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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 TRANSACTION IN RELATION TO THE ACQUISITION
OF PHARMACEUTICAL COMPANY
AND
NON-EXERCISE OF RIGHT OF FIRST REFUSAL**

**CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF
PHARMACEUTICAL COMPANY**

The Board is pleased to announce that on 26 January 2015 (after trading hours), Wuzhou Shenguan entered into an Equity Transfer Agreement with Mr. Sha, pursuant to which Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in Sanjian Pharmaceutical at a consideration of RMB4,810,000. Upon completion of the Acquisition, Sanjian Pharmaceutical will become a wholly-owned subsidiary of Wuzhou Shenguan.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Sanjian Pharmaceutical is wholly-owned by Mr. Sha. Mr. Sha is the spouse of Ms. Zhou, an executive Director and one of the Controlling Shareholders, and thus Mr. Sha is a connected person of the Company. Pursuant to the Listing Rules, the entering into of the Equity Transfer Agreement constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the Equity Transfer Agreement are more than 0.1% but below 5%, the Equity Transfer Agreement and the transactions contemplated thereunder are subject to, among other things, the reporting and announcement requirements but are exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

NON-EXERCISE OF RIGHT OF FIRST REFUSAL

Subsequent to the Acquisition, Shennong Pharmaceutical, a joint venture which is owned as to 72% by Ms. Zhou and is principally engaged in the manufacture and sale of pharmaceutical products in the PRC, will become a competing business of Ms. Zhou with the Group.

As disclosed in the Prospectus in relation to the Deed of Non-Competition, pursuant to which when business opportunities which may compete with the business of the Group arise, Ms. Zhou or any of her associates shall offer to the Company the right of first refusal to take up such business opportunities.

As such, pursuant to the Deed of Non-Competition, Ms. Zhou served a written notice to the Company on 8 January 2015 in respect of such matter and offered to the Company the right of first refusal to acquire 72% equity interest in Shennong Pharmaceutical for a consideration of RMB17,000,000 and sought the Company's decision as to whether it will exercise its right of first refusal to acquire the said 72% equity interests in Shennong Pharmaceutical.

The Directors (including the independent non-executive Directors but excluding Ms. Zhou who has abstained from voting) are of the opinion that it is not appropriate and is not in the best interests of the Company and the Shareholders as a whole, for the Company to exercise the Right of First Refusal at the present time. Accordingly, the Board intends to issue a letter to Ms. Zhou to inform her of the decision not to exercise the Right of First Refusal.

CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF PHARMACEUTICAL COMPANY

On 26 January 2015 (after trading hours), Wuzhou Shenguan, a major operating subsidiary of the Company and a subsidiary indirectly owned by the Company as to 100%, entered into the Equity Transfer Agreement with Mr. Sha, pursuant to which Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in Sanjian Pharmaceutical held by Mr. Sha at a consideration of RMB4,810,000.

Equity Transfer Agreement

The principal terms of the Equity Transfer Agreement are as follows:

Date:

26 January 2015

Parties:

Vendor: Mr. Sha

Purchaser: Wuzhou Shenguan

Subject matter:

Pursuant to the Equity Transfer Agreement, Mr. Sha agreed to sell and Wuzhou Shenguan agreed to purchase the entire equity interest in Sanjian Pharmaceutical owned by Mr. Sha at a consideration of RMB4,810,000. The consideration was arrived at after arm's length negotiation between Mr. Sha and Wuzhou Shenguan with reference to the valuation report prepared by an independent external valuer.

The financial information of Sanjian Pharmaceutical for the two years ended 31 December 2013 is set out below:

	Year ended 31 December 2012	Year ended 31 December 2013
	<i>RMB (audited)</i>	<i>RMB (audited)</i>
Profit/(loss) before tax and extraordinary items	350,967	(497,563)
Profit/(loss) after tax and extraordinary items	229,557	(568,869)

As at 30 November 2014, the net liabilities and the total assets of Sanjian Pharmaceutical amounted to RMB6,496,596 and RMB33,954,400 respectively. During the period from 1 January 2014 to 30 November 2014, Sanjian Pharmaceutical recorded a profit before tax and extraordinary items of RMB66,695.

In addition, pursuant to the valuation prepared by an independent external valuer, the net assets of Sanjian Pharmaceutical is valued at approximately RMB4,811,400 as at 30 November 2014.

The consideration is payable by cash and will be financed by internal resource of the Group.

Condition Precedent:

The Equity Transfer Agreement is conditional upon the obtaining of all necessary consents and approvals in connection with the Equity Transfer Agreement.

Payment Term:

A one-off payment of RMB4,810,000 shall be made by Wuzhou Shenguan to an account designated by Mr. Sha within 30 days upon signing of the Equity Transfer Agreement.

REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT

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. Sanjian Pharmaceutical possesses a certificate of good manufacturing practices for pharmaceutical products issued by the Food and Drug Administration of Guangxi Zhuang Autonomous Region on 25 August 2014, and the certificate remains valid until 24 August 2019. After the Acquisition, the Group will utilise Sanjian Pharmaceutical as a platform to develop pharmaceutical products or collagen related products.

The Directors (including the independent non-executive Directors) consider that the Acquisition was entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and that the terms of the Equity Transfer Agreement are fair and reasonable for the Group and in the interests of the Group and the Shareholders as a whole.

INFORMATION ON THE PARTIES

The Company is an investment holding company. Wuzhou Shenguan is the Company's principal operating subsidiary and it is principally engaged in the manufacture and sale of edible collagen sausage casing products in the PRC.

Sanjian Pharmaceutical is principally engaged in the manufacture and sales of pharmaceutical products, solid beverage and dried fruit products.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Sanjian Pharmaceutical is wholly-owned by Mr. Sha. Mr. Sha is the spouse of Ms. Zhou, an executive Director and one of the Controlling Shareholders, and thus Mr. Sha is a connected person of the Company. Pursuant to the Listing Rules, the entering into of the Equity Transfer Agreement constitutes a connected transaction of the Company.

As one or more of the applicable percentage ratios in respect of the Equity Transfer Agreement are more than 0.1% but below 5%, the Equity Transfer Agreement and the transactions contemplated thereunder are subject to, among other things, the reporting and announcement requirements but are exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Ms. Zhou, an executive Director and the spouse of Mr. Sha, has abstained from voting on the board resolutions approving the Equity Transfer Agreement.

NON-EXERCISE OF RIGHT OF FIRST REFUSAL

Background

Subsequent to the Acquisition, Shennong Pharmaceutical, a joint venture which is owned as to 72% by Ms. Zhou and is principally engaged in the manufacture and sale of pharmaceutical products in the PRC, will become a competing business of Ms. Zhou with the Group.

As disclosed in the Prospectus in relation to the Deed of Non-Competition, pursuant to which during the period that the Deed of Non-Competition remains effective, Ms. Zhou undertakes to the Group that she or any of her associates shall not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the business activity of any member of the Group. In addition, when business opportunities which may compete with the business of the Group arise, Ms. Zhou or any of her associates shall offer to the Company the right of first refusal to take up such business opportunities.

The Right of First Refusal is valid for the period during which:

- (i) the Shares remain listed on the Stock Exchange; and
- (ii) Ms. Zhou and/or her associates, individually or jointly, hold 30% or more of the issued Shares or Ms. Zhou remains as a Controlling Shareholder.

As such, pursuant to the Deed of Non-Competition, Ms. Zhou served a written notice to the Company on 8 January 2015 in respect of such matter and offered to the Company the Right of First Refusal to acquire 72% equity interest in Shennong Pharmaceutical for a consideration of RMB17,000,000 and sought the Company's decision as to whether it will exercise the Right of First Refusal.

Reasons for the Non-exercise of the Right of First Refusal

Having taken into account the principal factors and considerations set out below, the Directors (including the independent non-executive Directors but excluding Ms. Zhou who has abstained from voting) are of the opinion that it is not appropriate and is not in the best interests of the Company and the Shareholders as a whole, for the Company to exercise the Right of First Refusal at the present time:

- Shennong Pharmaceutical is still developing its business and technology. Its business has not yet achieved a scale of economy, and therefore there is no assurance in its operational and financial performance in the future. In addition, significant investment is likely to be incurred by Shennong Pharmaceutical in the future in order to develop the technology during the research and development phase. Furthermore, there is no assurance that the senior management team and other key personnel of Shennong Pharmaceutical will stay with Shennong Pharmaceutical.

- Exercising the Right of First Refusal will only result in the Company having ownership of 72% equity interest in Shennong Pharmaceutical. There is no assurance that the Company will be able to acquire the remaining 28% of the equity interests in Shennong Pharmaceutical and its extent of management and shareholding control over Shennong Pharmaceutical may therefore be limited.

Accordingly, the Board will issue a letter to Ms. Zhou to inform her of the decision not to exercise the Right of First Refusal.

DEFINITIONS

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

“Acquisition”	the acquisition contemplated under the Equity Transfer Agreement
“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 Stock Exchange
“connected person”	has the meaning ascribed to it by the Listing Rules
“controlling shareholder”	has the meaning ascribed to it by the Listing Rules
“Deed of non-competition”	the deed of non-competition dated 19 September 2009 entered into by Ms. Zhou in favour of the Company, further details of which are disclosed in the Prospectus under the section “Relationship with our Controlling Shareholders – Non-Competition Undertaking”
“Director(s)”	the directors of the Company
“Equity Transfer Agreement”	the equity transfer agreement dated 26 January 2015 entered into between Wuzhou Shenguan and Mr. Sha in relation to the acquisition of the entire equity interests in Sanjian Pharmaceutical
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Sha”	Mr. Sha Shuming (沙曙明先生), the spouse of Ms. Zhou
“Ms. Zhou”	Ms. Zhou Yaxian (周亞仙女士), the chairman of the Board, an executive Director and one of the controlling Shareholders (as defined under the Listing Rules)
“percentage ratios”	has the meaning ascribed to it by the Listing Rules
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus issued by the Company dated 30 September 2009
“Right of First Refusal”	the right of first refusal offered by Ms. Zhou or any of her associates (except any members of the Group) to the Company under the Deed of Non-Competition in the event of an acquisition relating to 72% of the equity interest of Shennong Pharmaceutical
“RMB”	Renminbi, the lawful currency of the PRC
“Sanjian Pharmaceutical”	廣西梧州三箭製藥有限公司 (Guangxi Wuzhou Sanjian Pharmaceutical Company Limited*), a company established in the PRC with limited liability, the entire equity interests in which were held by Mr. Sha as at the date of this announcement
“Share(s)”	the ordinary share(s) of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Shennong Pharmaceutical”	Guangxi Wuzhou Shennong Pharmaceutical co., Ltd (廣西梧州神農藥業有限公司), a joint venture established under the laws of the PRC with limited liability, which is owned as to 72% by Ms. Zhou and as to 28% by Mr. Zhou Tianhung (周天宏)

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“Wuzhou Shenguan”

梧州神冠蛋白腸衣有限公司 (Wuzhou Shenguan Protein Casing Co., Ltd.), a sino-foreign equity joint venture enterprise established in the PRC, the registered capital of which was owned as to 100% by the Company as at the date of this announcement

“%”

per cent

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

Hong Kong, 26 January 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.

* *For identification purposes only*