

# Chairman's Statement

The Kee Shing Group's sales rose by 14.1% from previous year to HK\$2,241.0 million as prices of most metals that the Group traded reached record highs in 2006. Attributable profit to shareholders was reported at HK\$77.6 million, representing an increase of 10.5% when compared with HK\$70.2 million for the fiscal year ended 31st December, 2005.

Interim dividend of 4.0 Hong Kong cents per ordinary share was declared on 20th September, 2006. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the Board of Directors recommended a final dividend for 2006 of 6 Hong Kong cents per ordinary share (2005: 10.0 Hong Kong cents per ordinary share) payable on or before 21st June, 2007 to shareholders whose names appear on the register of members of the Company as 25th May, 2007.

## BUSINESS REVIEW

The continuation of strong metal commodities prices contributed to the good performance in 2006. However, high commodity prices generate a high working capital to run the business. At the year end, the Group's bank borrowing rose by 79.3% over the fiscal year end of previous year. Inventories as at 31st December, 2006 advanced almost double over that as at 31st December, 2005. Despite of rising working capital, return generated from shareholders' equity for the year was 12.7%, reflecting the fifth consecutive years' increase in return on equity.

Trading segment remained the core earnings generator of the Group. Total revenue and operation profit before interests and tax grew by 14.2% and 8.8% annually to HK\$ 2,219.6 million and HK\$ 71.7 million respectively. The exceptionally strong commodity prices, however, discouraged demand from end-users in China as well as other South-east Asian region. Throughout the year, many factories either closed or sold their business because of unmanageable rally in production cost. Over-stock situation persisted in China market and resulted many suppliers to sell goods at discount. In order to strengthen our position among other suppliers, the management put enormous efforts to review and control risks in inventory, receivable and financing so as to ensure optimal cash-flow cycle and retain our sound financial position for unprecedented volatility in commodity market throughout the year.

Rental income generated from property segment remained stable. High demand for office spaces in Shanghai and Hong Kong has pushed market rents higher. Occupancy rate of the Group's office spaces attained almost 100% throughout the year. The impact of the implementation of stepping-up new measures by the Chinese central government in cooling down China property market greatly affected commercial residential properties in Shanghai. Residential property transaction volumes and prices both fell. The valuation of the portfolio of the Group's investment properties as at 31st December, 2006, thereby, only rose by HK\$ 3.52 million when compared with an increase of the valuation by HK\$ 9.96 million valued as at 31st December, 2005.

The Group's security portfolio reported a satisfactory result mainly due to a solid performance in global equity markets in 2006. A segment profit of HK\$ 17.2 million was recorded for the year of 2006, when compared with HK\$ 10.5 million posted in previous year. On 25th October, 2006, the Group announced the disposal of its entire interest of 16.48% of Asia Commercial Holdings Ltd. at a consideration of HK\$ 37.4 million and the cash settlement was satisfied on 27th October, 2006.

## CORPORATE GOVERNANCE

The Group is committed to adopt governance principles and standards to safeguard the interests of shareholders and stakeholders. The Group's Corporate Governance Report is set out on page 11 to page 17 in this Annual Report.

## OUTLOOK

It is undoubtedly that 2006 was a challenging year, including high energy and commodity prices, uncertainties in geopolitical conflicts, competitive pressures from different rivals in China, increasing scrutiny and regulations among governments and regulatory bodies, squeezing profits arising from globalization, and depreciation of asset value denominated in U.S. dollar and Hong Kong Dollar. However, the Group confronted these challenges and experienced a good result in 2006, primarily because of cautious approach in balancing different kinds of risks faced to the Group day to day. All staff in the Group also made substantial efforts and contributions to oversee the Group's business, strategies, internal controls and human development throughout the year. Again, I would like to take this opportunity to thank their commitment.

In the year of 2007, global economic outlook remains positive and China's economic growth is expected to grow strong continuously. Increasing risks with rising energy and commodity prices and uncertainties in geopolitical tension will still cloud the business operating environment. With the continued commitments of our staff, the support of the management team, shareholders, suppliers, customers and bankers, we are confident to focus our expertise and take opportunity to grow our business towards the year 2007.

**LEUNG SHU WING**

*Chairman*

Hong Kong, 12th April, 2007