

1. INTRODUCTION

Kee Shing (Holdings) Limited (the "Company") is committed to establish and maintain high standards of corporate governance – the process by which the Group is directed and managed, risks are identified and controlled and accountability assured.

This Corporate Governance Report is to outline the major principles of the Company's governance. It intends to describe how the Group has applied the Code Provisions set out in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 to the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited ("The Stock Exchange"). It also highlights key changes and/or progress of the Company made to comply with the Code. Shareholders are encouraged to make their views known to the Group with concerns of the Company's corporate governance issues and to directly raise any matters of concerns to the Chairman. The Chairman will be present in the Annual General Meeting to be held on 28th May 2007 to share views on matters of concerns.

2. STATEMENT OF COMPLIANCE

The Company considers that it has complied with the Code Provisions in the Code during the accounting period ended 31st December, 2006.

In accordance with the required standard set out in the Model Code for Securities Transaction by Directors of Listed Issuers ("the Model Code") contained in Appendix 10 of the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by directors on terms no less exacting than the required standard set out in the Model Code. The Group has also adopted the securities dealing policy setting out the Company's policy and rules governing the dealings in the securities of the Company by all employees of the Company and its subsidiaries and a confidentiality policy setting out the responsibilities of all employees of the Group in dealing with the Group's information that is considered to be confidential.

For the accounting period ended 31st December, 2006, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the Company's codes of conduct regarding Directors' securities transactions.

3. MISSION OF THE BOARD

The Board is collectively responsible for the success and interest of the Group through leadership and supervisions. The principal tasks of the Board are:

- Provide entrepreneurial leadership of the Company with a framework of prudent and effective controls which enables risks to be assessed and managed.
- Set the Company's strategic aims, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives and review management performance.
- Set the Company's values and standards and ensure that its obligations to its shareholders and others are understood and met.

4. MAJOR GOVERNANCE PRINCIPLES

4.1 DIRECTORS

Board Composition

Throughout the accounting period ended 31st December, 2006, the Board comprised four non-executive directors and four executive directors. The Chairman is an executive director. All of them served a full-year in office during 2006. Three non-executive directors, namely Mr. Wong Kong Chi, Mr. Lai Chung Wing, Robert, and Mr. Chan Wing Lee, are considered to be independent within the guidelines set out in Listing Rule 3.13. They are free from any business relationship or other circumstances that could materially interfere with the exercise of independent or objective judgment. Also, the three independent non-executive directors, representing over one-third of the Board, constitute a proper balance of power maintaining for full and effective control of both the Group and its executive management. The names and biographical details of each directors are set out on page 18 of the annual report.

The Group has formed strong management teams in its business areas, comprising both executive directors and senior officers, to develop and exercise both operational and non-operational duties. The team members have ranges of skills, knowledge and experiences necessary to govern the Group's operation. All management team members are required to report directly to the Managing Director. They are also required to meet with

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the Chairman, Managing Directors and other Board's executive directors on a regular basis to report business performances and operational and functional issues. This will allow the Group's management to focus resources more efficiently in decision-making and facilitate daily operation. The names and biographical details of each senior officers are set out on page 19 of the annual report.

Chairman and Managing Director

The Chairman of the Board, Mr. Leung Shu Wing, leads the Board and facilitates the business of the Board and individual director effectiveness, both inside and outside the boardroom. The Chairman plays a key role in the development of the Group's strategy and in ensuring management succession. He also ensures that the principles and processes of the Board are maintained. Throughout the year, he encourages constructive discussion, criticism or debate conducted in the Board and, where appropriate, any matters proposed by other directors for inclusion in the agenda. In conjunction with the Company Secretary, the Chairman sets agenda for meeting of the Board and ensures all directors receiving adequate, complete and reliable information in a timely manner. The Chairman commits to present shareholders' views to the Board and to represent the Board to communicate with shareholders. He also facilitates the relationship among the Board members and ensures the effective contribution of the non-executive directors to the Board.

The Managing Director, Miss Leung Miu King, Marina, is the daughter of the Chairman. She is responsible to lead executive management of the Group. The Managing Director commits to take overall responsibilities for the supervision and the conducts of the Company business and its ordinary operation, in accordance with the policies, strategies and objectives established by the Group.

Responsibilities

Every director commits to give sufficient time and attention to the affairs of the Company. Directors also demonstrate their understanding and commit to high standards of governance. Executive directors bring their perspectives to the Board through their deep understanding of the Group's business. Non-executive directors contribute their own skill and experience, understanding of local and global economics, knowledge of capital markets to the Group's business. The Company is responsible for arranging and funding a suitable development programme for all directors of continuous professional development to develop and refresh their knowledge and skills.

The Board approved the Schedules of Matters Reserved by the Board at 10th August 2005. It set out the Board's duties and activities and the matters reserved for its consideration and decision. The schedule includes the establishment of the Group's long term objectives and commercial strategy, approval and monitoring of budgets, changes of the Group's corporate structure, capital and listing status, approval of financial statements and announcement of results, declaration of dividends, approval of material transactions, appointment and remuneration of board members and senior executives, and other matters more specifically described in the schedule.

The Board also approved the defined role of the Chairman and the Chief Executive Office/ Manager Director as at 10th August, 2005. Under the approved statement, the Board has delegated its authority to the Chief Executive Office/ Manager Director, including the limits of authority that the Chief Executive Office/ Manager Director can execute. The Chief Executive Office/ Manager Director remains accountable to the Board within the limits of delegated authority. The Board shall monitor the performance of the Chief Executive Office/ Manager Director and to ensure whether the Board's objective has been attained.

The Board and its Committees may seek advice from independent professional advice whenever it is considered appropriate. Individual Directors, with the consent of the Chairman of the Board and/or the Chairman of the Audit Committee, may seek independent professional advice on the matter connected with the Company to discharge of his/her responsibility, at the Group's expense. No director exercised his/her right during the year.

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Meetings

The Board met six times during the year and the majority of the directors participated in each meeting. Attendance of each director at these meetings is shown in the table below:

	Attended in person	Apologies given
Executive Directors:		
Mr. Leung Shu Wing (<i>Chairman</i>)	6	–
Miss. Leung Miu King, Marina (<i>Managing Director</i>)	6	–
Mr. Wong Chi Kin	6	–
Mr. Wong Choi Ying (<i>Company Secretary</i>)	6	–
Non-Executive Directors:		
Mr. Yuen Tin Fan, Francis	4	2
Mr. Wong Kong Chi (<i>Independent</i>)	6	–
Mr. Lai Chung Wing, Robert (<i>Independent</i>)	6	–
Mr. Chan Wing Lee (<i>Independent</i>)	6	–

The Company Secretary, Mr. Wong Choi Ying, kept detailed minutes of each meeting including any dissenting views expressed by the directors. He is also responsible to ensure the Board procedures are complied with and advises the Board on governance matters. All agenda, relevant materials and document are sent out at least 3 days prior the intended date before the Board or the Committee meeting. The Company Secretary sent the draft version of the Board and Committee minutes to all directors for comments within reasonable time after the Board or the Committee and final versions of the Board and Committee minutes are also sent to all directors for record. Moreover, he is responsible for keeping all directors updated on Listing Rules, regulatory requirements, as well as internal codes of conduct of the Company.

Appointment, Re-election and Removal

All the non-executive directors of the Company have entered into service agreements with the Company for a specific term of two years commencing on 8th November, 2005 in the case of Messrs. Wong Kong Chi, Lai Chung Wing, Robert, and Chan Wing Lee and on 16th December, 2005 in the case of Mr. Yuen Tin Fan, Francis. At least one third of every director, including those appointed for a specific term, retire at each Annual General Meeting pursuant to the Company's existing Articles of Association. All executive director of the Company are not appointed for a fixed term but must submit themselves to shareholders for re-election after three years.

Each new director, executive or non-executive, commits to undertake an induction programme to ensure that he has a proper understanding of his duties and responsibilities. The induction programme includes an overview of the Group's business operation, the Board procedures, matter reserved to the Board, an introduction of the Board Committee, directors' responsibilities and duties, relevant regulatory requirements, copies of minutes of the Board and Board Committees in the past 12 months, and briefings with senior management and site visits (if necessary). The need for director trainings is regularly assessed by the Board. In the fiscal year of 2006, no new Director was appointed.

4.2 REMUNERATION COMMITTEE

The Remuneration Committee met once during the year. Its members are Mr. Wong Kong Chi, Mr. Lai Chung Wing, Robert, Mr. Chan Wing Lee and Mr. Wong Chi Kin. Except Mr. Wong Chi Kin, all three directors are independent non-executive directors. Attendance of each director at these meetings is shown in the table below:

	Attended in person	Apologies given
Non-Executive Directors:		
Mr. Wong Kong Chi (<i>Independent</i>)	1	–
Mr. Lai Chung Wing, Robert (<i>Independent</i>)	1	–
Mr. Chan Wing Lee (<i>Independent</i>)	1	–
Executive Directors:		
Mr. Wong Chi Kin	1	–

The role of the Committee is to assist the Board to oversee the policy and structure of the remuneration of the directors and senior management of the Company and to approve specific remuneration packages of all executive directors and senior management. The duties and responsibilities of the Remuneration Committee are more specifically set out in its Terms of Reference, which is available for inspection at the Company's website www.keeshing.com or by making request to the Company Secretary.

Principles of the Group's remuneration policy

The principles of the Group's remuneration policy are:

- applied to all directors and senior officers for 2006 and, so far as practicable, for subsequent years;
- sufficiently flexible to take account of future changes in the company's business environment and remuneration practice;
- remuneration arrangement be designed to support the business strategy and to align with the interests of the Group's shareholders;
- total reward levels be set at appropriate levels to reflect the competitive market in which the companies and the Group are operating during the year so as to position the best individual for outstanding performance;
- performance-related remuneration be making up at most 55% of the total potential remuneration for executive directors and senior officers;
- performance-related remuneration be subject to the satisfaction of performance over short and long term targets, and the targets be set in the context of the Group's prospects, the prevailing economic environment in which it operates and the relative performance of comparable companies.

Remuneration Rules and Structure

Under the policy's rules, the remuneration package of each executive director and senior management is structured to include:

- an appropriate rate of base compensation for the job of each executive director and senior officers;
- competitive benefit programmes;
- sets of performance measures and targets for performance-related annual and long-term incentive plans based on the appropriate independent advice and/or an assessment of the interests of shareholders of the company and taking into account an appropriate balance of risk and reward for the directors and other participants.

The Committee is responsible to determine whether the preset targets are being met based on the relevant information. Annual review of the base compensation is required. The Committee is also required to set annual targets on different performance measures for each executive director and senior officers, approve the maximum level of total annual bonus over monthly salary as well as the shares of contributions against each performance measure. The Committee is allowed to award additional individual discretionary bonuses but total annual bonus including discretionary bonus is subject to a maximum of 55% of total remuneration of each executive director and senior officer.

The work and findings of the Committee were presented to the Board after the meeting. Minutes of the meeting were made available to all the directors' inspection. No Director was involved in deciding his own remuneration, whether determined by the Remuneration Committee, or in the case of non-executive directors, by the Board.

4.3 EXTERNAL AUDITOR

Auditor Independence

The Board, on the recommendation of Audit Committee, approved the appointment of Deloitte Touche Tohmatsu to perform its audit services to the Group for the fiscal year of 2006. Deloitte Touche Tohmatsu has been the Group's appointed external auditor since its public listing in 1989. A letter from Deloitte Touche Tohmatsu dated 22nd March, 2007 has stated that it complies with the Professional Ethics Statement 1.203A "Independence for Assurance Engagements" and Professional Ethics Guidance 1.308 "Independence for Assurance Engagements" issued by the Hong Kong Institute of Certified Public Accountant.

During the year of 2006, total fees paid to the Group's external Hong Kong auditors, Deloitte Touche Tohmatsu, amounted to HK\$ 1,775,106, of which comprised 19.0% or HK\$ 337,473 were fee for non-audit services, including taxation, secretarial and interim review for the period ended 30th June, 2006.

Financial Reporting

The Board believes that it presents a balanced, clear and comprehensive assessment of the Group position and prospects in all written communication with shareholders. The Board also fully appreciates its responsibilities regarding the preparation of financial statements. The management team provides explanation and information to the Board so as the Board is able to make informed assessment of the financial and other information presented before the Board for approval.

4.4 AUDIT COMMITTEE

The Audit Committee, under the chairmanship of Mr. Wong Kong Chi, consists of three independent non-executive directors. External auditors, executive directors and the Group Assistant Financial Controller are invited to attend the Audit Committee meetings. The Audit Committee met three times during the year. Attendance of each member at these meetings is shown in the table below:

	Attended in person	Apologies given
Non-Executive Directors:		
Mr. Wong Kong Chi (<i>Independent</i>)	3	-
Mr. Lai Chung Wing, Robert (<i>Independent</i>)	3	-
Mr. Chan Wing Lee (<i>Independent</i>)	3	-

Terms of Reference of the Audit Committee are available for inspection at the Company's website www.keeshing.com or by making request to the Company Secretary.

The Audit Committee is required, amongst other things, to oversee the relationship with external auditors, review the Company's annual and interim financial statements, and evaluate the Group's internal controls and risk management systems. During the year, the Committee reviewed annual results of 2005, interim results of 2006, year 2006 audit planning as well as internal controls and risk areas arising during the course of the year. The Committee also reported its work and findings to the Board after each meeting. Minutes of each meeting were kept by the Company Secretary and made available to all Directors.

During the year, the Audit Committee has reviewed the Group's internal controls and risk exposure. Also, it has examined the external auditor's independence including its engagement of non-audit services. No event or condition of material uncertainties was found that may cast significant doubt about the Company's ability to continue as a going concern during the year. Overall result of the review by the Audit Committee is found to be satisfactory.

4.5 INTERNAL CONTROL

It is the responsibility of the Board to ensure the Group maintains sound and effective internal controls to safeguard the shareholders' interests and assets. An annual review has been conducted in relation to the effectiveness of the system of internal control of the Group and it is the Board's responsibility to report the results to the shareholders. This annual review covers all material controls, including financial, operational and compliance controls and risk management functions.

Since 1999, the Audit Committee has conducted a regular review of the Group's internal control and the effectiveness of the system, as well as evaluated risks associated to the Group. In 2006, the Board has also conducted deeper evaluation to the existing internal control system, its effectiveness, and how to manage the risk under current circumstances.

The Broad has constructed the following assessment procedures to ensure sound and effective internal controls:

Control Environment

This environment provides discipline and structure of the whole internal control system. It includes a strong commitment to integrity and high ethical values. The Board has assessed that:

- Organization structure, job duties and scope of authority is clearly and distinctly defined.
- Authorization procedures on each transaction activity are well written.
- Any over-lapping or over-riding in authority and unclear segregation of duties is reported.
- Effectiveness of existing staff performance evaluation is examined.
- Poor-performed staff was located and a procedure of termination is in place.
- All staff has been encouraged to be participated seminars on business ethics/ code of conduct, job-related seminars and knowledge enhancement courses.
- Each staff is aware of the current regulations and rules (including regulatory bodies and government bodies) that the company should commit to comply with.
- The competence levels of each particular job duties have been acquired among each job titles.

Assess Risk associated to the Operating Environment

The Board has listed out a comprehensive list of risk factors and assessed the likelihood each risk factor existed in the operating environment. These risk factors include operating risks, compliance risks, financial risks and business risks. Risk with uncontrollable feature is also determined in the assessment.

All defined risk factors are evaluated by the Board to determine the significance to the Group's impact and the likelihood of the risk occurs in the operating environment. All risk factors which are classified as having a high likelihood of occurrence with significant impact to the Group are sorted out as Zone A risks. All risk factors which are classified as having a low, likelihood of occurrence with significant impact to the Group are sorted out as Zone B risks. All risk factors which are classified as having a high likelihood of occurrence with low impact to the Group are sorted out as Zone C risks. All risks factors which are classified as having a low likelihood of occurrence with low impact to the Group are sorted out as Zone D risks.

Review the Effectiveness of the Existing Control System

After sorting out and reviewing the classification of all risk factors, the Board has reviewed the control strategies, policies, existing control procedures and risk monitoring process that the Group has taken to deal with these risk factors. The Board also reviews any early mechanism is in place to monitor the risk factors and any control action is properly applied to mitigate the risks.

Review the Communication and Information Control in Reporting any Deficiencies, Weakness and Non-compliance Area

An effective information and communication that identify, capture and report operational, financial and compliance-related information in a form and time frame enable the Group to carry out its responsibilities. This includes communication from the top about the importance of control-related matters and the role of individuals, channels for communicating significant information upstream, and also effective communication with external stakeholders.

The Board assesses regular communication between department and the management team is in place. Periodic review of performance, developments, significant risks, new arising risks, major initiatives and other relevant issues in each department or subsidiary are properly brought attention to the management team or the Board. Regular communication between the Board members and the external auditor is carried out at least every three times a year. The Group also, from time to time, collects information from different sources including business seminars, professional bodies or regulatory bodies to update relevant matters relating to the operating environment.

Monitor the adequacy and quality of the internal control performance

Ongoing and regular monitoring is essential for the internal control system and deficiencies in internal control are properly reported to the appropriate level upstream of the organization, which included senior management, the audit committee or the board. The Board understands the frequency of separate evaluations needed for management during the year to have a reasonable assurance about the effectiveness of the internal control system, is a matter of judgment.

During 2006, the Group has adopted an approach that each person responsible for a particular unit or function shall take the form of self-assessment for the effectiveness of controls for their activities. The management and the Board reviewed the division's assessment, together with the evaluations of other divisions. Any deficiency or new risk arising during the year was raised and presented to the Board for assessment; together with proper control strategy or follow-up action taken was submitted. No significant area of concern which may affect shareholders was raised in 2006. For the fiscal year of 2006, no internal audit department was set up in the Group and the Board believed no such need was required in the year ahead.

4.6 DELEGATION BY BOARD

The Board and management fully appreciate their respective roles and are committed to good corporate governance. The Board is responsible for overseeing the processes by which the management identifies business opportunities and risks. The Board's role is not to manage the business and the responsibility of which remains vested in management. The Board has set up a formal schedule of matters specifically reserved for the Board's decision. Matters which the Board considers suitable for delegation are contained in the terms of reference of its Committee. In addition, the Board will receive reports and recommendations from time to time on any matter which it considers significant to the Group.

4.7 COMMUNICATION WITH SHAREHOLDERS

Communication programme for Shareholders

The Group strives to disclose relevant information on its activities to shareholders in an open and timely manner, subject to applicable legal requirements. Communication is achieved through:

- The Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group position and prospects;
- Notices of annual and other general meetings and accompanying explanatory materials;
- Press releases on major development of the Group;
- Disclosures to Stock Exchange and relevant regulatory bodies;
- Response to inquiries from shareholders or media by the Company Secretary;
- Company's website at www.keeshing.com making available, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

Constructive use of Annual General Meetings

The Board values the Annual General Meetings as the principal opportunity to meet shareholders. All executive directors and the chairman of the Audit Committee attended the Annual General Meeting held on 25th May, 2006. Annual Report and Financial Statements and related papers are posted to shareholders for their consideration at least 35 days prior to the Annual General Meeting. Annual General Meeting proceedings are continually reviewed in the light of corporate governance best practices.