LSHK).

If after the sale of all of the Trust's assets and Shares there are insufficient funds in the Trust to satisfy (a) all debts of the Trust other than loans taken by the Trust for purchasing Shares pursuant to the Trust Deed, and (b) all loans taken by the Trust for the acquisition of Shares pursuant to the Trust Deed, as described above; LSHK will with respect to (a) immediately pay to the Trustee a sum equivalent to such insufficiency; and with respect to (b) waive and will procure any relevant Group company to waive all debts by the Trustee to them to the extent of such insufficiency. The aforementioned amounts to be paid or waived or procured to be waived by any relevant Group company by LSHK, if any, will be included in the calculation of the Loans and subject to a maximum subsisting amount of HK\$90,000,000 or its equivalent amount in other currencies.

LSHK will take reasonable measures to minimise any potential financial impact with respect to the potential gain or loss arising from the discrepancy between the purchase cost of the existing Shares and the exercise price of the Options. More specifically, the Board, after taking into account factors including the prevailing market price of the Shares and any potential dilutive effect on LSHK's share capital etc., may decide whether to issue new Shares or to transfer existing Shares by the Trust to satisfy the exercise of Options granted with a view to minimise any potential financial impact to LSHK.

As the Trust will be administered by the Trustee pursuant to the Trust Deed for the benefit of Option Holders (other than those whose inclusion as beneficiaries of the Trust would cause Section 47C(4)(b) of the Companies Ordinance to cease to apply to the Trust), who may

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## LETTER FROM THE BOARD

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include connected persons of LSHK, the Grant of Loans constitutes continuing connected transaction of LSHK under Chapter 14A of the Listing Rules. As the Grant of Options may involve grant of options over existing Shares to Eligible Employees (who may include connected persons of LSHK), the Grant of Options constitutes continuing connected transaction of LSHK under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. As the Grant of Loans involves the provision of financial assistance and relevant applicable percentage ratios (as defined in Rule 14.04(9) of the Listing Rules) in respect of the Grant of Loans could exceed 5% but would be less than 25%, the Grant of Loans constitutes continuing connected and possible discloseable transaction of LSHK and are subject to the reporting and announcement requirements and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules and the reporting, announcement and circular requirements under Chapter 14 of the Listing Rules.

### **RATIONALE**

The Board believes that the proposed amendments to the Share Option Scheme would provide flexibility to LSHK in providing alternatives in implementing the Share Option Scheme as LSHK can satisfy the exercise of an Option through the transfer of existing Shares or the issue of new Shares or a combination of both. In comparison with the issue of new Shares, the transfer of existing Shares would avoid potential dilutive effect on LSHK's capital base and future returns per Share. The acquisition of existing Shares by the Trustee for the purpose of the Share Option Scheme from time to time would provide additional flexibility to LSHK in remunerating the Eligible Employees. LSHK will be in a position to structure incentives for Eligible Employees in order to align their interests with the performance of LSHK, with a view to improve the operations of LSHK.

The Grant of Loans will be conducted on terms and conditions as LSHK and the Trustee may agree from time to time and in compliance with the Share Option Scheme and the Trust Deed. In view of the benefits of the proposed amendments to the Share Option Scheme to LSHK and the Shareholders, the Board (including the independent non-executive Directors) considers that it is beneficial to LSHK and the Shareholders for LSHK to undertake the Grant of Options and the Grant of Loans, which are fair and reasonable and in the interests of LSHK and the Shareholders as a whole.

### **INFORMATION ON LSHK**

LSHK's principal activity is investment holding. The principal activities of LSHK's subsidiaries include manufacturing, trading and processing of edible oil, detergent products, flour products, trading of frozen food and agency products, manufacturing and trading of metal containers, easy-open-ends and other packaging products mainly in Hong Kong, Taiwan and the People's Republic of China. The principal activities of LSHK's associated companies include manufacturing, trading and processing of edible oil mainly in Hong Kong.

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## LETTER FROM THE BOARD

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### EXTRAORDINARY GENERAL MEETING

Set out on pages 47 to 48 of this circular is the EGM Notice at which ordinary resolutions will be proposed to the Shareholders to approve (i) the proposed amendments to the Share Option Scheme; and (ii) the Grant of Options and the Grant of Loans. The Extraordinary General Meeting will be held at 50th Floor, The Center, 99 Queen's Road Central, Hong Kong on Tuesday, 18 April 2006 at 9:30 a.m..

A form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not you intend to attend the meeting, please complete and return the enclosed form of proxy to the registered office of LSHK at 3rd Floor, Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong and in accordance with the instructions printed thereon as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting as the case may be. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so wish.

The voting in relation to the proposed amendments to the Share Option Scheme, the Grant of Options and the Grant of Loans will be conducted by way of a poll whereby connected persons of LSHK who fall within the definition of beneficiaries under the Trust Deed (and their associates) will abstain from voting in respect of the ordinary resolution to approve the Grant of Options and the Grant of Loans to be proposed at the Extraordinary General Meeting. Pursuant to the Trust Deed and Section 47C(4)(b) of the Companies Ordinance, the beneficiaries under the Trust Deed are the executive directors and employees of the Group. Mr. Leung Wai Fung, the executive director of LSHK, and his associates are the connected persons of LSHK who fall within the definition of beneficiaries under the Trust Deed. As at the Latest Practicable Date, Mr. Leung Wai Fung and his associates did not hold any Shares.

### PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 57 of the Articles of Association of LSHK, at any general meeting of LSHK, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the meeting; or
- (ii) by at least five members present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by a duly authorised corporate representative or by proxy and holding Shares conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

Under Section 47C(4)(b) of the Companies Ordinance, the provision by a company in accordance with any scheme for the time being in force, of money for the purchase of, or subscription for, fully paid shares in the company or its holding company, being a purchase or subscription by trustees of or for shares to be held by or for the benefit of employees of the company or of any subsidiary of the company, including any director holding a salaried employment or office in the company or any subsidiary of the company, is not prohibited. Therefore, as the non-executive Directors and the independent non-executive Directors are not employees of LSHK and its subsidiaries, they are currently not included as beneficiaries of the Trust. However, the non-executive Directors and the independent non-executive Directors will remain as participants of the Share Option Scheme (although exercise of options granted to them can only be satisfied by way of the issue of new Shares by LSHK to them). In these circumstances, it may not be appropriate for an independent board committee comprising independent non-executive Directors to be formed to consider the terms of the Grant of Options and the Grant of Loans.

Accordingly, Access Capital has been appointed by LSHK to advise the Independent Shareholders as to whether the terms and conditions of the Grant of Options and the Grant of Loans are fair and reasonable and in the interests of LSHK and the Shareholders as a whole so as to enable the Independent Shareholders to consider whether to vote in favour of or against the ordinary resolution to approve the Grant of Options and the Grant of Loans to be put forth at the Extraordinary General Meeting. A letter from Access Capital to the Independent Shareholders is reproduced on pages 13 to 24 of this circular.

Having considered the factors and reasons set out in its letter, Access Capital is of the view that the Grant of Options and the Grant of Loans are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of LSHK and the Shareholders as a whole. Accordingly, Access Capital recommends that the Independent Shareholders should vote in favour of the ordinary resolution to approve the Grant of Options and the Grant of Loans as set out in the EGM Notice.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix II to this circular.

Yours faithfully,  
For and on behalf of  
**Lam Soon (Hong Kong) Limited**  
**Whang Tar Choung**  
*Chairman*

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# LETTER FROM ACCESS CAPITAL

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*The following is the full text of the letter of advice to the Independent Shareholders from Access Capital prepared for incorporation in this circular.*



ACCESS  
CAPITAL

Suite 606

6th Floor

Bank of America Tower

12 Harcourt Road

Central

Hong Kong

1 April 2006

*To the Independent Shareholders*

Dear Sir or Madam,

## **CONTINUING CONNECTED AND POSSIBLE DISCLOSEABLE TRANSACTIONS RELATING TO THE PROPOSED AMENDMENTS TO THE SHARE OPTION SCHEME**

### **1. INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Shareholders with regard to the Grant of Options and the Grant of Loans contemplated under the proposed amendments to the Share Option Scheme (the “Proposal”). Details of the Proposal, including the Grant of Options, the Grant of Loans, and the establishment of the Trust, are contained in the “Letter from the Board” set out in a circular to the Shareholders dated 1 April 2006 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Circular unless the context otherwise requires.

As mentioned in the “Letter from the Board”, the Grant of Options under the Proposal constitutes a continuing connected transaction of LSHK under Chapter 14A of the Listing Rules, and the Grant of Loans under the Proposal constitutes a continuing connected and possible discloseable transaction of LSHK under Chapters 14 and 14A of the Listing Rules. Accordingly, the Grant of Options and the Grant of Loans will require Independent Shareholders’ approval at the Extraordinary General Meeting.



We have been appointed by LSHK to advise the Independent Shareholders as to whether the terms of the Grant of Options and the Grant of Loans are fair and reasonable and in the interests of LSHK and the Shareholders as a whole, and to give our opinion in relation thereto for the Independent Shareholders to consider when deciding as to whether to vote in favour of or against the ordinary resolution(s) to approve the Grant of Options and the Grant of Loans to be put forth at the Extraordinary General Meeting.

As described in the “Letter from the Board”, voting in relation to the Grant of Options and the Grant of Loans will be conducted by way of a poll, whereby connected persons of LSHK who fall within the definition of beneficiaries under the Trust Deed (and their associates) shall be required to abstain from voting on the ordinary resolution(s) to approve the Grant of Options and the Grant of Loans, at the Extraordinary General Meeting.

## **2. BASES AND ASSUMPTIONS OF THE ADVICE**

In formulating our advice, we have relied principally on the statements, information, opinion and representations contained in the Circular and the information and representations provided to us by LSHK. We have assumed that all such statements, information, assumptions, estimates, opinions and representations contained or referred to in the Circular or otherwise provided by LSHK and the Board and for which they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have also assumed that all statements of belief, opinion and intention of the Board as set out in the “Letter from the Board” of the Circular and in this letter have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from LSHK that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available under the present circumstances and have performed all necessary steps as required under Rule 13.80 of the Listing Rules, including the notes thereto, to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis of our opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by LSHK, and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of LSHK, or any of its subsidiaries.



### 3. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

#### 3.1 Background to and reasons for the Proposal, including the Grant of Options, the Grant of Loans, and the establishment of the Trust

##### *(a) Business of LSHK*

LSHK's principal activity is investment holding. The principal activities of LSHK's subsidiaries include manufacturing, trading and processing of edible oil, detergent products, flour products, trading of frozen food and agency products, manufacturing and trading of metal containers, easy-open-ends and other packaging products mainly in Hong Kong, Taiwan and the People's Republic of China. The principal activities of LSHK's associated companies include manufacturing, trading and processing of edible oil mainly in Hong Kong.

##### *(b) Reasons for the Proposal and the establishment of the Trust*

The Share Option Scheme, in its current form, was previously approved and adopted by the Shareholders at LSHK's annual general meeting on 23 May 2003, in compliance with Chapter 17 of the Listing Rules.

LSHK proposes to amend certain provisions of the Share Option Scheme which currently provides for the issue of new Shares by LSHK with respect to the satisfaction of the exercise of Options granted to the Eligible Employees (which may include connected persons of LSHK). If amended as proposed, the Share Option Scheme will allow for the satisfaction of the exercise of Options through:

- (i) the issue of new Shares by LSHK;
- (ii) the transfer of existing Shares by the Trust; or
- (iii) a combination of both the issue of new Shares by LSHK and the transfer of existing Shares by the Trust.

If amended as proposed, the Share Option Scheme will continue to be in compliance with Chapter 17 of the Listing Rules.

As stated in the "Letter from the Board", the Directors believe that the proposed amendments to the Share Option Scheme will give LSHK additional flexibility in remunerating the Eligible Employees. In addition, we note that LSHK will take into consideration factors including but not limited to (i) the prevailing market price of the Shares, (ii) funding considerations of the Group, and (iii) the

relevant dilutive effects on LSHK's share capital, when considering whether to issue new Shares or to transfer existing Shares (as mentioned above) in satisfaction of the exercise of the Options granted.

We note that the Options are not transferable or assignable, are personal to the relevant grantee, and are intended to be issued to those Eligible Employees who have contributed to the business of the Group. We also note that as at the Latest Practicable Date, no Option has been granted under the existing Share Option Scheme approved in May 2003.

Given the fact that LSHK operates within competitive markets such as Hong Kong, Taiwan and the People's Republic of China, it is in the interests of LSHK and the Shareholders as a whole to retain and attract quality personnel to help further strengthen LSHK's overall performance. As such, the amendments under the Proposal are designed to provide a means through which LSHK can attain greater efficiency and flexibility with respect to structuring the remuneration packages for the Eligible Employees, and thus help LSHK to achieve its objectives.

Pursuant to the Share Option Scheme (if amended as proposed), the Trust will be set up by LSHK for the purposes of acquiring existing Shares, in order to satisfy the Options to be granted under the Share Option Scheme from time to time. In order to enable the Trust to acquire existing Shares from the market as and when necessary for the purpose of the Trust, LSHK will make Loans to the Trust from time to time. The Loans are expected to be repaid from the exercise price received by the Trust upon the exercise of Options.

LSHK will establish the Trust as soon as practicable after the Grant of Options and the Grant of Loans have been approved by the Independent Shareholders and the amendments to the Share Option Scheme have been approved by the Shareholders, at the Extraordinary General Meeting.

After taking into account (i) LSHK's need to retain, attract and motivate quality personnel to contribute to the long term growth of LSHK; (ii) LSHK's desire to achieve better efficiency and flexibility in structuring the remuneration packages for the Eligible Employees (which may include connected persons of LSHK) in fulfilment of (i) above; (iii) the need for the establishment of a Trust for the purposes of purchasing existing Shares in the market to satisfy Options granted to the Eligible Employees; and (iv) the need to fund the Trust via the granting of the Loans by LSHK; we are of the view that the Proposal, including the Grant of Options, the Grant of Loans, and the establishment of the Trust, are justifiable and in the interests of LSHK and the Shareholders as a whole.

### **3.2 Terms of the amended Share Option Scheme and overview of the Trust**

#### *Terms of the amended Share Option Scheme*

As mentioned in paragraph 3.1(b) above, the Share Option Scheme in its current form has already been approved by the Shareholders in 2003. The amended

Share Option Scheme will essentially have the same terms as the current Share Option Scheme (including, inter alia, the maximum aggregate amount of Shares over which Options can be granted, under the Share Option Scheme, and the Share Option Scheme's duration). The major change to the rules of the Share Option Scheme requiring Shareholders' approval is the provision which allows for the satisfaction of exercised Options via the transfer of existing Shares by the Trust to be established by LSHK.

If approved by the Shareholders, the amended Share Option Scheme will still comply with Chapter 17 of the Listing Rules, as it does in its current form. Details of the principal terms of the amended Share Option Scheme are set out in the Circular.

Given that the terms of the amended Share Option Scheme are based on those that were previously approved in 2003, that the amendments allow LSHK to enjoy added flexibility in providing alternatives for the satisfaction of the exercise of the Options under the Share Option Scheme, and after taking into consideration the reasons for and the benefits of the Proposal, we are of the view that the terms of the amended Share Option Scheme are fair and reasonable.

### *An overview of the Trust*

As mentioned in the "Letter from the Board", LSHK will establish the Trust as soon as practicable, after the Independent Shareholders approve the Grant of Options and the Grant of Loans at the Extraordinary General Meeting. A dedicated wholly-owned subsidiary of LSHK will act as the Trustee to acquire existing Shares from the market for the purpose of satisfying Options to be granted under the Share Option Scheme from time to time. The Trust will be a connected person of LSHK and will be administered by the Trustee in accordance with its terms, at the direction of the Board or a duly authorised committee of the Board or such other individual(s) as duly authorised by the Board.

According to the Trust Deed, the Trustee will during the term of the Trust, at the request of the Directors, purchase such number of existing Shares from the market, pursuant to the aforesaid purpose of the establishment of the Trust. As stated in the "Letter from the Board", in considering whether to direct the Trustee to acquire the Shares and/or to transfer such Shares or to issue new Shares to the Option Holders in satisfaction of the exercise of any Options, factors such as the prevailing market price of the Shares, funding consideration of the Group, dilutive effects on the share capital of LSHK and other relevant factors will be taken into account.

After taking into account (i) the objectives of the Trust; (ii) the fact that the mandate of the Trustee will be solely to administer the operation of the Trust for the benefit of the Eligible Employees; and (iii) that its function will be restricted to the acquisition and disposal of existing Shares when directed to do so by the Board or a duly authorised committee of the Board or such other individual(s) as duly authorised by the Board so as to satisfy the exercise of the Options to be granted under the Share Option Scheme; we are of the view that the Trust is a necessary and essential tool for helping LSHK to achieve the desired level of efficiency and flexibility for structuring the remuneration packages of the Eligible Employees at a reasonable cost.

### **3.3 Source of finance of the Trust**

According to the Trust Deed, in order to enable the Trustee to purchase Shares in the market for the Trust, the Trustee will be entitled from time to time to accept financial assistance (which includes (without limitation) loans and third party guarantees) from the Group and any other third party upon such terms and conditions as LSHK and the Trustee may agree.

As set out in the Trust Deed, the Trustee will be entitled to utilise (i) the proceeds of the sale of the Shares which are held by the Trustee under the Trust remaining after the termination of the Trust; (ii) the option price in respect of Options exercised by the Trust's beneficiaries paid to the Trustee through LSHK; (iii) dividends from the Shares which are held by the Trustee under the Trust, or (iv) any other funds then held by the Trustee, to repay or discharge Loans.

In addition, if the Trustee receives dividends on Shares which are held by the Trust, it may (i) apply them to or for the benefit of any one or more beneficiaries of the Trust (ii) accumulate such income; (iii) use the income to meet expenses of the Trust; (iv) retain the income for repayment of loans made to it by any company within the Group to enable the Trust to acquire Shares for the purpose of the Trust and the payment of interest payable for such loans (if any); or (v) retain the income for the repayment of loans made to it by any other party (not being a company within the Group) to enable the Trust to acquire Shares for the purpose of the Trust and the payment of interest payable for such loans (if any).

Immediately upon termination of the Trust, and after satisfying any expenses or obligations of the Trust including (a) all debts of the Trust other than loans taken by the Trust for purchasing Shares pursuant to the Trust Deed, as well as (b) all loans taken by the Trust for the acquisition of Shares pursuant to the Trust Deed; the Trustee shall sell all remaining Shares and other assets then held by the Trust (if any) and return the proceeds thereof to LSHK (after which such proceeds will be vested with LSHK).

If after the sale of all of the Trust's assets and Shares there are insufficient funds in the Trust to satisfy (a) all debts of the Trust other than loans taken by the Trust for purchasing Shares pursuant to the Trust Deed, and (b) all loans taken by the Trust for the acquisition of Shares pursuant to the Trust Deed, as described above; LSHK will with respect to (a) immediately pay to the Trustee a sum equivalent to such insufficiency; and with respect to (b) waive and will procure any relevant Group company to waive all debts owed by the Trustee to them to the extent of such insufficiency.

Shareholders should note that it is currently neither possible to accurately predict nor is it possible to comment on any future potential shortfall or surplus arising from the dissolution of the Trust, as any shortfall (or surplus) would depend on the prevailing circumstances and market conditions at that time.

We are of the view that the abovementioned source of financing for the Trust, the application of such financing, and the repayment arrangements for the Loans, offer the maximum level of flexibility so as to allow the Trustee to operate the Trust for the benefit of the Eligible Employees of the Share Option Scheme. This in turn will incentivise those Eligible Employees to perform and contribute to LSHK's future performance. Hence, we believe that the abovementioned financing arrangements of the Trust are in the interests of LSHK and the Shareholders as a whole.

### **3.4 Limit of the Loans**

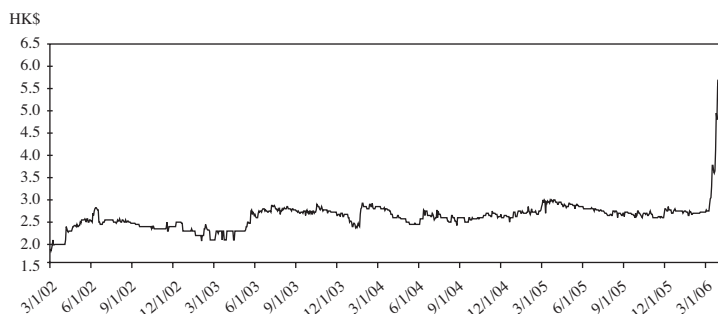
In order to comply with the requirements under Chapter 14A of Listing Rules and to ensure sufficient flexibility is retained by the Trust for the duration of the Share Option Scheme, the Board has determined that the Loans to be provided by the Group to the Trust (which are of a revolving nature), will be subject to a cap in the maximum subsisting amount of HK\$90,000,000 or its equivalent in other currencies.

This cap limit was determined by reference to (i) the 10% limit under Chapter 17 of the Listing Rules, whereby the maximum aggregate number of shares over which Options can be granted under any given share option scheme cannot exceed 10% of the total amount of shares in issue when such scheme is approved unless such company obtains an approval from its shareholders in general meeting for refreshing such 10% limit (in this case a total of approximately 243,000,000 Shares were in issue when the current Share Option Scheme was approved); and (ii) by reference to the historical growth rate in the Share price over the past four years, the Share price immediately prior to publication of the announcement of LSHK dated 10 March 2006 (the "Announcement"), and an allowance for possible increases in the Share price going forward.

Accordingly, the cap limit was calculated by multiplying the aforesaid maximum aggregate number of Shares over which Options can be granted by the Share price (prior to the publication of the LSHK's announcement dated 10 March 2006) plus an allowance for possible increases in price based on the Share's 4 year historical growth rate.

The below chart sets out the historical performance of the Shares over the last 4 years to date:

**Historical Price Performance (2002 to date)**



*Source: Bloomberg*

LSHK's Share price has from 2002 to 2005, grown at an annual average rate of approximately 9.9%. The Shares have, since the publication of the Announcement on 10 March 2006, surged to a four year high of HK\$5.85 on 23 March 2006.

Given (i) LSHK's modest but constant rise in Share price performance over the past few years; (ii) LSHK's growth in both turnover and profit attributable to Shareholders during the years ended 31 December 2002 and 2003, as well as during the eighteen months ended 30 June 2005 (as reported in the Group's respective annual reports); (iii) Hong Kong's sustained economic recovery; as well as (iv) the positive economic growth in LSHK's key markets (namely Hong Kong, the People's Republic of China, and Taiwan); we are of the view that it is fair and reasonable to use the Share price prior to the date of the Announcement, plus an allowance for Share price appreciation in the coming years, in conjunction with the maximum allowable amount of Shares issuable or transferable under the Share Option Scheme, as a basis for determining the maximum subsisting amount of the Loan. As such, we are of the view that a cap in the maximum subsisting amount of HK\$90,000,000 or its equivalent in other currencies is justifiable and acceptable.

### **3.5 Duration of the Grant of Options and the Grant of Loans**

As the modified Share Option Scheme will allow for the Grant of Options, and as the duration of the Share Option Scheme as approved by the Shareholders in 2003 is 10 years, which is both the normal duration for option schemes generally, as well as the maximum duration permitted under Chapter 17 of the Listing Rules, the Grant of Options should also have a duration of 10 years (i.e. up to 23 May 2013). Any share option scheme with a duration for the grant of options of less than 10 years would, in practice, be cumbersome and impractical to administer.

As the life of the Share Option Scheme is 10 years, the Grant of Loans must be allowed to exceed 10 years, so as to ensure that the Trust can maintain sufficient resources until the last outstanding Option is exercised (even if the Share Option Scheme may have expired by that time). Only by allowing the Grant of Loans to continue for a maximum of 10 years after the expiry of the Share Option Scheme, (whereby as stated in the “Letter from the Board”, the Grant of Options will cease at the expiry of the Share Option Scheme on 23 May 2013 while the Grant of Loans may continue after such expiry for a period of not later than 10 years after the last date of grant of the relevant Options until all outstanding Options have been exercised, cancelled or lapsed), can the Share Option Scheme function as intended. Therefore, the Grant of Loans and the Grant of Options will exceed the 3-year limit for non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

Aside from the executive share option scheme of GuocoLand Limited (a subsidiary of Guoco Group Limited (stock code: 00053), which is listed on the Singapore Stock Exchange), details of which are set out in Guoco Group Limited’s circular dated 28 September 2004, we have not found any schemes in the market similar to that of LSHK under the Proposal. In summary, the modifications to GuocoLand Limited’s executive share option scheme also included (i) the grant of options during the 10-year period of the executive share option scheme; (ii) the satisfaction of options by means of either issuing new shares or by the transfer of existing shares from a trust, or a combination of both; and (iii) the grant of loans to a trust for a duration of over 3 years. Finally, the said executive share option scheme was also in compliance with Chapter 17 of the Listing Rules.

Given that the intended purpose of the Share Option Scheme, which is to enable companies to have in place a flexible compensation plan designed to retain and/or recruit high caliber personnel for the benefit of LSHK in the long term, we consider the duration of the Grant of Options (which matches the 10-year duration of the Share Option Scheme), as well as the Grant of Loans (which as mentioned in the paragraph above will have a maximum duration of 10 years after the expiry of the Share Option Scheme and thus exceed the 3-year limit for non-exempt continuing connected transactions in order to allow the Trust to function within the context of the Share Option Scheme) to be fair and reasonable.

### **3.6 Possible effects on LSHK resulting from financing of the Trust through the Grant of Loans provided by the Group and exercise of Options under the Share Option Scheme**

#### *(a) Financial implications*

As mentioned earlier in paragraph 3.1(b) above, the Trust intends to purchase existing Shares to facilitate the implementation of the Share Option Scheme. The Trust intends to repay the Loans from the proceeds on the exercise of Options by the relevant Eligible Employees and the income receivable (including dividends) on the Shares purchased by the Trust. Taking into account the purpose of the Trust, the



strict control of the application of financing by the Trustee under the Trust Deed as mentioned in paragraph 3.3 above; apart from any surplus or deficiency which may be accrued to or be borne by LSHK arising from the difference between the Option exercise price or the sales proceeds of the existing Shares remaining in the Trust (as case may be) and the cost of acquisition of the existing Shares by the Trust upon the exercise of Options granted and the dissolution of the Trust, we are of the view that the implementation of the Trust should not give rise to any significant effect on the financial position of LSHK.

With respect to the potential gain or loss arising from the discrepancy between the purchase cost of the existing Shares and the exercise price of the Options, we have been advised that LSHK will take reasonable measures to minimise any potential financial impact. More specifically, the Board, after taking into account factors including the prevailing market price of the Shares and any potential dilutive effect on LSHK's Share capital etc., may decide whether to issue new Shares or to transfer existing Shares to satisfy the exercise of Options granted with a view to minimising any potential financial impact to the LSHK.

Furthermore, as stated in paragraph 3.3 above, it is impossible to predict or comment on any future potential shortfall (or surplus) arising from the dissolution of the Trust, as any shortfall (or surplus) would depend on the prevailing circumstances and market conditions at the time. Nevertheless, given that it is the fiduciary duty of the Directors to look after the interests of the Shareholders, and given that the Trustee will take direction from the Board or duly authorised committee of the Board, we are of the view that the Trustee as well as the Directors would see to it that any potential financial impact arising from any shortfall upon termination of the Trust would be mitigated.

As stated in the "Letter from the Board", the Group may or may not charge interest on the Loans subject to arm's length negotiation with the Trustee. If interest is charged, it will be at a rate to be determined by reference to the costs of funds incurred by the Group from time to time (which may or may not be based on market rate) and that such interest rate will be fair and reasonable and in the interests of LSHK and the Shareholders as a whole. Furthermore, based on the accounting treatment of the Trust, the Trust will be deemed as a special purpose entity under the control of LSHK, that is, the assets, liabilities, income and expenses of the Trust will be consolidated in the accounts of the Group. The interest on the Loans (if any) therefore will be eliminated upon the aforesaid consolidation.

Given that (i) the Group may or may not charge interest on the Loans; (ii) if the Group does charge interest on the Loans this interest will be by reference to the Group's cost of funds from time to time; (iii) that this rate will according to the Directors be fair and reasonable to the Shareholders; and (iv) that the income and expenses of the Trust will be consolidated in the accounts of the Group, which will result in the elimination of such interest upon consolidation, we are of the view that there will be no significant financial impact on the Group as a whole irrespective as to whether or not LSHK charges interest on the Loans.



If as an alternative, the Trust chooses to secure loans from a third-party institution, the terms of such loans would also be subject to arm's length negotiation with the Trustee. Any interest on such loans would likely be determined by reference to and in line with the then prevailing market rate, and as such, the relevant interest charged would be fair and reasonable and in the interests of LSHK and the Shareholders as a whole. We cannot, however, at this time, ascertain the potential impact of such interest charged by possible third-party lenders.

Given that LSHK is a long established listed company in Hong Kong and the Directors all understand the importance of corporate governance and protection of investors/shareholders' interests, and that they each have a fiduciary duty (and ability/skills/experience) to ensure that reasonable measures will be put in place to (i) minimise any potential financial impact to LSHK; as well as (ii) to protect the interests of LSHK and the Shareholders as a whole; we are of the view that the interests of LSHK and the Shareholders are sufficiently protected.

*(b) Dilution in shareholding*

In the event that the Directors determine that the Options granted to Eligible Employees should be satisfied only by the issue of new Shares, all Shareholders will be diluted pro rata by a maximum of 9.09% relative to the issued share capital of LSHK as at 23 May 2003, the date the current Share Option Scheme was approved, and as at the Latest Practicable Date. The aforesaid percentage is the maximum dilution effect in the event that the Options to be granted to Eligible Employees should be satisfied only by the issue of new Shares.

However, if the Directors determine that the Options granted to Eligible Employees should be satisfied only by the transfer of existing Shares from the Trust, there would be no dilution effect. The aforesaid is the minimum dilution effect in the event that LSHK grants Options to Eligible Employees to be satisfied only by the transfer of existing Shares.

Any satisfaction of Options granted by a combination of both new and existing Shares would result in a dilution effect within the above maximum and minimum levels.

The Directors will have the absolute discretion as to whether or not to issue new Shares or to transfer existing Shares for the purpose of the Share Option Scheme, which will serve to mitigate any potential major dilutive effect on LSHK's issued share capital from time to time.

Accordingly, we believe the Share Option Scheme with its added flexibility to offer a combination of new Shares and/or existing Shares will enable the Directors to manage any potential dilutive effects posed by the Share Option Scheme. As such, we consider the potential dilution effects of the Share Option Scheme as manageable and acceptable.

**4. RECOMMENDATION**

Having considered the above principal factors and reasons set out above, we are of the view that the Proposal, including the Grant of Options and the Grant of Loans are fair and reasonable so far as the Shareholders are concerned, as well as in the interests of LSHK and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders to vote in favour of the ordinary resolution(s) to approve the Grant of Options and the Grant of Loans contemplated under the Proposal to be proposed at the Extraordinary General Meeting.

Yours faithfully,  
For and on behalf of  
**Access Capital Limited**  
**Jeanny Leung**  
*Managing Director*

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(h) Definition of “Directors”

By deleting the existing definition of “Directors” in Rule 1 and substituting therefor the following:

"Directors" directors of the Company for the time being;

(i) Definition of “Earned Option”

By deleting the existing definition of “Earned Option” in Rule 1 and substituting therefor the following:

“Earned Option” an Option or any part thereof that is exercisable by an Option Holder whose entitlement to exercise an Option has been confirmed by the Board upon the grant of Option or an Option or any part thereof that is exercisable following the fulfillment of the prescribed performance targets and contribution criteria within the relevant period as confirmed by the issue of a letter by the Board pursuant to Rule 7(B);

(j) Definition of “Exercise Price”

By inserting the following new definition in Rule 1:

“Exercise Price” in relation to an Option, an amount equals to the Option Price multiplied by the relevant number of Scheme Shares;

(k) Definition of “Hong Kong”

By inserting the following new definition in Rule 1:

“Hong Kong” the Hong Kong Special Administrative Region of the People’s Republic of China;

(1) Definition of “Listing Rules”

By deleting the word “means” and inserting the words “as may be amended and modified from time to time” immediately after the word “Limited”.

(m) Definition of “Option”

By deleting the existing definition of “Option” in Rule 1 and substituting therefor the following:

“Option”

the right to acquire Scheme Shares at the Option Price granted or to be granted pursuant to the Scheme for the time being subsisting, the exercise of which may be conditional or unconditional as determined by the Board;

(n) Definition of “Option Certificate”

By deleting the word “Directors” and inserting the word “Board” in place thereof.

(o) Definition of “Option Holder”

By deleting the words “for the time being of an Option” and inserting the words “of an Option for the time being” in place thereof.

(p) Definition of “Option Period”

By deleting the existing definition of “Option Period” in Rule 1 and substituting therefor the following:

“Option Period”

a period to be notified by the Board to each Option Holder during which an Option may be exercised pursuant to the terms of the grant of such Option, such period to commence on the Date of Grant of such Option and to end on a date not later than ten (10) years after the Date of Grant;

(q) Definition of “Option Price”

By inserting the words “subject to any adjustments made pursuant to Rule 10,” immediately before the words “the price per Share”, deleting the words “an Option” and inserting the words “an Earned Option” in place thereof and deleting the word “Directors” and inserting the word “Board” in place thereof.

(r) Definition of “Rules”

By inserting the following new definition in Rule 1:

“Rules”

rules of the Scheme;

(s) Definition of “Scheme Period”

By deleting the word “unconditional” and inserting the word “effective” in place thereof and deleting the words “of this Scheme”.

(t) Definition of “Scheme Shares”

By inserting the following new definition in Rule 1:

“Scheme Shares”	Shares to be issued and/or transferred under the Scheme;
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(u) Definition of “Share”

By deleting the existing definition of “Share” in Rule 1 and substituting therefor the following:

“Share”	an ordinary share of HK\$1.00 each in the capital of the Company (or of such other nominal amount as may result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time);
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(v) Definition of “Shareholders”

By inserting the following new definition in Rule 1:

“Shareholders”	registered holders of Shares;
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(w) Definition of “Stock Exchange”

By deleting the word “Directors” and inserting the word “Board” in place thereof.

(x) Definition of “Subscription Price”

By deleting the definition of “Subscription Price”.

(y) Definition of “Subsidiary”

By deleting the existing definition of “Subsidiary” in Rule 1 and substituting therefor the following:

“Subsidiary”

a company which is for the time being a subsidiary of the Company as defined within section 2(4) of the Companies Ordinance;

(z) Definition of “trading day”

By deleting the word “business” and inserting the words “market trading” in place thereof.

(aa) Definition of “Trust”, “Trustee”, “Trust Deed”, “HK\$” and “%”

By inserting the following new definitions in Rule 1:

“Trust”

the Trust for the Scheme, being the employee share trust constituted by the Trust Deed;

“Trustee”

a wholly-owned subsidiary of the Company and the trustee of the Trust (including the future trustee(s) of the Trust);

“Trust Deed”

the trust deed to be entered into between the Company and the Trustee to constitute the Trust;

“HK\$”

Hong Kong dollars; and

“%”

per cent.

Rule 3 – Conditions

By deleting the existing Rule 3 and substituting therefor the following:

“3. Conditions

This Scheme shall take effect subject to the passing of the necessary resolution to adopt the Scheme by the Shareholders in general meeting and is conditional upon the Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in any Shares which fall to be issued upon the exercise of the Earned Options granted or to be granted pursuant to these Rules and on such approval being granted not later than three months after the Scheme is adopted by the Shareholders in general meeting.

The amendments to the Scheme in relation to the transfer of existing Shares to satisfy the exercise of the Earned Options shall take effect subject to the passing of the necessary resolutions by the Shareholders in an extraordinary general meeting held on or about 18 April 2006 to approve each of:

- (i) the relevant amendments to the Scheme by the Company;
- (ii) the continuing connected transaction (as defined in the Listing Rules) comprising the grant of Options the exercise of which may involve transfer of Shares by the Trust to Eligible Employees; and
- (iii) the continuing connected and possible discloseable transaction (as defined in the Listing Rules) comprising the grant of loans by the Group to the Trust.”

#### **Rule 4 – Grant of Options**

By deleting the existing Rule 4 and substituting therefor the following:

“4. Grant of Options

On and subject to these Rules, the Board may at any time during the Scheme Period at its absolute discretion and subject to such conditions as it may think fit (including performance targets laid down by the Board from time to time) offer to grant Options to Eligible Employees as the Board may determine.”

#### **Rule 5 – Number of Shares for which Options may be Granted**

- (i) By deleting the existing Rule 5 and substituting therefor the following:

“(A) Subject to Rule 5(B):

- (i) The total number of Shares which may be issued and/or transferred upon exercise of all Earned Options to be granted under this Scheme and any other share option schemes of the Company adopted under Chapter 17 of the Listing Rules shall not in aggregate exceed 10% of the total number of Shares in issue as at the date of approval of this Scheme, unless the Company obtains an approval from its Shareholders pursuant to sub-paragraph (ii) below. Options lapsed in accordance with the terms of this Scheme will not be counted for the purpose of calculating such 10% limit.
- (ii) The Company may seek approval of the Shareholders in general meeting for refreshing the 10% limit set out in sub-paragraph (i) above such that the total number of Shares which may be issued and/or transferred upon exercise of all Earned Options to be granted under this Scheme and any other share option schemes of the Company adopted under Chapter 17 of the Listing Rules under



the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. Options previously granted under this Scheme (including those outstanding, cancelled, lapsed in accordance with this Scheme or exercised Earned Options) will not be counted for the purpose of calculating such limit as refreshed. In such a case, the Company shall send a circular to the Shareholders containing the information required under the Listing Rules.

- (iii) The Company may seek separate approval by the Shareholders in general meeting for granting Options beyond the 10% limit provided the Options in excess of such limit are granted only to Eligible Employees specifically identified by the Company before such approval is sought. In such a case, the Company shall send a circular to the Shareholders containing, amongst other terms, a generic description of the specified Eligible Employee(s) who may be granted such Options, the number of Shares subject to the Options to be granted, the terms of the Options to be granted, the purpose of granting Options to the specified Eligible Employee(s), an explanation as to how these Options serve such purpose and such other information as required under the Listing Rules.
- (B) Notwithstanding any other provisions in this Scheme, the limit on the number of Shares which may be issued and/or transferred upon exercise of all outstanding Earned Options granted and yet to be exercised under this Scheme and any other share options schemes of the Company adopted under Chapter 17 of the Listing Rules must not exceed 30% of the Shares in issue from time to time (or such higher percentage as may be allowed under the Listing Rules). No Options may be granted under this Scheme and any other share option schemes of the Company adopted under Chapter 17 of the Listing Rules if this will result in such limit being exceeded.
- (C) Subject as aforesaid, Options may be granted on one or more occasions to any one or more Eligible Employees to acquire such number or numbers of Scheme Shares as the Board may determine, PROVIDED THAT, unless approval shall have been obtained in the manner required by the Note to rule 17.03(4) of the Listing Rules (in its current form or as amended from time to time), no Option may be granted to any Eligible Employee on the terms that would enable such Eligible Employee, if his Options were exercised in full, becoming entitled to acquire, in any 12 month period, such Scheme Shares exceeding in nominal value 1% of the share capital of the Company in issue immediately before such exercise.”

#### **Rule 6 – Acceptance of Offers of Options**

- (i) By deleting the words “offers of Options” and inserting the words “Offers of Options” in the heading of Rule 6.

- (ii) By deleting the words “offers to grant” and inserting the words “an offer of” in place thereof, deleting the words “by way of consideration for the grant” and inserting the words “by way of consideration for the offer” in place thereof, deleting the words “secretary of the Company” and inserting the words “Secretary of the Company” in place thereof, deleting the words “an acceptance of an offer to grant” and inserting the words “an acceptance of an offer of” in place thereof, deleting the words “it issues” and inserting the words “is issued” immediately before the words “shall be the “Date of Grant” of that Option” in Rule 6(A).
- (iii) By deleting the words “a grant of” and inserting the word “Scheme” immediately before “Shares” in Rule 6(C).
- (iv) By deleting the words “the grant of” in Rule 6(D).

### **Rule 7 – Rights of Exercise**

By deleting the existing Rule 7 and substituting therefor the following:

“7. Exercise of Earned Options

- (A) Save as provided in Rules 8 and 9, but subject to the terms of grant of the relevant Options, Earned Options may be exercised in whole or in part at any time during the Option Period (or such part or parts of it as may, in the case of any Option, be specified in the terms on which it is offered or as may be determined by the Board).
- (B) Where an Option is granted to an Option Holder subject to the fulfillment of certain conditions (which may include certain performance targets and contribution criteria being met within the relevant period), such Option (or the relevant part thereof) may not be exercised until the Board issues a letter to confirm that such conditions have been satisfied and the number of Scheme Shares under which the Earned Option can be exercised.
- (C) In order for the exercise of an Earned Option to be effective, the Secretary of the Company must, prior to the expiry of the Option Period, have received:
  - (i) a written notice from the Option Holder exercising the Earned Option, signed by or on behalf of the Option Holder and specifying the number of Scheme Shares in respect of which the Earned Option is being exercised;
  - (ii) Option Certificate(s) sufficient to cover the number of Scheme Shares in respect of which the Earned Option is being exercised;
  - (iii) payment in full of the Exercise Price (which the Company accepts as agent for the Trustee if Scheme Shares are to be transferred from the Trust to the Option Holder pursuant to such exercise); and

- (iv) a letter issued by the Board to confirm the fulfillment of the prescribed performance targets and contribution criteria within the relevant period pursuant to Rule 7(B) above, if any.

Unless otherwise agreed between the Company and the Option Holder, Scheme Shares in respect of an Earned Option shall be issued by the Company or transferred from the Trust to the Option Holder within 14 days of the date upon which exercise of an Earned Option becomes effective (being the date of such receipt).

- (D) No Earned Option shall be capable of exercise in part (other than to the full extent outstanding) except in amounts or multiples of such number of Scheme Shares as shall represent the board lot in which Shares are for the time being traded on the Stock Exchange.
- (E) Scheme Shares issued by the Company or transferred from the Trust upon the exercise of an Earned Option shall rank *pari passu* in all respects with the other Shares in issue on the date of such exercise and will be subject to all the provisions of the memorandum and articles of association of the Company for the time being in force. Accordingly, the holders of the Scheme Shares issued or transferred will be entitled to all dividends and other distributions declared or recommended or resolved to be paid or made on or after the date of the issue or transfer other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of issue or transfer.
- (F) All allotments, transfers and issues of Scheme Shares will be subject to any necessary consents under any relevant enactments or regulations for the time being in force in Hong Kong or elsewhere and it shall be the responsibility of the Option Holder to comply with any requirements to be fulfilled in order to obtain or obviate the necessity for any such consent. Any stamp duty payable in respect of the transfer of existing Shares from the Trust to the Option Holders to satisfy the exercise of the Earned Options shall be borne by the Company.
- (G) If the aggregate number of Scheme Shares to which the Option Certificate(s) lodged under paragraph (C) of this Rule relate(s) exceeds the number of Scheme Shares comprised in the notice of exercise of an Earned Option, the Company shall provide an Option Certificate in relation to the balance to the person or persons lodging the same.
- (H) Notwithstanding anything in these Rules to the contrary, the Option Period shall not be extended and, on the expiry of the Option Period, all rights in respect of an Option or an Earned Option shall terminate, except in so far as there has been an effective exercise of the Earned Option prior thereto and the Company has not discharged all its duties under the Scheme in relation to such exercise. No Option or Earned Option may be exercised after the expiry of the Option Period.

- (I) The Company shall keep available sufficient unissued Shares and/or cause the Trustee to hold sufficient existing issued Shares to satisfy the exercise in full of all Earned Options for the time being remaining capable of being exercised.”

**Rule 8 – Takeover Offers, Liquidation and Reconstruction**

- (a) By deleting the words “liquidation and reconstruction” and inserting the words “Liquidation and Reconstruction” in the heading of Rule 8.
- (b) By deleting the existing Rule 8(A) and substituting therefor the following:
- “(A) In the event of a takeover offer being made for the Company by a general offer or otherwise and resulting in a change of control (as shall be notified by the Company or the Board) and upon such takeover offer becoming or being declared unconditional, a holder of Earned Option, unless the Board otherwise determines, shall be entitled within six (6) calendar months of the date on which such takeover offer becomes or is declared unconditional to exercise in whole or in part up to the full extent of the Earned Option remaining unexercised PROVIDED THAT if, during such period, the offeror becomes entitled to exercise rights of compulsory acquisition of Scheme Shares pursuant to section 168 of, and the Ninth Schedule to, the Companies Ordinance, and gives notice in writing to any holders of Shares that he intends to exercise such rights, the Earned Options shall, subject to Rule 7(H), unless the Board otherwise determines, be and remain exercisable until one month from the date of such notice and, to the extent that they have not been exercised, shall thereupon cease and determine.”
- (c) By deleting the words “Rule 7(B)” and inserting the words “Rule 7(H)” in place thereof, deleting the words “unless the Directors otherwise determine” and inserting the words “unless the Board otherwise determines” in place thereof in Rule 8(B).
- (d) By deleting the words “and its members or creditors” and inserting the words “the Shareholders or its creditors” in place thereof, deleting the words “each member or creditor” and inserting the words “each Shareholder or creditor” in place thereof, deleting the words “unless the Directors otherwise determine” and inserting the words “unless the Board otherwise determines” in place thereof, inserting the words “in Hong Kong” immediately after the words “sanctioned by the Court” and inserting the word “Scheme” immediately before the word “Shares” in Rule 8(C).

**Rule 9 – Exercise of Options**

By deleting the existing Rule 9 and substituting therefor the following:

“9. Termination of Options

- (A) Upon the cessation of employment or directorship (as the case may be) of an Option Holder with the Group and the associated companies for whatever reason prior to the exercise of his Option or any part thereof whether earned or unearned, such unexercised Option shall forthwith cease and become incapable of exercise as if the same had never been granted in the first place, PROVIDED THAT subject to the written approval of the Board in its discretion where the Option Holder ceases his employment or directorship (as the case may be) with the Group and the associated companies by reason of:

- (i) ill-health, injury or disability; or
- (ii) other reasons or circumstances which are acceptable to the Board,

he may exercise in whole or in part his unexercised Earned Option within such period as the Board may allow.

- (B) Where an Option Holder retires and is immediately re-employed by the Group or an associated company, upon his re-employment, the Board may at its discretion allow the Option Holder to either:

- (i) exercise in whole or in part his unexercised Earned Option within such period as the Board may allow; or
- (ii) be bound by the provisions of Rule 9(A) as if that Option Holder has never ceased employment.

- (C) In respect of an Option Holder employed under a fixed term employment contract, any Option remaining unexercised upon the:

- (i) cessation of his employment; or
- (ii) expiry of the original period of employment or any extension thereof,

whichever shall first happen, shall, together with the remainder of the Option, forthwith lapse and be of no further effect.

- (D) Upon the bankruptcy of an Option Holder, any and all unexercised portion of the Option shall immediately become null and void and of no further effect as if the same had never been granted in the first place.

- (E) In the event an Option Holder dies before the expiry of the Option Period and at the date of his death holds an Earned Option unexercised in whole or in part, his legal or personal representatives may exercise his entire unexercised Earned Option within such period as the Board may allow.
- (F) If an Option lapses in accordance with the terms of its Option Certificate, any and all unexercised portion of that Option shall immediately become null and void and of no further effect as if the same had never been granted in the first place.”

### **Rule 10 – Adjustments**

By deleting the existing Rule 10 and substituting therefor the following:

“Upon the occurrence of any Relevant Event, the number or nominal amount of Shares comprised in each Option and/or the Option Price thereunder and/or the limit in Rule 7(D) may be adjusted in such manner as the Board (having received a confirmation in writing from the Auditors or an independent financial advisor, acting as experts and not as arbitrator, that the adjustment satisfies the requirement set out in the Note to rule 17.03(13) of the Listing Rules) may deem appropriate PROVIDED THAT such confirmation from the Auditors or the independent financial advisor (as the case may be) shall be required other than in the case of an adjustment on a capitalisation issue. Notice of any such adjustments shall be given to the Option Holders by the Company, which may, but need not, call in Option Certificates for endorsement or replacement. The costs of the Auditors or the independent financial advisor shall be borne by the Company.”

### **Rule 11 – Grant of Options to Connected Persons**

By deleting the words “The independent non-executive directors of the Company (excluding any independent non-executive director of the Company who is the grantee of the Options)” and inserting the words “The Board” in place thereof, inserting the words “an Eligible Employee who is” immediately before the words “a director, chief executive”, deleting the words “If a grant of Options to a substantial shareholder” and inserting the words “In addition to Rule 5, if a grant of Options to a substantial shareholder” in place thereof, deleting the words “Shares issued and to be issued upon exercise of Options” and inserting the words “Scheme Shares issued/transferred and to be issued/transferred upon exercise of Options” in place thereof, deleting the words “shareholders of the Company” and inserting the words “Shareholders in general meeting” in place thereof and deleting the words “circular to the shareholders” and inserting the words “circular to the Shareholders containing all those terms as required under the Listing Rules” in place thereof.

**Rule 12 – Cancellation**

By deleting the words “Rule 13 of The Hong Kong Code on Takeovers and Mergers” and inserting the words “rule 13 of the Code on Takeovers and Mergers” in place thereof.

**Rule 13 – Administration**

- (a) By inserting the words “or the company of which he is a director (as the case may be)” immediately before the words before “or sent to him at his place of work” in Rule 13(A).
- (b) By deleting the word “its” and inserting the word “the” in place thereof in Rule 13(B).
- (c) By deleting the existing Rule 13(C) in its entirety.
- (d) By renumbering the existing Rule 13(D) to Rule 13(C), deleting the word “Directors” and inserting the word “Board” in place thereof, deleting the word “statement” and inserting the word “confirmation” in place thereof and inserting the words “or an independent financial advisor” immediately before the words “if so required by Rule 10”.
- (e) By renumbering the existing Rule 13(E) to Rule 13(D).
- (f) By renumbering the existing Rule 13(F) to Rule 13(E) and deleting the word “Directors” and inserting the word “Board” in place thereof.
- (g) By inserting the following new Rule 13(F) and Rule 13(G):
  - “(F) In the event that the Board decides to satisfy the exercise of any Earned Options by the transfer of existing Shares to any Eligible Employee:
    - (i) the Board may direct the Trustee to acquire existing Shares and to hold such Shares in trust for the Eligible Employees for the purpose of the Scheme, and to transfer such Shares to the Eligible Employees in satisfaction of the exercise of any Earned Options by any Eligible Employee; and
    - (ii) the Group may provide money or other permissible financial assistance under the Companies Ordinance to enable the Trustee to acquire existing Shares to be held in trust for the Eligible Employees for the purpose of the Scheme.
  - (G) Notwithstanding the foregoing and subject to Rule 11, no Shares shall be transferred by the Trust to any Eligible Employee who is not an employee of any member of the Group pursuant to any exercise of Earned Options unless such transfer is not prohibited under the Companies Ordinance.”

**Rule 14 – Variation and Termination**

- (a) By deleting the words “and termination” and inserting the words “and Termination” in the heading of Rule 14.

- (b) By deleting the word “The Directors may from time to time in their absolute discretion waive or amend such of the Rules of the Scheme as they deem desirable” and inserting the words “The Board may from time to time in its absolute discretion waives or amends these Rules as it deems” in place thereof, deleting the words “Rules 5(A) and 5(B)” and inserting the words “Rules 5(A), 5(B) and 5(C)”, deleting the words “the exercise of Options under Rule 9(A) and/or Rule 9(B)” and inserting the words “the exercise of Earned Options under Rule 7(C) and/or Rule 7(D)” in place thereof, deleting the words “rights to be attached to Shares issued upon the exercise of Options under Rule 9(C)” and inserting the words “rights to be attached to Scheme Shares upon the exercise of Earned Options under Rule 7(E)” in place thereof, deleting the word “Holders” and inserting the word “holders” in place thereof and deleting the words “Subscription Price upon exercise of an Option under Rule 9(A)(iii)” and inserting the words “Exercise Price upon exercise of an Earned Option under Rule 7(C)(iii)” in place thereof in Rule 14(A).
- (c) By deleting the words “Holders of Earned Options” and inserting the words “holders of Options” in place thereof in Rule 14(B).
- (d) By deleting the word “Directors” and inserting the word “Board” in place thereof and inserting the words “by resolution in general meeting” immediately after the words “at any time” in Rule 14(C).

### **Rule 15 – Governing Law**

By deleting the words “with Hong Kong law” and inserting the words “with the Listing Rules and Hong Kong law in force from time to time”.

### **Option Certificate**

By deleting the words “subscribe for” and inserting the word “acquire” in place thereof, deleting the words “the executive committee, at the subscription price set out below” and inserting the words “the board of directors of the company, at the exercise price set out below” in place thereof, deleting the words “dated 5th June 2002” and inserting the word “[Date]” in place thereof, deleting the words “adopted on 26th May 2000” and inserting the words “adopted on 23rd May 2003” in place thereof, deleting the words “subscription price” and inserting the words “exercise price” in place thereof in the table and inserting “The date and number of shares set out in this option certificate and any amendment and updating thereto must be confirmed and initialled by a director or the secretary of the company.” immediately after the words “not assignable or transferable.”.



## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to LSHK. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares, underlying shares and debentures of LSHK or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to LSHK and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by LSHK referred to therein, or which were required to be notified to LSHK and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) in the Listing Rules, were as follows:

### (i) LSHK

#### *Interest in shares and underlying shares*

Name of director	Nature of interest	Number of shares/ underlying shares held	Notes	Total	Approximate percentage of total issued share capital of LSHK
WHANG Tar Choung	Personal	5,337,637			
	Family	4,222,534			
	Persons acting in concert	168,354,476	(a) & (b)	177,914,647	73.11%
NG Ping Kin, Peter WHANG Sun Tze	Personal	100,000		100,000	0.04%
	Personal	27,123,743			
	Corporate	19,326	(c)		
	Persons acting in concert	150,790,035	(a) & (d)	177,933,104	73.12%
LO Kwong Chi, Clement	Personal	373,754		373,754	0.15%

(i) LSHK (continued)

Interest in shares and underlying shares (continued)

Name of director	Nature of interest	Number of shares/ underlying shares held	Notes	Total	Approximate percentage of total issued share capital of LSHK
KWEK Leng Hai	Personal	2,300,000		2,300,000	0.95%
TAN Lim Heng	Personal	274,000		274,000	0.11%
James ENG Jr.	Personal	619,000		619,000	0.25%
HO King Cheung	Personal	30,690		30,690	0.01%
YONG Weng Chye	Personal	132,000		132,000	0.05%

(ii) Associated corporations

(1) Interests in shares and underlying shares

Name of associated corporations	Name of director	Nature of interest	Number of shares/ underlying shares held	Notes	Total	Approximate percentage of total issued share capital of associated corporations
Hong Leong Company (Malaysia) Berhad	KWEK Leng Hai	Personal	400,500		400,500	2.50%
M.C. Packaging Offshore Limited	NG Ping Kin, Peter	Personal	3,000		3,000	0.36%
Guoco Group Limited	KWEK Leng Hai	Personal	3,670,775		3,670,775	1.12%
	TAN Lim Heng	Personal	559,230		559,230	0.17%
	James ENG Jr.	Personal	565,443		565,443	0.17%
	TSANG Cho Tai	Personal	1,000		1,000	0.00%

(ii) Associated corporations (continued)

(1) Interests in shares and underlying shares (continued)

Name of associated corporations	Name of director	Nature of interest	Number of shares/ underlying shares held	Notes	Total	Approximate percentage of total issued share capital of associated corporations
GuocoLand Limited	WHANG Tar Choung	Personal	12,500		12,500	0.00%
	WHANG Sun Tze	Family	66,600		66,600	0.01%
	KWEK Leng Hai	Personal	19,851,140		19,851,140	2.98%
	TAN Lim Heng	Personal	1,000,000		1,000,000	0.15%
	James ENG Jr.	Personal	200,000		200,000	0.03%
	TSANG Cho Tai	Personal	200,000		200,000	0.03%
Hong Leong Bank Berhad	WHANG Sun Tze	Family	129,000		129,000	0.01%
	KWEK Leng Hai	Personal	3,955,700		3,955,700	0.26%
Hong Leong Credit Berhad (“HLCB”)	WHANG Sun Tze	Family	534,092		534,092	0.05%
	KWEK Leng Hai	Personal	2,316,800	(e)	2,316,800	0.22%
	TAN Lim Heng	Personal	245,700		245,700	0.02%
Hong Leong Industries Berhad (“HLI”)	WHANG Sun Tze	Family	105,600		105,600	0.05%
	KWEK Leng Hai	Personal	215,312	(f)	215,312	0.10%
GuocoLand (Malaysia) Berhad (formerly known as Hong Leong Properties Berhad)	KWEK Leng Hai	Personal	226,800		226,800	0.03%
	TAN Lim Heng	Personal	73,710		73,710	0.01%
Hume Industries (Malaysia) Berhad	WHANG Sun Tze	Family	12,667		12,667	0.01%
HLG Capital Berhad	KWEK Leng Hai	Personal	500,000		500,000	0.41%

(2) *Interests in debentures*

<b>Name of associated corporation</b>	<b>Name of director</b>	<b>Nature of interest</b>	<b>Amount of debentures held <i>Malaysian Ringgit</i></b>	<b>Total <i>Malaysian Ringgit</i></b>
Hong Leong Industries Berhad	KWEK Leng Hai	Personal	165,000	165,000

*Notes:*

- (a) The total interests disclosed herein represent the interests in 177,914,647 Shares which the respective parties held by virtue of Section 317 of the SFO in relation to the interests in shares pursuant to the shareholders' agreement and the supplemental agreement both dated 27 May 1997 entered into by Guoinvest International Limited ("Guoinvest") and, inter alia, Dr. WHANG Sun Tze (alias: WHANG Siong Tiat), Mr. WHANG Tar Choung, Madam TEO Joo Yee, T.C. Whang & Company (Private) Limited ("T.C. & Co.") and Raven Investment Company Limited ("Raven") and the Novation Agreement dated 5 September 2003 entered into by Guoinvest, GuoLine International Limited (a sister subsidiary of Guoinvest, "Guoline"), Dr. WHANG Sun Tze (alias: WHANG Siong Tiat), Mr. WHANG Tar Choung, Madam TEO Joo Yee, T.C. & Co. and Raven.
- (b) The interests of person acting in concert disclosed represent the deemed interests of Mr. WHANG Tar Choung in 168,354,476 Shares referred to in Note (a) above.
- (c) The interests disclosed represent the corporate interests of Dr. WHANG Sun Tze in 18,457 Shares and 869 Shares held by SGR Investment Company Limited ("SGR") and T.C. & Co. respectively. Dr. WHANG Sun Tze holds 35.41% and 59.52% interests in SGR and T.C. & Co. respectively.
- (d) The interests of person acting in concert disclosed represent the deemed interests of Dr. WHANG Sun Tze in 150,790,035 Shares referred to in Note (a) above.
- (e) The interests of Mr. KWEK Leng Hai represent the interests in 2,156,000 ordinary shares of HLCB and 160,800 underlying shares of listed physically settled options issued by HLCB.
- (f) The interests of Mr. KWEK Leng Hai represent the interests in 163,200 ordinary shares of HLI and 52,112 underlying shares of listed physically settled options issued by HLI.

All the interests disclosed in sub-paragraphs (i) and (ii) above represent long position in the Shares or ordinary shares of associated corporations save as otherwise specified in the notes above.

- (b) As at the Latest Practicable Date, so far as was known to the Directors, the interest of the Shareholders in the Shares and underlying shares of LSHK which were notified to LSHK and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of shareholder	Number of Shares held	Notes	Approximate percentage of total issued share capital of the Company
Raven Investment Company Limited ("Raven")	177,914,647	(A)+(B)	73.11%
T.C. Whang & Company (Private) Limited ("T.C. & Co.")	177,914,647	(A)+(C)	73.11%
TEO Joo Yee	177,914,647	(A)+(D)	73.11%
Hong Leong Company (Malaysia) Berhad ("HLCM")	177,914,647	(A)+(E)+(F)	73.11%
QUEK Leng Chan ("QLC")	177,914,647	(A)+(E)+(F)	73.11%
HL Holdings Sdn Bhd ("HLH")	177,914,647	(A)+(E)+(F)	73.11%
Hong Leong Investment Holdings Pte Limited ("HLIH")	177,914,647	(A)+(E)+(F)	73.11%
Kwek Holdings Pte Limited ("KH")	177,914,647	(A)+(E)+(F)	73.11%
Davos Investment Holdings Private Limited ("Davos")	177,914,647	(A)+(E)+(F)	73.11%
Kwek Leng Kee ("KLK")	177,914,647	(A)+(E)+(F)	73.11%

*Notes:*

- (A) The total interests disclosed herein represent the interests in 177,914,647 Shares which the respective parties held by virtue of Section 317 of the SFO in relation to the interests in shares pursuant to the shareholders' agreement and the supplemental agreement both dated 27 May 1997 entered into by Guoinvest and, inter alia, Dr. WHANG Sun Tze (alias: WHANG Siong Tiat), Mr. WHANG Tar Choung, Madam TEO Joo Yee, T.C. & Co. and Raven and the Novation Agreement dated 5 September 2003 entered into by Guoinvest, GuoLine, Dr. WHANG Sun Tze (alias: WHANG Siong Tiat), Mr. WHANG Tar Choung, Madam TEO Joo Yee, T.C. & Co. and Raven.
- (B) The interests disclosed comprise (i) own interest of Raven in 1,221,205 Shares and (ii) the deemed interest in 176,693,442 Shares held by other parties referred to in Note (A) above.
- (C) The interests disclosed comprise (i) own interest of T.C. & Co. in 869 Shares and (ii) the deemed interest in 177,913,778 Shares held by other parties referred to in Note (A) above.
- (D) The interests disclosed comprise (i) own interest of Madam TEO Joo Yee in 4,222,534 Shares and (ii) the deemed interest in 173,692,113 Shares held by other parties referred to in Note (A) above.
- (E) The interests disclosed comprise (i) the corporate interests in 140,008,659 Shares held through GuoLine and (ii) the deemed interest in 37,905,988 Shares held by other parties referred to in Note (A) above.
- (F) Both Guoinvest and GuoLine are wholly-owned subsidiaries of GuoLine Capital Assets Limited which in turn is a wholly-owned subsidiary of HLCM. By virtue of Section 316(2) of the SFO, HLCM is held as to 49.11% and 34.49% by HLH and HLIH respectively. HLH is wholly-owned by QLC. KLK holds 41.92% interest in Davos which in turn holds 33.59% interest in HLIH and KH holds 49% interest in HLIH.

All the interests disclosed under this paragraph represent long position in the Shares.

- (c) Save as disclosed above, as at the Latest Practicable Date:
- (i) so far as was known to the Directors, none of the Directors or chief executives of LSHK had any interest or short positions in any Shares or underlying shares or interests in debentures of LSHK or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to LSHK and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to LSHK and the Stock Exchange; and
  - (ii) there was no person known to the Directors who had an interest or short position in the Shares and underlying shares of LSHK which would fall to be disclosed to LSHK and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of LSHK, or any options in respect of such capital.

### 3. DIRECTORS' INTERESTS IN CONTRACTS

- (a) As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.
- (b) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 30 June 2005 (being the date to which the latest published audited consolidated accounts of LSHK were made up), acquired or disposed of by, or leased to LSHK or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.
- (c) Save as disclosed, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

### 4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 30 June 2005 (being the date to which the latest published audited consolidated accounts of LSHK were made up).

**5. EXPERT**

- (a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Access Capital Limited	a licensed corporation under the SFO which engages in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities

- (b) (i) Access Capital does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.
- (ii) Access Capital does not have any direct or indirect interest in any assets which have been since 30 June 2005 (being the date to which the latest published audited consolidated accounts of LSHK were made up) acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.
- (iii) Access Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice dated 1 April 2006 and the references to its name, in the form and context in which they respectively appear.

**6. LITIGATION**

So far as the Directors are aware, neither LSHK nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against LSHK or any of its subsidiaries as at the Latest Practicable Date.

**7. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office address of LSHK at 3rd Floor, Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong during normal business hours on any business day up to and including 18 April 2006:

- (a) the proposed revised Share Option Scheme;
- (b) the draft Trust Deed;
- (c) the letter from Access Capital, the text of which is set out in this circular; and
- (d) the written consent referred to in the paragraph headed “Expert” of this appendix.

**8. MISCELLANEOUS**

- (a) The share registrar and transfer office of LSHK is Hongkong Managers and Secretaries Limited of Citicorp Centre, 26th Floor, 18 Whitfield Road, Causeway Bay, Hong Kong.
- (b) The company secretary of LSHK is Ms. Cheng Man Ying. Ms. Cheng is an associate member of The Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Companies Secretaries.
- (c) The qualified accountant of LSHK is Mr. Yu Tai Tei. Mr. Yu has a Doctor degree and a Master degree in Business Administration from Hong Kong Polytechnic University and Warwick University respectively. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators respectively; as well as a member of the Certified General Accountants Association of Canada.
- (d) The translation into Chinese language of this circular is for reference only. In the event of any inconsistency, the English text of this circular shall prevail over the Chinese language text.





## LAM SOON (HONG KONG) LIMITED

*(Incorporated in Hong Kong with limited liability)*  
(Stock Code: 411)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of Lam Soon (Hong Kong) Limited (the “Company”) will be held at 50th Floor, The Center, 99 Queen’s Road Central, Hong Kong on Tuesday, 18 April 2006 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without modifications as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. **“THAT** the proposed amendments to the terms of the Share Option Scheme (referred to as “Revised Share Option Scheme” after the proposed amendments have been approved) as set out in the Appendix I to the circular to the shareholders of the Company dated 1 April 2006 (the “Circular”), a copy of which has been produced to this meeting marked “A” and signed by the Chairman of this meeting for the purpose of identification, be and are hereby approved and the board of directors of the Company be and is hereby authorised to do all such acts and to enter into all such transactions and arrangements, including but not limited to the entering into of the Trust Deed and all transactions contemplated thereunder or in connection therewith, as may be necessary or expedient in order to give effect to the Revised Share Option Scheme.”
2. **“THAT**, subject to ordinary resolution no. 1 being approved, the Grant of Options and the Grant of Loans (both as defined in the Circular, a copy of which has been produced to this meeting marked “A” and signed by the Chairman of this meeting for the purpose of identification) which may occur from time to time be generally and unconditionally approved and that any one director of the Company be and is hereby authorised to do all such further acts and things and execute all such further documents and take all such steps which in his/her opinion may be necessary, desirable or expedient to implement and/or give effect to the Grant of Options and the Grant of Loans.”

By Order of the Board  
**Cheng Man Ying**  
*Company Secretary*

Hong Kong, 1 April 2006

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Registered Office:*

21 Dai Fu Street  
Tai Po Industrial Estate  
Tai Po  
New Territories  
Hong Kong

*Notes:*

1. A shareholder entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy does not need to be a shareholder of the Company.
2. A form of proxy for use at the meeting is enclosed with the circular to the shareholders of the Company.
3. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the registered office of the Company at 3rd Floor, Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting, as the case may be. Completion and return of the form of proxy will not preclude a shareholder from attending and voting at the meeting if the shareholder so desires.
4. Where there are joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting personally or by proxy, then one of the said persons so present whose name stands first on the register in respect of such Share shall alone be entitled to vote in respect thereof.