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Vision Grande Group Holdings Limited

偉誠集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2300)

MEMORANDUM OF UNDERSTANDING IN RESPECT OF SALE AND PURCHASE OF 35% EQUITY INTERESTS IN AND SHAREHOLDERS' LOAN DUE BY WORLD GRAND HOLDINGS LIMITED

On 9 July 2004, the Vendors entered into the MOU with the Purchaser, an indirect wholly-owned subsidiary of the Company, whereby the Vendors have in principle agreed to sell and the Purchaser has in principle agreed to purchase the Sale Shares and the Sale Loans. The Sale Shares represent 35% of the issued share capital of the Target while the Sale Loans represent 35% of all the obligations, liabilities and debts owing or incurred by the Target to its shareholders as at the date of the MOU. The Target is an investment holding company and is the registered and beneficial owner of 90% in the registered capital of the JV.

The Acquisition may or may not proceed as there is no binding obligation on the Vendors and Purchaser to enter into the Sale & Purchase Agreement. Shareholders and the investing public should exercise caution when dealing in the Shares.

Further announcement will be made by the Company immediately after signing of the Sale & Purchase Agreement in compliance with the Listing Rules.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company from 9:36 a.m. on 9 July 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares at 9:30 a.m. on 12 July 2004.

MOU

Date

The MOU was entered into on 9 July 2004.

Parties

- (1) Purchaser: Mega Vision Enterprises Limited, an indirect wholly-owned subsidiary of the Company
- (2) Vendors: Joy Benefit and Splendid China

The Vendors and their respective ultimate beneficial owners are Independent Third Parties.

Interests to be acquired

Pursuant to the terms of the MOU, the Vendors have in principle agreed to sell and the Purchaser, an indirect wholly-owned subsidiary of the Company, has in principle agreed to purchase the Sale Shares and the Sale Loans. The Sale Shares represent 35% of the issued share capital of the Target while the Sale Loans represent 35% of all the obligations, liabilities and debts owing or incurred by the Target to its shareholders as at the date of the MOU.

The Target is an investment holding company and is the registered and beneficial owner of 90% in the registered capital of the JV.

Consideration

The Consideration shall be determined by reference to the price earning ratio of not less than five times based on the audited net profit after tax of the JV in RMB (based on the accounting principles generally accepted in Hong Kong) for the year ending 31 December 2004. The Directors are not able to estimate the amount of Consideration as at the date of the MOU as there is no financial information of the Target and the JV available to the Group.

Deposit

The Purchaser had paid HK\$10,000,000 in cash as deposit and part payment of the Consideration to the Vendors upon signing the MOU. The Purchaser shall serve a notice in writing to the Vendors at or before 12:00 noon on 30 September 2004 indicating whether it shall proceed with the Acquisition.

If the Purchaser has indicated to the Vendors at or before 12:00 noon on 30 September 2004 that it shall not proceed with the Acquisition due to any violation of laws and regulations in respect of taxation obligations and operation of the Target or the JV, the MOU shall lapse and the Vendors shall refund the whole deposit (i.e. HK\$10,000,000) to the Purchaser without interest.

If the Purchaser has not served such written notice or has indicated to the Vendors at or before 12:00 noon on 30 September 2004 that it shall not proceed with the Acquisition due to any other reason, the MOU shall lapse and the Vendors shall have the right to forfeit half of the deposit (i.e. HK\$5,000,000) as liquidated damages and shall refund the remaining half of the deposit (i.e. HK\$5,000,000) to the Purchaser without interest.

If the Purchaser has so indicated to the Vendors to proceed with the Acquisition but the Sale & Purchase Agreement is not entered into at or before 12:00 noon on 31 December 2004 by the Purchaser, the MOU shall lapse and the Vendors shall have the right to forfeit the whole deposit (i.e. HK\$10,000,000) as liquidated damages.

If the Purchaser has so indicated to the Vendors to proceed with the Acquisition but the Sale & Purchase Agreement is not entered into at or before 12:00 noon on 31 December 2004 otherwise than as a result of the default of the Purchaser, the MOU shall lapse and the Vendors shall refund the whole deposit (i.e. HK\$10,000,000) to the Purchaser without interest.

The Directors consider that the terms of the MOU are negotiated with the Vendors in good faith and on arm's length basis. After taking into account of the Company's access to all information (including confidential information such as technical knowhow, trade secret, customers and suppliers information etc.) of the Target and the JV, and the exclusivity of negotiation with the Vendors for the Acquisition for more than five months, the Directors consider that the terms of the MOU including the deposit arrangement are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

It is the present intention of the Directors that the Consideration will be satisfied by the Group in cash from the internal resources of the Group (i.e. not from the proceeds raised from the initial public offering of the Company).

Exclusivity

Pursuant to the terms of the MOU, the Vendors will not, and will procure that the Company and the JV and their respective directors, officers, employees, representatives and agents will not, directly or indirectly, for a period from the date of the MOU and up to 31 December 2004 (i) solicit, initiate or encourage inquiries or offers from, or (ii) initiate or continue negotiations or discussions with or furnish any information to, or (iii) enter into any agreement or statement of intent or understanding with, any person or entity other than the Purchaser with respect to the sale or other disposition of the Sale Shares and the Sale Loans or any part thereof or any other shares or equity interests of the Target and the JV.

Information on the Group and the Target

The Group is principally engaged in the printing of high quality cigarette packages and manufacturing of laminated papers in the PRC.

The Target is an investment holding company and is the registered and beneficial owner of 90% in the registered capital of the JV. The remaining 10% of the registered capital of the JV is held by an Independent Third Party. The JV is a sino-foreign joint venture established in the PRC in 2002 which is principally engaged in the printing of high quality cigarette packages in Kunming, Yunnan Province, the PRC. Currently, the JV is an existing customer of the Group placing orders for laminated paper from the Group.

Reasons for the Acquisition

As stated in the prospectus issued by the Company on 16 March 2004, the long-term business objective of the Group is to become a market leader in the printing of cigarette packages and the manufacturing of laminated papers in the PRC. In particular, the Group will identify large cigarette package printers as its primary target customers of laminated papers. The Directors expect that the Acquisition will provide a strategic opportunity for the Group to penetrate into the cigarette package market in Yunnan Province, the PRC, which, as far as the Directors are aware, is the largest cigarette manufacturing base in the PRC. Through the strategic relationship with the JV, the Directors believe that the Acquisition could bring synergy effect to both the Group and the JV in terms of sharing of resources such as technology knowhow and printing machinery, consolidation of marketing and sales force, as well as benefiting from the economies of scale. The Directors also believe the Acquisition enables the Group to have a stable order for laminated paper from the JV and to explore further business potential and opportunity in terms of supply of laminated papers and/or cigarette packages printing business. The Directors consider that the Acquisition is in line with the corporate development of the Group and the future plans as stated in the prospectus of the Company, and therefore is in the best interests of the Group and the Shareholders as a whole.

General

The MOU is non-binding in nature in respect of the Acquisition and there is no binding obligation on both the Vendors and the Purchaser to enter into the Sale & Purchase Agreement. Therefore, the Acquisition may or may not proceed. Shareholders and the investing public should exercise caution when dealing in the Shares.

The Sale & Purchase Agreement as may be entered into between the Vendors and the Purchaser may or may not constitute a notifiable transaction on the part of the Company. Further announcement will be made by the Company immediately after signing of the Sale & Purchase Agreement in compliance with the Listing Rules.

Trading in the Shares on the Stock Exchange was suspended at the request of the Company from 9:36 a.m. on 9 July 2004 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares at 9:30 a.m. on 12 July 2004.

As at the date of this announcement, the executive Directors are (i) Mr. Li Wei Bo, (ii) Mr. Lee Cheuk Yin, Dannis, (iii) Mr. Cheung Chun Ming, and (iv) Ms. Zhu Wei Li, and the independent non-executive Directors are (i) Mr. Ng Kwai Sang; (ii) Mr. Sik Siu Kwan; and (iii) Mr. Ng Puk Cheung, Joseph.

Definitions

“Acquisition”	the proposed acquisition of the Sale Shares and the Sale Loans by the Purchaser as contemplated under the MOU
“Board”	the board of Directors
“Company”	Vision Grande Group Holdings Limited, a company incorporated in the Cayman Islands and the issued Shares of which are listed on the main board of the Stock Exchange
Consideration	the consideration payable by the Purchaser to the Vendors for the Acquisition
“Directors”	the 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 PRC
“Independent Third Party(ies)”	independent third party(ies) not connected with any of the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates (as defined in the Listing Rules)
“Joy Benefit”	Joy Benefit Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned by an Independent Third Party
“JV”	Kunming World Grand Colour Printing Company Limited (昆明偉建彩印有限公司), a sino-foreign equity joint venture established in the PRC and the registered capital of which is owned as to 90% by the Target and as to 10% by an Independent Third Party

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the memorandum of understanding dated 9 July 2004 and entered into between the Vendors and the Purchaser in relation to the Acquisition
“PRC”	the People’s Republic of China
“Purchaser”	Mega Vision Enterprises Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands with limited liability
“RMB”	renminbi, the lawful currency of the PRC
“Sale & Purchase Agreement”	the formal sale and purchase agreement as may be entered into between the Purchaser and the Vendors in relation to the Acquisition on or before 31 December 2004
“Sale Loans”	such obligations, liabilities and debt owing or incurred by the Target to the Vendors representing 35% of all the obligations, liabilities and debts owing or incurred by the Target to its shareholders as at the date of the MOU
“Sale Shares”	a total of 4,200,000 ordinary shares of HK\$1.00 each in the capital of the Target which are beneficially owned as to 2,940,000 shares by Joy Benefit and as to 1,260,000 shares by Splendid China, representing 35% of the issued share capital of the Target
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Splendid China”	Splendid China Limited, a company incorporated in the British Virgin Islands with limited liability and is beneficially owned by an Independent Third Party
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	World Grand Holdings Limited, a company incorporated in Hong Kong whose entire issued share capital is beneficially owned as to 60% by the Vendors and as to 40% by an Independent Third Party
“Vendors”	Joy Benefit and Splendid China
“%”	per cent.

By order of the Board
Vision Grande Group Holdings Limited
Li Wei Bo
Chairman

Hong Kong, 9 July 2004

** For identification purpose only*

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