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利記控股有限公司
LEE KEE HOLDINGS LIMITED
SINCE 1947

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 637)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2019

The Board of Directors (the "Board") of Lee Kee Holdings Limited (the "Company") hereby announces the consolidated results of the Company and its subsidiaries (collectively "LEE KEE" or the "Group") for the year ended 31st March 2019 (the "Financial Year" or the "Year") together with the comparative figures for the year ended 31st March 2018 (the "Comparative Period") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31st March	
		2019	2018
	Note	***HK$'000***	*HK$'000*
Revenue	*4*	**2,276,977**	2,711,441
Cost of sales		**(2,237,825)**	(2,499,210)
Gross profit		**39,152**	212,231
Other income		**6,040**	7,333
Distribution and selling expenses		**(28,350)**	(29,072)
Administrative expenses		**(86,756)**	(102,265)
Other net (losses)/gains		**(3,067)**	13,869
(Loss)/profit from operations		**(72,981)**	102,096
Finance income		**1,467**	645
Finance costs		**(10,181)**	(7,180)
Net finance costs	*5(a)*	**(8,714)**	(6,535)

		For the year ended 31st March	
		2019	2018
	Note	***HK$'000***	*HK$'000*
(Loss)/profit before taxation	*5*	**(81,695)**	95,561
Income tax	*6*	**(4,965)**	(5,408)
(Loss)/profit for the year		**(86,660)**	90,153
Attributable to:			
Equity shareholders of the Company		**(86,652)**	90,153
Non-controlling interest		**(8)**	–
(Loss)/profit for the year		**(86,660)**	90,153
(Loss)/earnings per share	*8*		
Basic and diluted (Hong Kong cents)		**(10.46)**	10.88

Note: The Group has initially applied HKFRS 15 and HKFRS 9 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

	For the year ended 31st March	
	2019	2018
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(86,660)**	90,153
Other comprehensive income for the year:		
Items that will not be reclassified to profit or loss:		
Revaluation of financial assets at fair value through other comprehensive income, net of nil tax	**(4,965)**	–
Surplus on revaluation of land and buildings held for own use	**17,456**	–
Tax effect to surplus on revaluation of land and buildings	**(2,098)**	–
Items that may be reclassified subsequently to profit or loss, net of nil tax:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	**(11,590)**	14,901
Change in fair value of available-for-sale financial assets*	**–**	(5,104)
Reclassification adjustment for amounts transferred to profit or loss upon disposal of available-for-sale-securities*	**–**	(4,833)
	(1,197)	4,964
Total comprehensive income for the year	**(87,857)**	95,117
Attributable to:		
Equity shareholders of the Company	**(87,849)**	95,117
Non-controlling interests	**(8)**	–
Total comprehensive income for the year	**(87,857)**	95,117

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31st March **2019** ***HK$'000***	 2018 *HK$'000*
Non-current assets			
Interests in leasehold land held for own use under operating leases		**17,976**	18,604
Investment property	*9*	**64,600**	–
Other property, plant and equipment	*9*	**35,744**	86,316
Available-for-sale financial assets		**–**	16,174
Financial assets at fair value through other comprehensive income		**8,380**	–
Prepayments	*11*	**188**	–
Deferred tax assets		**2,600**	2,209
		129,488	123,303
Current assets			
Inventories	*10*	**596,869**	822,380
Trade and other receivables	*11*	**206,937**	215,679
Tax recoverable		**6**	150
Derivative financial instruments		**2,041**	544
Cash held on behalf of customers		**9,605**	7,144
Cash and cash equivalents	*12*	**356,734**	300,364
		1,172,192	1,346,261
Current liabilities			
Trade and other payables and contract liabilities	*13*	**83,894**	88,240
Bank borrowings	*14*	**183,284**	250,459
Tax payable		**959**	612
Derivative financial instruments		**3,755**	1,892
		271,892	341,203
Net current assets		**900,300**	1,005,058
Total assets less current liabilities		**1,029,788**	1,128,361

	Note	As at 31st March **2019** *HK$'000*	2018 *HK$'000*
Non-current liabilities			
Bank borrowings	*14*	**13,183**	14,329
Employee retirement benefit obligations		**2,028**	1,142
Deferred tax liabilities		**4,397**	2,659
		19,608	18,130
NET ASSETS		**1,010,180**	1,110,231
CAPITAL AND RESERVES			
Share capital		**82,875**	82,875
Reserves		**927,075**	1,027,356
Total equity attributable to equity shareholders of the Company		**1,009,950**	1,110,231
Non-controlling interests		**230**	–
TOTAL EQUITY		**1,010,180**	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 Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2 BASIS OF PREPARATION

The financial results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31st March 2019, but are derived from those financial statements.

The financial statements have been prepared in accordance with the same accounting policies adopted in the 2018/19 annual financial statements.

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange ("Listing Rules") and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost basis, except for financial assets at fair value through other comprehensive income (2018: available-for-sale financial assets) and derivative financial instruments which are carried at fair values.

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 and presentation of contract liabilities, which are discussed in notes 3(b) and 3(c) respectively.

(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.

(c) Presentation of contract assets and liabilities

The Group has reclassified prepayment from customers amounting to HK$10,782,000 from trade and other payables to contract liabilities at 1st April 2018. Trade and other payables and contract liabilities are aggregated into a single line item "Trade and other payables and contract liabilities" on the face of the statement of financial position.

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 year are as follows:

	2019	2018
	HK$'000	*HK$'000*
Revenue		
Sales of goods (recognised at point in time)	**2,276,977**	2,711,441

(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.

	2019		2018	
	Revenue	**Segment results**	Revenue	Segment results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**1,341,464**	**(92,376)**	1,605,671	64,531
Mainland China	**935,513**	**16,422**	1,105,770	16,363
	2,276,977	**(75,954)**	2,711,441	80,894

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

	As at 31st March 2019		
	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Segment assets	**942,088**	**359,592**	**1,301,680**
Segment liabilities	**130,015**	**161,485**	**291,500**

	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 segment results

	2019 *HK$'000*	2018 *HK$'000*
Total segment results	**(75,954)**	80,894
Other income	**6,040**	7,333
Other net (losses)/gains	**(3,067)**	13,869
Net finance costs	**(8,714)**	(6,535)
(Loss)/profit before taxation	**(81,695)**	95,561

5 (LOSS)/PROFIT BEFORE TAXATION

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

	2019 *HK$'000*	2018 *HK$'000*
(a) Net finance costs		
Interest income	**1,467**	645
Interest on short-term bank borrowings	**(9,853)**	(6,836)
Interest on mortgage loan	**(328)**	(344)
	(8,714)	(6,535)
(b) Other items		
Auditor's remuneration		
— audit services	**1,780**	1,350
— other services	**210**	–
Depreciation of property, plant and equipment	**9,440**	9,395
Amortisation of leasehold land	**568**	568
Operating lease charges: minimum lease payments		
— property rentals	**3,090**	2,970
Cost of inventories sold	**2,233,778**	2,501,141
Gain on disposal of available-for-sale financial assets	**–**	(4,833)
Loss/(gain) on disposal of property, plant and equipment	**766**	(552)
Realised (gain)/loss on metal future trading contracts and foreign exchange forward contracts	**(508)**	1,282
Unrealised loss/(gain) on metal future trading contracts and foreign exchange forward contracts	**1,165**	(200)
Staff costs (including directors' remuneration)	**61,585**	75,347
Provision for/(reversal of) write-down of inventories	**4,047**	(1,931)
Net foreign exchange loss/(gain)	**1,644**	(9,566)
Impairment loss of trade receivables	**277**	691

6 INCOME TAX

	2019	2018
	HK$'000	*HK$'000*
Current tax		
— Hong Kong Profits Tax	**840**	517
— Mainland China Corporate Income Tax	**5,003**	4,100
Over-provision in prior years	**(127)**	(582)
	5,716	4,035
Deferred tax	**(751)**	1,373
	4,965	5,408

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) for the year. Taxation for Mainland China's subsidiaries is similarly calculated using the estimated annual effective rate of 25% (2018: 25%) for the year.

7 DIVIDENDS

(a) Dividends payable to equity shareholders attributable to the year

	2019	2018
	$'000	*$'000*
Interim dividend, declared and paid, of HK$Nil (2018: HK$0.015) per ordinary share	**–**	12,432
Final dividend, proposed, of HK$Nil (2018: HK$0.015) per ordinary share	**–**	12,432
	–	24,864

The directors do not recommend the payment of final dividend for the year ended 31st March 2019.

The final dividend proposed after the year ended 31st March 2018 had not been recognised as a liability as at 31st March 2018.

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

	2019	2018
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year of HK$0.015 (2018: HK$0.015) per ordinary share	**12,432**	12,432
Special dividend in respect of the previous financial year of HK$Nil (2018: 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$86,652,000) (2018: profit HK$90,153,000) and the weighted average number of 828,750,000 (2018: 828,750,000) ordinary shares in issue during the year.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share for the year ended 31st March 2019 and 2018 are the same as basic (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding during the years.

9 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT

Reconciliation of net book value of other property, plant and equipment is as follows:

	2019	2018
	HK$'000	*HK$'000*
Net book value as at the beginning of the year	**86,316**	89,251
Exchange difference	**(606)**	919
Additions	**7,384**	5,683
Disposals	**(766)**	(142)
Depreciation	**(9,440)**	(9,395)
Revaluation	**17,456**	–
Transfer to investment property	**(64,600)**	–
Net book value as at the end of the year	**35,744**	86,316

The Group's property with carrying value of HK$64,600,000 was transferred to investment property as a result of change in use to leasing from self-occupation during the year ended 31st March 2019.

10 INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Finished goods	**617,971**	839,349
Less: Write-down of inventories	**(21,102)**	(16,969)
	596,869	822,380

The cost of inventories recognised as expense and included in "cost of sales" amounted to HK$2,233,778,000 (2018: HK$2,501,141,000) during the year ended 31st March 2019.

11 TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Non-current portion		
Prepayments for purchase of property, plant and equipment	**188**	–
Current portion		
Trade receivables, net of loss allowance	**173,210**	176,444
Prepayments to suppliers	**5,194**	13,119
Deposits	**2,951**	2,934
Other receivables	**25,582**	23,182
	206,937	215,679
	207,125	215,679

All of the current portion of trade and other receivables are expected to be recovered or recognised as expense within one year.

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 loss allowance, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**143,263**	162,094
Over 1 but within 2 months	**19,012**	8,484
Over 2 but within 3 months	**9,787**	2,046
Over 3 months	**1,148**	3,820
	173,210	176,444

12 CASH AND CASH EQUIVALENTS

	2019	2018
	HK$'000	*HK$'000*
Cash at bank and on hand	**311,619**	275,039
Short-term bank deposits	**45,115**	25,325
	356,734	300,364

13 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	Note	2019 HK$'000	2018 HK$'000
Trade and other payables			
Trade payables		**52,570**	42,585
Prepayments from customers	*(i)*	**–**	10,782
Accrued expenses and other payables		**21,472**	34,873
		74,042	88,240
Contract liabilities	*(i)*	**9,852**	–
		83,894	88,240

Notes:

(i) Upon the adoption of HKFRS 15, these amounts were reclassified from trade and other payables to contract liabilities. Trade and other payables and contract liabilities are aggregated into a single line item "Trade and other payables and contract liabilities" on the face of the statement of financial position see note 3(c).

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

	2019 HK$'000	2018 HK$'000
Within 1 month	**52,401**	42,524
Over 1 month	**169**	61
	52,570	42,585

14 BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Non-current liabilities		
Mortgage loan	**13,183**	14,329
Current liabilities		
Short-term bank borrowings	**182,135**	249,326
Mortgage loan	**1,149**	1,133
	183,284	250,459
	196,467	264,788

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

	2019	2018
	HK$'000	*HK$'000*
Within 1 year or on demand	**183,284**	250,459
After 1 year but within 2 years	**1,177**	1,158
After 2 years but within 5 years	**3,694**	3,626
After 5 years	**8,312**	9,545
	13,183	14,329
	196,467	264,788

Mortgage loan of HK$14,332,000 (2018: HK$15,462,000) was secured by investment property with carrying value of HK$64,600,000 (2018: property, plant and equipment of HK$47,642,000) as at 31st March 2019.

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

	2019	2018
Short-term bank borrowings	**3.15%**	2.73%
Mortgage loan	**2.29%**	2.74%

CEO MESSAGE

The 2018–19 financial year was one that generated great uncertainty in the global business and geopolitical environment. The trade dispute between the United States and China has triggered an upheaval in global supply chains. The volatility that it is causing on global metal markets has also been incredibly challenging to the world economy, undermining investors' confidence and significantly impacting both metals and manufacturing industries.

At LEE KEE, we continually review what we are doing and the purpose. In a business environment where CHANGE is the new normal, to keep a company vibrant and growing we cannot manage and operate today's business through yesterday's eyes. In our pursuit of a sustainable model of business development, we remain laser-focused on giving customers what they want and need in an agile way.

Over the past few years, LEE KEE has been formulating and executing strategies with a goal to achieve diversification, business resilience and sustainability. We have long recognised market trends and anticipated the accelerating rate of change, whether that be technology, the economic environment, or even customer demand. And accordingly, we have been investing in new capabilities that could help the Group and our customers compete in a disruptive and rapidly changing world.

Part of our diversification strategy consists of our investment in our capability to serve overseas customers, starting with our sales force in Southeast Asia. This Financial Year, we opened our second regional sales office in Malaysia, complementing our existing sales office in Singapore. These offices will enable our team to better serve our growing customer base in the ASEAN region, while pre-emptively positioning LEE KEE at the forefront to fully exploit various business opportunities arising from either the reshaping of supply chains or local economic development.

In order to be resilient, LEE KEE is not just developing a portfolio of innovative products but also a portfolio of experimental strategies, mining ideas both internally and externally. LEE KEE first started as a company that traded high-quality alloys before moving on to producing speciality alloys and offering technical and consultancy services — and more profound transformation is yet to come. We will continue to help our customers grow and thrive by providing solutions and insights drawn from beyond the traditional boundaries and scope of any single industry, leveraging our technical depth and horizontal breadth that cannot be easily matched.

To continuously uphold our operational excellence and deliver on our brand promise — quality, reliability, and professionalism — we will also incorporate more data analysis, digitalisation and artificial intelligence to improve our business processes. By automating and digitalising our internal services platforms, we will introduce smart workflows, bridge traditional silos, and built a much more focused and efficient organisation dedicated to serving our customers and allowing them to enjoy high-quality bespoke products and services.

On the ESG front, our commitment to long-term sustainability also extends to the environmental protection, social impact and corporate governance enhancement. As more and more authorities impose 'responsible supply chain' requirements, our customers can have every confidence that our materials are environmentally and ethically sourced, while also being safe, reliable and of excellent quality. We also remain dedicated to reducing the adverse environmental impact of our business operations, particularly in areas such as responsible sourcing, energy efficiency, emissions reduction, resource conservation and waste management. Developing and grooming employees is also vital to the sustainable growth of LEE KEE and we will continue to achieve this by cultivating and supporting a lifelong learning culture.

Despite the challenging macro outlook of the upcoming year, the Group's management will continue to unlock business opportunities, accelerate our expansion, and further enhance the competitiveness of the LEE KEE brand. Our ingenuity to drive management innovation from within will help us sustain our growth momentum and navigate through the current shifts in the business environment. By coupling boundless imagination and the meticulous execution of our strategies, we are confident that we are paving the path towards a diversified, resilient and sustainable metals industry of the future.

CHAN Yuen Shan Clara, MH
Vice-Chairman and Chief Executive Officer

24th June 2019

OVERALL BUSINESS PERFORMANCE

Financial Performance

The year ended 31st March 2019 was a challenging one for the Group. It continued to be confronted with an uncertain global macro-economic environment, as well as other headwinds such as declining global metal prices, particularly the price for zinc (LEE KEE's main product).

The Group's revenue for the Financial Year was HK$2,277 million, a decline of 16% compared to revenue of HK$2,711 million earned in the year ended 31st March 2018 (the "Comparative Period"). The tonnage sold by the Group during the Financial Year was 94,250 tonnes, compared to 108,060 tonnes in the Comparative Period.

The Group recorded a gross profit of HK$39 million and a gross profit margin of 1.72% for the Financial Year, compared to a gross profit of HK$212 million for the Comparative Period. The Group recorded a loss attributable to equity shareholders of the Company of HK$87 million during the Financial Year, compared to a profit of HK$90 million during the Comparative Period.

The loss was mostly attributable to a fall in global metal prices, particularly the price of zinc, which lowered the overall gross profit of the sales transactions made during the Financial Year. 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$3,332 and US$2,285 a tonne during the Financial Year. During the first half, the price of zinc fell sharply after the U.S. and PRC governments announced plans to impose tariffs on some of each other's imports, with the price fluctuating wildly on news and speculation related to the progress of trade negotiations. After hitting a low of US$2,285 per tonne in August 2018, the price of zinc started to recover as the impact of the trade dispute on global GDP growth appeared to be less damaging than expected (despite its impact on the confidence of SME manufacturers in the PRC). The price of zinc as of 31st March 2019 was US$2,999 per tonne.

Global nickel prices in the first half of the Financial Year, while volatile, were supported by environmental production cuts in the PRC, falling inventories, strong steel prices and bullishness about the development of the electric vehicle market. This upward price trend was reversed in June 2018 in response to the U.S.-PRC trade dispute, falling to a low of US$10,436 per tonne on 2 January 2019. In reaction to global supply concerns, the global nickel price partially recovered from the second half of January 2019 through to the beginning of March 2019, peaking at US$13,610 per tonne in March 2019. The price of nickel as of 31st March 2019 was US$12,896 per tonne.

Distribution and selling expenses for the Financial Year was HK$28 million, a decrease of 2.48% compared to the Comparative Period. The decrease was primarily attributed to the lower tonnage sold during the Financial Year.

The Group's administrative expenses in the Financial Year fell 15.2% to HK$87 million compared to the Comparative Period. The fall in administrative expenses was mainly due to a decrease in staff costs, certain portion of which is variable in nature and proportionate to the Group's performance.

The Group recorded other net losses of HK$3 million during the Financial Year, compared to other net gains of HK$14 million during the Comparative Period. This was mainly attributed to the absence of a gain in the disposal of shares in a listed company that was recognised in the Comparative Period.

The Group's finance costs for the Financial Year increased by 41.8% to HK$10 million due to higher general market interest rates compared to the Comparative Period.

The Group continues to retain a healthy financial position, with bank balances and cash on hand of HK$357 million as of 31st March 2019.

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.

New sales office in Malaysia supports rapid growth in Southeast Asia

LEE KEE opened its second sales office in Southeast Asia in Malaysia with a joint venture with a local partner during the Financial Year, following the earlier opening of its first sales office in the region in Singapore. Sales attributed to the region grew at a steady pace as manufacturers continued to relocate manufacturing capacity from the PRC to Southeast Asia, alongside other impetus such as robust economic growth in the region.

Together, LEE KEE's two sales offices in the region will support the Group's wider sales teams in the region, including personnel in Thailand and Vietnam, to further expand sales in the region — which continues to remain one of its main goals.

Award-winning alloys that cater to 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 and manufacturers. 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 growing trade dispute between the U.S. and the PRC, which is leading the PRC to prioritise 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 Financial Year, the Group continued to source, supply and develop a wide choice of high-quality standard products, including zinc, aluminium, nickel and copper, as well as zinc alloys, aluminium alloys, stainless steel and electroplating chemicals.

The Group also continued to invest in developing its own branded metals, with sales at Genesis Alloys (Ningbo) Limited continuing to grow. The brand's quality and reliability is widely recognised in the PRC, having won the Best Zinc Alloy Brand award for two consecutive years. The Group also promoted new speciality 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 remain the partner of choice to major brands and manufacturers, both in China and increasingly in Southeast Asia.

Continued development of consultancy and value-added services

Throughout the Financial Year, 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. These outcomes will become more and more important in the toughening global macro-economic environment and Promet will continue to expand its scope of testing services and build its reputation.

A sustainable metal company

Sustainability, both commercially and environmentally, remains a top priority for the Group. Commercially, the Group has been continually diversifying the scope of its business and its product range to quickly meet the changing needs of the market. It has also been focusing on regional expansion, the adoption of innovative technologies and the creation of new ventures focused on value-added services to safeguard its long-term sustainability and competitiveness.

LEE KEE is also dedicated to environmental protection and reducing the adverse environmental impact of its business operations, including areas such as responsible sourcing, energy efficiency, emissions reduction, resource conservation and waste management. The Group has also implemented guidelines and requirements to reduce resource consumption within our daily operations, including its major subsidiaries attaining and implementing the ISO14001 Environmental Management System.

Prospects

US-PRC trade dispute poses a severe risk to customer confidence

The United States' extension of trade tariffs to PRC exports has severely impacted the confidence of the Group's SME customers while undermining confidence in the global trading system. Outside of an unexpected reversal of this policy, the Group expects the negative impact of the trade sanctions to flow into the coming year.

The tariffs could also continue to exacerbate the short-term volatility of global metal prices, which will challenge the Group's purchasing and hedging strategies.

The Group will monitor both events closely.

Differing fundamentals could push zinc and nickel prices in different directions

Global metal prices may be subject to extreme short-term fluctuations as markets react to developments and speculations related to the trade dispute. 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.

Despite the volatility, global zinc prices have broadly risen in early 2019 in reaction to global supply concerns. However, pricing may ultimately depend on production decisions by PRC suppliers, the world's largest producers, who may step up production to stimulate economic activity despite tightening environmental policies. Meanwhile, global nickel prices is expected to be positively influenced by the booming electric vehicle industry.

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

Continued focus on Southeast Asia

Southeast Asia is becoming an increasingly important production base of goods and commodities, both for export and for their own increasingly prosperous consumers. Many markets in this region now have clear labour-cost advantages, enabling them to target low cost, labour-intensive manufacturing industries. Meanwhile, the region's competitiveness will continue to be supported by factors such as the diversification of manufacturing from the PRC, which will further support the development of industries in the region.

The Group will continue to cater to this growing cluster of manufacturers in Southeast Asia through its network of sales offices in the region.

R&D and specialised products to cater to the PRC's move up the value chain

New economic development strategies in the PRC could lead 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 of Directors of the Company does not recommend the payment of final dividend for the Financial Year.

ANNUAL GENERAL MEETING

It was proposed that the Annual General Meeting of the Company (the "AGM") will be held on 23rd August 2019. Notice of the AGM will be published and issued to shareholders in due course.

CLOSURE OF REGISTER

For the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM, the Register of Members of the Company (the "Register of Members") will be closed from Tuesday, 20th August 2019 to Friday, 23rd August 2019, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for voting at the forthcoming AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar and Transfer Office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (if the transfer will be lodged on or before 10th July 2019) or Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (if the transfer will be lodged on or after 11th July 2019) for registration not later than 4:30 p.m. on Monday, 19th August 2019.

Remark: The address of the Company's Hong Kong Branch Share Registrar and Transfer Office will be changed with effect from 11th July 2019. For details, please refers to the Company's relevant announcement.

LIQUIDITY, FINANCIAL RESOURCES AND COMMODITY PRICE RISK

The Group primarily financed its operation through internal resources and borrowings from banks. As at 31st March 2019, the Group had unrestricted cash and bank balances of approximately HK$357 million (2018: HK$300 million) and bank borrowings of approximately HK$196 million (2018: HK$265 million). As at 31st March 2019, the outstanding balance of mortgage loan amounted to HK$14.3 million (2018: HK$15.5 million).

The remaining borrowings, which are short term in nature, were made in United States dollars with interest chargeable at market rates. The gearing ratio (total borrowings to total equity) as at 31st March 2019 was 19.5% (2018: 23.8%). The Group has a current ratio of 431% as at 31st March 2019 (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 31st March 2019, the Group had approximately 200 employees (2018: 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). Other benefits include share options granted or to be granted under the share option schemes and training schemes. During the year, staff costs (including directors' emoluments) were approximately HK$62 million (2018: HK$75 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 Financial Year.

CORPORATE GOVERNANCE

To the knowledge and belief of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. The Directors are not aware of any non-compliance with the code provisions of the CG Code during the Financial Year.

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 Financial Year.

REVIEW OF ANNUAL RESULTS OF THE FINANCIAL YEAR

The annual results of the Financial Year have been reviewed by the Audit Committee of the Company.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the Financial Year as set out in the preliminary announcement of the Group's results for the Financial Year have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the Financial Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

By Order of the Board
CHAN Pak Chung
Chairman

Hong Kong, 24th June 2019

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*