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If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Lung Kee (Bermuda) Holdings Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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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 SGX-ST)

4th June, 2002

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

“Announcement Date”	14th May, 2002, being the date of the press announcement of the Offer
“Bermuda Companies Act”	The Companies Act 1981 of Bermuda (as amended)
“Board”	the board of Directors
“BVI”	LKM (BVI) Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“Code”	The Singapore Code on Takeovers and Mergers (as revised with effect from 1st January, 2002)
“Company”	Lung Kee (Bermuda) Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange
“Conditions”	the conditions which must be satisfied before completion of the Offer as set out under the paragraph headed “Conditions of the Offer”
“Director(s)”	the director(s) of the Company
“Group”	the Company, its subsidiaries and associates
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	24th May, 2002
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LKM”	Lung Kee Metal Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on SGX-ST and as to 75.37% indirectly owned by the Company
“LKM Group”	LKM and its subsidiaries
“LKM Share(s)”	the ordinary share(s) of HK\$1.00 each in the capital of LKM
“LKM Share Option Scheme”	the employee share option scheme of LKM
“New Share(s)”	new ordinary share(s) of HK\$0.10 each in the share capital of the Company
“OCBC”	The Oversea-Chinese Banking Corporation Limited, a Singapore-based financial service group whose shares are listed on SGX-ST
“Offer”	the voluntary conditional offer to be made by Yeekon to acquire all the issued and paid-up LKM Shares

DEFINITIONS

“Offer Price”	the offer price of S\$0.80 (equivalent to approximately HK\$3.46), details of which are set out under the paragraph headed “Offer Price”
“Offer Share(s)”	the LKM Share(s) subject to the Offer and for the purpose of the Offer, shall include such new LKM Shares pursuant to the exercise of the Options under the LKM Share Option Scheme
“Option(s)”	the option(s) to subscribe for new LKM Shares granted under the LKM Share Option Scheme
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong
“SGX-ST”	Singapore Exchange Securities Trading Limited
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yeekon”	Yeekon Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“S\$”	Singapore dollars, the lawful currency of the Republic of Singapore
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

(In this circular, S\$ amounts are converted into HK\$ amounts at the approximate current prevailing market rate of S\$1=HK\$4.321)

LETTER FROM THE BOARD



LUNG KEE (BERMUDA) HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Executive Directors:

Mr. Siu Tit Lung
Mr. Siu Yuk Lung
Mr. Mak Koon Chi
Mr. Wai Lung Shing
Mr. Fung Wai Hing

Non-Executive Director:

Mr. Chan Chun Sing, Colin

Independent Non-Executive Directors:

Mr. Liu Wing Ting, Stephen, JP
Dr. Lee Tat Yee

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal

Place of Business

1st Floor
Cheung Kong Electronic Building
4 Hing Yip Street
Kwun Tong
Hong Kong

4th June, 2002

To the Shareholders

Dear Sir or Madam,

POSSIBLE DISCLOSEABLE AND CONNECTED TRANSACTION

OFFER TO ACQUIRE ALL THE ORDINARY SHARES IN LUNG KEE METAL HOLDINGS LIMITED (LISTED ON THE SGX-ST)

INTRODUCTION

On 14th May, 2002, the Directors made an announcement on the possible discloseable and connected transaction where the Company's wholly-owned subsidiary, Yeekon intends to make a voluntary conditional offer to acquire all the LKM Shares at the Offer Price of S\$0.80 (equivalent to approximately HK\$3.46) per Offer Share.

Yeekon has received an irrevocable undertaking from BVI to accept the Offer in respect of BVI's entire shareholdings (representing approximately 75.37%) in LKM. Four Directors have also given an irrevocable undertaking to Yeekon to accept the Offer by way of cash only in respect of their entire shareholdings (representing approximately 1.61%) in LKM and to accept the options proposal in respect of their entire Option holdings.

The acceptance of the Offer by the Directors mentioned above will constitute connected transaction under the Listing Rules and requires disclosures under the Listing Rule 14.25(1). However, since such Directors will accept the Offer by way of cash only, no approval by the shareholders in the general meeting of the Company pursuant to Listing Rule 14.26(3) is required.

LETTER FROM THE BOARD

Since the consideration for the Offer exceeds 15 per cent. of the consolidated net tangible assets of the Company as at 31st March, 2001, if the Offer becomes unconditional, the Offer will constitute a discloseable transaction under the Listing Rules.

The purpose of this circular is to provide you with further information in relation to the Offer and other information as required by the Listing Rules.

THE OFFER

Terms of the Offer

Yeekon will make the Offer for all the LKM Shares not owned by it. The Offer will be extended to (i) all the issued LKM Shares owned, controlled, or agreed to be acquired by parties acting or deemed to be acting in concert with Yeekon in connection with the Offer and (ii) all new LKM Shares unconditionally issued or to be issued pursuant to the valid exercise prior to the close of the Offer of any Option granted under the LKM Share Option Scheme.

Offer Price

The Offer Price, when made, will be on the following basis:

Share cum Cash Offer : One (1) New Share and S\$0.46 in cash for each Offer Share

OR

Cash Alternative : S\$0.80 in cash for each Offer Share

Shareholders of LKM can either accept the Share cum Cash Offer (which is subject to the Stock Exchange granting the approval for the listing of the New Shares) or the Cash Alternative but not a combination of the Share cum Cash Offer and the Cash Alternative.

The Offer Shares will be acquired by Yeekon fully paid and free from all charges, liens, pledges, options, encumbrances and any other third party rights or interests of any nature whatsoever and together with all rights, benefits and entitlements attaching and accruing thereto as of the Announcement Date and thereafter, including the right to receive and retain all dividends, rights and other distributions (if any) declared, paid or made by LKM on or after the Announcement Date (including any dividend which may be declared, paid or made by LKM in respect of the financial year ended 31st March, 2002).

Share cum Cash Offer Pricing

The New Shares will be issued at a price equivalent to HK\$1.46 each, which is determined based on the simple average market price of the highest and lowest traded prices of the Shares on the Stock Exchange on 10th May, 2002 pursuant to the Code. This is equivalent to approximately S\$0.34 (based on the exchange rate of S\$1 : HK\$4.321 on 10th May, 2002). The cash amount of S\$0.46 for each Offer Share is the amount of the Offer Price in excess of the S\$ equivalent of the issue price of each New Share.

LETTER FROM THE BOARD

Options Proposal

Yeekon will pay holders of such Options an option price in cash (determined as provided below) in consideration of such holders agreeing:

- (a) not to exercise all or any of such Options into new LKM Shares; and
- (b) not to exercise all or any of their rights as holders of such Options,

in each case from the date of their acceptance of the options proposal to the respective dates of expiry of such Options. Further, if the Offer becomes or is declared unconditional in all respects, holders of the Options who have accepted the options proposal will also be required to surrender all of their Options for cancellation. If the Offer lapses or is withdrawn or if the relevant Options cease to be exercisable into new LKM Shares, the options proposal will lapse accordingly.

The option price is computed on a “see-through basis”. In other words, the option price in relation to any Option is the amount of the Offer Price in excess of the exercise price of that Option.

As at the Latest Practicable Date, there were 11,668,750 outstanding Options held by the holders of the Options.

Irrevocable Undertakings

As at the Latest Practicable Date, BVI is the registered owner of 187,500,000 LKM Shares, representing approximately 75.37% of the issued and paid-up share capital of LKM. There were 248,780,500 issued and paid-up LKM Shares as at the Latest Practicable Date. Yeekon has received an irrevocable undertaking from BVI to accept the Offer in respect of their entire shareholdings in LKM. Mr. Siu Tit Lung, the chairman of LKM and the Company and Mr. Siu Yuk Lung, the managing director of LKM and the Company and Mr. Mak Koon Chi and Mr. Wai Lung Shing, both directors of LKM and the Company have given an irrevocable undertaking to Yeekon to accept the Offer by way of cash only in respect of their entire shareholdings (representing approximately 1.61%) in LKM and to accept the options proposal in respect of their entire Option holdings. The irrevocable undertakings will lapse if the Offer for the Offer Shares is withdrawn, lapses or does not become unconditional.

The acceptance of the Offer by BVI in respect of its irrevocable undertaking will be by way of cash only in order to avoid BVI owning any Shares.

Conditions of the Offer

The Offer will be subject to Yeekon having received, by the close of the Offer, valid acceptances in respect of such number of Offer Shares which, when taken together with the number of LKM Shares owned, controlled or agreed to be acquired by Yeekon (either before or during the Offer and pursuant to the Offer or otherwise), will result in Yeekon holding not less than 90% of the Offer Shares.

The Offer will, therefore, not become or be capable of being declared unconditional until the close of the Offer unless at any time prior to the close of the Offer, the Conditions are fulfilled.

LETTER FROM THE BOARD

Compulsory Acquisition

Under the Bermuda Companies Act, if the Offer has been accepted by the holders of at least 90% in value of the Offer Shares, Yeekon may compulsorily acquire all the LKM Shares of the dissenting shareholders, unless an application is made by a dissentient shareholder to the Supreme Court of Bermuda to object the compulsory acquisition.

Under the Bermuda Companies Act, if Yeekon acquires, pursuant to the Offer or otherwise, 95% or more of the LKM Shares, Yeekon may also compulsorily acquire all the LKM Shares of the remaining shareholders at fair value.

After the close of the Offer, Yeekon intends to compulsorily acquire all the LKM Shares of any dissentient shareholders.

Offer Document

The offer document containing the terms and conditions of the Offer, and enclosing the appropriate form(s) of acceptance of the Offer, will be despatched to the shareholders of LKM (other than the shareholders without a registered address in Singapore for delivery of documents) on or about 4th June, 2002.

Consideration

The maximum consideration payable by Yeekon for the Offer Shares under the Offer will be approximately HK\$224 million (excluding payment consideration for Offer Shares held by BVI). OCBC, as financial adviser to Yeekon, has confirmed that sufficient financial resources are available to Yeekon to satisfy full acceptance of the Offer by the holders of the Offer Shares, other than BVI. The payment consideration for the Offer Shares held by BVI will be made by way of an inter-company amount owing by Yeekon which will be approximately HK\$648 million.

INFORMATION ON THE COMPANY

The Company was incorporated in Bermuda on 3rd December, 1992, its shares are listed on the Stock Exchange and has a market capitalisation of approximately HK\$697 million and HK\$774 million as at the Announcement Date and the Latest Practicable Date respectively. The Company acts as an investment holding company and provides corporate management services. Its subsidiaries are principally engaged in the manufacture and marketing of mould bases and the trading of metal and parts. The Directors are Mr. Siu Tit Lung, Mr. Siu Yuk Lung, Mr. Mak Koon Chi, Mr. Wai Lung Shing, Mr. Fung Wai Hing, Mr. Chan Chun Sing, Colin, Mr. Liu Wing Ting, Stephen and Dr. Lee Tat Yee.

As at the Latest Practicable Date, the Company has authorised share capital of HK\$60,000,000 divided into 600,000,000 ordinary shares of HK\$0.10 each of which 483,952,343 are issued and fully paid-up.

LETTER FROM THE BOARD

INFORMATION ON YEEKON

Yeekon was incorporated in the British Virgin Islands on 24th April, 2001 and has not carried on any business since its inception. It will be used principally as an investment holding company and has an issued and paid-up share capital of US\$1.00 consisting of one ordinary share of US\$1.00. Yeekon is a wholly-owned subsidiary of the Company. The directors of Yeekon are Mr. Siu Tit Lung, Mr. Siu Yuk Lung, Mr. Mak Koon Chi and Mr. Wai Lung Shing.

BACKGROUND AND INFORMATION ON LKM AND REASONS FOR THE OFFER

The Offer is being made to enable the Company to privatise LKM. It is not the intention of Yeekon to preserve the listing status of LKM on the SGX-ST. If Yeekon receives acceptances pursuant to the Offer in respect of 90% or more of the Offer Shares, it is the intention of Yeekon to exercise its right under the Bermuda Companies Act to acquire compulsorily those Offer Shares not acquired by Yeekon pursuant to the Offer. Yeekon will then proceed to delist LKM from the SGX-ST.

As disclosed in the press announcement dated 5th June, 1996 and the circular dated 12th August, 1996, the Company carried out a restructuring exercise to streamline the activities of the group into two main businesses, that is, the manufacture and marketing of mould bases and the trading of metal and parts. The manufacture and marketing of mould base was undertaken by LKM and its group of companies, while the trading activities remained under the Company and its other group of companies. LKM was subsequently listed on the SGX-ST in January 1997 but remained as a subsidiary of the Company. The intention of the listing of LKM then was to enhance shareholders' value of the Company which it hoped to achieve by the separate listings of the Company and LKM. As at the Announcement Date, the market capitalisation of the Company was approximately HK\$697 million (or equivalent to approximately S\$162 million) while the market capitalisation of LKM was approximately S\$164 million. The Company believes that its original intention of enhancing shareholders' value by separately listing LKM on the SGX-ST was not achieved. In addition, with increased competition and the need for the Group to diversify its products and services, the Company believes that taking LKM private will give the Company more flexibility in utilising and deploying the resources of LKM within the Group.

The audited consolidated profit before and after taxation of LKM for the year ended 31st March, 2001 were HK\$148,952,965 and HK\$127,199,856 respectively. For the year ended 31st March, 2000, the audited consolidated profit before and after taxation were HK\$130,581,351 and HK\$110,877,683 respectively.

The audited consolidated net asset value of LKM for the year ended 31st March, 2001 and 31st March, 2000 were HK\$616,878,204 and HK\$546,839,378 respectively.

The unaudited consolidated profit before and after taxation of LKM for the six months ended 30th September, 2001 were approximately HK\$54 million and approximately HK\$46 million respectively.

Pursuant to the Offer, shareholders of LKM are given the option to accept either the Share cum Cash Offer or the Cash Alternative. The Share cum Cash offer is being made to give shareholders the opportunity to participate in the shares of the enlarged Group following the privatisation of LKM and is subject to the Stock Exchange granting the approval for the listing and permission to deal in the New Shares. To facilitate the trading of the Shares especially for shareholders who wish to accept the Share cum Cash Offer, an application will be made to the SGX-ST for the secondary listing of and quotation for all the Shares (including the New Shares to be issued in connection with the Offer) on the official list of SGX-ST.

LETTER FROM THE BOARD

In the context of the above, the Company has decided to make the Offer through Yeekon with a view to making LKM its wholly-owned subsidiary.

FINANCIAL EFFECTS OF THE OFFER

The financial effects of the Offer in relation to earnings, net tangible assets and net gearing of the Group are set out below. Further information relating to the proforma consolidated financial statements of the enlarged Group after the Offer for the financial year ended 31st March, 2001 is also set out in Appendix II to this circular. This financial information will also be included in the offer document to be despatched to the shareholders of LKM (other than the shareholders without a registered address in Singapore for delivery of documents) on or about 4th June, 2002.

(i) Earnings per Share

The effects of the Offer on the earnings per Share 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 number of issued 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 Group;
- amortisation of the goodwill arising from the acquisition an additional 24.6% interest in LKM; and
- the issue of new Shares under Alternative 1.

(ii) Net Tangible Assets ("NTA")

The effects of the Offer on the NTA per Share 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 Shares ('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. 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.

LETTER FROM THE BOARD

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

ADDITIONAL INFORMATION

OCBC is acting as the financial adviser to Yeekon in relation to the Offer.

Application has been made to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, any New Shares pursuant to the acceptance of the Offer.

Yeekon and OCBC each reserves the right to notify any matter, including the fact that the Offer has been made, to any or all the shareholders of LKM and to any or all the holders of the Options (including the shareholders of LKM and the holders of the Options not having a registered address in Singapore for delivery of documents) by announcement or paid advertisement in a daily newspaper published or circulated in Singapore, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any shareholders of LKM or any holders of the Options to receive or see such announcement or advertisement.

Your attention is drawn to the general information set out in Appendix I to this circular.

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

Yours faithfully,
By Order of the Board
Wai Lung Shing
Director and Company Secretary

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the securities of the Company which were required to be notified pursuant to section 28 of the SDI Ordinance (including interests which any such Director is taken or deemed to have under section 31 of, or part I of the Schedule to, the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, were as follows:

(i) Interest in Shares:

Name of Directors	Number of Shares held	
	Personal interests	Other interests
Siu Tit Lung (<i>Notes 1, 2 & 4</i>)	58,933,155	246,093,750
Siu Yuk Lung (<i>Notes 1, 3 & 4</i>)	58,933,155	246,093,750
Mak Koon Chi	3,375,000	—
Wai Lung Shing	3,375,000	—
Fung Wai Hing	1,265,625	—

(ii) Interests in shares of associated corporations:

Name of Directors	Name of associated corporations	Nature of Interests	Number of shares held	Type of shares
Siu Tit Lung (<i>Note 5</i>)	Lung Kee International Limited	personal	1,000,000	Non-voting deferred shares
	Lung Kee Metal Limited	personal	5,000,000	Non-voting deferred shares
	LKM	personal	2,375,000	Ordinary shares
Siu Yuk Lung (<i>Note 5</i>)	Lung Kee International Limited	personal	1,000,000	Non-voting deferred shares
	Lung Kee Metal Limited	personal	5,000,000	Non-voting deferred shares
	LKM	personal	2,375,000	Ordinary shares
Mak Koon Chi	LKM	personal	562,500	Ordinary shares
Wai Lung Shing	LKM	personal	562,500	Ordinary shares

(iii) Interests in share options granted by associated corporation:

Name of Directors	Name of associated corporation	Number of share options held
Mak Koon Chi	LKM	1,687,500
Wai Lung Shing	LKM	1,687,500

Notes:

- Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 56,105,030 Shares and each owned a further 2,828,125 Shares registered in their own name.
- Rickdee Investments Limited, which is wholly-owned by a discretionary trust of which family members of Mr. Siu Tit Lung other than Mr. Siu Tit Lung himself are beneficiaries, held 46,875,000 Shares.
- Robin Hill Investments Limited, which is wholly-owned by a discretionary trust of which family members of Mr. Siu Yuk Lung other than Mr. Siu Yuk Lung himself are beneficiaries, held 46,875,000 Shares.
- Pan Island Investments Limited, which is wholly-owned by a discretionary trust of which family member of Mr. Siu Tit Lung and Mr. Siu Yuk Lung other than Mr. Siu Tit Lung and Mr. Siu Yuk Lung themselves are beneficiaries, held 199,218,750 Shares.
- Messrs. Siu Tit Lung and Siu Yuk Lung jointly held 1,875,000 in LKM Shares and each owned a further 500,000 LKM Shares.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interest in the share capital of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required pursuant to section 28 of the SDI Ordinance (including the interests which were deemed or taken to have under section 31 or part I of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Group taken as a whole.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date and so far as the Directors are aware, the following persons are interested in 10% or more of the issued ordinary share capital of the Company:

Name of Shareholder	Number of Shares	Percentage shareholding (approximately)
Pan Island Investments Limited	199,218,750	41.16%

As at the Latest Practicable Date and so far as is known to any Directors, the persons (other than members of the Group) directly or indirectly interested in 10% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the members of the Group (other than the Company) were as follows:

Name of persons	Name of subsidiary of the Company	Percentage shareholding
James, Kun-fang Chan	Taiwan Supertech Industrial Co. Ltd.	15.00%
Shun-lian Chang	Taiwan Supertech Industrial Co. Ltd.	11.94%
To Yu Tang	Sky Bright Metal Product Limited	40.00%
Li Siu Cheung	Sky Lucky Steel Limited	30.00%
Li Siu Cheung	Sky Lucky Metal Limited	30.00%

Save as disclosed herein and so far as the Directors were aware, there was no person who was interested directly or indirectly in 10% or more of the nominal value of any class of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Group as at the Latest Practicable Date.

4. MATERIAL CHANGES

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

- (a) 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;
- (b) continued depressed margins for its products; and
- (c) keen competition especially for its trading activities.

Save as disclosed herein, the Directors 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.

5. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and the Directors are not aware of any litigation or claim of material importance pending or threatened by or against any member of the Group.

6. SERVICE CONTRACTS

None of the Directors has entered into a service contract with any member of the Group which does not expire or is not terminable within one year without payment of compensation (other than statutory compensation).

7. GENERAL

- (a) The secretary of the Company is Mr. Wai Lung Shing who is a fellow of both the Hong Kong Society of Accountants and the Chartered Association of Certified Accountants.
- (b) The English text of this circular shall prevail over the Chinese text.

**APPENDIX II PROFORMA CONSOLIDATED FINANCIAL STATEMENTS
OF THE ENLARGED GROUP**

PROFORMA CONSOLIDATED INCOME STATEMENT

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

<i>(HK\$'000)</i>	Before the Offer	Alternative 1 After the Offer	Alternative 2 After the Offer
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	<u>(134,117)</u>	<u>(134,117)</u>	<u>(134,117)</u>
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	<u>(1,903)</u>	<u>(1,903)</u>	<u>(1,903)</u>
Profit before taxation	192,358	171,330	166,176
Taxation	<u>(30,289)</u>	<u>(30,289)</u>	<u>(30,289)</u>
Profit after taxation	162,069	141,041	135,887
Minority interests	<u>(32,463)</u>	<u>(659)</u>	<u>(659)</u>
Net profit for the year	<u><u>129,606</u></u>	<u><u>140,382</u></u>	<u><u>135,228</u></u>
Earnings per share			
— basic (HK\$)	<u><u>0.27</u></u>	<u><u>0.26</u></u>	<u><u>0.28</u></u>
— diluted (HK\$)	<u><u>0.27</u></u>	<u><u>0.26</u></u>	<u><u>0.28</u></u>

**APPENDIX II PROFORMA CONSOLIDATED FINANCIAL STATEMENTS
OF THE ENLARGED GROUP**

PROFORMA CONSOLIDATED BALANCE SHEET

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

<i>(HK\$'000)</i>	Before the Offer	Alternative 1 After the Offer	Alternative 2 After the Offer
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
	<u>467,021</u>	<u>517,508</u>	<u>517,925</u>
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	<u>374,150</u>	<u>362,307</u>	<u>360,694</u>
	<u>946,063</u>	<u>934,220</u>	<u>932,607</u>
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	<u>(43,346)</u>	<u>(48,504)</u>	<u>(43,346)</u>
	<u>(588,267)</u>	<u>(593,425)</u>	<u>(588,267)</u>
Net current assets	<u>357,796</u>	<u>340,795</u>	<u>344,340</u>

APPENDIX II
**PROFORMA CONSOLIDATED FINANCIAL STATEMENTS
OF THE ENLARGED GROUP**

<i>(HK\$'000)</i>	Before the Offer	Alternative 1 After the Offer	Alternative 2 After the Offer
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	<u>(370)</u>	<u>(370)</u>	<u>(370)</u>
	<u>(4,299)</u>	<u>(144,404)</u>	<u>(228,557)</u>
Minority interests	<u>(178,285)</u>	<u>(17,656)</u>	<u>(17,656)</u>
	<u>642,233</u>	<u>696,243</u>	<u>616,052</u>
CAPITAL AND RESERVES			
Share capital	48,120	53,848	48,120
Reserves	<u>594,113</u>	<u>642,395</u>	<u>567,932</u>
	<u>642,233</u>	<u>696,243</u>	<u>616,052</u>

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:

- (a) based on the respective audited financial statements of the Group and the LKM Group for the financial year ended 31st March, 2001;
- (b) all the holders of Options would accept the options proposal;
- (c) 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;
- (d) assume the 57,280,500 new Shares 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;
- (e) Alternative 2 assumes that all the shareholders of LKM elect the Cash Alternative;
- (f) assume that all cash consideration will be financed by bank borrowings at an interest rate of 6% per annum;
- (g) goodwill arising from the transaction will be amortised on a straight line basis to the income statement over a period of five years; and
- (h) all interest arising from the bank loan will be fully paid at the end of each financial year.