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## **VICTORY GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**PLACING AGENT**



## **CM-CCS SECURITIES LIMITED**

### **PLACING OF NEW SHARES AND EXCEPTIONAL SHARE PRICE MOVEMENT**

The Placing Agreement was entered into on 10 November 2003 between the Company and the Placing Agent pursuant to which the Company will place through the Placing Agent, on a best endeavour basis, a total of 63,300,000 Shares to independent investors at a price of HK\$0.016 per Placing Share. The Placing Agent has confirmed on 15 November 2003 that a total of 63,300,000 Shares will be placed.

The Placing Shares represent approximately 19.99% of the existing issued share capital of the Company and approximately 16.66% of the Company's issued share capital as enlarged by the Placing. The net proceeds from the Placing of approximately HK\$930,000 will be used for general working capital purposes, including partial repayment of debts of approximately HK\$700,000. The Placing Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the special general meeting of the Company held on 3 November 2003. The general mandate has not been utilized prior to the date of the Placing Agreement, and accordingly will be sufficient to cover the issue of the Placing Shares.

The Placing Price represents (i) a discount of approximately 42.86% to the closing price of HK\$0.028 per Share quoted on the Stock Exchange on 10 November 2003, being the day of the signing of the Placing Agreement and the last trading day before the suspension of trading of the Shares on 11 November 2003; (ii) a discount of approximately 54.15% to the average of the closing price per Share as quoted on the Stock Exchange of approximately HK\$0.0349 for the 10 trading days ended on 10 November 2003; and (iii) a premium with reference to the Group's audited consolidated net liabilities (based on (a) the audited consolidated net liabilities of the Group of approximately HK\$13.43 million as stated in the annual report of the Company for the year ended 31 December 2002; and (b) the unaudited consolidated net liabilities of the Group of approximately HK\$15.53 million as stated in the interim report of the Company for the six months ended 30 June 2003). The Placing Price was agreed after arm's length negotiations between the Company and the Placing Agent and was determined having regard to the thin trading volume and relative low trading price of Shares.

The Placing is conditional upon (i) the Listing Committee granting the listing of and permission to deal in the Placing Shares; and (ii) the Bermuda Monetary Authority granting permission for the allotment and issue of the Placing Shares (if so required).

The Directors have noted the decrease in the price of the Shares on 10 November 2003 and wish to state that they are not aware of any reasons for such decrease. The Directors also confirm that, save for the publication of this announcement, there are no negotiations or agreements relating to intended acquisitions or realizations which are discloseable under paragraph 3 of the Listing Agreement, neither is the Board aware of any matter discloseable under general obligation imposed by paragraph 2 of the Listing Agreement, which is or may be of a price-sensitive nature.

Trading in the securities of the Company on the Stock Exchange was suspended with effect from 9:30 a.m. on 11 November 2003 at the request of the Company pending the publication of this announcement. Application has been made to the Stock Exchange to resume trading of the securities of the Company with effect from 9:30 a.m. on 20 November 2003.

## **PLACING AGREEMENT DATED 10 NOVEMBER 2003**

### **Placing agent in the Placing Agreement**

CM-CSS Securities Limited.

### **Number of Shares to be placed**

The Placing Agent has confirmed on 15 November 2003 that a total of 63,300,000 Shares will be placed. The Placing Shares represent approximately 19.99% of the existing issued share capital of the Company and approximately 16.66% of the issued share capital as enlarged by issue of the Placing Shares.

### **Independence of Placees and the Placing Agent**

The Placing Agent and its ultimate beneficial owner(s) are independent of, and not connected with the directors, chief executives and substantial shareholders of the Company and its subsidiaries or any of their respective associates as defined under the Listing Rules. The Placing Agent has agreed, on a best endeavour basis, to procure Placees to subscribe for the Placing Shares, who shall be independent of, and not connected with the directors, chief executives and substantial shareholders of the Company and its subsidiaries or any of their respective associates as defined under the Listing Rules. The Placing Agent has warranted that the Placing Shares will be placed to not less than six Placees. Pursuant to the Placing Agreement, the Placing Agent will receive a flat commission of HK\$30,000.

### **Placing Price**

The Placing Price is HK\$0.016 per Placing Share. This price was agreed after arm's length negotiations between the Company and the Placing Agent and was determined having regard to the thin trading volume and relative low trading price of the Shares.

The Placing Price represents (i) a discount of approximately 42.86% to the closing price of HK\$0.028 per Share quoted on the Stock Exchange on 10 November 2003, being the last trading day before the signing of the Placing Agreement and the suspension of trading of the Shares; (ii) a discount of approximately 54.15% to the average of the closing price per Share as quoted on the Stock Exchange of approximately HK\$0.0349 for the 10 trading days ended on 10 November 2003; and (iii) a premium with reference to the Group's audited consolidated net liabilities (based on the audited consolidated net liabilities of the Group of approximately HK\$13.43 million as stated in the annual report of the Company for the year ended 31 December 2002).

The Directors confirm that the current funding and working capital of the Group is tight in respect of the business operations of the Group. The Group has explored various means of raising funds including additional bank financing. Failed to obtain additional banking facilities and other fund raising opportunities, the Placing is the only viable means for the Group to raise additional capital.

Though the Placing Price represents a deep discount, the Placing is in fact the only option available to the Company under the present market conditions. The Directors have considered the following factors in justifying the Placing Price:

- a. The Placing Price represents a premium:
  - (i) with reference to the net liabilities of the Group; and
  - (ii) of 60% to the par value of HK\$0.01 per Share;
- b. other fund raising opportunities under the present market conditions are not available to the Company; and
- c. the urgency of debt repayments and working capital requirements, as stated in the intended use of net proceeds of the Placing.

Furthermore, as stated above, the Placing Price was determined after arm's length negotiation with the Placing Agent and after the Board had considered the financial conditions of the Group and the thin trading volume and relative low trading price of Shares. The average daily trading volume of Shares for the past 55 trading days, from 22 August 2003 (being the first day of resumption of trading of Shares after the completion of the last placing described in part (iii) of the section named "Fund raising activities for the past 24 months") to 10 November 2003 (being the last trading day before the suspension of trading of the Shares pending the publication of this announcement), was approximately 746,600 Shares, representing only 0.36% of 206,234,014 Shares, the total number of Shares held by the public. All these formed the basis for the determination of the Placing Price by the Directors and the Placing Agent.

The Placing Price represents a premium with reference to the latest audited consolidated net liabilities of the Company. After arm's length negotiations with the Placing Agent and after having considered the aforesaid circumstances, the Directors consider the Placing Price is fair and reasonable and in the best interest of the Company.

## Conditions and completion of Placing

Completion of the Placing is conditional upon (i) the Listing Committee granting the listing of and permission to deal in the Placing Shares; and (ii) the Bermuda Monetary Authority granting permission for the allotment and issue of the Placing Shares (if so required), in each case no later than 10:00 a.m. on 8 December 2003 (or such other time or date as the parties may agree).

## Completion of Placing

Completion of the Placing Agreement shall take place on or before the second Business Day following the satisfaction of the conditions specified in the Placing Agreement and is expected to take place on or before 26 November 2003 or such other date as the Company and the Placing Agent may agree.

## Effect in shareholding of the substantial shareholder of the Company

Eternal Victory Enterprises Inc. ("EVEI"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Chan, held approximately 34.86% of the existing issued share capital of the Company as trustee of a unit trust, the units of which are held by a discretionary trust established for the family members of Mr. Chan, immediately before completion of the Placing and will hold approximately 29.05% of the enlarged issued share capital of the Company immediately after completion of the Placing. According to the shareholder list of the Company as at 11 November 2003 provided by the Company's share registrars, the Directors confirm that there is no other substantial Shareholders except EVEI. The Placing Agent also confirms that none of the respective Placees will hold more than 10% of the enlarged issued share capital of the Company immediately after completion of the Placing.

## Effect of the Placing

The effect of the Placing on the shareholding structure of the Company is as follows:

	At present		Immediately after completion of the Placing and if the Placing Shares are fully taken up by the Placees	
	Number of Shares	Approximate Percentage	Number of Shares	Approximate Percentage
EVEI	110,377,586	34.86%	110,377,586	29.05%
Placees	–	0%	63,300,000 (Note)	16.66% (Note)
Public	206,234,014	65.14%	206,234,014 (Note)	54.29% (Note)
Total	<u>316,611,600</u>	<u>100%</u>	<u>379,911,600</u>	<u>100%</u>

*Note:* Assuming that all 63,300,000 Placing Shares are subscribed for by the Placees, the Shares held by the public amount to 269,534,014 Shares (i.e. 63,300,000 Placing Shares plus 206,234,014 Shares), representing approximately 70.95% of the enlarged issued share capital of the Company immediately after completion of the Placing.

## Mandate to issue Placing Shares

The Placing Shares will be allotted and issued pursuant to the general mandate granted to the Directors at the special general meeting of the Company held on 3 November 2003. The general mandate has not been utilized prior to date of the Placing Agreement, and accordingly will be sufficient to cover the issue of Placing Shares.

## Ranking and rights of Placing Shares

The Placing Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with all other Shares in issue on the date of the allotment and issue of such Placing Shares.

## Use of proceeds and reasons for Placing

The Company is an investment holding company. The Group is principally engaged in the marketing and wholesale distribution of left-hand-drive motor vehicles. The Placing will generate a gross amount of proceeds of HK\$1,012,800 and net proceeds of approximately HK\$930,000 after payment of financial, legal, printing and publication charges, approximately HK\$34,800, HK\$18,000, and HK\$30,000 respectively. The Company intends to apply approximately HK\$700,000 for partial repayment of debts and the remaining HK\$230,000 for other general working capital purposes, including staff costs of approximately HK\$154,000, premises expenses of approximately HK\$18,000 and other office utilities of approximately HK\$58,000.

As the Company is in need of additional funding for its general working capital, the Directors consider that the Placing represents a good opportunity to raise further working capital for the Company while at the same time broadening its shareholder and capital base. The Directors consider that, in light of the current financial situation of the Group, the Placing is at the right time and in the interests of the shareholders as a whole on the ground that an outstanding debt of approximately HK\$700,000 is due for repayment shortly and the Placing represents the most cost efficient means for the Company to raise capital from the market to meet its imminent debt repayment commitment. The said outstanding debt includes printing fees of HK\$146,000, accountancy fees of HK\$272,000, share registrar fees of HK\$98,000, and partial repayment of bank loan of approximately HK\$184,000.

## **RESULTS OF LAST YEAR AND BANKING FACILITIES**

The audited consolidated turnover and net loss attributable to shareholders of the Group for the year ended 31 December 2002 were HK\$33.43 million and HK\$2.52 million, respectively. At 31 October 2003, the banking facilities granted to the Group amounts to HK\$13.26 million, which has been fully utilized by the Group. At the same date, the total outstanding loan of the Group was HK\$25.87 million, of which, except those HK\$700,000 mentioned above, only HK\$13.26 million due to bank is repayable on demand. The bank, however, does not demand immediate repayment of the bank loan after the Group had reduced the bank loan by HK\$10.15 million during this year. In the long run, the Directors believe that the liquidity of the Group can only be improved by the recovery of the Group's trading business in the import of left-hand drive motor vehicles to mainly China, which is now seriously hindered by the Group's ability to obtain additional working capital and banking facilities. Therefore, the Directors are unable to confirm if the Company has sufficient working capital for the coming 12 months.

## **APPLICATION FOR LISTING**

Application will be made by the Company to the Stock Exchange for the grant of the listing of and permission to deal in the Placing Shares.

## **FUND RAISING ACTIVITIES FOR THE PAST 24 MONTHS**

During the past 24 months, the Company undertook 3 fund raising exercises:

- (i) The issuing of 73,537,200 new shares (the "Rights Shares") of HK\$0.01 each on the basis of one rights share for every two existing ordinary shares held by members of the Company by way of rights issue at a price of HK\$0.10 per rights share, for net proceeds of about HK\$6 million, of which approximately HK\$4.5 million was applied towards reducing the borrowing of the Group and the approximate remaining amount of HK\$1.5 million for general working capital of the Group. The Company made announcement relating to the foregoing rights issue on 18 December 2001. The prospectus on the rights issue dated 8 January 2002 was dispatched to qualified shareholders of the Company on 8 January 2002, and no shareholders' approval was required on such rights issue. The 73,537,200 Rights Shares were allotted and issued on 30 January 2002. Net proceeds of HK\$6.18 million were raised, of which approximately HK\$3.5 million was used to reduce the bank loans and the approximate remaining amount of HK\$2.68 million were used to purchase merchandise for meeting the demand of the Group's distribution sales in China.
- (ii) The placing of 44,000,000 new shares (the "June Placement Shares") of HK\$0.01 each at a price of HK\$0.115 per share to 6 independent investors on 10 June 2002 raising net proceeds of approximately HK\$4.5 million for the general working capital of the Company. The Company made announcement in relation the foregoing placing on 28 May 2002. The price for the June Placement Shares of HK\$0.115 per Share represented a discount of approximately 4.96% to the closing price of HK\$0.121 per Share as quoted on the Stock Exchange on 27 May 2002. The June Placement Shares, representing 19.94% of the then issued share capital of the Company, were allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 27 May 2002. The amount of net proceeds raised was approximately HK\$4.36 million, of which approximately HK\$2 million was applied for reducing the bank loans and the approximate remaining amount of HK\$2.36 million was applied for the procurement of updated inventories.
- (iii) The placing of 52,000,000 new shares (the "September Placement Shares") of HK\$0.01 each at a price of HK\$0.02 per share to 4 independent investors on 15 September 2003 raising net proceeds of approximately HK\$0.95 million for repayment of debts and for general working capital of the Company. The Company made announcement in relation to the foregoing placing on 21 August 2003. The price for the September Placement Shares of HK\$0.02 per share represented a discount of approximately 60.78% to the closing price of HK\$0.051 per Share quoted on the Stock Exchange on 18 August 2003. The September Placement Shares, representing 16.42% of the then issued share capital of the Company, were allotted and issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 28 May 2003. The amount of net proceeds raised was approximately HK\$949,000, of which approximately HK\$650,000 were applied for repayment of debts and the approximate remaining amount of HK\$299,000 was fully



applied for other general working capital purposes, including payroll of HK\$186,000, premises expenses of HK\$48,000, and printing fees of HK\$65,000.

#### **EXCEPTIONAL SHARE PRICE MOVEMENT**

The Directors have noted the decrease in the price of the Shares on 10 November 2003 and wish to state that they are not aware of any reasons for such decrease. The Directors also confirm that, save for disclosed above, there are no negotiations or agreements relating to intended acquisitions or realizations which are discloseable under paragraph 3 of the Listing Agreement, neither is the Board aware of any matter discloseable under general obligation imposed by paragraph 2 of the Listing Agreement, which is or may be of a price-sensitive nature.

Made by the order of the Board and the Directors individually and jointly accept responsibility for the accuracy of the above statement.

#### **RESUMPTION OF TRADING**

Trading of securities of the Company on the Stock Exchange was suspended at 9:30 a.m. on 11 November 2003. Application has been to the Stock Exchange to resume trading of the securities of the Company will effect from 9:30 a.m. on 20 November 2003.

#### **DEFINITIONS**

“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	board of Directors
“Business Day”	any day (excluding a Saturday) on which banks generally are open for business in Hong Kong
“Company”	Victory Group Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange
“Director(s)”	the directors, including independent non-executive directors, of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chan”	Mr. Chan Chun Choi, the chairman of the Company
“Placee(s)”	individual, institutional or other investors procured by the Placing Agent to subscribe for any of the Placing Shares pursuant to the Placing Agent’s obligations under the Placing Agreement
“Placing”	the placing of the Placing Shares to Placees pursuant to the Placing Agreement
“Placing Agent”	CM-CSS Securities Limited, a deemed licensed corporation to carry on Types 1, 4, 6, 7, and 9 regulated activities as defined in Schedule 5 to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the placing agreement dated 10 November 2003 and entered into between the Company and the Placing Agent relating to the Placing
“Placing Price”	HK\$0.016 per Placing Share
“Placing Shares”	a total of 63,000,000 Shares in the capital of the Company
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By order of the Board  
**Victory Group Limited**  
**Chan Chun Choi**  
*Chairman*

Hong Kong, 19 November 2003

Please also refer to the published version of this announcement in The Standard.