SINCE 1947

利記控股有限公司
Lee Kee Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 637

Interim Report 2007

CORPORATE INFORMATION

DIRECTORS

Executive Directors
CHAN Pak Chung *(Chairman of the Board)*
CHAN Yuen Shan, Clara
MA Siu Tao
NG Tze For
William Tasman WISE

Independent Non-executive Directors
CHUNG Wai Kwok, Jimmy
LEUNG Kwok Keung
HU Wai Kwok

COMPANY SECRETARY

CHEUK Wa Pang *(CPA (HKICPA), FCCA)*

QUALIFIED ACCOUNTANT

CHEUK Wa Pang *(CPA (HKICPA), FCCA)*

AUDIT COMMITTEE

CHUNG Wai Kwok, Jimmy *(Chairman of the Audit Committee)*
LEUNG Kwok Keung
HU Wai Kwok

REMUNERATION COMMITTEE

CHAN Pak Chung *(Chairman of the Remuneration Committee)*
CHUNG Wai Kwok, Jimmy
LEUNG Kwok Keung

NOMINATION COMMITTEE

CHAN Pak Chung *(Chairman of the Nomination Committee)*
MA Siu Tao
LEUNG Kwok Keung

AUTHORISED REPRESENTATIVES

CHAN Yuen Shan, Clara
CHEUK Wa Pang

REGISTERED OFFICE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
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Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
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COMPLIANCE ADVISER

Cazenove Asia Limited
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LEGAL ADVISERS TO THE COMPANY

As to Hong Kong Law:
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AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
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Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
BNP Paribas Hong Kong Branch
Bank of China (Hong Kong) Limited

STOCK CODE

637

WEBSITE OF THE COMPANY

www.leekeegroup.com

UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Lee Kee Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively "LEE KEE" or the "Group") for the six months ended 30 June 2007 (the "Interim Period"), together with the comparative figures for the corresponding period ended 30 June 2006 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		Six months ended 30 June	
		2007	2006
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**3,057,451**	2,405,654
Cost of sales		**(2,917,114)**	(2,047,323)
Gross profit		**140,337**	358,331
Other income		**16,967**	1,718
Distribution and selling expenses		**(7,854)**	(6,696)
Administrative expenses		**(37,479)**	(20,774)
Other (losses)/gains – net		**(56,197)**	7,110
Operating profit	*5*	**55,774**	339,689
Finance costs	*6*	**(9,643)**	(3,929)
Profit before income tax		**46,131**	335,760
Income tax expense	*7*	**(7,162)**	(59,412)
Profit for the period attributable to the equity holders of the Company		**38,969**	276,348
Earnings per share for profit attributable to the equity holders of the Company			
– Basic (Hong Kong cents)	*8(a)*	**4.70**	46.06
– Diluted (Hong Kong cents)	*8(b)*	**4.66**	46.06
Interim dividend	*9*	**8,300**	–

The notes on pages 6 to 14 form an integral part of these condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Note	**As at 30 June 2007 HK$'000**	As at 31 December 2006 HK$'000 (Audited)
Non-current assets			
Leasehold land	*10*	**23,066**	5,532
Property, plant and equipment	*11*	**31,057**	14,391
Deferred income tax assets		**109**	119
		54,232	20,042
Current assets			
Inventories		**761,368**	759,070
Trade and other receivables	*12*	**303,365**	244,646
Income tax recoverable		**–**	28
Bank balances and cash – unrestricted		**738,208**	727,554
		1,802,941	1,731,298
Total assets		**1,857,173**	1,751,340
Capital and reserves			
Share capital	*13*	**83,000**	83,000
Share premium	*13*	**496,574**	496,574
Other reserves		**675,734**	635,771
Proposed dividend		**8,300**	99,019
Total equity		**1,263,608**	1,314,364
Non-current liability			
Deferred income tax liabilities		**2,134**	2,015
Current liabilities			
Trade and other payables	*14*	**159,126**	126,143
Amount due to a related company		**–**	146
Bank borrowings		**385,049**	268,214
Income tax payable		**46,826**	40,458
Derivative financial instruments		**430**	–
		591,431	434,961
Total liabilities		**593,565**	436,976
Total equity and liabilities		**1,857,173**	1,751,340
Net current assets		**1,211,510**	1,296,337
Total assets less current liabilities		**1,265,742**	1,316,379

The notes on pages 6 to 14 form an integral part of these condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Net cash generated from operating activities	**11,481**	42,209
Net cash used in investing activities	**(19,025)**	(4,183)
Net cash generated from/(used in) financing activities	**17,816**	(11,562)
Net increase in cash and cash equivalents	**10,272**	26,464
Exchange difference on cash and cash equivalents	**382**	–
Cash and cash equivalents at 1 January	**727,554**	71,335
Cash and cash equivalents at 30 June	**738,208**	97,799
Analysis of balances of cash and cash equivalents:		
Bank balances and cash – unrestricted	**738,208**	97,799

The notes on pages 6 to 14 form an integral part of these condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Share capital *HK$'000*	Share premium *HK$'000*	Other reserves *HK$'000*	Total *HK$'000*
At 1 January 2007	**83,000**	**496,574**	**635,771**	**1,215,345**
Exchange difference	**–**	**–**	**510**	**510**
Pre-IPO Share Option Scheme – value of employee services	**–**	**–**	**8,784**	**8,784**
Profit attributable to the equity holders of the Company	**–**	**–**	**38,969**	**38,969**
At 30 June 2007	**83,000**	**496,574**	**684,034**	**1,263,608**
Balance after 2007 interim dividend declared	**83,000**	**496,574**	**675,734**	**1,255,308**
2007 interim dividend declared	**–**	**–**	**8,300**	**8,300**
At 30 June 2007	**83,000**	**496,574**	**684,034**	**1,263,608**

For the six months ended 30 June 2006

	Share capital *HK$'000*	Share premium *HK$'000*	Other reserves *HK$'000*	Total *HK$'000*
At 1 January 2006	10,000	–	341,221	351,221
Profit attributable to the equity holders of the Company	–	–	276,348	276,348
At 30 June 2006	10,000	–	617,569	627,569

The notes on pages 6 to 14 form an integral part of these condensed consolidated interim financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Lee Kee Holdings Limited (the "Company") is engaged in investment holding. The Company and its subsidiaries (together the "Group") are principally engaged in trading of zinc, zinc alloy, nickel, nickel-related products, aluminium, aluminium alloy and other electroplating chemical products.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309 GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 4 October 2006.

These unaudited condensed consolidated interim financial statements are presented in thousands of units of Hong Kong dollars (HK$'000) unless otherwise stated. These unaudited condensed consolidated interim financial statements have been approved by Board of Directors for issue on 22 August 2007.

2. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange. These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

The unaudited condensed consolidated statements of income, changes in equity and cash flows for the six months ended 30 June 2006 of the Group and the notes thereof have been prepared using principles of merger accounting as if the reorganisation undergone by the Group in preparation for the listing of the Company's shares had been completed since the beginning of the period presented.

3. ACCOUNTING POLICIES

The significant accounting policies and method of computation used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006 except for the adoption of interpretations which are relevant and effective for the year ending 31 December 2007 as set out below:

HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the above interpretations did not result in substantial changes to the Group's accounting policies.

The following new standards and interpretations have been issued but are not effective for the year ending 31 December 2007 and have not been early adopted:

HKFRS 8	Operating Segment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements

4. REVENUE

The Group is principally engaged in trading of zinc, zinc alloy, nickel, nickel-related products, aluminium, aluminium alloy and other electroplating chemical products in Hong Kong which accounts for more than 90 percent of the Group's revenue and trading results and more than 90 percent of the Group's total assets are in Hong Kong. Accordingly, no analysis by business and geographical segments has been prepared. Revenue recognised during the period is as follows:

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Revenue		
Sales of goods	**3,057,451**	2,405,654

5. OPERATING PROFIT

The following items have been charged/(credited) to the operating profit during the period:

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Amortisation of leasehold land	**182**	62
Bank interest income	**(16,699)**	(444)
Cost of inventories sold	**2,908,316**	2,045,198
Depreciation of property, plant and equipment	**1,440**	1,006
Loss/(gain) on disposal of property, plant and equipment	**27**	(266)
Loss on metal future trading contracts	**54,201**	385
Operating lease rental for land and buildings	**1,409**	1,949
Provision for inventories	**6,470**	–
Staff costs, including directors' emoluments	**23,808**	8,090

6. FINANCE COSTS

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Interest on trust receipts loans	**9,643**	3,929

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period. Income tax on profits arising from operations in the Mainland China has been calculated on the estimated assessable profit for the period at the rates of income tax prevailing in the Mainland China.

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**6,616**	58,361
– Mainland China enterprise income tax	**416**	–
– Over-provision in prior years	**–**	(56)
	7,032	58,305
Deferred income tax relating to the origination and reversal of temporary differences	**130**	1,107
Income tax expense	**7,162**	59,412

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the period ended 30 June 2007 is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Basic earnings per share for the period ended 30 June 2006 is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares assuming the 599,999,999 shares of the Company issued on 15 September 2006, by way of the capitalisation issue, had been issued on 1 January 2006.

	Six months ended 30 June	
	2007	2006
Profit attributable to the equity holders of the Company (HK$'000)	**38,969**	276,348
Weighted average number of ordinary shares in issue ('000)	**830,000**	600,000
Basic earnings per share (Hong Kong cents)	**4.70**	46.06

(b) Diluted

Diluted earnings per share is calculated based on the profit attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the period, after adjusting for the number of dilutive potential ordinary shares deemed to be issued at no considerations as if all outstanding share options granted by the Company had been exercised.

	Six months ended 30 June 2007
Profit attributable to the equity holders of the Company (HK$'000)	**38,969**
Weighted average number of ordinary shares in issue ('000)	**830,000**
Adjustments for share options ('000)	**6,883**
Weighted average number of ordinary shares for diluted earnings per share ('000)	**836,883**
Diluted earnings per share (Hong Kong cents)	**4.66**

As there were no dilutive potential ordinary shares outstanding as at 30 June 2006, the diluted earnings per share for the six months ended 30 June 2006 is the same as the basic earnings per share of HK46.06 cents.

9. INTERIM DIVIDEND

On 22 August 2007, the Board of Directors has resolved to declare an interim dividend of HK1 cent per share for the six months ended 30 June 2007 (2006: Nil) to shareholders of the Company whose name appears on the register of members of the Company on 12 September 2007. The interim dividend will be paid on or around 18 September 2007.

10. LEASEHOLD LAND

Six months ended 30 June 2007	***HK$'000***
Opening net book amount as at 1 January 2007	**5,532**
Additions	**17,700**
Amortisation	**(182)**
Exchange difference	**16**
Closing net book amount as at 30 June 2007	**23,066**

Six months ended 30 June 2006	*HK$'000*
Opening net book amount as at 1 January 2006	5,156
Amortisation	(62)
Closing net book amount as at 30 June 2006	5,094

The Group's interests in leasehold land represent prepaid operating lease payments.

11. PROPERTY, PLANT AND EQUIPMENT

Six months ended 30 June 2007	***HK$'000***
Opening net book amount as at 1 January 2007	**14,391**
Additions	**18,057**
Disposals	**(63)**
Depreciation	**(1,440)**
Exchange difference	**112**
Closing net book amount as at 30 June 2007	**31,057**

Six months ended 30 June 2006	*HK$'000*
Opening net book amount as at 1 January 2006	8,295
Additions	4,627
Disposals	(1,969)
Depreciation	(1,006)
Closing net book amount as at 30 June 2006	9,947

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2007 ***HK$'000***	As at 31 December 2006 *HK$'000* (Audited)
Trade receivables, net of provision	**245,070**	191,308
Prepayments to suppliers	**45,496**	39,009
Deposits	**7,276**	9,976
Other receivables	**5,523**	4,353
	303,365	244,646

The Group generally offers credit terms to its customers ranging from cash on delivery to 30 days. The ageing analysis of trade receivables, net of provision, is as follows:

	As at 30 June 2007 ***HK$'000***	As at 31 December 2006 *HK$'000* (Audited)
0 to 30 days	**212,157**	173,667
31 to 60 days	**30,204**	16,100
61 to 90 days	**2,318**	1,388
Over 90 days	**391**	153
	245,070	191,308

13. SHARE CAPITAL AND SHARE PREMIUM

Authorised	**Number of ordinary shares**	**Nominal Amount** *HK$'000*
As at 1 January 2006 and 30 June 2006	3,800,000	380
Increase in authorised share capital *(note)*	7,996,200,000	799,620
At 31 December 2006 and 30 June 2007	8,000,000,000	800,000

Note: On 15 September 2006, the Company increased its authorised share capital from HK$380,000 to HK$800,000,000 by the creation of an additional 7,996,200,000 shares of HK$0.10 each ranking pari passu in all respects with the then existing issued shares.

	Number of ordinary shares	**Share capital** *HK$'000*	**Share premium** *HK$'000*
Issued and fully paid:			
As at 1 January 2006 and 30 June 2006	1	–	–
Capitalisation of share premium upon issue of shares *(note (i))*	599,999,999	60,000	(60,000)
Issue of shares for global offering and on the exercise of over-allotment option *(note (ii))*	230,000,000	23,000	591,000
Share issuance expenses	–	–	(34,526)
As at 31 December 2006 and 30 June 2007	830,000,000	83,000	496,574

Notes:

(i) On 15 September 2006, a written resolution was passed by Gold Alliance Global Services Limited ("Gold Alliance"), the then sole shareholder and current immediate holding company of the Company pursuant to which, 599,999,999 shares were allotted and issued to Gold Alliance, credited as fully paid at par, by way of the capitalisation of HK$59,999,999.9 standing to the credit of the share premium account of the Company, subject to the share premium account of the Company being credited by an amount not less than HK$59,999,999.9 as a result of the issue of the shares pursuant to the global offering as detailed in note (ii) below.

(ii) On 4 October 2006, the Company completed a global offering of 200,000,000 shares at a price of HK$2.67 per share in cash. On 20 October 2006, under the underwriting agreements, 30,000,000 shares were allotted and issued at a price of HK$2.67 per share in cash upon the exercise of the over-allotment option by the placing underwriters.

14. TRADE AND OTHER PAYABLES

	As at 30 June 2007	As at 31 December 2006
	HK$'000	*HK$'000*
		(Audited)
Trade payables	**127,081**	77,664
Deposits received	**27,622**	35,851
Accrued expenses	**4,274**	12,354
Amount due to a joint venturer of a jointly controlled entity	**145**	274
Dividend payable	**4**	–
	159,126	126,143

The ageing analysis of trade payables is as follows:

	As at 30 June 2007	As at 31 December 2006
	HK$'000	*HK$'000*
		(Audited)
0 to 30 days	**126,726**	74,785
31 to 60 days	**309**	1
61 to 90 days	**44**	–
Over 90 days	**2**	2,878
	127,081	77,664

15. COMMITMENTS

(a) Operating lease commitments – as a lessee

The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	As at 30 June 2007	As at 31 December 2006
	HK$'000	*HK$'000*
		(Audited)
Not later than one year	**727**	2,044

(b) Capital commitments

The Group's capital expenditure at the balance sheet date but not yet incurred is as follows:

	As at 30 June 2007	As at 31 December 2006
	HK$'000	*HK$'000*
		(Audited)
Leasehold land and property, plant and equipment		
Contracted but not provided for	**19,285**	20,423

The Group's share of capital commitment of a jointly controlled entity is as follows:

	As at 30 June 2007	As at 31 December 2006
	HK$'000	*HK$'000*
Property, plant and equipment		
Authorised but not contracted for	**4,806**	–

16. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the period, the Group has the following related party transactions:

		Six months ended 30 June	
		2007	2006
	Note	***HK$'000***	*HK$'000*
Income			
Management fee received from Genesis Alloys (Ningbo) Limited ("Genesis Ningbo")	*(i)*	**39**	78
Sales of metal to a director	*(ii)*	**–**	10,289
Expense			
Purchase of goods from Genesis Ningbo	*(iii)*	**520**	–
Rental paid to Regal China Properties Limited	*(iv)*	**–**	9
Rental paid to Lee Kee Far East Company Limited	*(iv)*	**–**	720
Disposal of subsidiaries to a director	*(v)*	**–**	59,488
Rental paid to Modern Wealth Limited	*(vi)*	**402**	134

Notes:

(i) During the six months ended 30 June 2006 and up to 14 September 2006, Mr Chan Pak Chung, a director of the Company, had joint control over Genesis Ningbo. On 15 September 2006, the Group acquired 50% interests in a jointly controlled entity, Genesis Recycling Technology (BVI) Limited, which is the holding company of Genesis Ningbo. The Group received management fee from Genesis Ningbo pursuant to the terms of management services agreement entered into with the related company for the provision of operating support services at fixed monthly service fee.

(ii) The Group sold gold to Mr Chan Pak Chung at the prevailing market value on the date of the transaction.

(iii) The Group purchased goods from Genesis Ningbo at prices as agreed by both parties for each transaction.

(iv) The Group paid rental for staff and directors' quarters to Regal China Properties Limited and Lee Kee Far East Company Limited, of which Mr Chan Pak Chung and Ms Ma Siu Tao, a director of the Company, are directors, at fixed sums as agreed by both parties.

(v) The Group disposed of the entire equity interest in Modern Wealth Limited and Wah San Diecasting Company Limited, the then wholly owned subsidiaries and an amount due from Modern Wealth Limited of HK$51,095,000 to Mr Chan Pak Chung in April 2006 at a consideration of approximately HK$59,488,000.

(vi) The Group paid rentals for warehouse and car parking spaces to Modern Wealth Limited of which Mr Chan Pak Chung is a director, at fixed sums as agreed by both parties.

(b) Key management compensation

	Six months ended 30 June	
	2007	2006
	HK$'000	*HK$'000*
Salaries and other short term employee benefits	**6,983**	2,559
Post employment benefits – pension	**75**	73
Share-based payment	**6,949**	–
	14,007	2,632

17. POST BALANCE SHEET EVENT

Exercise of call option deed to acquire Lee Yip Metal Products Company Limited

Pursuant to an extraordinary general meeting of the Company held on 10 August 2007, the shareholders of the Company granted approval to the Company to exercise the call option deed to acquire 70% equity interests in Lee Yip Metal Products Company Limited, representing the entire equity interests held by Mr Chan Pak Chung at the time of exercise of the call option and all indebtedness owned by Lee Yip Metal Products Company Limited to Mr Chan Pak Chung. The consideration has yet been concluded at the date of approval of these unaudited condensed consolidated interim financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Business Performance

The first half of 2007 is proven to be a particularly challenging period for the Group owing to intense competitions from non-ferrous metal suppliers and producers in China. The volatile non-ferrous metal price, in particular prices of SHG zinc and zinc alloy which contributes around 76.3% of the Group's revenue, with an overall downward trend during the period has rendered significant drop of gain in inventory holding when compared to years 2005 and 2006. In order to mitigate the impact of the price volatility, the Group has also entered into metal futures and forward contracts during the period and as a result some of the holding gain was also hedged out. Under our existing hedging mechanism and Hong Kong Accounting Standards, loss incurred on such activities is recorded as "Other (losses)/gains-net" in the income statement.

Despite the adverse operating environment, the Group managed to grow its revenue to approximately HK$3,057.5 million for the first six months of 2007, a 27.1% increase over the corresponding period of 2006 (first half of 2006: approximately HK$2,405.7 million). The Group recorded gross profit of approximately HK$140.3 million and profit attributable to the equity holders of approximately HK$39 million, representing a decline of 60.8% and 85.9% respectively over the corresponding period of 2006. The Group also recorded an effective gross profit of approximately HK$86.1 million (first half of 2006: approximately HK$357.9 million) after taking into account the loss incurred on hedging activities of approximately HK$54.2 million (first half of 2006: approximately HK$0.4 million). Accordingly, the effective gross profit margin fell to 2.8% for the Interim Period.

The decrease was primarily due to the fact that the Group did not make any material gain in inventory holding with respect to non-ferrous metal products supplied by the Group (mainly SHG zinc and zinc alloy) during the first half of 2007. The Group normally maintains a strategic level of inventory with turnover of around 35 to 45 days. This practice had, in the past, enabled the Group to realise higher margins from its products under first-in first-out accounting treatment when worldwide non-ferrous metal prices increase. That explained the higher gross profit margins in the years 2005 and 2006. In the first half of 2007, the Group did not make any material net inventory holding gains as prices for SHG zinc and zinc alloy, which made up a substantial portion of products supplied by the Group, were highly volatile and on an overall downward trend. The price pressure arising from the keen competition in the PRC market further explained the decrease recorded in the effective gross profit margin.

Administrative expenses rose by 80.4% mainly due to the share-based payment of the share options for the first half of 2007, together with an increase in manpower especially in the area on project development.

Business Review

As a leading non-ferrous metal supply chain management group, LEE KEE specialises in metal processing, sourcing and distribution. The Group sources and distributes non-ferrous metals, primarily die-casting zinc alloy and SHG zinc, nickel and nickel-related products, die-casting aluminium alloy and aluminium ingot, and other electroplating chemicals. During the Interim Period, total tonnage sold by the Group fell by about 16.6% to around 85,000 metric tonnes during the first half of 2007 (first half of 2006: 102,000 metric tonnes) amongst the competitive environment in China. The decision by the Group to continue its tight credit control policy since the last quarter of 2006, amidst the relatively high metal price environment, also further explained the reduction in tonnage sold. In fact, the total tonnage of zinc alloy imports into China had dropped in the first half of 2007 due to the fact that some Chinese customers who were unable to absorb the high London Metal Exchange prices had switched to use lower-price domestic alloys.

Despite such unfavorable business environment, the Group has strengthened its leading market position in imported zinc alloy into China with our sales of zinc alloy making up approximately 83.4% of the total zinc alloy import volume of the country, higher than the 73.5% posted in the first half of 2006.

After an exceptional run up in 2006, zinc prices experienced significant volatility but were generally on the down trend during the first half of 2007. To counter this condition, the Group undertook several risk-management measures including placing back-to-back orders with suppliers once orders were made by customers and entering into futures and forward contracts in order to further reducing the time lag between transactions and mitigating the impact of volatile prices. The Group also took a series of internal measures in relation to monitoring and evaluating risk exposure to hedge against material price movements.

In addition to fluctuations of prices of non-ferrous metals, intense competition in China also posed challenges. Immediate measures taken by the management to address this issue included a thorough review of the Group's corresponding business strategies. The Group decided to speed up implementing three main growth initiatives: i) develop a comprehensive distribution network in China; ii) expand upstream and diversify downstream the metals supply chain; and iii) enhance value-added services and sourcing on the supply chain.

To broaden the Group's infrastructure for distribution in China, LEE KEE opened a sales and distribution centre in Shenzhen in March 2007 to cover markets in southern China. During the period, the Group has been resolving various administrative and operation bottlenecks and is on the way to smoothen the operations. The Group is currently awaiting approval for setting up a sales and distribution centre in Wuxi to capitalise on the growth potential in the Yangtze River Delta region. These moves will go towards realising LEE KEE's objective of capturing the immense opportunities that China's die-casting factories offer.

To expand upstream, the Group has initiated plans to boost its zinc alloy and aluminium alloy processing capacities. Its 50%-owned joint venture, Genesis Alloys (Ningbo) Limited ("Genesis Ningbo"), has decided to ram up its existing production capacity of 22,000 metric tonnes per annum to over 40,000 metric tonnes per annum by the fourth quarter of 2007. This will allow LEE KEE to better serve existing and new customers in the Yangtze River Delta region. For the aluminium alloy project, the Group has been actively identifying joint venture partnership and merger and acquisition opportunities. In the second quarter of 2007, the Group entered into agreements to acquire two pieces of land in Zhaoqing, Guangdong, with approximately 51,400 square metres, for establishing its own aluminium alloy processing facility. Construction work is scheduled for the second half of 2007. The production capacity of this plant is expected to reach 50,000 metric tonnes per annum.

To further enhance our Integrated Value Added Services, the Group has purchased analytical equipments which strengthen our technical support capability and offer better customer service in providing analytical services for various types of materials including zinc alloy, aluminium alloy and stainless steel.

During the period under review, the Group has begun setting up a logistics centre equipped with a chemical testing laboratory in Tai Po, which is expected to be opened by the fourth quarter of 2007. The new logistics centre will form an integral part of our supply chain model and enable the Group to offer more efficient logistics support as well as a comprehensive one-stop value-added services and technical support to customers in the region. On the supplier front, the Group obtained more favourable payment term from our suppliers. These solid relationships guaranteed stable and quality supply of non-ferrous metals to LEE KEE.

Prospects

China expansion initiatives that the Group has embarked on to strengthen its metal supply chain model will be the key growth driver going forward. With all the measures taken in the period under review to continue in the second half of 2007, a more substantial contribution from the Group's China operations is expected in 2008.

The operations in our Shenzhen centre will be gearing up to full swing toward the last quarter of 2007, and the opening of the sales and distribution centre in Wuxi by the end of 2007 will mark the broadening of the Group's distribution infrastructure. Towards this same objective, the Group is investigating the feasibility of establishing an office in western part of China, such as Chengdu, and should the plan proceed, it would be opened either by the fourth quarter of 2007 or first half of 2008.

Aiding the Group's upstream expansion, Genesis Ningbo will raise production capacity by the fourth quarter of 2007 to accommodate growing demand in the Yangtze River Delta region. The Group also expects to conclude examination of a merger and acquisition opportunity that would bolster aluminium alloy processing in the fourth quarter of 2007. Also, construction of the Zhaoqing aluminium alloy processing plant is expected to be completed by 2009. In fact, the price of aluminium is comparatively less volatile than those of many other non-ferrous metals whilst its demand has been increasing rapidly, the Group will seek to diversify its sales mix to include more aluminium and aluminium alloys to accommodate the economic dynamics.

On downstream expansion, the Company has obtained the shareholders' approval on 10 August 2007 to exercise the option to acquire 70% interest in Lee Yip Metal Products Company Limited, a company engaged in distribution and processing of stainless steel. The acquisition is expected to be completed in August 2007 which will immediately provide revenue contribution and expand the Group's product offerings complementing its core non-ferrous metals business. As demand for stainless steel products and processing continue to grow robustly in China, the Group is studying various opportunities and proposals to expand this business area.

For achieving more efficient logistics support, the Group's Tai Po logistics centre will be opened in the fourth quarter of 2007. An integral part of the Group's supply chain model, the centre features a chemical testing laboratory which will go towards providing comprehensive, one-stop value-added services and technical support to customers.

To enhance LEE KEE's supplier network, the management will continue to seek for new suppliers, both domestic and foreign, that are able to deliver quality products and present exclusive distribution rights in the Greater China region. With a strong commitment to its customers, the Group will strive at all times to be their preferred supplier of the highest value-add metal products and associated services.

With a flexible and strengthened distribution network in China and the new projects gradually coming in place in the year ahead, the management expects 2008 to be a more rewarding year for the Group. LEE KEE will continue to bolster its infrastructure to ensure it has the ability to capture the enormous opportunities ahead.

Liquidity, Financial Resources and Commodity Price Risk

The Group primarily financed its operation through internal resources, borrowings from banks and capital contributions from our shareholders. As at 30 June 2007, the Group had unrestricted cash and bank balances of approximately HK$738.2 million (31 December 2006: HK$727.6 million) and bank borrowings of approximately HK$385.0 million (31 December 2006: HK$268.2 million). The borrowings, which are short term in nature, were substantially made in HK dollars and US dollars with interest chargeable at market rates and the gearing ratio (total borrowings to total equity) as at 30 June 2007 was 30.5% (31 December 2006: 20.4%). The Group has a current ratio of 304.8% (31 December 2006: 398.0%).

The Group's capital expenditure as at 30 June 2007 but not yet incurred was approximately HK$24.1 million. The Company had issued guarantees to the extent of approximately HK$878.8 million to banks to secure general banking facilities of approximately HK$816.9 million to certain subsidiaries, of which approximately HK$385.0 million was utilised as of 30 June 2007.

The Group adopted internal control systems, including hedging policies, to regularly evaluate and monitor the risk exposure in the metals price and formed a risk management committee to evaluate and monitor hedging activities. In order to minimise exposure to the risk of metals prices' fluctuation, the Group placed back-to-back orders with suppliers after receiving orders from customers whenever possible and engaged in hedging activities to control the Group's exposure (inventory level + pre-arrival buy-in volume – pre-dispatch sell-out volume) within a tolerance limit.

The Group's foreign exchange exposure was mainly resulted from the translation between Hong Kong dollars and United States dollars. The Group did not engage in any instrument to hedge against the foreign exchange risk.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1 cent per share to shareholders of the Company whose names appeared on the register of members of the Company on 12 September 2007. The dividend will be paid on or around 18 September 2007.

CLOSEURE OF REGISTER

The Register of Members of the Company will be closed from Friday, 7 September 2007 to Wednesday, 12 September 2007, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 6 September 2007.

HUMAN RESOURCES

As at 30 June 2007, the Group had approximately 90 employees and the Group's 50% owned joint venture had approximately 40 employees. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, qualification, experience and the prevailing industry practices. The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus and the Group's contribution to mandatory provident funds (or state-managed retirement benefits scheme). Other benefits include share option granted or to be granted under the share option schemes and training schemes.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated corporations

At 30 June 2007, the interests and short positions of each Director and Chief Executive in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO or required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

(I) *Long Position in Shares of the Company*

Name of Director	Capacity	Number of Ordinary Shares in which interested	Approximate percentage of issued Shares
Mr. CHAN Pak Chung *(Note 1)*	Founder of a discretionary trust	600,000,000	72.29%
Mr. MA Siu Tao *(Note 2)*	Beneficiary	600,000,000	72.29%

Notes:

(1) The 600,000,000 Shares are held by Gold Alliance Global Services Limited ("Gold Alliance") whose entire issued share capital is held by Gold Alliance International Management Limited ("Gold Alliance International"), which is in turn held by HSBC International Trustee Limited ("HSBC Trustee") acting as the trustee of the P.C. CHAN Family Trust. The P.C. CHAN Family Trust is an irrevocable discretionary trust set up by Mr. CHAN Pak Chung as settlor and HSBC Trustee as trustee on 6 March 2006. The discretionary objects of which include Ms. MA Siu Tao and the other family members of Mr. CHAN Pak Chung. Mr. CHAN Pak Chung is the settlor of the P.C. CHAN Family Trust and is deemed to be interested in the 600,000,000 Shares held by Gold Alliance under the SFO.

(2) Ms. MA Siu Tao, the spouse of Mr. CHAN Pak Chung and an Executive Director, is deemed to be interested in the 600,000,000 Shares held by Gold Alliance as she is one of the discretionary objects under the P.C. CHAN Family Trust under the SFO.

(II) *Long Position in Underlying Shares of the Company*

Name of Director	Capacity	Description of equity derivatives	Number of underlying Shares
Mr. CHAN Pak Chung	Beneficial owner	Share option	4,705,860
	Family interest	Share option	3,862,740
Ms. MA Siu Tao	Beneficial owner	Share option	3,862,740
	Family interest	Share option	4,705,860
Ms. CHAN Yuen Shan, Clara	Beneficial owner	Share option	2,745,090
Mr. NG Tze For	Beneficial owner	Share option	196,050

Note: Mr. CHAN Pak Chung and Ms. MA Siu Tao were granted options under the Pre-IPO Share Option Scheme to subscribe for 4,705,860 Shares and 3,862,740 Shares respectively. Ms. MA Siu Tao is the spouse of Mr. CHAN Pak Chung. Therefore, pursuant to Part XV of the SFO, Mr. CHAN Pak Chung is deemed to be interested in the share option granted to Ms. MA Siu Tao and Ms. MA Siu Tao is deemed to be interested in the share option granted to Mr. CHAN Pak Chung.

Share options are granted to Directors on 15 September 2006 under the Pre-IPO Share Option Scheme adopted on 15 September 2006 (the "Pre-IPO Share Option Scheme") to subscribe for the Shares at the exercise price of HK$2.136 per share.

Save as disclosed above, as at 30 June 2007, none of the Directors and Chief Executives (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

Substantial Shareholders' Interests and/or Short Positions in the Shares, Underlying Shares of the Company

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 30 June 2007, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executive.

Name of Shareholder	Capacity	Number of Ordinary Shares in which interested	Approximate percentage of issued Shares
Gold Alliance Global Service Limited	Registered owner	600,000,000	72.29%
Gold Alliance International Management Limited	Interest of controlled corporation	600,000,000	72.29%
HSBC International Trustee Limited	Trustee	600,000,000	72.29%

Note: The entire share capital of Gold Alliance is held by Gold Alliance International, which is in turn held by HSBC Trustee acting as the trustee of the P.C. CHAN Family Trust. The P.C. CHAN Family Trust is an irrevocable discretionary trust set up by Mr. CHAN Pak Chung as settlor and HSBC Trustee as trustee on 6 March 2006. The discretionary objects of which include Ms. MA Siu Tao and other family members of Mr. CHAN Pak Chung.

Save as disclosed above, at 30 June 2007, no person, other than the Directors and Chief Executive (including their spouse and children under 18 years of age) had any interest or short positions in the Shares or underlying shares of the Company recorded in the register to be kept under section 336 of the SFO.

Share options

As at 30 June 2007, options granted on 15 September 2006 to 32 participants (including 4 Directors of the Company, 8 Senior Management and 20 other employees of the Group) to subscribe for a total of 21,960,180 Shares of the Company at a subscription price of HK$2.136 per share were outstanding under the Pre-IPO Share Option Scheme which represents approximately 2.577% of the enlarged issued share capital of the Company. Subject to the terms of Pre-IPO Share Option Scheme, the option for each grantee is exercisable in accordance with the following schedule:

Maximum percentage of option exercisable	*Period for exercise of the relevant percentage of the option*
33% of the total number of the options granted to any grantee	From the expiry of the first anniversary of 4 October 2006 (the "Listing Date") to the last day of the fourth anniversary of the Listing Date (both days inclusive)
33% of the total number of the options granted to any grantee	From the expiry of the second anniversary of the Listing Date to the last day of the fifth anniversary of the Listing Date (both days inclusive)
34% of the total number of the options granted to any grantee	From the expiry of the third anniversary of the Listing Date to the last day of the sixth anniversary of the Listing Date (both days inclusive)

The following options under the Pre-IPO Scheme were outstanding during the Interim Period:

	Number of underlying shares		
Participant	**As at 1 January 2007**	**Exercised/ Cancelled/Lapsed during the period**	**As at 30 June 2007**
Directors and Chief Executive of the Company	11,509,740	–	11,509,740
Senior Management of the Group	5,862,570	–	5,862,570
Other employees of the Group	4,587,870	–	4,587,870
Total	21,960,180	–	21,960,180

In addition, the Company also adopted the Share Option Scheme on 15 September 2006. No options had been granted under the said Share Option Scheme since the adoption date on 15 September 2006 and up to 30 June 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Interim Period, there was no purchase, sale or redemption of Shares of the Company by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

To the knowledge of the Directors, they consider that the Company has applied the principles of the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Main Board Listing Rules and to certain extent, of the recommended best practices thereof and are not aware of any non-compliance with the code provisions of the CG Code during the Interim Period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules. The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the Model Code by the Directors during the Interim Period.

On behalf of the Board of Directors

Chan Pak Chung
Chairman

Hong Kong, 22 August 2007