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## **GUOCANG GROUP LIMITED**

**國藏集團有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 559)**

### **MAJOR DISPOSAL OF 100% INTERESTS OF HUA YI COPPER (BVI) COMPANY LIMITED**

#### **THE DISPOSAL**

On 24 July 2014 (after trading hours), the Company as vendor entered into the SPA with the Purchaser. Pursuant to the SPA, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share (representing 100% issued share capital of the Target Company) subject to the terms and conditions of the SPA at a total consideration of HK\$136.5 million (subject to adjustments).

As one or more of the applicable percentage ratios as set out in the Listing Rules for the Disposal are more than 25% but all of them are less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and the SPA and the transactions contemplated thereunder are therefore subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules. A SGM will be convened by the Company to consider and, if thought fit, approve the SPA and the transactions contemplated thereunder, including the Disposal.

A circular containing, among other things, (i) further details in relation to the Disposal and the SPA; (ii) other information as required by the Listing Rules; and (iii) the notice convening the SGM together with the proxy form in respect of the SGM, is expected to be despatched to the Shareholders on or before 29 August 2014 as more time is required to finalize the information of the circular.

**Shareholders and potential investors of the Company should note that Completion is subject to the fulfillment of a number of conditions precedent, there is no assurance that the Disposal will be completed. Accordingly, Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.**

## **INTRODUCTION**

On 24 July 2014 (after trading hours), the Company as vendor entered into the SPA with the Purchaser. Pursuant to the SPA, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share (representing the entire issued share capital of the Target Company) subject to the terms and conditions of the SPA at a total consideration of HK\$136.5 million (subject to adjustments).

## **THE SPA**

The principal terms of the SPA are summarised below:

### **Date**

24 July 2014

### **Parties**

Vendor: Company

Purchaser: Zhan Liang Holdings Limited

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

### **Assets to be disposed of**

Pursuant to the SPA, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share (representing 100% issued share capital of the Target Company) subject to the terms and conditions of the SPA.

### **Consideration**

The Consideration for the sale and purchase of the Sale Shares shall be HK\$136.5 million or the appraised value of the Target Group under the final valuation of the Target Group to be conducted by an independent professional valuer (whichever is lower). The Consideration shall be payable by the Purchaser to the Company in cash within 30 calendar days from the Completion Date.

The Consideration has been determined after arm's length negotiations between the Company and the Purchaser with reference to (i) the reasons for the Disposal as discussed in the section headed "Reasons for and benefits of the Disposal" below; (ii) the historical performance of the Disposal Companies in recent financial years; and (iii) the preliminary valuation of the Target Group as determined by an independent professional valuer using the market approach.

The Directors consider that the Consideration is fair and reasonable and on normal commercial terms.

## **Conditions precedent**

Completion of the SPA is subject to, amongst other conditions, the following conditions being fulfilled and remaining satisfied as at Completion:

- (a) the Purchaser being satisfied with the results of its due diligence exercise on the Target Group and related assets, liabilities and operations;
- (b) the passing of all necessary resolution(s) by the Shareholders at the SGM to be held to approve the SPA and the transactions contemplated thereunder;
- (c) the final valuation of the Target Group to be conducted by an independent professional valuer;
- (d) all consents and approvals necessary for consummation of the SPA and transactions contemplated hereunder having been granted by the relevant any governmental or regulatory authorities in Hong Kong (excluding any consents and approvals which by their nature are to be obtained by the Purchaser, if any);
- (e) there being no major adverse change on the Target Group (including but not limited to changes of major adverse effects on the financial status, business or operation) for the period commencing on the date of the SPA and ending on the Completion Date); and
- (f) from the date of the SPA and at any time before the Completion, that the warranties and undertakings given by the Company remain true, accurate and not misleading in any material respect.

The Purchaser may at its absolute discretion at any time waive in writing any of the conditions above (except the conditions (b) and (d) which are incapable of being waived).

If the above conditions have not been satisfied or waived (if applicable) by the Purchaser on or before 5:00 p.m. on the Long Stop Date, the Purchaser and the Company may agree to, (i) cancel or terminate the SPA without prejudice to all rights and remedies which the Purchaser may have under the SPA or by law; or (ii) elect to effect the Completion so far as practicable having regard to the defaults which have occurred and treat the sale and purchase of the Sale Share as completed subject to the satisfaction of a condition subsequent that the defaults be remedied within such time as the Purchaser may specify.

## **Completion**

Subject to satisfaction or waiver (as case may be) of all of the conditions precedent of the SPA, Completion shall take place at 4:00 p.m. (Hong Kong time) of the Completion Date, which shall be not later than the third Business Day following the date on which the last of the conditions precedent under the SPA has been satisfied or waived (as case may be) or such other date as the Company and the Purchaser may agree in writing.

## **REASONS FOR AND BENEFITS OF THE DISPOSAL**

The Group continually reviews its existing businesses and opportunities which may improve its profitability and overall financial position.

During the financial year 2013, in particular, in April 2013, the Company acquired a business engaged in trading and distribution of liquor and wine which has broadened the revenue stream of the Group. For the year ended 30 June 2013, the newly acquired liquor and wine business has recorded a total turnover and segment profit of approximately HK\$124.7 million and HK\$30.5 million respectively. As stated in the interim report 2013/14 of the Company, for the six months ended 31 December 2013, the liquor and wine business of the Group has recorded a total turnover and segment profit of approximately HK\$130.0 million and HK\$52.5 million respectively and has become the largest and profitable business segment of the Group for the period due to the strong performance driven from its comprehensive publicity and sales network.

On the contrary, the cable and wires business and copper rods business of the Group has been affected by the increasing labour costs and the competitive market, the financial performance and operating environment of these two segments remained lack of satisfactory.

For the year ended 30 June 2013, the total turnover of the Group's cable and wires business were approximately HK\$147.5 million (2012: approximately HK\$175.4 million, representing a decrease of approximately 15.9%) and segment profit of approximately HK\$1.0 million (2012: approximately HK\$2.0 million, representing a decrease of approximately 50.0%) respectively. For the six months ended 31 December 2013, the total turnover of the Group's cable and wires business were approximately HK\$84.3 million (2012: approximately HK\$76.5 million, representing an increase of approximately 10.2%) and segment profit of approximately HK\$2.2 million (six months ended 31 December 2012: approximately HK\$1.2 million, representing an increase of approximately 83.3%) respectively.

For the year ended 30 June 2013, the total turnover of the Group's copper rods business were approximately HK\$136.2 million (2012: approximately HK\$136.3 million, representing a slight decrease of approximately 0.1%) and segment loss of approximately HK\$26.5 million (2012: loss of approximately HK\$8.8 million) respectively. For the six months ended 31 December 2013, the total turnover of the Group's copper rods business were approximately HK\$109.7 million (six months ended 31 December 2012: approximately HK\$62.7 million, representing an increase of approximately 75.0%) and segment profit of approximately HK\$1.7 million (six months ended 31 December 2012: loss of approximately HK\$1.2 million) respectively.

Based on the above, despite the fact that the Group's cable and wires business and copper rods business contributed profit of approximately HK\$2.2 million and HK\$1.7 million respectively for the six months ended 31 December 2013, the Directors believe that the Disposal represents a good opportunity for the Group to improve its overall returns and provide a greater value to the Shareholders by focusing its resources on its fast growing liquor and wine business and cease to continue its cable and wires business and copper rods business given that there is no clear potential for material improvement on the performance under the challenging environment.

As at 30 April 2014, the unaudited net asset value of the Target Group was approximately HK\$143.8 million; and based on the preliminary valuation conducted by an independent professional valuer, the preliminary valuation of the Target Group as at 30 April 2014 was approximately HK\$136.5 million. The Board noted that the Consideration of the Disposal Group of HK\$136.5 million represents a discount of approximately 5.1% to the unaudited net asset value of the Target Group. Having considered the sale proceeds from the Disposal could enhance the Group's working capital position, which provide additional capital resources for expanding its liquor and wine business when opportunities arise; while the Group could save future cash outflow in maintaining the operation of a less profitable business, the Directors consider that the discount to the unaudited net asset value is reasonable and the Disposal is in line with the Group's overall business strategy and is in the interest of the Company and Shareholders as a whole. The Directors hold the view that the Disposal is in line with the Group's overall business strategy.

The Directors (including the independent non-executive Directors) consider that the terms of the SPA are on normal commercial terms and are fair and reasonable and the SPA and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

## **USE OF PROCEEDS**

After deducting professional fees in connection with the Disposal, it is estimated that the net proceeds from the Disposal would be approximately HK\$135 million. The Company intends to use the net proceeds from the Disposal as general working capital of the Group.

## **INFORMATION ON THE TARGET COMPANY**

The Target Company, Hua Yi Copper (BVI) Company Limited, is a company incorporated in the British Virgin Islands with limited liability, with an authorised share capital of US\$50,000.00 divided into 50,000 shares of US\$1.00 each, of which 1 share has been issued and is fully paid up and is legally and beneficially owned by the Company as at the date of this announcement. The Target Group is principally engaged in the manufacturing and trading of copper rods and cables and wires.

## **INFORMATION ON THE PURCHASER**

The Purchaser, Zhan Liang Holdings Limited, is a company incorporated in the British Virgin Islands with limited liability. The principal activity of the Purchaser is investment holding.

## INFORMATION ON THE GROUP

The Group is principally engaged in (i) liquor and wine business; (ii) investments in listed securities; (iii) copper rods business; and (iv) cable and wires business.

Upon Completion, the Company will not have any interest in the Target Group and the Target Group will cease to be subsidiaries of the Company. The Group, after Completion, will cease to be engaged in the copper rods business and cables and wires business.

## FINANCIAL EFFECTS OF THE DISPOSAL

Set out below is a summary of the unaudited consolidated income statement of the Target Group for the ten months ended 30 April 2014 and for the financial years ended 30 June 2013 and 2012:

	<b>For the ten months ended 30 April 2014</b>	<b>For the financial year ended 30 June 2013</b>	<b>For the financial year ended 30 June 2012</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(unaudited)
Turnover	295,954	283,700	311,706
Loss before taxation	(1,834)	(29,094)	(11,448)
Loss after taxation	(2,336)	(28,834)	(11,756)

The unaudited net asset value of the Target Group was approximately HK\$143.8 million as at 30 April 2014. The preliminary appraised value of the Target Group conducted by an independent professional valuer as at 30 April 2014 is approximately HK\$136.5 million.

The Group expects to recognise an unaudited accounting gain of approximately HK\$31 million as a result of the Disposal, being the difference between the aforesaid estimated net proceeds from the Disposal and the carrying amount of the Group's interest in Target Group as at 30 April 2014. The actual gain or loss as a result of the Disposal to be recorded by the Group is subject to audit and will be assessed after Completion.

Upon Completion, the Company will not have any interest in the Target Group and the Target Group will cease to be subsidiaries of the Company. Accordingly, the profits and losses and the assets and liabilities of the Target Group will no longer be consolidated into the consolidated financial statements of the Company.

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios as set out in the Listing Rules for the Disposal are more than 25% but all of them are less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and the SPA and the transactions contemplated thereunder are therefore subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules. A SGM will be convened by the Company to consider and, if thought fit, approve the SPA and the transactions contemplated thereunder, including the Disposal.

## GENERAL

A circular containing, among other things, (i) further details in relation to the Disposal and the SPA; (ii) other information as required by the Listing Rules; and (iii) the notice convening the SGM together with the proxy form in respect of the SGM, is expected to be despatched to the Shareholders on or before 29 August 2014 as more time is required to finalize the information of the circular.

**Shareholders and potential investors of the Company should note that Completion is subject to the fulfillment of a number of conditions precedent, there is no assurance that the Disposal will be completed. Accordingly, Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.**

## DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions have the following meanings:

“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	Guocang Group Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Disposal pursuant to the terms and conditions of the SPA
“Completion Date”	a date not later than the third Business Day following the date on which the last of the conditions precedent under the SPA has been fulfilled or such other date as the Company and the Purchaser may agree in writing
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules

“Consideration”	the consideration for the sale and purchase of the Sale Share, being the amount payable by the Purchaser to the Company in accordance with the SPA
“Director(s)”	director(s) of the Company for the time being
“Disposal”	the proposed disposal of the Sale Share by the Company to the Purchaser pursuant to the SPA
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 October 2014, or such other date as the Company and the Purchaser may agree in writing
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Purchaser”	Zhan Liang Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“Sale Share”	the one (1) issued share of US\$1.00 each and in the share capital of the Target Company, representing the entire issued share capital of the Target Company as at the date of the SPA
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and approve, among other things, the Disposal and the transactions contemplated thereunder
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of HK\$0.05 each in the share capital of the Company
“SPA”	the sale and purchase agreement dated 24 July 2014 entered into between the Company as vendor and the Purchaser as purchaser in respect of the sale and purchase of the Sale Share
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



“Target Company”	Hua Yi Copper (BVI) Company Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of the Company
“Target Group”	the Target Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By Order of the Board  
**Guocang Group Limited**  
**Chi Chi Hung Kenneth**  
*Executive Director*

Hong Kong, 24 July 2014

*As at the date of this announcement, the executive Directors are Mr. Wong Hin Shek and Mr. Chi Chi Hung Kenneth; and the independent non-executive Directors are Mr. Chiu Wai On, Mr. Man Kwok Leung and Dr. Wong Yun Kuen.*