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HONG KONG RESEARCH**21st September 2006**

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Main Board Listing – Research

利記控股有限公司

Lee Kee Holdings Limited [Stock Code: 0637]**Global Co-ordinator, Sole Bookrunner,
Sponsor and Lead Manager**

: Cazenove Asia Limited

Sector : Materials**Business** : Trading of industrial materials**Total share offer:** 200,000,000 shares
(25% of the enlarged share capital)**Public Offer:** 20,000,000 shares (10%)**Placing:** 180,000,000 shares (90%)**Greenshoe:** 30,000,000 shares**Price:** HK\$1.94 – HK\$2.70 per share**Market Cap:** HK\$1,552 million – 2,160 million**Adjusted NTA per share:** HK\$1.16 - HK\$1.35**Staffing:** 84**HK Public Offer period:**21st September 06 – 26th September 06 noon**Receiving bank:** Hang Seng Bank Ltd.**Share registrar:** Computershare Hong Kong
Investor Services Limited.**Listing date:** 4th October 2006**Business of Lee Kee Holdings Limited**

Lee Kee Holdings Limited ("the Company") is a leading sourcing and distribution company of die-casting zinc alloy in Hong Kong with a history of close to 60 years. Zinc alloy imported by the Company accounts for about 73% of zinc alloy imported into Hong Kong while the sale of zinc alloy by the Company to customers in the PRC accounts for 77% of the total volume of imported zinc alloy in the PRC.

The Company's principal business is sourcing and distribution of non-ferrous metals, primarily SHG zinc and zinc alloy, nickel and nickel-related products, aluminium and aluminium alloy, and other electroplating chemicals.

In addition to the current principal business of sourcing and distribution, the Company also provides related value-added and ancillary services from procurement of raw metal materials to after-sales services to customers, such as arrangement for transportation and insurance, inventory management, quality control services, laboratorial chemical analysis, general information services and technical support.

The Company's goal is to become a leading international integrated supply chain company in the non-ferrous metals industry that provides "one-stop" solution service to customers.

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Gold Alliance (BVI) (wholly-owned by HSBC Trustee as the trustee of the P.C. Chan Family Trust, a trust set up by Mr. Chan Pak Chung, Chairman and Executive Director of the Company)	75%
Public Shareholders	25%
	<u>100%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$426.9 million. (Assuming the over-allotment option is not exercised, and at an issue price of HK\$2.32 each, being the mid-point of the indicative price range)

	HK\$ million
To develop distribution abilities in the PRC through setting up trading companies and representative offices in major cities such as Guangzhou, Shanghai, Chengdu, Dalian and Beijing	125.7
To form a strategic partnership, with 50% interest, in order to further expand the Company's production capacity of zinc alloy by up to 10,000 metric tonnes per month	110
To expand product lines by establishing own production facilities for manufacturing and processing aluminium alloys up to 7,500 metric tonnes per month	78.5
To expand logistics facilities in Hong Kong	30
To expand service offering by providing laboratory testing services on metal-related products and recycling service to customers	25
To acquire Lee Yip Metal Products Company pursuant to the Call Option Deed in order to expand into the downstream of the metal supply chain	15
General working capital	42.7

Financial Highlights

	Year ended 31 st December			5 months ended	
	2003 HK\$ million	2004 HK\$ million	2005 HK\$ million	31 st May 2005 HK\$ million	31 st May 2006 HK\$ million
Turnover	1390	2438	3143	1185	1850
Gross profit	77	165	285	130	291
Operating profit	46	140	252	120	276
Net profit	36	113	202	97	225
Gross margin	5.53%	6.79%	9.07%	10.95%	15.71%
Operating margin	3.28%	5.73%	8.03%	10.12%	14.94%
Net profit margin	2.57%	4.63%	6.44%	8.18%	12.15%

Strengths/Opportunities

- ✓ Being a leader in the industry, Lee Kee has established ties with leading global metal suppliers and distinguishes itself by providing value-added services. The Company is well positioned to benefit from rising appetite for metal materials resulting from the industrial boom in China.
- ✓ The management does not provide earnings forecast for FY06. Nevertheless, the IPO price range indicates a historical PER at 7.7X to 10.7X. In addition, FY06 net profit should be significant higher than FY05's as suggested by its strong first 5 months performance. The prospective FY06 PER should be much lower than its historical PER. The closest Hong Kong listed peers is Van Shung Chong (HKEx: 1001), which is trading at historical PER at around 13.5X.

Weaknesses/Threats

- × Lee Kee's widening margins over the past few years were attributable to its FIFO accounting method, which depresses cost of goods sold during rising metal prices. However, if the bull-run in metal prices reverses, which is somewhat likely at the moment, this accounting method will result in higher cost of goods sold, thereby exerting downside pressure on margins.
- × Five largest suppliers account for near 90% of total purchases, implying limited bargaining power for sourcing.
- × Upon entering into the metal production business as planned, the Company will expose to additional risks, such as raw material cost and other input cost pressure.

Recommendation: Speculative Buy

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