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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)

**CONNECTED TRANSACTIONS
IN RELATION TO THE TENANCY AGREEMENTS**

The Board is pleased to announce that, on 28 June 2024 (after trading hours),

- (a) Nanning Shangguan has entered into the Tenancy Agreement A with the Landlord for a period of three years commencing from 1 July 2024 to 30 June 2027;
- (b) Shenguan Collagen has entered into the Tenancy Agreement B with the Landlord for a period of three years commencing from 1 July 2024 to 30 June 2027; and
- (c) Luxianna has entered into the Tenancy Agreement C with the Landlord for a period of three years commencing from 1 July 2024 to 30 June 2027.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Landlord is owned as to 95% and 5% by Ms. Zhou and Mr. Sha, respectively, and thus the Landlord is a connected person of the Company. Pursuant to the Listing Rules, the entering into of the Tenancy Agreements constitute connected transactions of the Company. In addition, as the Tenancy Agreements were entered into by the Group with the same party (i.e. the Landlord), the Tenancy Agreements will be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules.

In accordance with HKFRS 16 “Leases”, the Company will recognise the right-of-use asset on its consolidated statement of financial position in connection with the Tenancy Agreements. Accordingly, the entering into of the Tenancy Agreements will be regarded as acquisition of assets by the Group which will constitute one-off connected transactions for the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios in respect of the estimated value in aggregate of the right-of-use asset to be recognised by the Group under the Tenancy Agreements are more than 0.1% but less than 5%, the entering into of the Tenancy Agreements are exempt from the circular (including independent financial advice) and Shareholders' approval requirements under rule 14A.76(2) of the Listing Rules.

BACKGROUND

The Board is pleased to announce that, on 28 June 2024 (after trading hours),

- (a) Nanning Shangguan has entered into the Tenancy Agreement A with the Landlord for a period of three years commencing from 1 July 2024 to 30 June 2027;
- (b) Shenguan Collagen has entered into the Tenancy Agreement B with the Landlord for a period of three years commencing from 1 July 2024 to 30 June 2027; and
- (c) Luxianna has entered into the Tenancy Agreement C with the Landlord for a period of three years commencing from 1 July 2024 to 30 June 2027.

THE TENANCY AGREEMENTS

(a) The Tenancy Agreement A

Date:

28 June 2024

Parties:

- (1) Nanning Shangguan; and
- (2) The Landlord

The value of the right-of-use asset to be recognised by the Company: approximately RMB3,780,000.

Summary of Principal Terms:

Term: Three years from 1 July 2024 to 30 June 2027 (both days inclusive)

Monthly rent: RMB114,723 per month (excluding management fees which should be borne by Nanning Shangguan)

Premises: Level 1–4, No. 2 Processing Plant, No. 13, Guokai Avenue East, Nanning City, the PRC*, approximately 6,023 square meters.

(b) The Tenancy Agreement B

Date:

28 June 2024

Parties:

- (1) Shenguan Collagen; and
- (2) The Landlord

The value of the right-of-use asset to be recognised by the Company: approximately RMB954,000.

Summary of Principal Terms:

Term: Three years from 1 July 2024 to 30 June 2027 (both days inclusive)

Monthly rent: RMB28,950 per month (excluding management fees which should be borne by Shenguan Collagen)

Premises: No. 18 Processing Plant, No. 13, Guokai Avenue East, Nanning City, the PRC*, approximately 1,578 square meters.

(c) The Tenancy Agreement C

Date:

28 June 2024

Parties:

- (1) Luxianna; and
- (2) The Landlord

The value of the right-of-use asset to be recognised by the Company: approximately RMB2,133,000.

Summary of Principal Terms:

Term: Three years from 1 July 2024 to 30 June 2027 (both days inclusive)

Monthly rent: RMB64,724 per month (excluding management fees which should be borne by Luxianna)

Premises: Level 3–4, No. 1 Processing Plant East, No. 13, Guokai Avenue East, Nanning City, the PRC*, approximately 3,398 square meters.

The respective rent payable under each of the Tenancy Agreements is in accordance with normal commercial terms or better than those for comparable premises available from independent third parties and has been arrived at by reference to comparable rental transactions and offerings as available in the relevant markets with similar age, size, use and attributes.

USE OF THE PREMISES

The Premises will be occupied by Nanning Shangguan, Shenguan Collagen and Luxianna, respectively for production purpose.

REASONS FOR AND BENEFITS OF ENTERING INTO THE TENANCY AGREEMENTS

Reference is made to the announcement of the Company dated 28 June 2021. Nanning Shangguan, Shenguan Collagen and Luxianna have been leasing their respective premises from the Landlord as production bases for production of food products, skin care and health care products since August 2016, July 2016 and July 2016, respectively. The tenancy agreements before 2021 were regarded as continuing connected transactions which were fully exempted under rule 14A.76 of the Listing Rules as all the applicable percentage ratios under the aforesaid continuing connected transactions before 2021 in aggregate were less than 5% and the total consideration in aggregate were under HK\$3,000,000 every year before 2021.

For administrative convenience purpose, both the Landlord and the Group agreed that the tenancy agreements in relation to each of Nanning Shangguan and Luxianna will be further extended for three years. The Company considers it to be commercially necessary and beneficial to enter into Tenancy Agreement A and Tenancy Agreement C so that Nanning Shangguan and Luxianna can avoid any relocation costs and disruption of operation.

For streamlined production purpose, Shenguan Collagen intended to enter into a tenancy agreement with lower cost and reduced premises area. Both the Landlord and the Group agreed that the term of Tenancy Agreement B would be for three years. The Company considers it to be commercially necessary and beneficial to enter into Tenancy Agreement B as Shenguan Collagen can (i) incur reduced tenancy costs and (ii) incur reduced relocation costs and minimise disruption of operation due to the proximity of Premises B and Shenguan Collagen's current production base.

The terms of the Tenancy Agreements were arrived at after arm's length negotiations between the Group and the Landlord. The respective rent payable under each of the Tenancy Agreements is in accordance with normal commercial terms or better than those for comparable premises available from independent third parties and has been arrived at by reference to comparable rental transactions and offerings as available in the relevant markets with similar age, size, use and attributes.

The Board (including the independent non-executive Directors) considers that entering into each of the Tenancy Agreements is in the ordinary and usual course of business of the Group, is on normal commercial terms and such terms are fair and reasonable, on normal commercial terms or better, and in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE PARTIES

The Company and the Group

The Company is incorporated in the Cayman Islands with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the manufacture and sale of edible collagen sausage casing products, pharmaceutical products, collagen food products, skin care products and medical devices in the PRC.

The Landlord

As at the date of this announcement, the Landlord is owned as to 95% and 5% by Ms. Zhou and Mr. Sha, respectively. The Landlord is an investment holding company which mainly holds properties in the PRC for the benefits of Ms. Zhou and Mr. Sha.

LISTING RULES IMPLICATIONS

As at the date of this announcement, the Landlord is owned as to 95% and 5% by Ms. Zhou and Mr. Sha, respectively, and thus the Landlord is a connected person of the Company. Pursuant to the Listing Rules, the entering into of the Tenancy Agreements constitute connected transactions of the Company. In addition, as the Tenancy Agreements are entered into by the Group with the same party (i.e. the Landlord), the Tenancy Agreements will be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules. Ms. Zhou and Mr. Sha has abstained from voting on the relevant Board resolutions approving the Tenancy Agreements.

In accordance with HKFRS 16 "Leases", the Company will recognise the right-of-use asset on its consolidated statement of financial position in connection with the Tenancy Agreements. Accordingly, the entering into of the Tenancy Agreements will be regarded as acquisition of assets by the Group which will constitute one-off connected transactions for the Company under Chapter 14A of the Listing Rules. The aggregate value of the right-of-use assets to be recognised by the Company under the Tenancy Agreements is expected to be approximately RMB6,867,000, which includes the present value of lease payment to be made during the term in accordance with HKFRS 16 "Leases". A discount rate of 6.0% per annum is adopted in calculating the present value of the lease payment.

As all of the applicable percentage ratios in respect of the estimated value in aggregate of the right-of-use asset to be recognised by the Group under the Tenancy Agreements are more than 0.1% but less than 5%, the entering into of the Tenancy Agreements will be exempt from the circular (including independent financial advice) and Shareholders' approval requirements in accordance with rule 14A.76(2) of the Listing Rules.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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 Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00829)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) 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)”	an individual(s) or a company(ies) who or which is/are not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
“Landlord”	Guangxi Shenguan Investment Co., Ltd* (廣西神冠投資有限公司), a company established in the PRC, a connected person of the Company
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange

“Luxianna”	Guangxi Luxianna Biotechnology Co., Ltd* (廣西露仙娜生物科技發展有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company
“Mr. Sha”	Mr. Sha Junqi (沙俊奇先生), the son of Ms. Zhou and an executive Director
“Ms. Zhou”	Ms. Zhou Yaxian (周亞仙女士), the chairman of the Board, an executive Director and one of the Controlling Shareholders
“Nanning Shangguan”	Nanning Shangguan Food Co., Ltd* (南寧尚冠食品有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company
“percentage ratios”	has the meaning as ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Premises A”	Level 1–4, No. 2 Processing Plant, No. 13, Guokai Avenue East, Nanning City, the PRC*, in approximate 6,023 square meter.
“Premises B”	No. 18 Processing Plant, No. 13, Guokai Avenue East, Nanning City, the PRC*, in approximate 1,578 square meter.
“Premises C”	Level 3–4, No. 1 Processing Plant East, No. 13, Guokai Avenue East, Nanning City, the PRC*, in approximate 3,398 square meter.
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of Shares
“Shenguan Collagen”	Guangxi Shenguan Collagen Biological Group Co., Ltd* (廣西神冠膠原生物集團有限公司), a company established in the PRC and a wholly-owned subsidiary of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Tenancy Agreement A”	the tenancy agreement dated 28 June 2024 entered into between Nanning Shangguan and the Landlord, in relation to the leasing of the Premises A for a period of three years commencing from 1 July 2024 to 30 June 2027
“Tenancy Agreement B”	the tenancy agreement dated 28 June 2024 entered into between Shenguan Collagen and the Landlord, in relation to the leasing of the Premises B for a period of three years commencing from 1 July 2024 to 30 June 2027
“Tenancy Agreement C”	the tenancy agreement dated 28 June 2024 entered into between Luxianna and the Landlord, in relation to the leasing of the Premises C for a period of three years commencing from 1 July 2024 to 30 June 2027
“Tenancy Agreements”	collectively, the Tenancy Agreement A, the Tenancy Agreement B and the Tenancy Agreement C
“%”	per cent

* *For identification purpose only*

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

Hong Kong, 28 June 2024

As at the date of this announcement, the executive Directors are Ms. Zhou Yaxian, Mr. Ru Xiquan, Mr. Mo Yunxi, Mr. Sha Junqi and Mr. Li Chenglin; 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. Zhou Xiaoxiong.