KA SHUI INTERNATIONAL HOLDINGS LTD:
GIVE THIS COMPANY A WIDE BERTH

Senior Management of Ka Shui International Holdings Ltd () (Code: 822, Main Board, The Stock Exchange of Hongkong Ltd) got caught with its pants, having fallen right down to its proverbial ankles, during the 2005 Financial Year, because, inter alia, it did not hedge its metal requirements on the commodity exchanges of the world, in that Year.

One does not know, even to this day, whether the Company is hedging its requirements, at least in goodly part, on the commodity exchanges of the world, also.

This Company went public in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) on June 12, 2007, and, on scanning the Placing and Public Offer Prospectus, it is difficult for one to be impressed by the performance of this alloy, die-casting Company for the 3 Years, ended December 31, 2006.

TARGET () would go further and state that, all things considered, Ka Shui International could hardly be considered the cat's pyjamas.

At Page 145 of the Prospectus, it is stated, definitively, that the reason that the Company's profits sank, during the 2005 Financial Year, was due, in large part, to a rapid increase in the prices of metal alloy that the Company requires in its production processes.

The following is copied from Page 145 of the Prospectus:

> ***'Year ended 31 December 2005***
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> *'For the year ended 31 December 2005, the Group recorded turnover of approximately HK$348.4 million, representing a decline of approximately 7.3% as compared with that of the year ended 2004. In 2005, metal price experienced a rapid surge. For instance, the price of zinc metal increased by over 50% in the second half of 2005. Given that metal alloy cost accounted for approximately 26.9% of the Group's cost of sales during the year, the surge in metal price increased the cost to the Group and hence, to a lesser extent, indirectly to the Group's customers. The Directors believe that some of the Group's customers had therefore adopted a "wait and see" approach or became more cautious in placing new orders, and thus reduced the total order sizes to the Group during the year. In fact, one of the Group's key customers reduced its orders by over 40% as compared to the orders placed in 2004. The Directors consider that it was the main reason for the decrease in total turnover for the year ended 31 December 2005.*
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> *'The gross profit for the year was approximately HK$66.3 million, representing a gross profit margin of approximately 19.0%. The drop in the Group's gross profit margin from approximately 26.6% for the year ended 31 December 2004 to approximately 19.0% for the year ended 31 December 2005 was principally attributable to:*
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> *'(a) surge in zinc metal price during 2005*
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> *'The Directors believe that since the metal price surge occurred rapidly within a short period of time, the Group's customers initially expected the metal price rally was only temporary and therefore the Group decided and agreed to absorb part of the increased metal cost. The average cost of zinc alloys consumed by the Group had increased from approximately US$1,040 per ton for the*

year ended 31 December 2004 to approximately US$1,470 per ton for the year ended 31 December 2005, representing an increase of approximately 41.3%. As a result, the Group's gross profit margin eroded for the year.'

As is stated above, the cost of metal alloy accounts for about 26.90 percent of the Group's cost of sales and, as such, one would have thought that Senior Management of the Company would have hedged at least part of its metal-alloy requirements on international commodity exchanges in order to cover, to some extent, any violent movement in the cost of the principal raw materials, required in its manufacturing processes.

Unless, of course, as happens only too often in many industries, from garment-making to electroplating to the production of condoms, Senior Management of Ka Shui International was gambling that the price of metal alloy would not rise, appreciably, and, therefore, took no defensive measures to guarantee its profit margin in its core activities.

This is in spite of the fact that Management's duty is to ensure a reasonable profit rather than speculate on the price of metal alloy, rising or falling.

TARGET's criticism **...** CLICK TO ORDER FULL ARTICLE