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)

CLARIFICATION ANNOUNCEMENT
RESUMPTION OF TRADING

Reference is made to the Report. This announcement is made to refute the allegations and comments concerning the Group in the Report.

At the request of the Company, trading in the Shares has been halted on the Main Board of the Stock Exchange with effect from 1:27 p.m. on 3 September 2014 pending the release of this announcement. Application has been made by the Company for resumption of trading in its Shares on the Stock Exchange with effect from 9 a.m. on 29 September 2014.

THE COMPANY'S POSITION

Groundless allegations and comments in the Report

Reference is made to the report (the "**Report**") dated 2 September 2014 released by Emerson Analytics Co. Ltd. (the "**Entity**") which contains groundless allegations and comments concerning Shenguan Holdings (Group) Limited (the "**Company**", together with its subsidiaries, the "**Group**"), the Group's business and financial operations, and the target price of the shares in the Company (the "**Shares**"). This announcement is made to refute the allegations and comments concerning the Group in the Report.

The allegations and comments in the Report concerning the Group are malicious and groundless. The Company and its directors (the "**Directors**") are deeply shocked and furious about the Report. The Company reserves the right to take legal action against the Entity and those who are responsible for the Report and to hold them responsible for all losses caused to the Group.

The Directors wish to reiterate that the Group adheres to the principle of "technical innovation and stringent management with integrity", and focuses on its business of collagen casing with the goal of achieving good economic benefits. The Company will continue to strive to maximize the returns for its shareholders (the "**Shareholders**"), as always.

The Directors confirm that the information contained in the Company's prospectus dated 30 September 2009 and published financial reports is accurate and complete in all material respects and not be misleading or deceptive.

Caution

The Report contained a disclosure by the Entity that "We and/or our associates/partners may have long or short positions in the equities and/or their derivatives at the time of publication of our reports, and we and/or our associates/partners may maintain or change our positions at any time."

Shareholders and investors should exercise extreme caution in reading the Report as it contains errors of fact, misleading statements, malicious and groundless allegations against the Group and the Directors.

THE FUNDAMENTAL MISTAKE OF THE REPORT

The allegations against, and estimations about, the Group in the Report were based on a comparison of the Group with another seven companies in the collagen sausage casing business. Five of them are Chinese companies which operate in China and the other two are foreign companies which operate primarily outside China. Such comparison is fundamentally wrong as these seven companies are not comparable to the Group.

The five Chinese companies

The five Chinese companies as cited by the Report are Shandong Crown Collagen Casing Co., Ltd* (山東冠華蛋白腸衣有限公司) ("**Shangdong Crown**"), Zibo Longbao Biological Food Co., Ltd* (淄博龍寶生物食品有限公司) ("**Zibo Longbao**"), Zhongshan Baidefu Casing Co., Ltd* (中山市百德富腸衣有限公司) ("**Zhongshan Baidefu**), Handan Dike Collagen Casing Co., Ltd.* (邯鄲帝科腸衣有限公司) ("**Handan Dike**") and Liuzhou Honsen Collagen Casing Co., Ltd.* (柳州宏升膠原蛋白腸衣有限公司) ("**Liuzhou Honsen**"). The Company has conducted searches on these five companies on the Business Credit Information Publicity System* (企業信用信息公示系統) operated by the State Administration for Industry and Commerce in which information of only four of them could be found and information of Handan Dike could not be found.

The table below sets out the comparison of the Group's major operating subsidiary, Wuzhou Shenguan Protein Casing Co., Ltd.* (梧州神冠蛋白腸衣有限公司) ("**Wuzhou Shenguan**"), with the five companies in China cited in the Report, all information is extracted from the Business Credit Information Publicity System, the corresponding companies' websites or b2bvip.com established by Foshan Enterprise Confederation* (佛山市企業聯合會) and Foshan Enterprise Directors Association* (佛山市企業家協會):

	Wuzhou Shenguan	Shandong Crown	Zibo Longbao	Zhongshan Baidefu	Handan Dike	Liuzhou Honsen
Year of establishment	1989 *(Note 1)*	2011	2006	2009	No published information	2006

	Wuzhou Shenguan	Shandong Crown	Zibo Longbao	Zhongshan Baidefu	Handan Dike	Liuzhou Honsen
Registered capital according to the search made on 13 September 2014 (RMB million)	460.0	10.0	41.3	0.5	No published information	71.7
Scale of operation	Achieved sales of RMB1,654.5 million in 2013. Already operating 190 production lines with production volume of 3,551.4 million meters in 2011 *(note 2)*	Planned to produce 250 million meters of collagen casing	Operating six production lines	No published information	No published information	Achieved sales of RMB26.1 million in 2013

Note 1: The Group's business originated from the establishment of Wuzhou Protein Casing Factory* (梧州市蛋白腸衣廠) in July 1989. For details of the Group's history, please refer to the Company's prospectus dated 30 September 2009.

Note 2: The information concerning the number of production lines and production capacity in 2011 was extracted from the 2011 annual report of the Company. Out of consideration for trade secrets, the Company ceased to disclose the corresponding information in its annual reports since 2012.

The Directors are of the view that these five companies in China as shown in the table are not comparable to the Group in terms of experience, financial strength and scale of operation.

The two foreign companies

The table below sets out the comparison of the Group with the two foreign companies cited in the Report, namely Devro PLC ("**Devro**") and Viscofan Group ("**Viscofan**"). The following information is extracted from the corresponding companies' websites on 13 September 2014:

	the Group	Devro	Viscofan
Products produced and sold	collagen sausage casing	mainly collagen sausage casing	mainly cellulose, collagen, plastic and fibrous sausage casings
Production base	Wuzhou, Guangxi, the PRC	six production bases located in four countries	operates casing manufacturing sites in nine countries

As shown in the table, the product types and the production bases of the two foreign companies are different from those of the Group. Collagen casings business only forms part of Viscofan's revenue and Viscofan operates its manufacturing sites in nine countries, of which, only one is located in China. Devro has six production bases located in four countries, but none of them are located in China.

REFUTATION OF ALLEGATIONS

1. **The Report alleged that (a) the Company had hidden raw material costs; (b) the total raw material costs and the total cost of sales of the Group for each of 2012 and 2013 should be much higher than the figures disclosed by the Company; (c) the EBIT margin of the Group is irrational compared to foreign industry players; and (d) the Group was subsidized by the controlling Shareholders.**

    Such allegations are groundless.

    The calculations in the Report proceed on:

    (1) an unsubstantiated guess as to what sales volume the Group achieved in 2012 and 2013; there is no explanation for the sales volume the Report selected to make its calculations; and

    (2) an unsubstantiated guess as to how many meters of sausage casing can be produced by the Group with one ton of cattle inner skin which was based on the oral and uncorroborated statements of unnamed persons regarding the trade secrets of two of the five Chinese companies cited in the Report.

    The sales volume, total raw material cost and total cost of sales of the Group for 2012 and 2013 as estimated in the Report were completely wrong and unsubstantiated.

    The Company wishes to state that the sales volume, total raw material costs and total cost of sales of the Group for 2012 and 2013 were lower than the quantities and the amounts concocted in the Report. The raw material costs of the Group in 2012 and 2013 were RMB312.8 million and RMB295.5 million, respectively.

    Since 2012, the sales volume and production capacity of the Group have not been disclosed by the Company in its annual reports. The Directors are of the view that such information is commercially sensitive and its disclosure would cause adverse impact on the competitive advantages of the Group on which it relies for continuance of the Group's success in business and operation.

    Sales volume

    The Report estimated that the Group's sales volume in 2012 was 25% higher than that in 2011. Such estimation lacked any factual basis and was overstated. The Group's revenue increased by 9.8% as disclosed in the Company's 2012 Annual Report. As the gross margins of the Group are relatively stable, it is numerically impossible for the Group to have achieved a 25% growth in its sales volume when there was only a 9.8% growth in its revenue. Since the base figure for 2012 grossly exceeded the actual figure, the sales volume of 4,274 million meters for 2013 as stated in the Report was also seriously misstated. According to the Group's sales records, the sales volume for 2012 and 2013 was approximately 3.8 billion meters and 3.9 billion meters, respectively. The Company has no idea how the Report came up with such growth rates.

Rate of conversion

The unsubstantiated guess in the Report regarding the volume of sausage casing that can be produced by the Group from one ton of cattle inner skin (that is, the rate of conversion) in the range between 60,000 meters and 70,000 meters was based on the alleged conversations with the staff of two of the five Chinese companies cited in the Report and mentioned in the section headed "THE FUNDAMENTAL MISTAKE OF THE REPORT" above. These are the oral and uncorroborated statements of unnamed persons regarding the trade secrets of these two companies. The Company is unable to verify the authenticity of their identities and content of the conversations.

The rate of conversion for the Group is more than 80,000 meters of sausage casing with one ton of cattle inner skin that results from its experienced management and production team, economies of scale, 31 patents and efficient production technology. The Directors are not in a position to comment on the rate of conversion of the other two Chinese companies.

EBIT margin

The Directors are unable to have an in-depth understanding of, and make comment on, the EBIT margin of the two foreign companies cited in the Report as a result of their different product categories and production locations.

The Company deplores the use by the Report of unsubstantiated and uncorroborated statements as a basis to revise the Group's actual financial data and to make baseless allegations as to the integrity of the Group and its management and to attempt to sully the Group's reputation. The Group reserves all the rights to take legal action.

The Directors are of the view that the high EBIT margin achieved by the Group is mainly attributable to the following factors:

(1) economies of scale – with its production scale, the Group is able to designate its production lines for the production of specific products thereby reducing the switching costs in terms of wastage of raw materials re-gearing the machinery to produce different products in different specifications and formulae, and the related machinery down time;

(2) centralized production base – all production bases of the Group are located in Wuzhou City thereby minimizing the transportation costs from one production base to another and relevant management costs;

(3) direct sales – most of the products of the Group are directly sold to the food manufacturers in China without the involvement of distributors which lowers the related distribution costs;

(4) effective energy saving – as disclosed in the Company's annual report from 2010 to 2013, the Group had abandoned the use of old-fashioned coal stream boilers and continued to adopt and optimize the heat energy technology and greatly reduced the use of energy;

(5) production automation – the Group has implemented automation of production lines which lowers its reliance on labour and enables the Group to increase its production lines without recruiting substantial amount of extra production staff; and

(6) information system automation – the Group has implemented automation of information system which increases its production efficiency.

No subsidy from, or subsidy recovery for, the controlling Shareholders

The Report alleged that to conceal the costs to the Group in the estimated amount of RMB1.66 billion, the controlling Shareholders subsidized the Group with the dividends paid to them by the Company, the proceeds from their sale of the Shares in 2010, and the proceeds from their sale of Wuzhou Xiansheng Collagen Technologies Advisory Services Company Limited* (梧州市先盛膠原蛋白技術諮詢服務有限公司) ("**Wuzhou Xiansheng**") to the Company, totalling RMB1.94 billion. Such allegation is a complete fabrication.

As stated above, no cost was hidden by the Group and the allegations of subsidy and subsidy recovery by the controlling Shareholders defy commercial practice. The Report has not taken into account the costs to the controlling Shareholders such as enterprise income tax, dividend withholding tax, and personal income tax, and the fact that the controlling Shareholders do not hold 100% equity interest in the Company.

Furthermore, Rich Top Future Limited, one of the controlling Shareholders of the Company, has never disposed of its Shares since the listing of the Company save for its disposal of Shares to China Life Insurance (Overseas) Company Limited and other investors on 20 October 2010.

Payment of dividends by the Group's internal resources

The Company has satisfied its payment of dividends by its own funds, which are net cash (that is, cash less bank borrowings) as at the end of each financial year since the listing of the Company. Set out below are the net cash inflow from operating activities, cash outflows for capital expenditure, net cash, and the dividends distributions of the Company for the years ended 31 December 2011, 2012 and 2013 and the six month period ended 30 June 2013 and 2014.

	For the year ended/as at 31 December			For the six months ended/as at 30 June	
	2011	2012	2013	2013	2014
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Net cash inflow from operating activities	696,578	763,166	467,471	154,332	143,216
Cash outflow for capital expenditure	235,300	334,100	207,600	135,700	66,600
Cash and cash equivalents and pledged deposit	487,789	884,460	641,412	490,729	795,906
Bank borrowings	(62,971)	(227,160)	(200,000)	(100,000)	(585,917)
Net cash position	424,818	657,300	441,412	390,729	209,989
Payment of dividend during the year:					
Final and special dividend paid (as declared in preceding year)	141,034	161,973	263,364	263,364	301,821
Interim and special dividend paid	117,560	149,622	198,362	–	–
Total dividend paid	258,594	311,595	461,726	263,364	301,821
Interim, final and special dividends declaration	279,533	412,986	500,183	198,362	197,918
Interim, final and special dividends declaration (HK$'000)	342,178	508,590	631,583	249,309	249,309

The above information has been disclosed in the annual report and interim report of the Company for each year and of the period under review. The Company has not conducted any placement of new Shares after its listing in 2009 and the net cash position as at 30 June 2014 was RMB210.0 million. Most of the net cash inflow from operating activities is generated in the second half of each year because the first half of each year is generally the slow sales seasons of the Group's business.

The declaration of dividends of the Company was based on the projected cash inflow from operating activities, net cash position, surplus cash on hand and the projected capital expenditure. Although the net cash position in 2013 declined, as disclosed in the 2013 annual report of the Company, the Group expected to spend around RMB100 million to RMB150 million only for capital expenditure in 2014. The Directors decided to slow down the expansion and no new production line will be installed in 2014. The budgeted capital expenditure for 2014 was therefore lower than 2013. The dividend amount declared for 2013 was therefore increased.

Net cash position in 2013 was lower than the amount in 2012, mainly caused by the decrease in cash inflow from operating activities. As disclosed in 2013 annual report of the Company, the decrease in cash inflow from operating activities was mainly caused by the increase in inventories of RMB294.8 million. The increase in inventories was mainly caused by preparation of system upgrade and the lower-than-expected sales in 2013. In 2013, the Directors planned to upgrade the raw material treatment system and the environment protection system in 2014, which would affect the daily production because some of the production lines would need to be shut down temporarily. Therefore, the Group had increased the inventory to meet the sales demand. On the other hand, the sales in 2013 was affected by the outbreak of bird-flu and the negative economic sentiment in China. In 2014, there were subsequent sales for part of the inventory brought forward from 2013, and no provision for obsolete inventory was necessary to be made up to 30 June 2014. Net cash position as at 30 June 2014 is lower than that as at 31 December 2013 mainly due to the payment of dividend of RMB301.8 million in the first half of 2014.

As disclosed in 2014 interim report of the Company, as at 30 June 2014, the Group had a short term bank borrowing of RMB283.0 million denominated in Renminbi and a short term bank borrowing of HK$385.0 million (equivalent to RMB305.6 million) denominated in Hong Kong dollars. The bank borrowing denominated in Hong Kong dollars was subject to an interest rate of HIBOR plus 1% per annum and was secured by a fixed deposit of RMB330.0 million yielding 4.675% per annum, which is higher than the interest rate of the bank borrowing being secured.

The Report is fabricating fact in an outrageous manner.

2. The Report alleged that the Group had irregularities in its accounts.

(1) The Report accused Ernst & Young of not auditing the accounts of the Group's subsidiaries established in China.

Ernst & Young ("**EY**") was engaged as the Group's reporting accountants during the Company's initial public offering and has been engaged as the Company's auditors opining on the Company's consolidated accounts since the Company incorporated in 2009. As the Company's group auditors, EY determines the audit scope and workdone (including all the subsidiaries in China) needed in order to form its audit opinion on the Group's consolidated account. The Directors have confirmed with EY that it has been sending its team every year to the Group's major operating subsidiaries in China to carry out auditing procedures during annual audit.

The Company has discussed with EY on the allegations in the Report and this announcement. EY is currently of the view that there is no change to their audit opinions issued for the listing of the Company and annual audits.

There is no requirement for the auditor of the Company to be the statutory auditor of all of its subsidiaries in Hong Kong or in China. The information presented by the Entity in the Report is misleading and based on an incomplete understanding of the practice of companies listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

(2) *The Report alleged that the Group's average monthly wages per staff dropped in 2012 and 2013.*

The Report alleged that the Group's average monthly wages per staff dropped in 2012 and 2013. The Group's average monthly wages in 2013 were higher than those of 2012 and 2011.

An analysis of the Group's average monthly wages per staff (based on information extracted from the annual reports of the Company and adjusted for the effects of the staff welfare funds and the provision of the year-end bonus based on the information extracted from the wages and staff welfare funds accounts) is set out as follows:

	Year ended 31 December		
	2011	**2012**	**2013**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Employee remuneration	160,172	152,154	132,591
Less: Contribution to staff welfare funds	(11,272)	–	–
Add: Utilisation of staff welfare funds	–	–	32,690
Less: Provision of year-end bonus	(13,000)	–	–
Employee remuneration (adjusted for the items above)	135,900	152,154	165,281
Less: Director's remuneration	(11,801)	(12,804)	(11,428)
	124,099	139,350	153,853
Total headcount	3,500	4,000	3,900
Average monthly wages per staff *(RMB)*	2,955	2,903	3,287

From the above, the Group's average monthly wage per staff in 2012 was similar to that of 2011, while the average monthly wages per staff increased in 2013 by 13.2%, which was in line with the general market condition in China.

As distinct from the average monthly wages per staff, the total employee cost was higher in 2011 than that in 2012 and 2013, mainly due to two reasons: (a) the Group ceased to make contribution to the staff welfare funds since 2012 pursuant to the Notice of Handling Financial Issues of Enterprises Upon the Implementation of the Company Laws issued by the Ministry of Finance of the PRC (Caiqi No. [2006] 67) ("**Notice 67**") (國家財政部《關於〈公司法〉施行後有關企業財務處理問題的通知》（財企[2006]67號）) and utilised the entire balance of the staff welfare funds for employee benefits in 2013; and (b) the Group made a provision of year-end bonus of RMB13,000,000 in 2011 but did not make such provision in 2012 and 2013.

According to Notice 67, foreign enterprise may stop to make contribution to staff welfare funds since 2006. After the acquisition of Wuzhou Xiansheng in 2011, Wuzhou Shenguan was qualified as a foreign enterprise and ceased to make contribution since 2012. In 2013, the Directors decided to utilise the whole balance of the staff welfare funds for employee benefits, and after that, there was no utilisation or contribution to the staff welfare funds in 2014.

In 2013, the Group paid part of the expenses in the amount of RMB32.7 million related to employee benefit directly from the staff welfare funds. As a result, in order to arrive at the total employee remuneration incurred in 2013, the staff welfare funds of RMB32.7 million should be added together with the employee remuneration of RMB132.6 million as disclosed in 2013 annual report of the Company. The total employee remuneration incurred in 2013 as mentioned in the table above should therefore be RMB165.3 million.

(3) The Report stated that the R&D cost ratios of the Group for 2010, 2011 and 2012 were higher than those of other companies, and cast doubt over the accounting treatment for the R&D cost in the Company's financial statements.

The Directors would like to clarify that the R&D costs as described in the prospectus of the Company dated 30 September 2009, published annual reports and in this announcement mainly represent the production costs of new products. The Directors have confirmed with EY that such expenditures do not fall into the definition of R&D expenses as defined by Hong Kong Accounting Standard 38 *Intangible Assets*.

In order to cater for the needs of different customers, the Group will research and develop different formulae and techniques for its products (collectively, the "**New Products**"). The Group has used a separate account (i.e. R&D costs) to record all related production expenses incurred for the production of New Products during the addition or improvement of production lines, the enhancement of energy system and improvement of formulae. The purpose of this account is to better monitor and accurately trace the production cost for the New Products for internal management use.

In 2012, the Group had increased the number of production lines by 31.6%. In addition, the Group was undergoing a process to improve the applicability of its existing products in 2012, and as disclosed in the Company's 2013 annual report, in the second half of 2013, the Group had a new breakthrough by launching new products with a higher applicability to suit the market's need and the Group had developed the fourth generation heat energy system in 2012. As disclosed in the Company's 2013 annual report, by the end of August 2013, all the production lines of the Group adopted the new heat energy technology. As a result of these major projects in 2012, the Group had incurred a substantial amount of production cost for the New Products which was recorded in the "R&D costs" account in 2012.

When the production of the New Products is completed, the production cost recorded in the "R&D costs" account including raw materials costs, utilities costs, direct labour costs and factory overheads will be transferred to the cost of the New Products inventory. When the New Products are sold and shipped to a customer, the Group will record the sales revenue and the corresponding cost of the New Products will be transferred from the inventory to the cost of sales and recorded under different categories such as raw materials costs, utilities costs, direct labour and factory overheads. Therefore, the Report's assumption that the R&D costs should be a separate item included in the cost of sales is wrong, and in fact, the R&D costs have already been broken down into different categories in the cost of sales as mentioned above. The Directors has confirmed with EY that the accounting treatment as described above does not have any impact on the financial indicators such as cost and profits as presented in the Group's financial statements.

The total of RMB215.6 million of R&D costs as shown in the note to "Profit Before Tax" in 2012 annual report of the Company was separated into two categories. The amount of RMB209.9 million was production costs of the New Products as mentioned above. Another category was the R&D costs related to the trial use of the New Products and the salary of R&D staff which totalled RMB5.7 million and recorded as R&D expenses which were charged to profit and loss account through the cost of sales.

Given that the nature of the Group's R&D costs do not fall into the definition of R&D expenses as defined by Hong Kong Accounting Standard 38 *Intangible Assets* as explained above, the previous disclosures in the Company's financial statements were voluntary. Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and the Hong Kong Accounting Standards have no specific disclosure requirements on expenses of this kind. Considering that the disclosure of the Group's R&D costs do not provide any additional meaningful information, the Directors have decided that relevant disclosures would not be made in the annual report of the Company from 2013 onwards.

3. Other allegations

(1) The Report alleged that the Group's acquisition of Wuzhou Xiansheng was outrageous.

The Group's acquisition of Wuzhou Xiansheng was disclosed in the Company's announcements dated 1 June and 2 June 2011. Wuzhou Xiansheng was a shareholder holding a 3% equity interest in Wuzhou Shenguan at the relevant time. The reason for the acquisition was to increase the equity interest of Wuzhou Shenguan attributable to the Group from 97% to 100%.

The Report alleged that the consideration for acquiring Wuzhou Xiansheng was too high and the financial performance of Wuzhou Xiansheng was in decline in 2010. Such allegation is factually incorrect.

As disclosed in the announcement of the Company dated 1 June 2011, the price for acquisition of Wuzhou Xiansheng was determined with reference to 3% of the Company's average market value from April 2011 to mid-May 2011. For reference purpose only, the market value of the Company as at 31 May 2011 was HK$17,507,572,000 and approximately RMB14,595,713,000 converted at the RMB exchange rate quoted by People's Bank of China on that day (HK$1=RMB0.83368). Accordingly, 3% of the Company's market value as at that date was approximately RMB437,871,000, more than the consideration for acquisition of Wuzhou Xiansheng which was RMB372,011,508, and the shareholders of Wuzhou Xiansheng had offered a discount of approximately 15%. Wuzhou Shenguan is the Company's principal operating subsidiary and almost all the Group's business is carried out through Wuzhou Shenguan and its subsidiaries, therefore the market value of the Company is a reasonable estimate of the market value of Wuzhou Shenguan.

The Report alleged that the sharing of profit attributable to shareholders of Wuzhou Shenguan was by way of equity accounting by Wuzhou Xiansheng in 2010, and such calculation was against the accounting standards. As disclosed in the Company's prospectus dated 30 September 2009, Wuzhou Xiansheng's shareholding in Wuzhou Shenguan was reduced to 3% from 21.7% in May 2009 prior to the listing of the Company. As such, Wuzhou Xiansheng was only required to account for the dividends received from Wuzhou Shenguan (being RMB9,300,000) as income and was not required to equity pick up the profit of Wuzhou Shenguan from 2010 onwards. The amount of dividend paid to Wuzhou Xiansheng was disclosed in the 2010 annual report of the Company. The net profit of Wuzhou Xiansheng in 2010 of RMB8,489,000 (which represented the amount of dividend paid by Wuzhou Shenguan to Wuzhou Xiansheng in 2010 after deducting the relevant expenses) was therefore reasonable, and there was no other loss-making businesses of Wuzhou Xiansheng as stated in the Report. Apart from having an equity interests of 3% in Wuzhou Shenguan, Wuzhou Xiansheng had no other business as at 1 June 2011, being the date of completion of acquisition of Wuzhou Xiansheng by the Group.

Wuzhou Xiansheng has never provided any advisory and consultation services to the competitors of the Group. As at 31 May 2011, Wuzhou Xiansheng owned a 3% equity interest in Wuzhou Shenguan. The income and profit of Wuzhou Xiansheng mostly came from the dividends paid by Wuzhou Shenguan. The declining financial results of Wuzhou Xiansheng was due to the drop in its shareholding in Wuzhou Shenguan from 21.7% to 3% in May 2009 and the decrease in dividends paid to Wuzhou Xiansheng by Wuzhou Shenguan.

The Report applied a wrong accounting treatment for the calculation of Wuzhou Xiansheng's profit and drew a conclusion that the acquisition of Wuzhou Xiansheng was outrageous, which is totally groundless.

(2) The Report alleged that the Company charged its major clients at a premium.

The Report alleged that the selling prices that the Company offered to its major client were on average 41.3% higher than those to other clients from 2006 to 2008, which was not factually accurate.

There are various types, models and standards as well as selling prices for the Group's products which are tailored to meet clients' needs. For instance, the Group's products can be generally categorised into Western-style casing and Chinese-style casing. According to the Group's sales record, the average selling prices of the Group's Western-style products are higher than the Chinese-style products, and during 2006 to 2008, the average selling price of Western-style products was approximately 32% higher than the average selling price of Chinese-style products. As disclosed in the Company's prospectus dated 30 September 2009, Western-style casing accounted for 68.8%, 76.7% and 87.1% of the Group's revenue for 2006, 2007 and 2008, respectively, and the remaining balance was contributed by the Chinese-style casing. From 2009 to 2013, Western-style casing accounted for over 90% of the Group's revenue and the average selling price of Western-style products was approximately 40% higher than the average selling price of Chinese-style products during that period.

The clients purchase the Group's product or products to meet their different needs and as a result, there are price differences. Major clients of the Group mainly purchased Western-style products from the Group. The prices of transactions between the Group and its biggest client were based on the purchasing contracts. According to normal business practice, the biggest client purchased product of the same type and standard at a lower price as compared to normal clients.

(3) The Report alleged that the Group had phony sales with Zhongshan Defu from 2006 to 2008

During the preparation of the Company's prospectus dated 30 September 2009 on the sales revenue generated by Zhongshan Defu Meat Products Co., Ltd.* (中山市得福肉食製品有限公司) ("**Zhongshan Defu**"), the Group extracted the sales revenue generated by Zhongshan Defu from its sales accounts, which was supported by relevant invoices and goods delivery notes. The Group has kept track of the payment received from Zhongshan Defu and by the end of 2008, Zhongshan Defu had settled almost all sales and had an outstanding balance of RMB831,000 and such outstanding balance was subsequently settled. No bad debt expenses was related to Zhongshan Defu between 2006 and 2008. The Group has no authority to verify or comment on the discrepancies between the Company's records and those filed by Zhongshan Defu.

(4) *The Report questioned the Group's ranking as the largest manufacturer of collagen sausage casing products in China*

The Report questioned that China Sausage Casing Net (中國腸衣網) (www.chinacasing.cn) is not related to China Meat Association (中國肉類協會), and further questioned, the Group's ranking as the largest manufacturer of collagen sausage casing products in China, which is a misleading representation.

Whether related or not, both China Sausage Casing Net (中國腸衣網) and China Meat Association (中國肉類協會) have mentioned that the Group was the largest manufacturer in the collagen sausage casing industry in China from 2006 to 2008. For details, please refer to section headed "Industry Overview" of the Company's prospectus dated 30 September 2009.

In any case, the manner in which information is posted on the website of China Sausage Casing Net (中國腸衣網), no matter how updated it is, is irrelevant to the Group's ranking. Direct conclusions should be drawn from the scale of production and revenue of the Group.

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

Hong Kong, 26 September 2014

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.

* *For identification purposes only*