



LUNG KEE (BERMUDA) HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

POSSIBLE DISCLOSEABLE AND CONNECTED TRANSACTION Offer to acquire all the ordinary shares in Lung Kee Metal Holdings Limited (listed on the Singapore Exchange Securities Trading Limited)

The directors of Lung Kee (Bermuda) Holdings Limited (the "Company") made an announcement on 14th May 2002 in relation to the possible discloseable and connected transaction. The purpose of this announcement is to summarise the financial effects of the Offer (as defined below) in relation to earnings, net tangible assets and net gearing of the Company and its subsidiaries together with the proforma consolidated financial statements of the Company not previously provided to the shareholders of the Company.

INTRODUCTION

On 14th May 2002, the directors of the Company made an announcement on the possible discloseable and connected transaction where the Company's wholly-owned subsidiary, Yeekon Limited ("Yeekon") intends to make a voluntary conditional offer (the "Offer") to acquire all the ordinary shares of Lung Kee Metal Holdings Limited ("LKM"). Details of the Offer has been set out in the announcement.

In connection with the Offer, Yeekon will issue an offer document to the shareholders and option holders of LKM (with a registered address in Singapore for delivery of documents) on or about 4th June 2002 (the "Offer Document"). The Offer Document will contain certain financial and other information which has not been previously provided to the shareholders of the Company. The purpose of this announcement is to summarise such information details of which is shown below. Such information will also be included in the circular to be despatched to shareholders of the Company on 4th June 2002 pursuant to Rule 14.13(2) of Chapter 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited.

FINANCIAL EFFECTS OF THE OFFER

The financial effects of the Offer in relation to earnings, net tangible assets and net gearing of the Company and its subsidiaries (the "Group") are set out below.

(i) Earnings per Share

The effects of the Offer on the earnings per ordinary share of the Company for the financial year ended 31st March 2001 are as follows:

	Before the Offer	After the Offer (note)	
		Alternative 1	Alternative 2
Profit after tax and minority interest but before extraordinary items (HK\$'000)	129,606	140,382	135,228
Weighted average of issued ordinary shares ('000)	481,059	538,340	481,059
Earnings per share (HK\$)	0.27	0.26	0.28

The reasons for the change in the net profit and the earnings per share after the Offer are due mainly to:

- an additional 24.6% share of the results of LKM and its subsidiaries (the "LKM Group");
- amortisation of the goodwill arising from the acquisition an additional 24.6% interest in LKM; and
- the issue of new shares of the Company under Alternative 1.

(ii) Net Tangible Assets ("NTA")

The effects of the Offer on the NTA per ordinary share of the Company for the financial year ended 31st March 2001 are as follows:

	Before the Offer	After the Offer (note)	
		Alternative 1	Alternative 2
NTA (HK\$'000)	642,233	645,756	565,148
Number of issued ordinary shares of the Company ('000)	481,202	538,483	481,202
NTA per share (HK\$)	1.33	1.20	1.17

The reason for the decrease in NTA per share after the Offer under Alternative 1 is due to the increase in the issued share capital of the Company pursuant to the issue of new shares of the Company. The reason for the decrease in NTA and NTA per share under Alternative 2 after the Offer is due mainly to the goodwill arising from the acquisition of an additional 24.6% interest in LKM, which is deducted in computing the NTA and NTA per share.

(iii) Gross and Net Gearing

The effects of the Offer on the gross and net gearing ratios of the Group as at 31st March 2001 are as follows:

	Before the Offer	After the Offer (note)	
		Alternative 1	Alternative 2
Total borrowings (HK\$'000)	321,072	461,177	545,330
Net borrowings (HK\$'000)	Nil	98,870	184,636
Shareholders' funds (HK\$'000)	642,233	696,243	616,052
Gross gearing ratio (no. of times)	0.50	0.66	0.89
Net gearing ratio (no. of times)	Nil	0.14	0.30

"Total borrowings" include all bank borrowings, obligations under finance leases and bills payable of the Group. "Net borrowings" is arrived at after deducting cash and cash equivalents from "Total borrowings". "Shareholders' funds" include share capital and reserves. "Gross gearing ratio" is derived based on the total borrowings divided by shareholders' funds. "Net gearing ratio" is derived based on net borrowings divided by shareholders' funds.

The net borrowings and net gearing ratio are nil before the Offer as the Group is in a positive net cash position.

The increase in total borrowings, net borrowings, gross and net gearing ratios after the Offer is due mainly to the increase in bank borrowings to finance the cash consideration for the Offer.

Note: Alternative 1 assumes all the shareholders of LKM elect the Share cum Cash Offer (except for those who have given the irrevocable undertakings) and Alternative 2 assumes all the shareholders of LKM elect Cash Alternative.

MATERIAL CHANGES

The Company and LKM will be releasing their respective unaudited financial results for the financial year ended 31st March 2002 before the end of June 2002. Based on the knowledge of the Company, the following factors may materially affect the financial position of the Group for the financial year ended 31st March 2002:

- slow down in the US economy which affected the world economy, the markets which they operate in and the end markets which their customers operate in;
- continued depressed margins for its products; and
- keen competition especially for its trading activities.

Save as disclosed herein, the directors of the Company are not aware of any material changes in the financial or trading position of the Group since 31st March, 2001, the date to which the latest published audited financial statements of the Group were made up.

PROFORMA CONSOLIDATED INCOME STATEMENT

The proforma consolidated income statement for the period ended 31st March 2001 is set out below:

	Before the Offer	Alternative 1 After the Offer	Alternative 2 After the Offer
(HK\$'000)			
Turnover	985,834	985,834	985,834
Other revenue	11,357	11,357	11,357
Changes in inventories of finished goods and work in progress	13,501	13,501	13,501
Raw materials and consumables used	(467,509)	(467,509)	(467,509)
Staff costs	(144,828)	(144,828)	(144,828)
Depreciation and amortisation	(72,097)	(84,718)	(84,822)
Other operating expenses	(134,117)	(134,117)	(134,117)
Profit from operations	192,141	179,520	179,416
Finance costs	(15,869)	(24,276)	(29,326)
Bank interest income	17,989	17,989	17,989
Loss on deemed disposal of a subsidiary	(1,903)	(1,903)	(1,903)
Profit before taxation	192,358	171,330	166,176
Taxation	(30,289)	(30,289)	(30,289)
Profit after taxation	162,069	141,041	135,887
Minority interests	(32,463)	(659)	(659)
Net profit for the year	129,606	140,382	135,228
Earnings per share			
— basic (HK\$)	0.27	0.26	0.28
— diluted (HK\$)	0.27	0.26	0.28

PROFORMA CONSOLIDATED BALANCE SHEET

The proforma consolidated balance sheet as at 31st March 2001 is set out below:

	Before the Offer	Alternative 1 After the Offer	Alternative 2 After the Offer
(HK\$'000)			
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	6,000	6,000	6,000
Property, plant and equipment	431,482	431,482	431,482
Investment in securities	29,539	29,539	29,539
Goodwill (after amortisation)	—	50,487	50,904
	467,021	517,508	517,925
Current assets			
Inventories	310,756	310,756	310,756
Bills receivable	9,557	9,557	9,557
Debtors, deposits and prepayments	251,526	251,526	251,526
Taxation receivable	74	74	74
Bank balances and cash	374,150	362,307	360,694
	946,063	934,220	932,607
Current liabilities			
Creditors and accrued charges	(189,546)	(189,546)	(189,546)
Bills payable	(25,849)	(25,849)	(25,849)
Taxation payable	(38,232)	(38,232)	(38,232)
Obligations under finance leases — due within one year	(464)	(464)	(464)
Bank borrowing — due within one year	(290,830)	(290,830)	(290,830)
Dividends payable	(43,346)	(48,504)	(43,346)
	(588,267)	(593,425)	(588,267)
Net current assets	357,796	340,795	344,340
Non-current liabilities			
Obligations under finance leases — due after one year	(674)	(674)	(674)
Bank borrowings — due after one year	(3,255)	(143,360)	(227,513)
Deferred taxation	(370)	(370)	(370)
	(4,299)	(144,404)	(228,557)
Minority interests	(178,285)	(17,656)	(17,656)
	642,233	696,243	616,052
CAPITAL AND RESERVES			
Share capital	48,120	53,848	48,120
Reserves	594,113	642,395	567,932
	642,233	696,243	616,052

BASIS OF PREPARATION OF THE PROFORMA FINANCIAL STATEMENTS

The above consolidated financial statements are for illustrative purposes only and do not reflect the actual future financial situation of the enlarged Group after the Offer. They have been prepared on the following key assumptions and bases:

- based on the respective audited financial statements of the Group and the LKM Group for the financial year ended 31st March 2001;
- all the option holders would accept the options proposal;
- Alternative 1 assumes that all the shareholders of LKM elect for the Shares cum Cash Offer (save for those who have given their irrevocable undertakings) and the Company issues approximately 57,280,500 new shares at an issue price of HK\$1.46 for each new share;
- assume the 57,280,500 new shares of the Company are issued at the beginning of the financial year and are also entitled to the dividend paid for the financial year ended 31st March 2001;
- Alternative 2 assumes that all the shareholders of LKM elect the Cash Alternative;
- assume that all cash consideration will be financed by bank borrowings at an interest rate of 6% per annum;
- goodwill arising from the transaction will be amortised on a straight line basis to the income statement over a period of five years; and
- all interest arising from the bank loan will be fully paid at the end of each financial year.

GENERAL

As the Offer may or may not become unconditional, investors should exercise caution when dealing in the shares of the Company.

By Order of the Board of
Lung Kee (Bermuda) Holdings Limited
Wai Lung Shing
Director and Company Secretary

Hong Kong, 4th June 2002