利記控股有限公司
LEE KEE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 637)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2018

The Board of Directors (the "Board") of Lee Kee Holdings Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively "LEE KEE" or the "Group") for the six months ended 30th September 2018 (the "Interim Period") together with the comparative figures for the six months ended 30th September 2017 (the "Comparative Period") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS – UNAUDITED

		Six months ended 30th September	
		2018	2017
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**1,288,324**	1,407,072
Cost of sales		**(1,281,347)**	(1,295,735)
Gross profit		**6,977**	111,337
Other income		**3,017**	4,080
Distribution and selling expenses		**(13,585)**	(13,317)
Administrative expenses		**(43,927)**	(50,728)
Other net (losses)/gains		**(2,319)**	8,333

	Note	Six months ended 30th September 2018 HK$'000	2017 HK$'000
(Loss)/profit from operations		**(49,837)**	59,705
Finance income		**641**	292
Finance costs		**(5,745)**	(3,170)
Net finance costs	*5(a)*	**(5,104)**	(2,878)
(Loss)/profit before taxation	*5*	**(54,941)**	56,827
Income tax	*6*	**(2,294)**	(1,452)
(Loss)/profit for the period		**(57,235)**	55,375
Attributable to:			
Equity shareholders of the Company		**(57,225)**	55,375
Non-controlling interests		**(10)**	–
		(57,235)	55,375
(Loss)/earnings per share	*8*		
Basic and diluted (Hong Kong cents)		**(6.90)**	6.68

Note: The Group has initially applied HKFRS 15 and HKFRS 9 as at 1st April 2018. Under the transition method chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – UNAUDITED

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit for the period	**(57,235)**	55,375
Other comprehensive income for the period:		
Items that will not be reclassified to profit or loss, net of nil tax:		
Revaluation of financial assets at fair value through other comprehensive income	**(1,590)**	–
Items that may be subsequently reclassified to profit or loss, net of nil tax:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(16,832)**	5,770
Change on fair value of available-for-sale financial assets*	**–**	(2,862)
Reclassification adjustment for amounts transferred to profit or loss upon disposal of available-for-sale-securities*	**–**	(4,833)
Other comprehensive income for the period	**(18,422)**	(1,925)
Total comprehensive income for the period	**(75,657)**	53,450
Attributable to:		
Equity shareholders of the Company	**(75,647)**	53,450
Non-controlling interests	**(10)**	–
Total comprehensive income for the period	**(75,657)**	53,450

* These amounts arose under the accounting policies prior to 1st April 2018. As part of the opening balance adjustments as at 1st April 2018, the balance of this reserve has been reclassified to fair value reserve and will not be reclassified to profit or loss in future periods. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

	Note	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Non-current assets			
Interests in leasehold land held for own use under operating leases		**18,238**	18,604
Property, plant and equipment	*9*	**82,497**	86,316
Prepayment for property, plant and equipment		**1,048**	–
Available-for-sale financial assets		**–**	16,174
Financial assets at fair value through other comprehensive income		**14,215**	–
Deferred tax assets		**2,663**	2,209
		118,661	123,303
Current assets			
Inventories	*10*	**559,087**	822,380
Trade and other receivables	*11*	**229,663**	215,679
Tax recoverable		**26**	150
Derivative financial instruments		**5,799**	544
Cash held on behalf of customers		**10,895**	7,144
Cash and cash equivalents	*12*	**363,939**	300,364
		1,169,409	1,346,261
Current liabilities			
Trade and other payables	*13*	**63,604**	88,240
Bank borrowings	*14*	**181,701**	250,459
Tax payable		**1,372**	612
Derivative financial instruments		**1,751**	1,892
		248,428	341,203
Net current assets		**920,981**	1,005,058
Total assets less current liabilities		**1,039,642**	1,128,361

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED (CONTINUED)

	Note	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Non-current liabilities			
Bank borrowings	*14*	**13,754**	14,329
Employee retirement benefit obligations		**1,142**	1,142
Deferred tax liabilities		**2,365**	2,659
		17,261	18,130
NET ASSETS		**1,022,381**	1,110,231
CAPITAL AND RESERVES			
Share capital		**82,875**	82,875
Reserves		**939,277**	1,027,356
Total equity attributable to equity shareholders of the Company		**1,022,152**	1,110,231
Non-controlling interests		**229**	–
TOTAL EQUITY		**1,022,381**	1,110,231

NOTES:

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 Ugland 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 (together, 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 Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2 BASIS OF PREPARATION

The interim financial results set out in this announcement do not constitute the Group's interim financial report for the six months ended 30th September 2018 but are extracted from that interim report.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 23rd November 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017/18 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018/19 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017/18 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31st March 2018 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements.

3 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

– HKFRS 9, *Financial instruments*

– HKFRS 15, *Revenue from contracts with customers*

– HK(IFRIC) Int 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition, capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract assets and contract liabilities.

Upon the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and 15 as an adjustment to the opening balance of equity at 1st April 2018. Comparative information is not restated.

The adoption of HKFRS 9 and 15 does not have a significant impact to the Group's result and financial position, except for the classification of financial assets, which is discussed in note 3(b).

(b) Classification of financial assets

The impacts to transition to HKFRS 9 to the Group in respect of the classification of financial assets are as follows:

– Available-for-sale financial assets of HK$16,174,000 as at 31st March 2018 were classified as financial assets at fair value through other comprehensive income as at 1st April 2018; and

– Available-for-sale financial assets revaluation reserve of HK$9,770,000 was transferred to fair value reserve as at 1st April 2018.

4 REVENUE 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. Revenue recognised during the period is as follows:

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
Revenue		
Sales of goods (recognised at point in time)	**1,288,324**	1,407,072

(a) Segment revenue and results

The chief operating decision-maker assesses the performance of the operating segments based on a measure of operating results (before income tax) of each segment, which excludes the effects of other income, other net gains/losses and net finance costs.

	Six months ended 30th September			
	2018		2017	
	Revenue	**Segment results**	Revenue	Segment results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**781,865**	**(62,156)**	864,422	37,516
Mainland China	**506,459**	**11,621**	542,650	9,776
	1,288,324	**(50,535)**	1,407,072	47,292

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

	As at 30th September 2018		
	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment assets	**925,121**	**362,949**	**1,288,070**
Segment liabilities	**111,584**	**154,105**	**265,689**

	As at 31st March 2018		
	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	1,131,297	338,267	1,469,564
Segment liabilities	225,588	133,745	359,333

(b) Reconciliation of reportable segment profit or loss

	Six months ended 30th September 2018 *HK$'000*	2017 *HK$'000*
Total segment results	**(50,535)**	47,292
Other income	**3,017**	4,080
Other net (losses)/gains	**(2,319)**	8,333
Net finance costs	**(5,104)**	(2,878)
(Loss)/profit before taxation	**(54,941)**	56,827

5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	Six months ended 30th September 2018 *HK$'000*	2017 *HK$'000*
(a) Net finance costs		
Interest income	**(641)**	(292)
Interest on short-term bank borrowings	**5,581**	2,994
Interest on mortgage loan	**164**	176
	5,104	2,878
(b) Other items		
Depreciation of property, plant and equipment	**5,023**	4,521
Amortisation of leasehold land	**284**	284
Operating lease charges: minimum lease payments		
– property rentals	**1,541**	1,473
Cost of inventories sold	**1,261,053**	1,295,681
Gain on disposal of available-for-sale financial assets	**–**	(4,833)
Loss/(gain) on disposal of property, plant and equipment	**765**	(144)
Realised (gain)/loss on metal future trading contracts and foreign exchange forward contracts	**(155)**	1,148
Unrealised gain on metal future trading contracts and foreign exchange forward contracts	**(280)**	(57)
Staff costs (including directors' remuneration)	**31,736**	39,400
Recognition of write-down of inventories	**20,294**	54
Net foreign exchange loss/(gain)	**1,988**	(4,422)

6 INCOME TAX

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
Current tax		
– Hong Kong Profits Tax	**354**	153
– Mainland China Corporate Income Tax	**2,688**	1,835
Over-provision in prior years	**–**	(504)
	3,042	1,484
Deferred tax	**(748)**	(32)
	2,294	1,452

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30th September 2017: 16.5%) to the six months ended 30th September 2018. Taxation for Mainland China's subsidiaries is similarly calculated using the estimated annual effective rate of 25% (six months ended 30th September 2017: 25%) to the six months ended 30th September 2018.

7 DIVIDENDS

(a) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
Interim dividend proposed of HK$Nil (six months ended 30th September 2017: HK$0.015) per ordinary share	**–**	12,432

The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2018.

The interim dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year of HK$0.015 (six months ended 30th September 2017: HK$0.015) per ordinary share	**12,432**	12,432
Special dividend in respect of the previous financial year of HK$Nil (six months ended 30th September 2017: HK$0.01) per ordinary share	**–**	8,288
	12,432	20,720

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$57,225,000 (six months ended 30th September 2017: profit HK$55,375,000) and the weighted average number of 828,750,000 (six months ended 30th September 2017: 828,750,000) ordinary shares in issue during the interim period.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the six months ended 30th September 2018 and 2017 are the same as basic (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

9 PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30th September	
	2018	2017
	HK$'000	*HK$'000*
Net book value as at the beginning of the period	**86,316**	89,251
Exchange difference	**(819)**	373
Additions	**2,822**	2,082
Disposals	**(799)**	(144)
Depreciation	**(5,023)**	(4,521)
Net book value as at the end of the period	**82,497**	87,041

10 INVENTORIES

	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Finished goods	**596,348**	839,349
Less: Write-down of inventories	**(37,261)**	(16,969)
	559,087	822,380

The cost of inventories recognised as expense and included in "cost of sales" amounted to HK$1,261,053,000 (six months ended 30th September 2017: HK$1,295,681,000) during the six months ended 30th September 2018.

11 TRADE AND OTHER RECEIVABLES

	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Trade receivables, net of allowance for doubtful debts	**173,000**	176,444
Prepayments to suppliers	**34,325**	13,119
Deposits	**3,141**	2,934
Other receivables	**19,197**	23,182
	229,663	215,679

The Group grants credit terms to its customers ranging from cash on delivery to 90 days. At the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Within 1 month	**157,401**	162,094
Over 1 but within 2 months	**11,227**	8,484
Over 2 but within 3 months	**2,667**	2,046
Over 3 months	**1,705**	3,820
	173,000	176,444

12 CASH AND CASH EQUIVALENTS

	At 30th September 2018 *HK$'000*	At 31st March 2018 *HK$'000*
Short-term bank deposits	**71,365**	25,325
Cash at bank and on hand	**292,574**	275,039
	363,939	300,364

13 TRADE AND OTHER PAYABLES

	At 30th September 2018 *HK$'000*	At 31st March 2018 *HK$'000*
Trade payables	**18,579**	42,585
Prepayments from customers	**21,196**	10,782
Accrued expenses and other payables	**23,829**	34,873
	63,604	88,240

At the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	At 30th September 2018 *HK$'000*	At 31st March 2018 *HK$'000*
Within 1 month	**18,379**	42,524
Over 2 but within 3 months	**–**	61
Over 3 months	**200**	–
	18,579	42,585

14 BANK BORROWINGS

	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Non-current liabilities		
Mortgage loan	**13,754**	14,329
Current liabilities		
Short-term bank borrowings	**180,556**	249,326
Mortgage loan	**1,145**	1,133
	181,701	250,459
	195,455	264,788

At the end of the reporting period, the bank borrowings were repayable as follows:

	At 30th September 2018 HK$'000	At 31st March 2018 HK$'000
Within 1 year or on demand	**181,701**	250,459
After 1 year but within 2 years	**1,175**	1,158
After 2 years but within 5 years	**3,682**	3,626
After 5 years	**8,897**	9,545
	13,754	14,329
	195,455	264,788

Mortgage loan of HK$14,899,000 (31st March 2018: HK$15,462,000) was secured by property, plant and equipment with carrying value of HK$47,144,000 (31st March 2018: HK$47,642,000) as at 30th September 2018.

The effective interest rates (per annum) at the end of the reporting period were as follows:

	At 30th September 2018	At 31st March 2018
Short-term bank borrowings	**3.56%**	2.73%
Mortgage loan	**2.15%**	2.74%

OVERALL BUSINESS PERFORMANCE

Financial performance

The Group faced significant headwinds during the Interim Period resulting from falling global metal prices during most of the Interim Period – particularly the price for zinc (LEE KEE's main product), as well as from the unfavourable global macro-economic environment.

The Group's revenue for the Interim Period was HK$1,288 million, a decline of 8.44% compared to the Comparative Period. Tonnage sold by the Group during the Interim Period was around 50,800 tonnes, compared to 59,800 tonnes in the Comparative Period.

The Group recorded a gross profit of HK$7 million and a gross profit margin of 0.54% for the Interim Period, compared to a gross profit of HK$111 million for the Comparative Period. The Group recorded a loss attributable to equity shareholders of the Company of HK$57.2 million during the Interim Period, compared to a profit of HK$55.4 million during the Comparative Period.

The loss was mostly attributable to falling metal prices during most of the Interim Period, particularly for zinc, which lowered the overall gross profit of the sales transactions made during most of the Interim Period. Despite zinc prices recovering somewhat towards the end of the Interim Period (i.e. after 18 September 2018, see below), the Group still made a significant stock provision on the inventory held as at 30th September 2018. The Group's financial performance was also adversely impacted by the global macro-economic environment, particularly the growing trade dispute between the U.S. and the PRC and its impact on the confidence of the Group's customers, who are mostly SME manufacturers.

Global zinc prices fluctuated between US$3,250 and US$3,000 a tonne during the first half of the Interim Period, after correcting from a recent years' high earlier in the year in response to a growing number of zinc mining and production project announcements that are expected to restore global supply levels. On 15th June 2018, the price of zinc started falling sharply after the U.S. and PRC governments announced plans to impose tariffs on each other's imports. Zinc prices hit a low of US$2,287 per tonne on 18th September 2018 before rebounding to US$2,552 per tonne as of 30th September 2018.

Global nickel prices, while highly volatile, continued its upward trajectory during the first half of the Interim Period, supported by environmental production cuts in the PRC, falling inventories, strong steel prices and continued bullishness about the development of the electric vehicle market. This upward trend was reversed in June 2018 in response to the U.S.-PRC trade dispute, falling to a low of US$12,205 per tonne on 11th September 2018 and trading at US$12,620 per tonne as of 30th September 2018.

Distribution and selling expenses for the Interim Period was HK$13.6 million, a slight increase compared to the Comparative Period.

The Group's administrative expenses in the Interim Period fell by 13.4% to HK$43.9 million compared to the Comparative Period. The fall in administrative expenses was mainly due to the decrease in staff costs, a certain portion of which is variable in nature and proportionate to the Group's performance.

The Group recorded other net losses of HK$2.3 million during the Interim Period, compared to net gains of HK$8.3 million during the Comparative Period. This was mainly due to the absence of, during the Interim Period, gain from disposal of shares in a listed company that was recognised in the Comparative Period as well as foreign exchange losses incurred during the period.

The Group's finance costs for the Interim Period increased by 81.2% to HK$5.7 million due to higher general market interest rates compared to the Comparative Period.

The Group continues to retain a healthy financial position, with HK$364 million bank balances and cash on hand as of 30th September 2018.

Business Review

A leading solutions provider for metals

Since LEE KEE's founding more than 70 years ago, it has built an unparalleled reputation based on quality, innovation, professionalism and its wide network across all facets of the global metals industry.

Securing its rank among the world's premier metal players, LEE KEE was the first company in Hong Kong to be admitted as a Category 5 Associate Trade Member of the London Metal Exchange ("LME"). The Group's membership of this exclusive industry body was a milestone for its ongoing strategy of "Creating Value" for the end users of metals. In early 2016, Promet Metals Testing Laboratory Limited ("Promet") became an approved LME listed Sampler and Assayer, raising Promet's international profile in the area of metals testing and certification.

LEE KEE's capability in uncovering and taking advantage of growth opportunities has been, and continues to be, essential to securing the Group's long-term competitiveness.

Therefore, in addition to its traditional metals trading and production business, the Group has been a forerunner in introducing a range of value-added services, including alloy customisation, metals testing and risk management. LEE KEE's strategic direction of expanding the scope of its business in order to help its customers excel in the market has proven to be correct and rewarding.

Continued expansion of Southeast Asia business

The Group's business in Southeast Asia, which covers Malaysia, Thailand, Vietnam and Singapore, continued to grow during the Interim Period. This growth was underpinned by the shift of certain manufacturing capacity from the PRC to Southeast Asia, as well as government initiatives such as Belt and Road Initiative and continued economic growth in most countries in the region.

The Group's customer mix in the region, who are catered to by its sales and distribution office in Singapore, includes both long-standing customers whose relationship with LEE KEE originated in Hong Kong or other parts of the PRC, as well as local manufacturers. Attracting more business from this latter group of new clients continues to be one of the Group's main goals.

Creating speciality alloys to cater for the changing PRC market

The PRC continues to be the largest market for the Group's metal products and services. Its customers are mostly the end-users of metals, namely die-casters, manufacturers and brand owners. Over the last few years, many of these end-users have been shifting from low-value-added activities to higher-value ones – a trend that could be accelerated further by the current global trade frictions, with the PRC prioritising boosting domestic demand and developing home-grown advanced technologies.

Leveraging on its strong manufacturing as well as its research and development capabilities, LEE KEE continued to serve the changing needs of customers. Throughout the Interim Period, the Group continued to source, supply and develop a wide choice of high-quality imported standard products. On the other hand, sales of Genesis Alloys (Ningbo) Limited continued to grow. Its quality and reliability have been widely recognised in PRC. The Group also continued to promote new specialty alloys specifically geared for the manufacture of automobile parts (including for electric vehicles) and electronics, among others, at a short time to market. This capability ensured that the Group was able to protect and grow its market share and remain the partner of choice to major brands and manufacturers.

Continued development of consultancy services for technical and risk management

Promet continued to gain recognition for its range of value-adding consultancy services, which includes factory audits, composition and defect analysis, process optimisation, mould design and flow simulation. These services are uniquely positioned to help companies produce better quality products and achieve greater cost-effectiveness and competitiveness – outcomes that will be more and more important in the toughening global macro-economic environment. Promet will continue to expand its scope of testing services and build its reputation.

The Group continued to support its wholly-owned futures brokerage subsidiary, Horizon Commodities and Futures Company Limited ("HCF") during the Interim Period. HCF offers brokerage services for Hong Kong and global index futures, LME and U.S. – listed metal futures, agricultural futures, energy futures, foreign exchange futures and interest rate futures. More and more companies realise a need to manage their inventory and treasury risk exposures – a proposition that is increasingly important given the current volatility in financial markets. LEE KEE is one of the few metals companies that offer both physical metal services and financial services.

Prospects

Uncertain macro-economic environment

The United States' implementation of tariffs on numerous categories of PRC exports has undermined confidence in the global trading system and impacted the confidence of the Group's customers. It has also accelerated the cyclic decline of metal prices at a much faster pace than expected. Both of these factors are likely to impact LEE KEE's financial performance in the second half of the year and the Group will monitor both events closely.

Supply-side decisions and new technology development will also affect metal prices

Global zinc and nickel prices have both been pulled down by an overall downturn of metal prices caused by current geopolitical tensions. However, the fundamentals influencing the pricing of each metal are different and could result in a divergence in price trends over the medium-to-long term.

The effect of the supply-side deficit that helped pushed zinc prices to a record high in early 2018 is being offset by mine re-openings, expansions and new supply entering the market. As a result, the prospect of supply-demand balance will continue to pressure prices, in addition to macro-economic pressures. On the other hand, as the world's largest zinc producer, the PRC's tightening environmental policy could be another influential factor to the price.

Meanwhile, global nickel prices will continue to be positively influenced by the booming electric vehicle industry. However, an emerging global glut of stainless steel capacity in the PRC and Indonesia (of which nickel is a major component) may constrain prices.

The Group will continue to closely monitor the global zinc and nickel markets.

The Belt and Road Initiative supports long-term prospects in Southeast Asia and the PRC

Manufacturing activities in Asia will continue to diverge as markets in Southeast Asia with clear labour-cost advantages and with improving infrastructure become important producers of goods and commodities. Low-cost, labour-intensive manufacturing industries will continue to shift their operations from the PRC to Southeast Asia to take advantage of these conditions. The Group will cater to this growing cluster of manufacturers in Southeast Asia through its network of sales offices in the region.

At the same time, new economic development strategies in the PRC is leading to a resurgence of manufacturing activity, particularly in higher-value-added sectors such as electronics, electric vehicles and other technology-led industries. These industries will require highly specialised materials, alloys and services, which the Group is in a unique position to provide. The Group will continue to invest in R&D and in strengthening its business network to take full advantage of this trend.

Stringent controls on costs and purchases

The Group will continue to take steps to streamline its operations and metal-purchasing protocols to contain costs and protect its margins, an outcome that will be challenging in the short-term given current market volatility and sudden changes in long-standing trade policies.

The Group's management, assisted by its team of experts, will also prudently explore high-potential investment opportunities and new business streams in order to retain LEE KEE's market status, take advantage of new growth opportunities and deliver long-term returns to shareholders.

DIVIDEND

The Board does not recommend an interim dividend (Comparative Period: HK1.5 cents per share) to shareholders of the Company for the Interim Period.

LIQUIDITY, FINANCIAL RESOURCES AND COMMODITY PRICE RISK

The Group primarily financed its operation through internal resources and borrowings from banks. As at 30th September 2018, the Group had unrestricted cash and bank balances of approximately HK$364 million (as at 31st March 2018: HK$300 million) and bank borrowings of approximately HK$195 million (as at 31st March 2018: HK$265 million). As at 30th September 2018, the outstanding borrowing of mortgage loan amounted to HK$14.9 million (as at 31st March 2018: HK$15.5 million). The remaining borrowings, which are short term in nature, were substantially made in United States dollars and Hong Kong dollars with interest chargeable at market rates and the gearing ratio (total borrowings to total equity) as at 30th September 2018 was 19.1% (as at 31st March 2018: 23.8%). The Group has a current ratio of 471% as at 30th September 2018 (as at 31st March 2018: 395%).

The Group constantly evaluates and monitors its risk exposure to metals prices with reference to the market conditions. In order to control the exposure efficiently and to capitalise on direction of price trends, the Group's management will employ appropriate operating strategies and set inventory levels accordingly. The Group's foreign exchange exposure mainly resulted from the exchange rate between Hong Kong dollars against United States dollars and Renminbi.

EMPLOYEES

As at 30th September 2018, the Group had approximately 200 employees (Comparative Period: 190 employees). Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonuses and the Group's contribution to mandatory provident funds (or state-managed retirement benefits scheme). During the Interim Period, staff costs (including directors' emoluments) were approximately HK$31.7 million (Comparative Period: HK$39.4 million).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased or sold or redeemed any of the Company's listed securities during the Interim Period.

CORPORATE GOVERNANCE

To the knowledge and belief of the Directors, the Group has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules (the "CG Code"). The Directors 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.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial information for the six months ended 30th September 2018 has been reviewed by the Company's Audit Committee and KPMG, the Company's auditor in accordance with Hong Kong Standards on Review Engagement 2410 "Review of Interim Financial Information Performed by Independent Auditor of the Entity" issued by the HKICPA.

By Order of the Board
CHAN Pak Chung
Chairman

Hong Kong, 23rd November 2018

As at the date of this announcement, the Directors of the Company are Mr. CHAN Pak Chung, Ms. CHAN Yuen Shan Clara, MH, Mr. CHAN Ka Chun Patrick, Ms. OKUSAKO CHAN Pui Shan Lillian, Mr. CHUNG Wai Kwok, Jimmy, Mr. HU Wai Kwok* and Mr. HO Kwai Ching, Mark*.*

* *Independent non-executive Directors*