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SHENGUAN HOLDINGS (GROUP) LIMITED

神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

DISCLOSEABLE TRANSACTION EQUITY TRANSFER AGREEMENT IN RELATION TO ACQUISITION OF 51% EQUITY INTEREST IN GUANGDONG SHENG CHI AND ACCEPTANCE OF PUT OPTION

EQUITY TRANSFER AGREEMENT

The Board is pleased to announce that on 20 July 2015, Wuzhou Shenguan Investment entered into an equity transfer agreement with the Vendor, pursuant to which Wuzhou Shenguan Investment has agreed to acquire and the Vendor has agreed to sell 51% equity interests of Guangdong Sheng Chi at a total consideration of RMB146,880,000. The consideration of the Acquisition shall be satisfied by cash.

Upon completion of the Acquisition, Guangdong Sheng Chi will be held as to 51% by Wuzhou Shenguan Investment and become an indirect subsidiary of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions contemplated under the Equity Transfer Agreement and the acceptance of Put Option exceed 5% but less than 25%, such transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but exempted from Shareholders' approval under Chapter 14 of the Listing Rules.

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EQUITY TRANSFER AGREEMENT

Date:

20 July 2015

Parties:

1. Wuzhou Shenguan Investment, as the Purchaser; and
2. Enneford Industrial, as the Vendor.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owners are Independent Third Parties.

Assets to be acquired

The Vendor has agreed to sell and the Purchaser has agreed to acquire 51% equity interests of Guangdong Sheng Chi.

Consideration and Basis of Determination

The total consideration for the Acquisition is RMB146,880,000 and was arrived at after arm's length negotiations between the parties and was determined with reference to the value of the entire shareholders' equity interest in Guangdong Sheng Chi as at 31 December 2014 of RMB292,655,300 as set out in the Valuation Report prepared by the Valuer.

Wuzhou Shenguan Investment shall arrange to obtain the approval with the relevant authority in the PRC for the payment of the consideration for the Acquisition to the Vendor (the "**Payment Approval**") after the execution of the Equity Transfer Agreement.

The total consideration for the Acquisition shall be satisfied by Wuzhou Shenguan Investment in cash in the following manner:

- (a). an aggregate of RMB73,000,000 (being approximately 50% of the total consideration) (the "**First Tranche Payment**") shall be payable to the Vendor in the following manner:
 - (i). a deposit of RMB33,000,000 (the "**Deposit**") shall be payable to a recipient in the PRC designated by the Vendor (the "**Designated Recipient**") within 3 business days of the execution of the Equity Transfer Agreement;
 - (ii). an amount of RMB43,000,000 shall be payable to the Vendor in partial satisfaction of the total consideration for the Acquisition upon (1) the payment of the Deposit; and (2) Wuzhou Shenguan Investment having obtained the Payment Approval. After the payment of the said RMB43,000,000, the Deposit shall be refunded by the Designated Recipient to Wuzhou Shenguan Investment; and
 - (iii). an amount of RMB30,000,000 shall be payable to the Vendor in partial satisfaction of the total consideration for the Acquisition upon the refund of the Deposit from the Designated Recipient.

- (b). an aggregate of RMB53,880,000 (being approximately 37% of the total consideration) shall be paid to the Vendor within 10 business days of the completion by both Wuzhou Shenguan Investment and the Vendor of the registration with the relevant bureau for industry and commerce in the PRC for the change of equity interest of Guangdong Sheng Chi; and
- (c). the remaining RMB20,000,000 (being approximately 13% of the total consideration) (the “**Third Tranche Payment**”) shall be paid to the Vendor within 10 business days upon the revenue of Guangdong Sheng Chi reaching RMB20,000,000. If Guangdong Sheng Chi fails to achieve revenue of RMB20,000,000 for the year ending 31 December 2015, both Wuzhou Shenguan Investment and the Vendor shall negotiate for the time of the settlement of the Third Tranche Payment.

Other Specific Terms of the Equity Transfer Agreement

Revenue Guarantee

The Vendor guarantees that the audited revenue of Guangdong Sheng Chi for the year ending 31 December 2015 shall reach RMB20,000,000.

Capital Increase

To facilitate the future development of Guangdong Sheng Chi, within 1 month after the completion by both Wuzhou Shenguan Investment and the Vendor of the registration with the relevant bureau for industry and commerce in the PRC for the change of equity interest of Guangdong Sheng Chi, both Wuzhou Shenguan Investment and the Vendor shall make a capital increase to Guangdong Sheng Chi in cash in the aggregate amount of not less than RMB20,000,000 (but not more than RMB30,000,000) in proportion to their respective equity interest in Guangdong Sheng Chi.

Put Option

Wuzhou Shenguan Investment is granted the Put Option for no additional consideration, in which Wuzhou Shenguan Investment has the discretion to require the Vendor to repurchase Wuzhou Shenguan Investment’s equity interest in Guangdong Sheng Chi if the following conditions occur on 31 December 2020:

1. the audited annual revenue prepared under the PRC accounting standards of Guangdong Sheng Chi fails to reach RMB120,000,000; and
2. Guangdong Sheng Chi fails to obtain the production permit for certain products.

Upon the exercise of the Put Option by Wuzhou Shenguan Investment, the consideration to be paid by the Vendor to repurchase Wuzhou Shenguan Investment’s equity interest in Guangdong Sheng Chi shall be equivalent to the aggregate amount of capital input by Wuzhou Shenguan Investment, which include the total consideration for the Acquisition and the capital provided by Wuzhou Shenguan Investment to Guangdong Sheng Chi since the completion of the Acquisition (the “**Committed Capital**”). The Vendor shall also pay to Wuzhou Shenguan Investment the possession cost for the Committed Capital, which shall be calculated based on the interest rate charged by banks for similar types of loans during the same period.

The Vendor shall pledge its remaining 49% equity interest in Guangdong Sheng Chi to Wuzhou Shenguan Investment (the “**Pledged Equity Interest**”). If the Vendor does not have sufficient cash to repurchase Wuzhou Shenguan Investment’s equity interest in Guangdong Sheng Chi upon exercise of the Put Option by Wuzhou Shenguan Investment, the shortfall shall be settled by the transfer of the Vendor’s Pledged Equity Interest to Wuzhou Shenguan Investment according to the Valuation Report at a discount.

Conditions Precedent

The Equity Transfer Agreement is conditional upon (1) the due execution of the Equity Transfer Agreement by both Wuzhou Shenguan Investment and the Vendor; (2) Wuzhou Shenguan Investment having obtained all necessary consents , authorizations and approvals in connection with the Equity Transfer Agreement under the applicable laws and regulations (including but not limited to the Listing Rules) (if any); and (3) the date of payment by Wuzhou Shenguan Investment of the First Tranche Payment.

Financial Information of Guangdong Sheng Chi

A summary of the key financial information of Guangdong Sheng Chi prepared under the PRC accounting standards for the two years ended 31 December 2014 is set out below:

	For the year ended	
	31 December	31 December
	2013	2014
	<i>(in RMB)</i>	<i>(in RMB)</i>
	(audited)	(audited)
Total assets	5,845,135	6,313,628
Net assets	5,589,048	5,315,906
Net loss before taxation and extraordinary items	(863,288)	(273,143)
Net loss after taxation and extraordinary items	(863,288)	(273,143)

Effect of Completion

Upon completion of the Acquisition, Guangdong Sheng Chi will be held as to 51% by Wuzhou Shenguan Investment and become an indirect subsidiary of the Company.

REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT

The Group is principally engaged in the manufacture and sale of edible collagen sausage casing products and pharmaceutical products in the PRC. It has been the strategy of the Group to seek suitable investment opportunities with a view to increase the Company’s shareholders value and broaden its income source alongside with developing its existing businesses.

The Directors are of the view that the Acquisition will diversify and expand the existing businesses of the Group and create a new revenue stream. Upon completion of the Acquisition, the Group will be able to tap into the production of collagen-related functional products in a more time-efficient manner when compared with developing these technologies afresh. The Acquisition represents another key step of the Group to further utilize the Group's core competence in collagen application.

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

INFORMATION OF THE GROUP

The Group is principally engaged in the manufacture and sale of edible collagen sausage casing products and pharmaceutical products in the PRC.

As at the date of this announcement, Wuzhou Shenguan Investment is an indirect wholly-owned subsidiary of the Company.

INFORMATION OF GUANGDONG SHENG CHI

Guangdong Sheng Chi is a company established in the PRC with limited liability and is principally engaged in the extraction of bioactive natural collagen (生物活性天然胶原蛋白) from deliming and dealkaling skin (脱灰鹼皮) through bioengineering technology and the production of collagen-related functional products.

Guangdong Sheng Chi obtained the ISO 13485:2003, ISO 22442-1:2007, ISO 22442-2:2007 and ISO 22442-3:2007 certifications in 2013, and production permits for medical sanitary materials and dressings (Class II & Class III) issued by Guangdong Food and Drug Administration.

Guangdong Sheng Chi is currently qualified to produce and sales of medical grade collagen materials. Its collagen woundcare material is undergoing clinical trial; and its inner body hemostatic cotton is under application for clinical trial.

INFORMATION OF THE VENDOR

The Vendor is a company incorporated in Hong Kong with limited liability and is principally engaged in purchase of finished skins, domestic material processing and trading, and sales of finished shoes. The Vendor held 100% equity interest in Guangdong Sheng Chi immediately before the Acquisition.

To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) are Independent Third Parties.

IMPLICATION UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions contemplated under the Equity Transfer Agreement and the acceptance of Put Option exceed 5% but less than 25%, such transaction constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but exempted from Shareholders' approval under Chapter 14 of the Listing Rules.

DISCLOSURE IN RELATION TO PROFIT FORECAST OF GUANGDONG SHENG CHI VALUATION

As the Valuer has adopted the income approach involving use of the discounted cash flow methodology in preparing the Valuation Report, the Guangdong Sheng Chi Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules (the “**Profit Forecast**”), and as such, the requirements under Rules 14.60A and 14.62 of the Listing Rules are applicable.

Set out below are the details of the valuation assumptions, including commercial assumptions, upon which the Guangdong Sheng Chi Valuation was based:–

(I). General Assumptions

It was assumed that there would be no significant changes to the macro-economic policies in the PRC and that the social and economic environment of the region where Guangdong Sheng Chi was located, and the taxation policy and borrowing interest rate did not have any significant changes that would have affected the valuation results.

(II). Particular Assumptions

1. For the operation in future years, Guangdong Sheng Chi would have to renew and upgrade the production capacity of its existing operation facilities and equipment, and to undergo maintenance and acquire new production equipment for its continuation as a going concern. Capital expenditure for expansion would be increased in line with the expansion in production and operation scale.
2. Guangdong Sheng Chi would not distribute its profits in future years, which instead would be retained for providing additional working capital for the coming years.
3. The valuation was conducted on the assumption that products developed by Guangdong Sheng Chi could successfully complete clinical trials and obtain relevant product registration certificates on schedule.
4. The underlying lease agreements of Guangdong Sheng Chi's production plants and offices could all be renewed and extended upon expiry.

Ernst & Young, the reporting accountants of the Company, has checked the arithmetical accuracy of the calculations of the discounted future estimated cash flows underlying the Guangdong Sheng Chi Valuation. A letter in relation to report on Profit Forecast from the Board and a comfort letter from the Reporting Accountants are included in the appendices of this announcement for the purpose of Rules 14.60A and 14.62 of the Listing Rules.

EXPERTS AND CONSENTS

The qualifications of the experts who have given their opinion and advice in this announcement are as follows:

Name	Qualification
同致信德 (北京) 資產評估有限公司 (Tongzhixinde (Beijing) Assets Appraisal Co., Ltd.*)	an independent qualified valuer in the PRC engaged in valuation, the scope of which includes single asset valuation, asset portfolio valuation, enterprise valuation, other assets valuation and related consultancy business
Ernst & Young	Certified Public Accountants

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Valuer and the Reporting Accountants is an Independent Third Party.

As at the date of this announcement, none of the Valuer and the Reporting Accountants has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the Valuer and the Reporting Accountants has given and has not withdrawn its consent to the publication of this announcement with the inclusion of its opinion and advice and all references to its name in the form and context in which they are included.

DEFINITIONS

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

“Acquisition”	the acquisition of 51% equity interests in Guangdong Sheng Chi from the Vendor by Wuzhou Shenguan Investment according to the terms and conditions of the Equity Transfer Agreement
“Board”	the board of Directors
“Company”	Shenguan Holdings (Group) Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the Stock Exchange
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules

“Directors”	director(s) of the Company
“Equity Transfer Agreement”	the equity transfer agreement dated 20 July 2015 entered into between Wuzhou Shenguan Investment and the Vendor in relation to the acquisition of 51% equity interests in Guangdong Sheng Chi
“Group”	the Company and its subsidiaries
“Guangdong Sheng Chi”	廣東勝馳生物科技有限公司 (Guangdong Sheng Chi Biological Technology Company Limited*), a company established in the PRC with limited liability in April 2010
“Guangdong Sheng Chi Valuation”	valuation of the entire shareholders’ equity interests in Guangdong Sheng Chi as at 31 December 2014 as set out in the Valuation Report
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	party which is not Connected Persons of the Company and are independent of the Company and its Connected Persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“PRC”	the People’s Republic of China excluding Hong Kong, Macau Special Administrative Region and Taiwan for the purpose of this announcement
“Put Option”	the put option to be exercised at the discretion of Wuzhou Shenguan Investment to require the Vendor to repurchase Wuzhou Shenguan Investment’s equity interest in Guangdong Sheng Chi, details of which are set out in the section headed “Other Specific Terms of the Equity Transfer Agreement” in this announcement
“Reporting Accountants”	Ernst & Young, the reporting accountants of the Company
“Shares”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Report”	the valuation report prepared by the Valuer dated 2 July 2015

“Valuer”	同致信德 (北京) 資產評估有限公司 (Tongzhixinde (Beijing) Assets Appraisal Co., Ltd.*), an independent professional asset valuer appointed for the Acquisition
“Vendor” or “Enneford Industrial”	Enneford Industrial Limited (銀得福實業有限公司), a company incorporated in Hong Kong with limited liability
“Wuzhou Shenguan Investment” or “Purchaser”	梧州市神冠投資開發有限公司 (Wuzhou Shenguan Investment Development Company Limited*), a company established in the PRC with limited liability, being an indirect wholly-owned subsidiary of the Company
“%”	per cent.

In this announcement, if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese which are marked with “” is for identification purpose only.*

By order of the Board
Shenguan Holdings (Group) Limited
Zhou Yaxian
Chairman

Hong Kong, 20 July 2015

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Mo Yunxi; the non-executive Director is Mr. Low Jee Keong; and the independent non-executive Directors are Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu.

APPENDIX I – LETTER FROM THE BOARD RELATING TO THE PROFIT FORECAST

The following is the text of a letter prepared for the purpose of incorporation in this announcement, executed by the Board.



SHENGUAN HOLDINGS (GROUP) LIMITED

神冠控股(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00829)

20 July 2015

The Listing Division
The Stock Exchange of Hong Kong Limited
11/F, One International Finance Centre
1 Harbour View Street
Hong Kong

Dear Sirs,

**RE: Shenguan Holdings (Group) Limited
Announcement – Discloseable Transaction**

We refer to the announcement of the Company dated 20 July 2015 (the “**Announcement**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

In accordance with the requirements under Rule 14.62(3) of the Listing Rules, we confirm that the Profit Forecast in 廣東勝馳生物科技有限公司 (Guangdong Sheng Chi Biological Technology Company Limited*) have been made after due and careful enquiry by us.

Yours faithfully,
For and on behalf of the Board
Shenguan Holdings (Group) Limited
Zhou Yaxian
Director

APPENDIX II – LETTER FROM THE REPORTING ACCOUNTANTS RELATING TO THE PROFIT FORECAST

The following is the text of the letter received by the Directors from the reporting accountants of our Company, Ernst & Young, prepared for the purpose of incorporation in this announcement in connection with the profit forecast.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

20 July 2015

The Board of Directors
Shenguan Holdings (Group) Limited

Dear Sirs,

COMFORT LETTER ON CALCULATIONS OF THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN GUANGDONG SHENG CHI BIOLOGICAL TECHNOLOGY COMPANY LIMITED

We have examined the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the valuation prepared by 同致信德 (北京) 資產評估有限公司 (Tongzhixinde (Beijing) Assets Appraisal Co., Ltd) dated 2 July 2015, in respect of the entire equity interest in 廣東勝馳生物科技股份有限公司 (Guangdong Sheng Chi Biological Technology Company Limited) (“**Guangdong Sheng Chi**”) as at 31 December 2014 (the “**Valuation**”) is based. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and will be included in the announcement dated 20 July 2015 issued by Shenguan Holdings (Group) Limited (the “**Company**”) in connection with the acquisition of 51% equity interest in Guangdong Sheng Chi (the “**Announcement**”).

DIRECTORS’ RESPONSIBILITY FOR THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS

The directors of the Company (the “**Directors**”) are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in the Announcement (the “**Assumptions**”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to present our conclusion solely to you, as a body, for the purpose of the requirement under paragraph 14.62(2) of the Listing Rules and for no other purpose. We are not reporting on the appropriateness and validity of the Assumptions on which the Valuation is based and our work does not constitute any valuation of Guangdong Sheng Chi. The Valuation does not involve the adoption of accounting policies. The Assumptions used in the preparation of the Valuation include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

BASIS OF CONCLUSION

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based which is prepared based on the Assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the discounted future estimated cash flows on which the Valuation is based, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of Guangdong Sheng Chi.

CONCLUSION

Based on the foregoing, nothing has come to our attention that causes us to believe that the discounted future estimated cash flows, so far as the calculations are concerned, have not been properly compiled, in all material respects, in accordance with the Assumptions.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong