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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 AND CONNECTED TRANSACTION
EQUITY TRANSFER AGREEMENT IN RELATION TO
ACQUISITION OF 29% EQUITY INTEREST IN
GUANGDONG VICTORY AND TERMINATION OF PUT OPTION**

THE ACQUISITION AND TERMINATION OF PUT OPTION

Reference is made to (i) the announcement of the Company dated 20 July 2015 in relation to the 2015 Equity Transfer Agreement entered into between Wuzhou Shenguan Investment and the Vendor in relation to the acquisition of 51% equity interest in Guangdong Victory and the acceptance of the Put Option and (ii) the clarification announcement of the Company dated 22 July 2016 on the annual report for the year ended 31 December 2015.

The Board is pleased to announce that on 23 March 2017 (after trading hours), Wuzhou Shenguan Investment and the Vendor entered into the 2017 Equity Transfer Agreement, pursuant to which, among others, (i) Wuzhou Shenguan Investment has agreed to acquire and the Vendor has agreed to sell 29% equity interests of Guangdong Victory at a total consideration of RMB23,850,000; and (ii) both Wuzhou Shenguan Investment and the Vendor have agreed to terminate the Put Option under the 2015 Equity Transfer Agreement.

Upon completion of the Acquisition, Guangdong Victory will be held as to 80% by Wuzhou Shenguan Investment and remain as an indirect non-wholly-owned subsidiary of the Company.

IMPLICATIONS UNDER THE LISTING RULES

The exercise of the Put Option is at the discretion of Wuzhou Shenguan Investment. According to Rule 14.73 of the Listing Rules, termination of the Put Option will be treated as a transaction and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Acquisition and the termination of the Put Option are more than 5% but less than 25%, such transaction constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the Vendor holds as to 49% of the equity interest of Guangdong Victory. Hence, the Vendor is a substantial shareholder of Guangdong Victory and thus a connected person of the Company. The Acquisition and the termination of the Put Option therefore constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As (i) the Acquisition and the termination of the Put Option are connected transactions with a connected person at subsidiary level of the Group; (ii) the Board has approved the Acquisition and the termination of the Put Option; and (iii) all the independent non-executive Directors have confirmed that the terms thereof are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole, the Acquisition and the termination of the Put Option are only subject to the reporting and announcement requirements, and are exempted from the circular, independent financial advice and independent shareholders' approval requirements by virtue of Rule 14A.101 of the Listing Rules.

Reference is made to (i) the announcement of the Company dated 20 July 2015 in relation to the 2015 Equity Transfer Agreement entered into between Wuzhou Shenguan Investment and the Vendor in relation to the acquisition of 51% equity interest in Guangdong Victory and the acceptance of the Put Option and (ii) the clarification announcement of the Company dated 22 July 2016 on the annual report for the year ended 31 December 2015.

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THE 2017 EQUITY TRANSFER AGREEMENT

Date:

23 March 2017 (after trading hours)

Parties:

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

Assets to be acquired

The Vendor has agreed to sell and the Purchaser has agreed to acquire 29% equity interest in Guangdong Victory.

Consideration and Basis of Determination

The total consideration for the Acquisition is RMB23,850,000 and was arrived at after arm's length negotiations between the parties and was determined with reference to (i) the consideration of the acquisition of 51% equity interest in Guangdong Victory under the 2015 Equity Transfer Agreement; and (ii) the value of the entire shareholders' equity interest in Guangdong Victory as at 31 December 2016 of RMB191,445,000 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 2017 Equity Transfer Agreement.

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

- (a) an amount of RMB12,000,000 shall be paid to the Vendor within ten (10) business days of (i) the date of completion of the registration with the relevant bureau for industry and commerce in the PRC in relation to the transfer of 20% equity interest in Guangdong Victory by the Vendor to a senior management of Guangdong Victory; and (ii) the date of having obtained the Payment Approval in relation to the transfer of 29% equity interest in Guangdong Victory by the Vendor to Wuzhou Shenguan Investment; and
- (b) the remaining RMB11,850,000 shall be paid to the Vendor within 30 days of the date of completion of (i) the outstanding capital injection of USD102,000 by the Vendor to Guangdong Victory; and (ii) the registration with the relevant bureau for industry and commerce in the PRC in relation to the transfer of 29% equity interest in Guangdong Victory by the Vendor to Wuzhou Shenguan Investment.

The total consideration for the Acquisition will be funded by the internal resources of the Group.

Other Specific Terms of the 2017 Equity Transfer Agreement

Revenue Guarantee

Pursuant to the 2015 Equity Transfer Agreement, if Guangdong Victory fails to achieve revenue of RMB20,000,000 for the year ended 31 December 2015, both Wuzhou Shenguan Investment and the Vendor shall negotiate for the time of the settlement of the remaining consideration of RMB20,000,000 under the 2015 Equity Transfer Agreement.

According to the clarification announcement of the Company dated 22 July 2016, Guangdong Victory failed to achieve the revenue of RMB20,000,000 for the year ended 31 December 2015. Upon further negotiation between Wuzhou Shenguan Investment and the Vendor, it was agreed that the remaining consideration of RMB20,000,000 under the 2015 Equity Transfer Agreement shall only be payable by Wuzhou Shenguan Investment to the Vendor upon the accumulated total revenue of Guangdong Victory commencing from 1 January 2016 reaching RMB20,000,000.

As Guangdong Victory failed to achieve revenue of RMB20,000,000 for the two years ended 31 December 2015 and 2016, it is agreed by both Wuzhou Shenguan Investment and the Vendor under the 2017 Equity Transfer Agreement that Wuzhou Shenguan Investment is no longer required to settle the remaining consideration of RMB20,000,000 under the 2015 Equity Transfer Agreement.

Put Option

Pursuant to the 2015 Equity Transfer Agreement, Wuzhou Shenguan Investment was granted the Put Option for no additional consideration, in which Wuzhou Shenguan Investment had the discretion to require the Vendor to repurchase Wuzhou Shenguan Investment's equity interest in Guangdong Victory if certain conditions occur on 31 December 2020, further details of which are set out in the announcement of the Company dated 20 July 2015.

Pursuant to the 2017 Equity Transfer Agreement, both Wuzhou Shenguan Investment and the Vendor have agreed to terminate the Put Option upon completion of the registration with the relevant bureau for industry and commerce in the PRC in relation to the transfer of 29% equity interest in Guangdong Victory by the Vendor to Wuzhou Shenguan Investment.

As at the date of this announcement, Wuzhou Shenguan Investment had provided RMB3,000,000 to Guangdong Victory since the completion of the acquisition under the 2015 Equity Transfer Agreement, and the possession cost of the Committed Capital (as defined in the announcement of the Company dated 20 July 2015) is approximately RMB151,531,000.

Conditions Precedent

The 2017 Equity Transfer Agreement is conditional upon (i) the due execution of the 2017 Equity Transfer Agreement by both Wuzhou Shenguan Investment and the Vendor; (ii) Wuzhou Shenguan Investment having obtained all necessary consents, authorisations and approvals in connection with the 2017 Equity Transfer Agreement under the applicable laws and regulations (including but not limited to the Listing Rules) (if any); and (iii) the

completion of the registration with the relevant bureau for industry and commerce in the PRC in relation to the transfer of 20% equity interest in Guangdong Victory by the Vendor to a senior management of Guangdong Victory.

Financial Information of Guangdong Victory

A summary of the key financial information of Guangdong Victory prepared under the PRC accounting standards for the two years ended 31 December 2015 and 2016 is set out below:

	For the year ended	
	31 December	31 December
	2016	2015
	RMB	RMB
	(audited)	(audited)
Total assets	6,647,000	6,402,000
Net assets	5,964,000	3,916,000
Net loss before taxation and extraordinary items	(3,217,000)	(2,299,000)
Net loss after taxation and extraordinary items	(3,295,000)	(2,224,000)

The paid up capital of Guangdong Victory by the Vendor is USD1,321,700 which owned 49% of Guangdong Victory as at the date of this announcement. The original acquisition cost of 29% equity interest in Guangdong Victory owned by the Vendor is therefore approximately USD782,230.

Effect of Completion

Upon completion of the Acquisition, Guangdong Victory will be held as to 80% by Wuzhou Shenguan Investment and remain as an indirect non-wholly-owned subsidiary of the Company.

REASONS FOR AND BENEFITS OF ENTERING INTO THE 2017 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.

By acquiring 29% equity interest in Guangdong Victory, the equity interest attributable to the Group in Guangdong Victory will increase from 51% to 80%. Hence, the Acquisition can further increase and consolidate the Group's controlling interests in Guangdong Victory and enable the Group to realise synergies effect with the Group's existing businesses, which will help enhancing the competitiveness of the Group as a whole.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2017 Equity Transfer Agreement, the termination of the Put Option 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, pharmaceutical products, skin care and health care products and bioactive collagen products.

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

INFORMATION OF GUANGDONG VICTORY

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

Guangdong Victory is currently qualified to produce and sales of medical grade collagen materials. Its collagen woundcare material has completed clinical trial and is under application for production permit; 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 as to 49% equity interest in Guangdong Victory immediately before the Acquisition.

IMPLICATION UNDER THE LISTING RULES

The exercise of the Put Option is at the discretion of Wuzhou Shenguan Investment. According to Rule 14.73 of the Listing Rules, termination of the Put Option will be treated as a transaction and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Acquisition and the termination of the Put Option are more than 5% but less than 25%, such transaction constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the Vendor holds as to 49% of the equity interest of Guangdong Victory. Hence, the Vendor is a substantial shareholder of Guangdong Victory and thus a connected person of the Company. The Acquisition and the termination of the Put Option therefore constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As (i) the Acquisition and the termination of the Put Option are connected transactions with a connected person at subsidiary level of the Group; (ii) the Board has approved the Acquisition and the termination of the Put Option; and (iii) all the independent non-executive Directors have confirmed that the terms thereof are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole, the Acquisition and the termination of the Put Option are only subject to the reporting and announcement requirements, and are exempted from the circular, independent financial advice and independent shareholders' approval requirements by virtue of Rule 14A.101 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Director is regarded as having a material interest in the Acquisition and the termination of the Put Option and hence no Director is required under the Listing Rules to abstain from voting on the resolutions approving the Acquisition and the termination of the Put Option at the meeting of the Board.

DISCLOSURE IN RELATION TO PROFIT FORECAST OF GUANGDONG VICTORY VALUATION

As the Valuer has adopted the income approach involving use of the discounted cash flow methodology in preparing the Valuation Report, the Guangdong Victory 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 Victory Valuation was based:

(1) General Assumptions

- (a) For the operation in future years, the estimated operation targets of Guangdong Victory could be achieved through the efforts of management.
- (b) There are no material changes to the political, legal, technological, financial or economic policies which may have negative impact on Guangdong Victory.
- (c) All the terms and conditions stipulated in the operating agreements or contracts of Guangdong Victory would be performed and executed.
- (d) The established facilities and systems of Guangdong Victory would support the estimated growth and maintain competitiveness of Guangdong Victory.

(2) Particular Assumptions

- (a) The valuation was conducted on the assumption that six types of collagen products developed by Guangdong Victory could successfully complete (at estimated probabilities based on the current statuses of development) the clinical trials and obtain relevant production permits according to the timetable set out by the management of Guangdong Victory.

- (b) With different launch dates of each of these collagen products, the estimated revenue generated from these products from 2017 to 2021 will be realized in accordance to the sales forecasts provided by the management of Guangdong Victory, which included the expected sales volumes and unit selling prices of these products.
- (c) In applying the discounted cash flow method, it is necessary to determine an appropriate discount rate which is related to various perceived risks including interest rate risk, purchasing power risk, liquidity risk, market risk, exchange rate risk, industry risk, and business risk associated with the company and its business. Weighted Average Cost of Capital (“WACC”) of the company is considered to be an appropriate discount rate to be adopted in the valuation. WACC is derived by taking reference to the equity market statistics and the metrics of comparable companies engaging in the same/similar business to Guangdong Victory. The WACC is estimated at 21.7%.

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 Victory 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
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent Corporate Valuation and Advisory Service Provider
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:

“2015 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 interest in Guangdong Victory;
“2017 Equity Transfer Agreement”	the equity transfer agreement dated 23 March 2017 entered into between Wuzhou Shenguan Investment and the Vendor in relation to the acquisition of 29% equity interest in Guangdong Victory;
“Acquisition”	the acquisition of 29% equity interest in Guangdong Victory from the Vendor by Wuzhou Shenguan Investment pursuant to the terms and conditions of the 2017 Equity Transfer Agreement;
“Board”	the board of Directors;
“business day(s)”	a day (other than a Saturday or Sunday) on which Hong Kong or PRC banks are open for transaction of normal banking business;
“Company”	Shenguan Holdings (Group) Limited (神冠控股(集團)有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 829);
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	director(s) of the Company;
“Enneford Industrial” or “Vendor”	Enneford Industrial Limited (銀得福實業有限公司), a company incorporated in Hong Kong with limited liability;
“Group”	the Company and its subsidiaries;
“Guangdong Food and Drug Administration”	Guangdong Food and Drug Administration of the PRC (中華人民共和國廣東省食品藥品監督管理局);
“Guangdong Victory”	廣東勝馳生物科技有限公司 (Guangdong Victory Biological Company Limited), a company established in the PRC with limited liability in April 2010, being an indirect non-wholly-owned subsidiary of the Company;

“Guangdong Victory Valuation”	valuation of the entire equity interest in Guangdong Victory as at 31 December 2016 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;
“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 Victory, details of which are set out in the announcement of the Company dated 20 July 2015;
“Reporting Accountants”	Ernst & Young, the reporting accountants of the Company;
“Share(s)”	ordinary share(s) 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;
“Valuation Report”	the valuation report prepared by the Valuer dated 16 March 2017;
“Valuer”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional asset valuer appointed for the Acquisition;
“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;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi, the lawful currency of PRC;

“USD” United States dollars, the lawful currency of the United States of America; and

“%” 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, 23 March 2017

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 Dato’ Sri 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)

23 March 2017

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 23 March 2017 (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 Victory Biological 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

23 March 2017

The Board of Directors
Shenguan Holdings (Group) Limited
Unit 2902, Sino Plaza
255-257 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs,

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF THE EQUITY INTERESTS IN GUANGDONG VICTORY BIOLOGICAL COMPANY LIMITED

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flows forecast (the “**Forecast**”) on which the valuation dated 16 March 2017 prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in respect of the entire equity interest in 廣東勝馳生物科技有限公司 (Guangdong Victory Biological Company Limited) (“**Guangdong Victory**”) as at 31 December 2016 is based. The valuation is set out in the announcement of Shenguan Holdings (Group) Limited dated 23 March 2017 (the “**Announcement**”) in connection with the acquisition of the 29% equity interests of Guangdong Victory. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited 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**”).

Directors’ responsibilities

The directors of the Company (the “**Directors**”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed “Disclosure in relation to profit forecast of Guangdong Victory valuation” of the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 **Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements**, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) **Assurance Engagements Other Than Audits or Reviews of Historical Financial Information** issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of Guangdong Victory. The Assumptions used in the preparation of the Forecast 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 Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong