



# 利記控股有限公司

## LEE KEE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

Stock code: 637

股份代號: 637

## Interim Report 2012 中期報告

# Corporate Information

## Directors

### Executive Directors

CHAN Pak Chung  
*(Chairman of the Board)*  
CHAN Yuen Shan, Clara  
*(Vice Chairman of the Board & CEO)*  
MA Siu Tao

### Independent non-executive Directors

CHUNG Wai Kwok, Jimmy  
LEUNG Kwok Keung  
HU Wai Kwok

## Company Secretary

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

## Audit Committee

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

## Remuneration Committee

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

## Nomination Committee

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

## Authorised Representatives

CHAN Yuen Shan, Clara  
CHEUK Wa Pang

## Registered Office

P.O. Box 309 GT, Uglan House,  
South Church Street,  
George Town,  
Grand Cayman, Cayman Islands

## Head Office and Principal Place of Business in Hong Kong

16 Dai Fat Street  
Tai Po Industrial Estate  
New Territories  
Hong Kong

## Website of the Company

[www.leekeegroup.com](http://www.leekeegroup.com)

## Principal Share Registrar and Transfer Office

Butterfield Fund Services  
(Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705, George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited  
26th Floor, Tesbury Centre,  
28 Queen's Road East,  
Hong Kong

## Legal Advisers to the Company

*As to Hong Kong Law:*  
King & Wood Mallesons  
13th Floor, Gloucester Tower  
The Landmark  
Central  
Hong Kong

*As to Cayman Islands Law:*  
Maples and Calder Asia  
1504 One International Finance  
Centre  
1 Harbour View Street  
Central  
Hong Kong

## Auditor

PricewaterhouseCoopers  
*Certified Public Accountants*  
22nd Floor, Prince's Building  
Central  
Hong Kong

## Principal Bankers

The Hongkong and Shanghai  
Banking Corporation Limited  
Hang Seng Bank Limited  
Standard Chartered Bank  
(Hong Kong) Limited  
Industrial and Commercial Bank  
of China (Asia) Limited  
Bank of China (Hong Kong)  
Limited  
DBS Bank (Hong Kong) Limited

## Stock Code

637

## Interim Results (Unaudited)

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 30th June 2012 (the "Interim Period"), together with the comparative figures for the corresponding period ended 30th June 2011 as follows:

### Condensed Consolidated Income Statement

For the six months ended 30th June 2012

	Note	Six months ended 30th June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Revenues	5	1,294,840	1,693,312
Cost of sales		(1,276,559)	(1,617,539)
Gross profit		18,281	75,773
Other income		1,926	1,787
Distribution and selling expenses		(9,027)	(9,681)
Administrative expenses		(37,840)	(35,538)
Other (losses)/gains, net		(17,069)	4,470
Operating (loss)/profit	6	(43,729)	36,811
Finance costs	7	(3,468)	(4,732)
(Loss)/profit before income tax		(47,197)	32,079
Income tax expense	8	(114)	(5,489)
(Loss)/profit for the period		(47,311)	26,590
(Loss)/profit attributable to:			
Equity holders of the Company		(47,311)	26,001
Non-controlling interests		—	589
		(47,311)	26,590
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company			
— basic and diluted (Hong Kong cents)	9	(5.71)	3.14

The notes on pages 7 to 18 are an integral part of this condensed consolidated interim financial information.

Details of dividends payable to equity holders of the Company attributable to (loss)/profit for the period are set out in note 10.

# Condensed Consolidated Statement Of Comprehensive Income

For the six months ended 30th June 2012

	Six months ended 30th June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
(Loss)/profit for the period	<b>(47,311)</b>	26,590
Other comprehensive income for the period:		
Exchange translation differences	<b>(536)</b>	1,096
Movement of available-for-sale financial assets revaluation reserve	<b>10,369</b>	2,180
Other comprehensive income for the period, net of tax	<b>9,833</b>	3,276
Total comprehensive (loss)/income for the period	<b>(37,478)</b>	29,866
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	<b>(37,478)</b>	29,277
Non-controlling interests	—	589
	<b>(37,478)</b>	29,866

The notes on pages 7 to 18 are an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Statement of Financial Position

As at 30th June 2012

	Note	As at 30th June 2012 HK\$'000 (Unaudited)	As at 31st December 2011 HK\$'000 (Audited)
Non-current assets			
Leasehold land	11	15,861	16,100
Property, plant and equipment	12	47,900	53,564
Deferred income tax assets		2,040	1,950
Available-for-sale financial assets	13	23,926	26,412
Prepayment for property, plant and equipment		400	400
		<b>90,127</b>	98,426
Current assets			
Inventories		439,839	829,098
Trade and other receivables	14	204,753	202,573
Income tax recoverable		9,948	9,948
Derivative financial instruments		504	1,344
Bank balances and cash		572,998	446,579
Total current assets		<b>1,228,042</b>	1,489,542
Total assets		<b>1,318,169</b>	1,587,968
Capital and reserves attributable to the equity holders of the Company			
Share capital	15	82,875	82,875
Share premium	15	495,293	495,293
Other reserves		518,008	555,486
Total equity		<b>1,096,176</b>	1,133,654
Non-current liabilities			
Deferred income tax liabilities		2,164	2,501
Current liabilities			
Trade and other payables	16	80,152	111,934
Amount due to a joint venturer of a jointly controlled entity		63	128
Bank borrowings		137,853	338,194
Income tax payable		1,554	1,109
Derivative financial instruments		207	448
		<b>219,829</b>	451,813
Total liabilities		<b>221,993</b>	454,314
Total equity and liabilities		<b>1,318,169</b>	1,587,968
Net current assets		<b>1,008,213</b>	1,037,729
Total assets less current liabilities		<b>1,098,340</b>	1,136,155

The notes on pages 7 to 18 are an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30th June 2012

	Six months ended 30th June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Net cash generated from/(used in) operating activities	<b>329,766</b>	(185,893)
Net cash generated from/(used in) investing activities	<b>418</b>	(4,616)
Net cash used in financing activities	<b>(199,985)</b>	(35,776)
Net increase/(decrease) in cash and cash equivalents	<b>130,199</b>	(226,285)
Exchange (losses)/gains on cash and cash equivalents	<b>(3,780)</b>	4,996
Cash and cash equivalents at 1st January	<b>446,579</b>	602,628
Cash and cash equivalents at 30th June	<b>572,998</b>	381,339
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>572,998</b>	381,339

The notes on pages 7 to 18 are an integral part of this condensed consolidated interim financial information.

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2012

	Attributable to the equity holders of the Company			Non- controlling interests HK\$'000 (Unaudited)	Total equity HK\$'000 (Unaudited)
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Other reserves HK\$'000 (Unaudited)		
At 1st January 2012	82,875	495,293	555,486	—	1,133,654
Total comprehensive loss for the period	—	—	(37,478)	—	(37,478)
At 30th June 2012	82,875	495,293	518,008	—	1,096,176
At 1st January 2011	82,875	495,293	613,554	1,300	1,193,022
Total comprehensive income for the period	—	—	29,277	589	29,866
Dividend paid	—	—	(12,431)	—	(12,431)
At 30th June 2011	82,875	495,293	630,400	1,889	1,210,457

The notes on pages 7 to 18 are an integral part of this condensed consolidated interim financial information.

# Notes to the Condensed Consolidated Interim Financial Information

## 1 General information

The Company was incorporated in the Cayman Islands on 11th November 2005 as an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands. The address of the Company's registered office is Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands.

The principal activity of the Company is investment holding. The principal activities of the Company and its subsidiaries (the "Group") are trading of zinc, zinc alloy, nickel, nickel-related products, aluminium, aluminium alloy, stainless steel and other electroplating chemical products in Hong Kong and Mainland China.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

This condensed consolidated interim financial information is presented in Hong Kong dollars ("HK dollars") and has been approved for issue by the board of directors on 17th August 2012.

This condensed consolidated interim financial information has not been audited.

## 2 Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30th June 2012 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This condensed consolidated interim financial information should be read in conjunction with the annual financial statements of the Group for the year ended 31st December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). Certain comparative figures have been reclassified to conform to the current period's presentation.

## 3 Accounting policies

The significant accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated interim financial information are consistent with those used in preparing the annual financial statements for the year ended 31st December 2011 except for the adoption of HKFRS 7 (Amendment) "Disclosures — Transfer of Financial Assets" which is relevant and mandatory for the Group's accounting period beginning on 1st January 2012. The adoption of the amendment has had no material effect on the interim financial information of the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following relevant new standards and amendments to existing standards have been issued but are not effective for the year ending 31st December 2012 and have not been early adopted:

HKAS 1 (Amendment)	Presentation of Items at Other Comprehensive Income
HKAS 19 (2011)	Employee Benefits
HKAS 28 (2011)	Investment in Associates and Joint Ventures
HKAS 32 (Amendment)	Presentation — Offsetting Financial Assets and Financial Liabilities
HKFRS 7 (Amendment)	Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 9	Financial Instruments
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Annual Improvements 2009–2011 Cycle	Amendments to a Number of HKFRSs Contained in Annual Improvements 2009–2011 Cycle Issued in June 2012



# Notes to the Condensed Consolidated Interim Financial Information

## 4 Estimates

The preparation of this condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group as at and for the year ended 31st December 2011.

## 5 Revenues and segment reporting

The Group is principally engaged in the trading of zinc, zinc alloy, nickel, nickel-related products, aluminium, aluminium alloy, stainless steel and other electroplating chemical products. Revenues recognised during the period are as follows:

	<b>Six months ended 30th June 2012</b>		2011
	<b>HK\$'000</b>	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	(Unaudited)
Revenues			
Sales of goods	<b>1,294,840</b>		1,693,312

### (a) Segment information

	<b>Six months ended 30th June 2012</b>		Six months ended 30th June 2011	
	<b>Revenues</b>	<b>Segment</b>	Revenues	Segment
	<b>HK\$'000</b>	<b>results</b>	HK\$'000	results
	<b>(Unaudited)</b>	<b>HK\$'000</b>	(Unaudited)	HK\$'000
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	(Unaudited)	(Unaudited)
Hong Kong	<b>1,013,907</b>	<b>(28,095)</b>	1,395,679	31,057
Mainland China	<b>280,933</b>	<b>(491)</b>	297,633	(503)
	<b>1,294,840</b>	<b>(28,586)</b>	1,693,312	30,554

The chief operating decision-maker has been identified as the Group's most senior executive management, who collectively review the Group's internal reporting in order to assess performance, allocate resources and make strategic decisions.

The chief operating decision-maker reviews the performance of the Group mainly from a geographical perspective. The Group is organised into two operating segments, namely (i) Hong Kong and (ii) Mainland China. Each operating segment trades various types of metal products.

# Notes to the Condensed Consolidated Interim Financial Information

## 5 Revenues and segment reporting (Continued)

### (a) Segment information (Continued)

The chief operating decision-maker assesses the performance of the operating segments based on a measure of the results (before income tax expense) of each segment. Other income, other (losses)/gains, net and finance costs are not included in the result for each operating segment that is reviewed by the chief operating decision-maker.

Revenue from external customers are after elimination of inter-segment revenue. Sales between segments are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. The revenue from external parties reported to the chief operating decision-maker is measured in a manner consistent with that in the condensed consolidated income statement.

Assets of reportable segments excludes leasehold land, property, plant and equipment, deferred income tax assets, available-for-sale financial assets, prepayment for property, plant and equipment and derivative financial instruments. Liabilities of reportable segments exclude deferred income tax liabilities and derivative financial instruments. These are part of the reconciliation to total assets and liabilities.

An analysis of the Group's segment assets and segment liabilities by operating segment is set out below:

	As at 30th June 2012		
	Hong Kong	Mainland	Total
	HK\$'000	China	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)
<i>Assets</i>			
Segment assets	1,009,940	217,598	1,227,538
Unallocated assets			90,631
Total assets			1,318,169
<i>Liabilities</i>			
Segment liabilities	166,433	53,189	219,622
Unallocated liabilities			2,371
Total liabilities			221,993

# Notes to the Condensed Consolidated Interim Financial Information

## 5 Revenues and segment reporting (Continued)

### (a) Segment information (Continued)

	As at 31st December 2011		
	Hong Kong HK\$'000 (Audited)	Mainland China HK\$'000 (Audited)	Total HK\$'000 (Audited)
<i>Assets</i>			
Segment assets	1,234,939	253,259	1,488,198
Unallocated assets			99,770
Total assets			1,587,968
<i>Liabilities</i>			
Segment liabilities	258,484	192,881	451,365
Unallocated liabilities			2,949
Total liabilities			454,314

### (b) Reconciliation of segment results

	Six months ended 30th June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Total segment results	(28,586)	30,554
Other income	1,926	1,787
Other (losses)/gains, net	(17,069)	4,470
Finance costs	(3,468)	(4,732)
(Loss)/profit before income tax	(47,197)	32,079

# Notes to the Condensed Consolidated Interim Financial Information

## 6 Operating (loss)/profit

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

	Six months ended 30th June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Amortisation of leasehold land	232	225
Bank interest income	(1,196)	(1,378)
Cost of inventories sold	1,279,115	1,608,351
Depreciation of property, plant and equipment	6,344	6,617
Loss on disposal of property, plant and equipment	—	14
(Reversal of provision)/provision for inventories	(3,724)	7,006
Gain on derivative financial instruments	(2,012)	(2,149)
Impairment loss of available-for-sale financial assets	12,856	—
Net exchange loss/(gain)	6,225	(2,335)

## 7 Finance costs

	Six months ended 30th June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Interest on		
Loans against trust receipts	2,261	3,556
Short-term bank loans	1,207	1,176
	3,468	4,732

## 8 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the period. Income tax on profits arising from operations in Mainland China has been calculated on the estimated assessable profit for the period at the rates of income tax prevailing in part of the Mainland China in which the Group's entities operate.

# Notes to the Condensed Consolidated Interim Financial Information

## 8 Income tax expense (Continued)

	Six months ended 30th June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Current income tax		
— Hong Kong profits tax	541	5,257
— Mainland China corporate income tax	—	128
Deferred income tax	(427)	104
Income tax expense	114	5,489

## 9 (Loss)/earnings per share

### (a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to the equity holders of the Company by the number of ordinary shares in issue during the period.

	Six months ended 30th June	
	2012 (Unaudited)	2011 (Unaudited)
(Loss)/profit attributable to the equity holders of the Company (HK\$'000)	(47,311)	26,001
Number of ordinary shares in issue ('000)	828,750	828,750
Basic (loss)/earnings per share (Hong Kong cents per share)	(5.71)	3.14

### (b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of potential ordinary shares which is the share options granted to the directors of the Company and the employees of the Group under the Pre-IPO Share Option Scheme. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted (loss)/earnings per share for the six months ended 30th June 2012 and 2011 are the same as the basic (loss)/earnings per share as the outstanding options for the six months ended 30th June 2012 and 2011 are anti-dilutive.

# Notes to the Condensed Consolidated Interim Financial Information

## 10 Interim dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2012.

An interim dividend for the six months ended 30th June 2011 of HK1 cent per share, amounting to a total dividend of HK\$8,287,000 was approved at the board meeting on 19th August 2011. Such interim dividend has been paid and reflected as an appropriation of retained earnings during the year ended 31st December 2011.

## 11 Leasehold land

<b>Six months ended 30th June 2012 (Unaudited)</b>	<b>HK\$'000</b>
Opening net book amount as at 1st January 2012	16,100
Exchange difference	(7)
Amortisation	(232)
Closing net book amount as at 30th June 2012	15,861
<b>Six months ended 30th June 2011 (Unaudited)</b>	<b>HK\$'000</b>
Opening net book amount as at 1st January 2011	16,522
Exchange difference	17
Amortisation	(225)
Closing net book amount as at 30th June 2011	16,314

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

# Notes to the Condensed Consolidated Interim Financial Information

## 12 Property, plant and equipment

<b>Six months ended 30th June 2012 (Unaudited)</b>	<b>HK\$'000</b>
Opening net book amount as at 1st January 2012	53,564
Exchange difference	(98)
Additions	778
Depreciation	(6,344)
Closing net book amount as at 30th June 2012	47,900
<b>Six months ended 30th June 2011 (Unaudited)</b>	<b>HK\$'000</b>
Opening net book amount as at 1st January 2011	59,672
Exchange difference	302
Additions	6,713
Depreciation	(6,617)
Disposal	(16)
Closing net book amount as at 30th June 2011	60,054

## 13 Available-for-sale financial assets

	<b>As at 30th June 2012 HK\$'000 (Unaudited)</b>	<b>As at 31st December 2011 HK\$'000 (Audited)</b>
Available-for-sale financial assets		
— equity securities, at fair value listed in Hong Kong	17,141	22,854
— unlisted limited partnership, at fair value	6,785	3,558
	<b>23,926</b>	26,412

The equity securities listed in Hong Kong are denominated in Hong Kong dollars while the investment in an unlisted limited partnership is denominated in United Kingdom Pounds.

# Notes to the Condensed Consolidated Interim Financial Information

## 14 Trade and other receivables

	<b>As at 30th June 2012 HK\$'000 (Unaudited)</b>	As at 31st December 2011 HK\$'000 (Audited)
Trade receivables, net of provision	151,257	150,930
Prepayments to suppliers	12,543	6,842
Deposits	970	950
Other receivables	39,983	43,851
	<b>204,753</b>	202,573

The Group offers credit terms to its customers ranging from 30 to 90 days. Trade receivables, based on invoice date, are aged as follows:

	<b>As at 30th June 2012 HK\$'000 (Unaudited)</b>	As at 31st December 2011 HK\$'000 (Audited)
0 to 30 days	119,746	106,331
31 to 60 days	21,320	26,708
61 to 90 days	3,450	6,677
Over 90 days	6,741	11,214
	<b>151,257</b>	150,930



# Notes to the Condensed Consolidated Interim Financial Information

## 15 Share capital and share premium

	Number of ordinary shares	Nominal amount HK\$'000
Authorised:		
As at 31st December 2011 and 30th June 2012	8,000,000,000	800,000

	Number of ordinary shares	Share capital HK\$'000	Share premium HK\$'000
Issued and fully paid:			
As at 31st December 2011 and 30th June 2012	828,750,000	82,875	495,293

## 16 Trade and other payables

	As at 30th June 2012 HK\$'000 (Unaudited)	As at 31st December 2011 HK\$'000 (Audited)
Trade payables	58,125	88,516
Prepayments from customers	14,488	13,002
Accrued expenses	7,539	10,416
	<b>80,152</b>	111,934

Trade payables are aged as follows:

	As at 30th June 2012 HK\$'000 (Unaudited)	As at 31st December 2011 HK\$'000 (Audited)
0 to 30 days	57,707	81,234
31 to 60 days	418	6,996
Over 90 days	—	286
	<b>58,125</b>	88,516

# Notes to the Condensed Consolidated Interim Financial Information

## 17 Commitments

### (a) Operating lease commitments — as lessee

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

	As at 30th June 2012 HK\$'000 (Unaudited)	As at 31st December 2011 HK\$'000 (Audited)
Within one year	1,465	1,310
In the second to fifth years inclusive	53	790
	<b>1,518</b>	2,100

### (b) Capital commitments

The Group's capital expenditure committed at the end of the reporting period but not yet incurred is as follows:

	As at 30th June 2012 HK\$'000 (Unaudited)	As at 31st December 2011 HK\$'000 (Audited)
Contracted but not provided for: Property, plant and equipment	6,451	6,473

## 18 Related party transactions

### (a) Transactions with related parties

Related party transactions carried out during the period were as follows:

	Note	Six months ended 30th June 2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Income			
Management fee received from Genesis Alloys (Ningbo) Limited	(i)	39	39
Expense			
Purchases of goods from Genesis Alloys (Ningbo) Limited	(ii)	24,691	85,545
Rental paid to Sonic Gold Limited	(iii)	240	240

# Notes to the Condensed Consolidated Interim Financial Information

## 18 Related party transactions (Continued)

### (a) Transactions with related parties (Continued)

- (i) The Group received a management fee from Genesis Alloys (Ningbo) Limited, a wholly owned subsidiary of the Group's jointly controlled entity, 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 purchased goods from Genesis Alloys (Ningbo) Limited at prices as agreed by both parties for each transaction.
- (iii) The Group paid rental expenses for directors' quarters to Sonic Gold Limited, a company controlled by Ms Chan Yuen Shan, Clara, a director of the Company, at fixed sums as agreed by both parties.

### (b) Key management compensation

	Six months ended 30th June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and other short term employee benefits	10,106	9,981
Post employment benefits — pension	108	108
	10,214	10,089

# Management Discussion and Analysis

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## Overall Business Performance

The first half of 2012 saw a deepening of the sovereign debt crisis in Europe after Greece accepted a restructuring of its bonds and Spain requested a 30 billion euro bailout of its banks. Meanwhile, economic recovery in the United States proceeded slowly, with unemployment rates remaining well above 8% during the period.

Both of these factors contributed to a slowdown in global demand for Chinese-made products, with export growth in June falling to 11.3%, down from 15.3% in May. This has led many Chinese manufacturers to cut production, precipitating a fall in China's official manufacturing purchasing index to 50.2 in June, down from 50.4 in May. The prevailing economic climate also saw many SME manufacturers struggle to access credit, further depressing manufacturing activity.

This contributed to weaker prices for most base metals, especially zinc (the main product of the Group), which fell around 20.6% in the second half of 2011, from US\$2,365 per metric tonne to US\$1,878 per metric tonne, and fluctuated during Interim Period to close at US\$1,877 per metric tonne on 29th June 2012 on the London Metal Exchange. Nickel, copper and aluminium prices fell approximately 11%, 1% and 8% respectively over the Interim Period.

This combination of falling metal prices, slowing export demand and the ensuing lower manufacturing activity had a strong impact on the performance of LEE KEE in the Interim Period.

Revenue for the first half of 2012 fell 23.5% to approximately HK\$1,295 million, compared to revenue of approximately HK\$1,693 million in the same period of last year. Tonnage sold by the Group fell 15.6% to 64,400 metric tonnes, from 76,320 tonnes in the first half of 2011. Gross profit for the Interim Period fell to approximately HK\$18.3 million, from approximately HK\$75.8 million for the first half of last year. The fall in gross profit is mostly attributable to lower revenue and tonnage sold during the Interim Period; as well as a write-down on the value of the Group's inventory as at 31 December 2011 to reflect the drop in zinc prices.

Distribution and selling expenses during the period fell 6.8% compared to the same period of last year as a result of the lower tonnage sold, while administrative expenses remained fairly stable, rising 6.5%. A depreciation of the Chinese renminbi, which fell 0.9% against the Hong Kong dollar in the first half of the year, resulted in a foreign exchange loss of approximately HK\$4 million on the Group's RMB assets in Hong Kong and its intra-group trading accounts. The Group also recorded an impairment loss of approximately HK\$12.9 million on its investments in shares listed on The Stock Exchange of Hong Kong Limited.

These losses contributed to a significant fall in profit attributable to the equity holders of the Company, with the Group recording a loss of approximately HK\$47.3 million in the first half of the year, down from a profit of approximately HK\$26.0 million during the same period of last year.

# Management Discussion and Analysis

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## **Business Review**

### *A dominant player in the PRC and regional zinc alloy industry*

LEE KEE is a leading metal supply-chain management specialist, supported by professional expertise and decades of experience. It offers unique integrated value added services to its customers, making it a “one-stop shop” for the processing, sourcing and distribution of ferrous and non-ferrous metals, particularly zinc alloy.

Despite the challenging environment in the first half of the year, LEE KEE remains a dominant player in the PRC and regional zinc alloy industry, serving around 1,290 customers in the Greater China Region, as well as Vietnam, Indonesia, Thailand, Singapore and Malaysia. More than 60% of the Group’s revenue comes from manufacturers of toys and leisure goods, household products (such as appliances and furniture) and gift/premium products.

### *Proactively positioned in all major and growing manufacturing centres*

LEE KEE has been proactively expanding its geographical reach in the Greater China region to ensure that it is present in all key industrial centres. It has long maintained a network of strategic sales and distribution centres in major manufacturing hubs in Southern and Eastern China (Wuxi, Shenzhen and Guangzhou), while further expanding its reach into China’s Western regions (opening an office in Chengdu) in line with the PRC government’s “Go West” policy.

Despite weaker demand for the period, each centre continued to expand and strengthen LEE KEE’s relationships with customers, ensuring the Group is well positioned to capture future growth opportunities.

During the first six months of the year, LEE KEE’s sales and distribution centres in the PRC attributed approximately HK\$281 million or 21.7% (first half of 2011: HK\$297 million or 17.6%) of the Group’s total revenue, while 78.3% (first half of 2011: 82.4%) of revenue was attributed to the Group’s principal sales and logistical centre located in Hong Kong, which remains the principal gateway for the import of zinc and other non-ferrous metals into the PRC.

### *Established relationship with suppliers*

LEE KEE maintains strong long-term relationships with a number of non-ferrous metal suppliers around the world in order to safeguard the quality of LEE KEE’s products and maintain a stable supplier base, ensuring the Group can maintain its leading market position. All suppliers are subject to stringent requirements regarding management of production, operating processes and quality control which ensure the Group’s products meet international standards.

# Management Discussion and Analysis

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## *Growing subsidiary businesses increase diversification of revenue*

LEE KEE has also engaged heavily in recent years to develop upstream and downstream business to increase margins and expand its sources of revenue.

Promet Metals Testing Laboratory Limited (“Promet”) is LEE KEE’s wholly-owned materials testing subsidiary which provides in-house technical support and quality assurance, as well as chemical testing and certification. These services have been progressively expanded to clients including raw material producers, product manufacturers, buyers and end customers, in order to help them troubleshoot production defects, minimize production costs and lower the risk of product recalls and litigation. Promet also provides additional revenue stream and higher margins for the Group and is accredited by The Hong Kong Laboratory Accreditation Scheme.

Lee Yip Metal Products Company Limited (“Lee Yip”) is the Group’s wholly-owned stainless steel processing and distribution subsidiary based at LEE KEE’s Tai Po Technology and Logistics Centre in Hong Kong. It provides the Group with an additional revenue stream. With operations in the PRC and Hong Kong, Lee Yip sold approximately 1,830 tonnes of stainless steel in the first half of the year (first half of 2011: 2,590 tonnes) and contributed revenue of approximately HK\$38.7 million (first half of 2011: HK\$57.9 million).

Genesis Alloys (Ningbo) Limited (“Genesis Ningbo”), is the Group’s 50%-owned zinc alloy production joint venture. It was developed to provide an alternative and cheaper source of zinc alloy, supporting the Group’s margins. It produced approximately 5,480 tonnes of zinc alloy (first half of 2011: 8,060 tonnes) and contributed revenue of approximately HK\$23.5 million (first half of 2011: HK\$27.9 million) to the Group during the first half of 2012.

## **Prospects**

Demand for Chinese exports may take a further hit in the second half of the year as Europe’s economic malaise worsens. However, recent fiscal and monetary measures taken by the PRC government to support the domestic economy (including recent interest rate cuts by the People’s Bank of China) may cushion further falls in metal prices.

Despite these challenges, long-term demand for LEE KEE’s products will properly remain strong as populous developing economies, especially China, continue to undergo industrialization and demographic change.

In order to prudently capture these opportunities, LEE KEE will continue to proactively grow and position its business in key areas, such as Eastern and Western China. It will also work to further streamline its operations and strengthen cost control measures in order to adapt to changing market conditions.

# Management Discussion and Analysis

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## Liquidity, Financial Resources and Commodity Price Risk

The Group primarily finances its operation through internal resources, borrowings from banks and capital contributions from its shareholders. As at 30th June 2012, the Group had unrestricted cash and bank balances of approximately HK\$573 million (31st December 2011: HK\$447 million) and bank borrowings of approximately HK\$138 million (31st December 2011: HK\$338 million). The borrowings, which are short term in nature, were substantially made in Renminbi and United States dollars with interest chargeable at market rates and the gearing ratio (total borrowings to total equity) as at 30th June 2012 was 12.6% (31st December 2011: 29.8%). The Group has a current ratio (current assets to current liabilities) of 558.6% (31st December 2011: 329.7%).

The Company had issued guarantees to the extent of approximately HK\$1,481 million to banks to secure general banking facilities of approximately HK\$1,426 million to certain subsidiaries, of which approximately HK\$138 million had been utilised as of 30th June 2012.

The Group constantly evaluates and monitors its risk exposure to the metals prices with reference to the market conditions. In order to control the exposure efficiently and to capitalize on price trends, the Group's management will employ appropriate operating strategies throughout the remainder of 2012.

The Group's foreign exchange exposure mainly resulted from the translation between Hong Kong dollars, Renminbi and United States dollars.

## Interim Dividend

The Board does not recommend the payment of an interim dividend for the Interim Period (first half of 2011: HK1 cent per share).

## Employees

As at 30th June 2012, the Group had approximately 170 employees and the Group's 50%-owned joint venture, Genesis Ningbo, had approximately 30 employees. Employees' remuneration, promotion and salary review are assessed on job responsibilities, work performance, professional 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 options granted or to be granted under the share option schemes and training schemes. During the Interim Period, staff costs (including directors' emoluments) were approximately HK\$21.0 million (first half of 2011: HK\$20.8 million).

# 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 30th June 2012, 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	72.40%
Ms. MA Siu Tao (Note 2)	Beneficiary	600,000,000	72.40%
Ms. CHAN Yuen Shan, Clara (Note 3)	Beneficiary	600,000,000	72.40%

Notes:

1. The 600,000,000 Shares are held by Gold Alliance Global Services Limited ("GAGSL") whose entire share capital is held by Gold Alliance International Management Limited ("GAIML"), 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 6th 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 GAGSL 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 GAGSL as she is one of the discretionary objects under the P.C. CHAN Family Trust under the SFO.
3. Ms. CHAN Yuen Shan, Clara, the daughter of Mr. CHAN Pak Chung and Vice-Chairman, an Executive Director and the Chief Executive Officer, is deemed to be interested in the 600,000,000 Shares held by GAGSL as she is one of the discretionary objects under the P.C. CHAN Family Trust under the SFO.



# Disclosure of Interests

## (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 (Note)	Beneficial owner	Share option	1,599,994
	Family interest	Share option	1,313,332
Ms. MA Siu Tao (Note)	Beneficial owner	Share option	1,313,332
	Family interest	Share option	1,599,994
Ms. CHAN Yuen Shan, Clara	Beneficial owner	Share option	933,332

Note:

Mr. CHAN Pak Chung and Ms. MA Siu Tao were granted options under the Pre-IPO Share Option Scheme to subscribe for 1,599,994 Shares and 1,313,332 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 15th September 2006 under the Pre-IPO Share Option Scheme adopted on 15th 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 30th June 2012, 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 30th June 2012, 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	72.40%
Gold Alliance International Management Limited	Interest of controlled corporation	600,000,000	72.40%
HSBC International Trustee Limited	Trustee	600,000,000	72.40%

# Disclosure of Interests

Note:

The entire share capital of GAGSL is held by GAIML, 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 6th 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 30th June 2012, 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 30th June 2012, options granted on 15th September 2006 to 23 participants (including 3 Directors and 20 employees of the Group) to subscribe for a total of 7,026,556 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 0.84% 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:

<i>Maximum percentage of option exercisable</i>	<i>Period for exercise of the relevant percentage of the option</i>
33% of the total number of the options granted to any grantee	From the expiry of the first anniversary of 4th October 2007 (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:

<b>Participant</b>	<b>Number of underlying shares</b>		
	<b>As at 1 January 2012</b>	<b>Exercised/ Cancelled/ Lapsed during the period</b>	<b>As at 30 June 2012</b>
Directors and Chief Executive of the Company	3,846,658	—	3,846,658
Employees of the Group	3,179,898	—	3,179,898
Total	7,026,556	—	7,026,556

In addition, the Company also adopted the Share Option Scheme on 15th September 2006. No options had been granted under the said Share Option Scheme since the adoption date on 15th September 2006 and up to 30th June 2012.

## Disclosure of Interests

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### 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.

### Disclosure of information pursuant to Rule 13.51B(1) of the Listing Rules

The annual emolument (including annual basic salary and other allowances, if any) of each of Executive Directors, namely, Mr. CHAN Pak Chung, Ms. CHAN Yuen Shan, Clara and Ms. MA Siu Tao was revised respectively from HK\$4,560,000, HK\$2,400,000 and HK\$2,160,000 to HK\$4,740,000, HK\$2,496,000 and HK\$2,244,000 with effect from 1st April 2012. Their entitlement of a discretionary management bonus to be determined by the Remuneration Committee of the Board remained unchanged.

### Corporate Governance

To the knowledge and belief of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (effective until 31st March 2012) and Corporate Governance Code (effective from 1st April 2012) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange 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, 17th August 2012

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