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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Shenguan Holdings (Group) Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

CONTINUING CONNECTED TRANSACTIONS

(1) RENEWAL OF FRAMEWORK AGREEMENTS FOR THE PURCHASE OF PACKAGING MATERIALS

(2) RENEWAL OF FRAMEWORK AGREEMENT FOR THE PURCHASE OF CATTLE SKIN

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 5 to 22 of this circular. A letter from the Independent Board Committee is set out on pages 23 and 24 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 50 of this circular.

A notice convening the EGM to be held at iPro Financial Press Limited, Units 1203B, 1204–1205, 12/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong on Wednesday, 16 December 2020 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular. A proxy form is also enclosed. Whether or not you are able to attend the EGM or any adjourned meeting in person, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

PRECAUTIONARY MEASURES FOR THE EGM

To safeguard the health and safety of the Shareholders, the Company will implement the following precautionary measures at the EGM to prevent the spreading of the COVID-19:

- (1) Compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be requested to leave the EGM venue;
- (2) Every attendee will be required to wear surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendees should wear their own masks; and
- (3) The Company will not provide refreshments and will not distribute corporate gifts.

In light of the continuing risks posed by the COVID-19, the Company encourages the Shareholders to consider appointing the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

25 November 2020

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

“Announcement”	the announcement of the Company dated 16 October 2020
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Class I Cattle Inner Skin”	the in-house standard which is established by the Group by modifying the industrial standard of the cattle skin industry used to examine the cattle outer skin and is applied to examine cattle inner skin products received by the Group
“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
“EGM”	the extraordinary general meeting of the Company to be held to consider and, if thought fit, approve, among others, (i) the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps and (ii) the Zhiguan Framework Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps
“Equity Interest Holders”	Ms. Zhou, Mr. Rong Zhibiao (容志彪), Mr. Wen Jinpei (溫錦培), Ms. Cai Yueqing (蔡月卿), Mr. Ru Xiquan (茹希全), Mr. Mo Yunxi (莫運喜), Mr. Shi Guicheng (施貴成), Mr. Zhou Junli (周峻立), Ms. Zhou Yuchan (周玉嬋), Ms. Luo Jiaming (羅嘉鳴), Ms. Quan Chuwa (全楚娃), Ms. Lu Xin (陸欣), Ms. Tan Qixia (譚綺霞) and Ms. Sha Lifei (沙麗飛)

DEFINITIONS

“Former Junye Sale and Purchase Agreement”	the sale and purchase framework agreement dated 9 November 2017 entered into between the Company and Wuzhou Junye, in relation to the purchase of packaging materials by the Group from Wuzhou Junye for a period of three years commenced from 1 January 2018 to 31 December 2020
“Former Zhiguan Framework Agreement”	the sale and purchase framework agreement dated 9 November 2017 entered into between the Company and Guangxi Zhiguan for the purchase of cattle inner skin by the Group from Guangxi Zhiguan for a period commenced from 1 January 2018 to 31 December 2020
“Former Zhongbo Sale and Purchase Agreement”	the sale and purchase framework agreement dated 9 November 2017 entered into between the Company and Wuzhou Zhongbo, in relation to the purchase of packaging materials by the Group from Wuzhou Zhongbo for a period of three years commenced from 1 January 2018 to 31 December 2020
“Group”	the Company and its subsidiaries
“Guangxi Zhiguan”	廣西志冠實業開發有限公司 (Guangxi Zhiguan Industrial Development Co., Limited*), a company established in the PRC with limited liability, which is owned as to 51% by Ms. Zhou
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee established by the Board, comprising all independent non-executive Directors
“Independent Financial Adviser” or “Grande Capital Limited”	Grande Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholders”	Shareholders who do not have to abstain from voting at the EGM in respect with (i) the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement, and (ii) the Zhiguan Framework Agreement (as the case may be) under the Listing Rules

DEFINITIONS

“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
“Junye Sale and Purchase Agreement”	the sale and purchase framework agreement dated 16 October 2020 entered into between the Company and Wuzhou Junye, in relation to the purchase of packaging materials by the Group from Wuzhou Junye for a period of three years commencing from 1 January 2021 to 31 December 2023
“Latest Practicable Date”	20 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	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
“Mr. Sha Junqi”	Mr. Sha Junqi (沙俊奇先生), the son of Mr. Sha and 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
“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 circular excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Annual Caps”	the proposed annual caps for the annual amounts payable by the Group in the relevant financial periods for the respective Transaction(s) under the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement or the Zhiguan Framework Agreement (as the case may be)
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Transaction(s)”	the continuing connected transactions contemplated under the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and/or the Zhiguan Framework Agreement respectively (as the case may be)
“Wuzhou Junye”	廣西梧州駿業商標印刷有限公司 (Guangxi Wuzhou Junye Trademark Printing Material Co., Ltd.*), a company established in the PRC with limited liability, which is owned as to 99.2% by Mr. Sha and 0.8% by Mr. Sha Junqi
“Wuzhou Zhongbo”	梧州市中柏包裝有限公司 (Wuzhou Zhongbo Packaging Co., Ltd.*), a company established in the PRC with limited liability, which is owned as to 98.33% by Mr. Sha and 1.67% by Mr. Sha Junqi
“Zhiguan Framework Agreement”	the framework agreement dated 16 October 2020 entered into between the Company and Guangxi Zhiguan, in relation to the supply and processing of cattle skin by Guangxi Zhiguan for the Group for a period of three years commencing from 1 January 2021 to 31 December 2023
“Zhongbo Sale and Purchase Agreement”	the sale and purchase framework agreement dated 16 October 2020 entered into between the Company and Wuzhou Zhongbo, in relation to the purchase of packaging materials by the Group from Wuzhou Zhongbo for a period of three years commencing from 1 January 2021 to 31 December 2023
“%”	per cent

* *In this circular, English names of the PRC established entities, departments, facilities or titles are only translations of their official Chinese names and are included for identification purpose only. In case of inconsistency, the Chinese names prevail.*

LETTER FROM 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)

Executive Directors:

Ms. Zhou Yaxian

Mr. Shi Guicheng

Mr. Ru Xiquan

Mr. Mo Yunxi

Non-executive Director:

Dato' Sri Low Jee Keong

Independent non-executive Directors:

Mr. Tsui Yung Kwok

Mr. Meng Qinguo

Mr. Yang Xiaohu

Registered Office:

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Grand Cayman

KY1-1111

Cayman Islands

Principal Place of Business

in Hong Kong:

Room 2902, Sino Plaza

255-257 Gloucester Road

Causeway Bay

Hong Kong

25 November 2020

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

**(1) RENEWAL OF FRAMEWORK AGREEMENTS
FOR THE PURCHASE OF PACKAGING MATERIALS**

**(2) RENEWAL OF FRAMEWORK AGREEMENT
FOR THE PURCHASE OF CATTLE SKIN**

INTRODUCTION

Reference is made to the Announcement in relation to, among others, the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the Proposed Annual Caps contemplated thereunder.

LETTER FROM THE BOARD

The purposes of this circular are, among others, (i) to provide you with, among other things, details of the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the Proposed Annual Caps contemplated thereunder; (ii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the Proposed Annual Caps contemplated thereunder; (iii) to set out the recommendation and advice of the Independent Board Committee after taking into consideration of the advice from the Independent Financial Adviser in relation to the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the Proposed Annual Caps contemplated thereunder; and (iv) to provide you with the notice of the EGM.

BACKGROUND

References are made to the announcements of the Company dated 9 November 2017 and 7 December 2017 and the circular of the Company dated 6 December 2017 in relation to, among others, the continuing connected transactions under (i) the Former Junye Sale and Purchase Agreement; (ii) the Former Zhongbo Sale and Purchase Agreement; and (iii) the Former Zhiguan Framework Agreement (as supplemented by a supplemental agreement dated 7 December 2017 between the Company and Guangxi Zhiguan), all of which will expire on 31 December 2020. As the Company, Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan intend to continue to carry out the relevant transactions, and the Company intends to engage Guangxi Zhiguan for provision of the cattle skin processing services, the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement were entered into on 16 October 2020 to renew the above former agreements.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS

(a) Junye Sale and Purchase Agreement

Date:

16 October 2020

Parties:

- (1) The Company; and
- (2) Wuzhou Junye

Summary of principal terms

Duration and other terms

Pursuant to the Junye Sale and Purchase Agreement, Wuzhou Junye agrees to supply packaging materials to the Group for a period of three years commencing from 1 January 2021 to 31 December 2023. The Company has absolute discretion to nominate any one or more of its subsidiaries to conduct the Transactions contemplated under the Junye Sale and Purchase Agreement.

For each Transaction with Wuzhou Junye, the purchase price shall be settled by the Group before the 20th day of the subsequent month after the Group has received and examined to the Group's satisfaction the packaging materials from Wuzhou Junye.

Pricing principles

The purchase prices to be payable by the Group are determined with reference to the market price of the packaging materials. In determining the market price, the parties will make reference to the prices for packaging materials offered by two to three independent suppliers to the Group. The purchase prices to be payable by the Group to Wuzhou Junye shall not be higher than the prices offered by such independent suppliers.

The parties will also make reference to other terms offered by independent suppliers for packaging materials. The terms to be offered by Wuzhou Junye to the Group shall be no less favourable than those offered by such independent suppliers.

LETTER FROM THE BOARD

(b) Zhongbo Sale and Purchase Agreement

Date:

16 October 2020

Parties:

- (1) The Company; and
- (2) Wuzhou Zhongbo

Summary of principal terms

Duration and other terms

Pursuant to the Zhongbo Sale and Purchase Agreement, Wuzhou Zhongbo agrees to supply packaging materials to the Group for a period of three years commencing from 1 January 2021 to 31 December 2023. The Company has absolute discretion to nominate any one or more of its subsidiaries to conduct the Transactions under the Zhongbo Sale and Purchase Agreement.

For each Transaction with Wuzhou Zhongbo, the purchase price shall be settled by the Group before the 20th day of the subsequent month after the Group has received and examined to the Group's satisfaction the packaging materials from Wuzhou Zhongbo.

Pricing principles

The purchase prices to be payable by the Group are determined with reference to the market price of the packaging materials. In determining the market price, the parties will make reference to the prices for packaging materials offered by two to three independent suppliers to the Group. The purchase prices to be payable by the Group to Wuzhou Zhongbo shall not be higher than the prices offered by such independent suppliers.

The parties will also make reference to other terms offered by independent suppliers for packaging materials. The terms to be offered by Wuzhou Zhongbo to the Group shall be no less favourable than those offered by such independent suppliers.

Annual caps

Existing annual caps

The table below sets out the existing annual caps for the purchases of packaging materials by the Group (i) from Wuzhou Junye under the Former Junye Sale and Purchase Agreement and (ii) from Wuzhou Zhongbo under the Former Zhongbo Sale and Purchase

LETTER FROM THE BOARD

Agreement for the two years ended 31 December 2018 and 2019 and the year ending 31 December 2020 respectively:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020
Former Junye Sale and Purchase Agreement	RMB29,550,000	RMB33,850,000	RMB39,690,000
Former Zhongbo Sale and Purchase Agreement	<u>RMB6,690,000</u>	<u>RMB7,670,000</u>	<u>RMB8,990,000</u>
Total	<u>RMB36,240,000</u>	<u>RMB41,520,000</u>	<u>RMB48,680,000</u>

Historical transaction amounts

The table below sets out the actual historical transaction amounts for the purchases of packaging materials by the Group (i) from Wuzhou Junye under the Former Junye Sale and Purchase Agreement and (ii) from Wuzhou Zhongbo under the Former Zhongbo Sale and Purchase Agreement for the two years ended 31 December 2018 and 2019 and the nine months ended 30 September 2020 respectively:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the nine months ended 30 September 2020
Purchase from Wuzhou Junye	RMB25,603,000	RMB23,230,000	RMB22,266,000
Purchase from Wuzhou Zhongbo	<u>RMB5,709,000</u>	<u>RMB5,256,000</u>	<u>RMB5,033,000</u>
Total	<u>RMB31,312,000</u>	<u>RMB28,486,000</u>	<u>RMB27,299,000</u>

It is confirmed that the annual cap under each of the Former Junye Sale and Purchase Agreement and the Former Zhongbo Sale and Purchase Agreement will not be exceeded for the year ending 31 December 2020.

LETTER FROM THE BOARD

Proposed Annual Caps and basis of determination

The Directors expect that the aggregate amounts of the purchases of packaging materials by the Group (i) from Wuzhou Junye under the Junye Sale and Purchase Agreement and (ii) from Wuzhou Zhongbo under the Zhongbo Sale and Purchase Agreement will not exceed the corresponding Proposed Annual Caps set out below for the three years ending 31 December 2021, 2022 and 2023 respectively:

	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
Junye Sale and Purchase Agreement	RMB34,750,000	RMB40,660,000	RMB47,570,000
Zhongbo Sale and Purchase Agreement	RMB8,070,000	RMB9,880,000	RMB11,950,000
Total	<u>RMB42,820,000</u>	<u>RMB50,540,000</u>	<u>RMB59,520,000</u>

The packaging materials provided by Wuzhou Junye are used for food inner packaging, which will contact food directly, so that the required quality standard of the packaging materials is higher in terms of hygiene and safety considerations, while the packaging materials provided by Wuzhou Zhongbo are normal paper boxes used for outer packaging, which will not directly contact food.

The Proposed Annual Caps under each of the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement have been determined with reference to:

- (i) the actual historical transaction amounts with Wuzhou Junye and Wuzhou Zhongbo respectively for the two years ended 31 December 2018 and 2019 and the nine months ended 30 September 2020;
- (ii) it is estimated that, for each of the three years ending 31 December 2023, the price of packaging materials will increase by approximately 5%, and the Group's production volume of the existing products (including collagen sausage casing, bovine collagen, ginger drink and skin care products) will increase by approximately 12%, so that the estimated purchase cost of packaging materials will increase by approximately 17% each year; and
- (iii) it is expected that the Group will produce approximately 5,000 tons of new products with approximately RMB500,000 of outer packaging paper boxes in need for the year of 2021, and will increase at an annual rate of approximately 100% and further 50% for each year of 2022 and 2023 respectively, so that the

LETTER FROM THE BOARD

Propose Annual Caps under the Zhongbo Sale and Purchase Agreement will grow slightly higher (i.e. additional increase by approximately 3% to 7%) in the next three years.

Condition precedent

The Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps in aggregation are subject to and conditional upon the approval by the Independent Shareholders at the EGM in accordance with the Listing Rules.

In case where the condition precedent cannot be fulfilled on or before 31 December 2020 (or a later date as agreed by the parties thereto), the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement shall be terminated, and, except in relation to any default occurred prior to such termination, none of the parties shall have any rights or remedies against the other thereunder.

Reasons for and benefits of entering into the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement

According to public records and to the best of the Directors' knowledge after making reasonable enquiries, Wuzhou Junye is the only supplier which holds the PRC National Manufacturing Licence for Industrial Products (Paper Food Containers and Similar Products)* (全國工業產品生產許可證(食品用紙包裝容器等製品)) in Wuzhou city of the PRC. Both Wuzhou Junye and Wuzhou Zhongbo are close to the production base of the Group, frequent orders of packaging materials can be delivered to the Group's production base without requiring the Group to maintain a high level of stock and in turn lower the cost of storage.

The Directors (including the independent non-executive Directors whose views are provided after taking into account the views of the Independent Financial Adviser) consider that entering into of each of the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement provides the Group with a steady supply of packaging materials for its production, and that (i) the terms of each of the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of the Independent Third Parties, and (ii) the terms of each of the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Internal control measures

To ensure that the Transactions contemplated under each of the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement will be conducted in accordance with the terms therein, on normal commercial terms or better, and in accordance with the pricing policy of the Company, the Group has adopted the following internal control measures to monitor the Transactions contemplated thereunder:

The purchase department of the Company will be responsible for identifying suitable suppliers of packaging materials. During the selection process, at least two quotations from two independent suppliers will be sought for comparison and only the quotation with the most favourable terms will be selected. The purchase department manager will be responsible for seeking quotation from at least two independent suppliers for the packaging materials. In seeking and comparing such quotations, the purchase department manager will take into account the price, delivery time, transportation costs and quality of the packaging materials as a whole. The purchase department manager will submit all quotations obtained to the vice-president of the Group who oversees the purchase department for his approval in order to ensure only the quotation with the most favourable terms is selected. In addition, all individual contracts for the sale and purchase of packaging materials will be notified to the finance department of the Group, which keeps record of connected party transactions and oversees and controls such transactions. The management of the Company will ensure that the Transactions under the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement will be conducted in accordance with the terms therein. The independent non-executive Directors and the auditors of the Company will review and confirm the continuing connected transactions contemplated under the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement in accordance with the Listing Rules on an annual basis.

(c) Zhiguan Framework Agreement

Date:

16 October 2020

Parties:

- (1) The Company; and
- (2) Guangxi Zhiguan

LETTER FROM THE BOARD

Summary of principal terms

Duration and other terms

Pursuant to the Zhiguan Framework Agreement, Guangxi Zhiguan agrees to supply cattle skin and provide cattle skin processing services to the Group for a period of three years commencing from 1 January 2021 to 31 December 2023. The Company has absolute discretion to nominate any one or more of its subsidiaries to conduct the Transactions under the Zhiguan Framework Agreement.

Pursuant to the Zhiguan Framework Agreement, at least 88% of every quantity unit of each type of unprocessed cattle inner skin supplied by Guangxi Zhiguan must be of Class I Cattle Inner Skin (the “**88% Requirement**”). Class I Cattle Inner Skin is the Group’s in-house standard which applies to classify the cattle inner skin with reference to their quality. Factors to be taken into account when determining whether the skin is Class I Cattle Inner Skin include the thickness, area, length and intactness of the skin.

For each Transaction with Guangxi Zhiguan, the purchase prices and the processing charges for the cattle skin will be settled by the Group before the 20th day of the subsequent month after the Group has received and examined to the Group’s satisfaction the cattle skin or the processing services from Guangxi Zhiguan.

Pricing principles

The purchase prices for the cattle skin to be payable by the Group under the Zhiguan Framework Agreement are determined with reference to the market price of the cattle skin. In determining the market price, the parties will make reference to the prices for cattle skin offered by two to three independent suppliers, the difference in the location of cattle skin suppliers, transportation costs, quality of cattle skin of other independent suppliers and the capability of independent suppliers in satisfying the 88% Requirement.

The processing charges for the cattle skin to be payable by the Group under the Zhiguan Framework Agreement are determined with reference to the market processing charges of the processing services. In determining the market processing charges, the parties will make reference to the prices for processing services offered by two to three independent suppliers, the difference in the location of services supplier, transportation costs and quality of services. The parties will also make reference to other terms offered by independent suppliers for such processing services.

For the avoidance of doubt, the terms to be offered by Guangxi Zhiguan to the Group shall be no less favourable than those offered by independent suppliers.

LETTER FROM THE BOARD

Annual caps

Existing annual caps

The table below sets out the existing annual caps for the purchase of cattle inner skin by the Group from Guangxi Zhiguan under the Former Zhiguan Framework Agreement for the two years ended 31 December 2018 and 2019 and the year ending 31 December 2020:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020
Former Zhiguan Framework Agreement	RMB103,240,000	RMB137,970,000	RMB161,780,000

Historical transaction amounts

The table below sets out the actual historical transaction amounts for the purchase of cattle inner skin by the Group from Guangxi Zhiguan under the Former Zhiguan Framework Agreement for the two years ended 31 December 2018 and 2019 and the nine months ended 30 September 2020:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the nine months ended 30 September 2020
Purchase from Guangxi Zhiguan	RMB102,584,000	RMB129,869,000	RMB107,205,000

It is confirmed that the annual cap under the Former Zhiguan Framework Agreement will not be exceeded for the year ending 31 December 2020.

Proposed Annual Caps and basis of determination

The Directors expect that the aggregate amounts of the purchase prices and the processing charges of the cattle skin payable by the Group to Guangxi Zhiguan under the Zhiguan Framework Agreement will not exceed the corresponding Proposed Annual Caps set out below for the three years ending 31 December 2021, 2022 and 2023:

	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
Zhiguan Framework Agreement	RMB229,860,000	RMB303,160,000	RMB384,990,000

LETTER FROM THE BOARD

The Proposed Annual Caps under the Zhiguan Framework Agreement have been determined with reference to:

- (i) the actual historical transaction amounts of purchase of cattle inner skin from Guangxi Zhiguan for the two years ended 31 December 2018 and 2019 and the nine months ended 30 September 2020;
- (ii) Guangxi Zhiguan will provide cattle skin processing service to the Group starting from 2021;
- (iii) it is estimated that, for each of the three years ending 31 December 2023, the price of cattle skin and processing charge will increase by approximately 5%, and the Group's production volume of the existing products (including collagen sausage casing, bovine collagen, ginger drink and skin care products) will increase by approximately 12%, so that the estimated purchase cost and processing charge of cattle skin for the existing products will increase by approximately 17% each year;
- (iv) it is expected that the Group will produce approximately 5,000 tons of new products in 2021 (in which the usage of cattle skin will be equivalent to approximately 16.7% of cattle skin usage for producing the existing products for the year ended 31 December 2019, and representing approximately 11.9% of total forecasted usage of cattle skin for the year of 2021), and will increase at an annual rate of approximately 100% and further 50% for each year of 2022 and 2023 respectively. The amount of cattle skin supplied and the processing services for the new products provided by Guangxi Zhiguan will be increased proportionally each year;
- (v) there are currently four (including Guangxi Zhiguan) suppliers of cattle skin for the Group. The proportion of the cattle skin and processing service to be supplied by Guangxi Zhiguan in the total supply of the Group's cattle skin and processing service is expected to be approximately 80% for each of the three years ending 31 December 2021, 2022 and 2023; and
- (vi) due to seasonality factor, the first and fourth quarters of the year are normally the production peak seasons of the Group of collagen sausage casing and the purchase of cattle skin in the fourth quarter will relatively higher.

Condition precedent

The Zhiguan Framework Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps are subject to and conditional upon the approval by the Independent Shareholders at the EGM in accordance with the Listing Rules.

LETTER FROM THE BOARD

In case where the condition precedent cannot be fulfilled on or before 31 December 2020 (or a later date as agreed between the parties thereto), the Zhiguan Framework Agreement shall be terminated, and, except in relation to any default occurred prior to such termination, none of the parties shall have any rights or remedies against the other thereunder.

Reasons for and benefits of entering into the Zhiguan Framework Agreement

Guangxi Zhiguan is a well-managed enterprise with fully-established environmental protection facilities, advanced plant and equipment and strong supply capabilities. Its production base situated in Wuzhou is close to the production base of the Group and therefore could supply fresh cattle skin (mainly imported skin) and provide cattle skin processing services to the Group within short time limit. This helps to improve the Group's cattle skin operation management.

The percentage of the purchase cost of cattle inner skin paid by the Group to Guangxi Zhiguan accounted for approximately 68%, 72% and 78% respectively of the total purchase cost of cattle inner skin of the Group for the two years ended 31 December 2018 and 2019 and nine months ended 30 September 2020 under the Former Zhiguan Framework Agreement. The percentage of the purchase cost and processing service charge of cattle skin to be paid by the Group to Guangxi Zhiguan is expected to account for approximately 80% of the total purchase cost and processing service charge of cattle skin of the Group for each of the three years ending 31 December 2021, 2022 and 2023 under the Zhiguan Framework Agreement. The Board is of the view that the Group has no reliance and dependence on Guangxi Zhiguan for the supply of cattle skin and processing service based on the followings:

- (i) Guangxi Zhiguan does not dominate the cattle skin provision and processing industry. The cattle skin provided for the Group's production is not unique in nature and the supply of such cattle skin in the market is abundant and readily available, which can be easily sourced at similar price from other independent suppliers in the PRC;
- (ii) although the proportion of cattle skin supply contributed by Guangxi Zhiguan to the Group is the largest among other suppliers, the Group has established relationship with other independent suppliers who can easily substitute each other for the supply of cattle skin and processing services. There will not have any material adverse impact on the Group's businesses should there be any change in the relationship with Guangxi Zhiguan because it is easy to source the cattle skin products from other independent suppliers;

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- (iii) the Group has established business relationship with Guangxi Zhiguan for five years, while the Group and Guangxi Zhiguan are operating independently and not mutually dependent on each other. The cattle skin supplied by Guangxi Zhiguan is not only used for collagen sausage casing, but for a variety of products to other industries;
- (iv) while meeting the 88% Requirement will reduce the overall costs associated with the processing of cattle skin, purchasing cattle skin from independent suppliers which do not meet the 88% Requirement will not affect the quality and safety of the end products of the Group;
- (v) the supply of cattle skin and processing service by Guangxi Zhiguan as contemplated under the Zhiguan Framework Agreement is not on an exclusive basis, which provides the Group with sufficient independence and flexibility;
- (vi) the Zhiguan Framework Agreement does not impose any minimum procurement requirement or restrictive obligation on the Group for the procurement of cattle skin and processing service from other suppliers; and
- (vii) the Company has full discretion in making its purchase decisions and may adjust its procurement policies in respect of cattle skin on an on-going basis in accordance with the applicable circumstances.

Guangxi Zhiguan is substantially held by Ms. Zhou, an executive Director and one of the controlling Shareholders of the Company, the business relationship between the Group and Guangxi Zhiguan is stable since its establishment. There is no red flag indicating that the relationship between the Group and Guangxi Zhiguan will be materially adversely changed or terminated. Moreover, to make sure the sustainable supply of cattle skin, the Group (i) maintains business relationship with at least other three independent suppliers of cattle skin in the market and (ii) keeps inventory of raw materials and work-in-progress of cattle skin for at least three months.

The Directors (including the independent non-executive Directors whose views are provided after taking into account the views of the Independent Financial Adviser) consider that the entering into of the Zhiguan Framework Agreement will enable the Group to ensure the supply of high quality cattle skin and reduce the capital investment in equipment and the corresponding human resources for processing the cattle skin, which is a major raw material for the production of collagen sausage casings and the Group's other collagen products, and that (i) the terms of the Zhiguan Framework Agreement and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of the Independent Third Parties, and (ii) the terms of the Zhiguan Framework Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Internal control measures

To ensure that the Transactions contemplated under the Zhiguan Framework Agreement will be conducted in accordance with the terms therein, on normal commercial terms or better terms, and in accordance with the pricing policy of the Company, the Group has adopted the following internal control measures to monitor the Transactions contemplated thereunder:

The purchase department of the Company will be responsible for identifying suitable suppliers of cattle skin and cattle skin processing services. During the selection process, at least two quotations from two independent suppliers will be sought for comparison and only the quotation with the most favourable terms will be selected. The purchase department manager will be responsible for seeking quotation from at least two independent suppliers of cattle skin and cattle skin processing services. In seeking and comparing such quotations, the purchase department manager will take into account the price and transportation costs, delivery time, quality of cattle skin and the historical capability in satisfying the 88% Requirement as a whole. The purchase department manager will submit all quotations obtained to the vice-president of the Group who oversees the purchase department for his approval in order to ensure only the quotation with the most favourable terms is selected. In addition, all individual contracts for the sale and purchase of cattle skin and provision of cattle skin processing services will be notified to the finance department of the Group, which keeps record of connected party transactions and oversees and controls such transactions. The management of the Company will ensure that the Transactions under the Zhiguan Framework Agreement will be conducted in accordance with the terms therein. The independent non-executive Directors and the auditors of the Company will review and confirm the continuing connected transactions contemplated under the Zhiguan Framework Agreement in accordance with the Listing Rules on an annual basis.

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, food products, skin care and health care products and bioactive collagen products in the PRC.

Wuzhou Junye

Wuzhou Junye is a company established in the PRC with limited liability and principally engaged in printing, production and sale of paper-made products in the PRC. It is owned as to 99.2% by Mr. Sha and 0.8% by Mr. Sha Junqi. Mr. Sha is the spouse of Ms. Zhou, and Mr. Sha Junqi is the son of Mr. Sha and Ms. Zhou. Ms. Zhou is the chairman of the Board, an executive

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Director and one of the controlling Shareholders. Therefore, Wuzhou Junye is an associate of Ms. Zhou and a connected person of the Company under Chapter 14A of the Listing Rules.

Wuzhou Zhongbo

Wuzhou Zhongbo is a company established in the PRC with limited liability and principally engaged in printing, production and sale of paper-made products in the PRC. It is owned as to 98.33% by Mr. Sha and 1.67% by Mr. Sha Junqi. Therefore, Wuzhou Zhongbo is an associate of Ms. Zhou and a connected person of the Company under Chapter 14A of the Listing Rules.

Guangxi Zhiguan

Guangxi Zhiguan is a company established in the PRC with limited liability and principally engaged in processing and sale of cattle skin as raw materials, sale and purchase of and import and export of cattle skin business. Guangxi Zhiguan is owned as to 51% by Ms. Zhou, therefore Guangxi Zhiguan is an associate of Ms. Zhou and a connected person of the Company under Chapter 14A of the Listing Rules. Set out below is a summary of the equity interest holding structure of Guangxi Zhiguan as at the Latest Practicable Date:

Name of the Equity Interest Holders	Equity interest in Guangxi Zhiguan
Ms. Zhou	51%
Mr. Rong Zhibiao (容志彪)	35%
Mr. Wen Jinpei (溫錦培), a senior management of the Group	1%
Ms. Cai Yueqing (蔡月卿), a senior management of the Group	1%
Mr. Ru Xiquan (茹希全), an executive Director	1%
Mr. Mo Yunxi (莫運喜), an executive Director	1%
Mr. Shi Guicheng (施貴成), an executive Director	1%
Mr. Zhou Junli (周峻立), the nephew of Ms. Zhou	2%
Ms. Zhou Yuchan (周玉嬋), the sister of Ms. Zhou	2%
Ms. Luo Jiaming (羅嘉鳴)	1%
Ms. Quan Chuwa (全楚娃)	1%
Ms. Lu Xin (陸欣)	1%
Ms. Tan Qixia (譚綺霞)	1%
Ms. Sha Lifei (沙麗飛), the sister of Mr. Sha	1%
Total:	100%

As at the Latest Practicable Date, Ms. Zhou was interested in 2,260,772,000 Shares (representing 69.98% of the total number of issued Shares) and each of Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng was interested in 800,000 Shares (representing 0.02% of the total number of issued Shares).

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To the best of the knowledge, belief and information of the Directors, and having made reasonable enquiries, each of Mr. Rong Zhibiao, Ms. Luo Jiaming, Ms. Quan Chuwa, Ms. Lu Xin and Ms. Tan Qixia is an Independent Third Party.

Guangxi Zhiguan applied for the Food Production Licence* (食品生產許可證) under the Measures for the Administration for Food Production Licensing* (食品生產許可管理辦法) and Food Safety Law* (食品安全法) of the PRC on a voluntary basis and was granted with such licence, effective until November 2022, by the Wuzhou Bureau for Administrative Examination and Approval* (梧州市行政審批局), the local issuing authority of the China Food and Drug Administration* (國家食品藥品監督管理總局) where Guangxi Zhiguan is located. During the term of the aforesaid licence, Guangxi Zhiguan is required to maintain and follow the standards in relation to plants, equipment and operation policies on food safety under the Measures for the Administration for Food Production Licensing* (食品生產許可管理辦法) (as amended from time to time) and is subject to regular inspections to be carried out by the relevant governmental authorities. To the best of the Directors' knowledge after making reasonable enquires, Guangxi Zhiguan is the only supplier who has been granted the Food Production Licence* (食品生產許可證) among all suppliers of cattle skin of the Group as at the Latest Practicable Date.

LISTING RULES IMPLICATIONS

Each of Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan is an associate of Ms. Zhou, who is an executive Director and one of the controlling Shareholders of the Company. Therefore, each of Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan is a connected person of the Company under the Listing Rules. Thus, the Transactions contemplated under each of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) in respect of the aggregation of the corresponding Proposed Annual Caps for the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement are, on an annual basis, exceed 5%, the Transactions contemplated under the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (other than the profits ratio) in respect of the corresponding Proposed Annual Caps for the Zhiguan Framework Agreement are, on an annual basis, exceed 5%, the Transactions contemplated under the Zhiguan Framework Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

Other than Ms. Zhou, who is considered to have material interests in the Transactions contemplated under the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement and had abstained from voting, no Director had a material interest in the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement and was required to abstain from voting on the relevant Board resolutions.

Other than Ms. Zhou, Mr. Ru Xiquan, Mr. Mo Yunxi and Mr. Shi Guicheng, who are considered to have material interests in the Transactions contemplated under the Zhiguan Framework Agreement and had abstained from voting, no Director had a material interest in the Zhiguan Framework Agreement and was required to abstain from voting on the relevant Board resolutions.

EGM

The EGM will be held at iPro Financial Press Limited, Units 1203B, 1204–1205, 12/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong on Wednesday, 16 December 2020 at 10:00 a.m. to consider and, if thought fit, approve, among others, (i) the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder and (ii) the Zhiguan Framework Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder. A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. A proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM or any adjournment thereof, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment if you so wish.

Any connected person of the Company with a material interest in the Transactions, and any Shareholder with a material interest in the Transactions and its associates, shall not vote upon the relevant proposed resolutions at the EGM. Accordingly, (i) Ms. Zhou, Mr. Sha Junqi and any of their respective associates will abstain from voting in relation to the proposed resolutions approving the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder; and (ii) all Equity Interest Holders and any of their respective associates will abstain from voting in relation to the proposed resolutions approving the Zhiguan Framework Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder at the EGM.

In accordance with Rule 13.39(4) of the Listing Rules, the chairman of the EGM will direct that the proposed resolutions set out in the notice convening the EGM be voted by poll, except where the chairman of the EGM, in good faith, decides to allow a resolution which relates to

LETTER FROM THE BOARD

purely a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

The register of members of the Company will be closed from Friday, 11 December 2020 to Wednesday, 16 December 2020 (both days inclusive), during which period no transfer of Shares will be effected. In order to determine the entitlement to attend and vote at the EGM, all share transfers accompanied by the relevant share certificates, must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 10 December 2020.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 23 and 24 of this circular which contains its recommendation to the Independent Shareholders. The Independent Board Committee, having considered the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, as well as the advice of the Independent Financial Adviser set out in the "Letter from the Independent Financial Adviser" on pages 25 to 50 of this circular, concurs with the opinion of the Independent Financial Adviser that (i) the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of the Independent Third Parties, and (ii) the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee set out on pages 23 and 24 of this circular, the letter from the Independent Financial Adviser set out on pages 25 to 50 of this circular, and the general information set out in the appendix to this circular.

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



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)

25 November 2020

To the Independent Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

**(1) RENEWAL OF FRAMEWORK AGREEMENTS
FOR THE PURCHASE OF PACKAGING MATERIALS**

**(2) RENEWAL OF FRAMEWORK AGREEMENT
FOR THE PURCHASE OF CATTLE SKIN**

We refer to the circular of the Company dated 25 November 2020 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

We have been appointed to form this Independent Board Committee to consider the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the Proposed Annual Caps contemplated thereunder and to advise the Independent Shareholders as to whether, in our opinion, the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the Proposed Annual Caps contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter from the Board set out on pages 5 to 22 and the letter of advice from the Independent Financial Adviser set out on pages 25 to 50 of the Circular respectively.

Having considered the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the Proposed Annual Caps contemplated thereunder, and having taken into account the principal factors and reasons considered by the Independent Financial Adviser, its conclusion and advice,

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

we concur with the opinion of the Independent Financial Adviser that (i) the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement and the Transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and no less favourable to the Group than those of the Independent Third Parties, and (ii) the terms of the Junye Sale and Purchase Agreement, the Zhongbo Sale and Purchase Agreement and the Zhiguan Framework Agreement, the Transactions and the Proposed Annual Caps contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve (i) the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder, and (ii) the Zhiguan Framework Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Tsui Yung Kwok

Mr. Meng Qinguo

Mr. Yang Xiaohu

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of incorporation into this circular.



Room 2701, 27/F., Tower One, Admiralty Centre,
18 Harcourt Road, Admiralty
Hong Kong

25 November 2020

*To: the Independent Board Committee and the Independent Shareholders of
Shenguan Holdings (Group) Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

(1) RENEWAL OF FRAMEWORK AGREEMENTS FOR THE PURCHASE OF PACKAGING MATERIALS; AND (2) RENEWAL OF FRAMEWORK AGREEMENT FOR THE PURCHASE OF CATTLE SKIN

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the (i) Junye Sale and Purchase Agreement; (ii) Zhongbo Sale and Purchase Agreement; and (iii) Zhiguan Framework Agreement, (collectively, the “**Agreements**”), the transactions contemplated thereunder and the proposed annual caps contemplated under each of the Agreements, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 25 November 2020 (the “**Circular**”), of which this letter forms part. The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

References are made to the announcements of the Company dated 9 November 2017 and 7 December 2017 in relation to the continuing connected transactions under (i) the Former Junye Sale and Purchase Agreement between the Company and Wuzhou Junye for the supply of packaging materials; (ii) the Former Zhongbo Sale and Purchase Agreement between the Company and Wuzhou Zhongbo for the supply of packaging materials; and (iii) the Former Zhiguan Framework Agreement (as supplemented by a supplemental agreement date 7 December 2017) between the Company and Guangxi Zhiguan for the supply of cattle skin by Guangxi Zhiguan. The Former Junye Sale and Purchase Agreement, the Former Zhongbo Sale and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Purchase Agreement and the Former Zhiguan Framework Agreement will all expire on 31 December 2020. As the Company, Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan intend to continue to carry out the relevant transactions and the Company intends to engage Guangxi Zhiguan for provision of the cattle skin processing services, the Agreements were entered into on 16 October 2020, subject to the approval by the Independent Shareholders for the Agreements, the transactions contemplated thereunder and the proposed annual caps contemplated under each of the Agreements being obtained in accordance with the requirements under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Guangxi Zhiguan was owned as to 51% by Ms. Zhou, who is an executive Director and one of the controlling Shareholders of the Company who was interested in approximately 69.8% of the entire share capital of the Company. Wuzhou Junye and Wuzhou Zhongbo were also owned as to 99.2% and 98.3% respectively by Mr. Sha, who is the spouse of Ms. Zhou. As such, each of Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan is a connected person of the Company and the transactions contemplated under the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the aggregation of the corresponding proposed annual caps contemplated under the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement are, on an annual basis, exceed 5%, the transactions contemplated thereunder the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement are subject to the annual reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the corresponding proposed annual cap contemplated under the Zhiguan Framework Agreement is, on an annual basis, exceed 5%, the transactions contemplated thereunder the Zhiguan Framework Agreement are subject to the annual reporting, annual review, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu (all being the independent non-executive Directors), was established to (a) advise the Independent Shareholders on whether the terms of the Agreements, the transactions contemplated thereunder and the proposed annual caps contemplated under each of the Agreements, are (i) fair and reasonable; (ii) on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and its Shareholders as a whole; and (b) make recommendation to the Independent Shareholders on how to vote on the resolutions to be proposed at the EGM to approve the Agreements, the transactions contemplated thereunder and the proposed annual caps contemplated under each of the Agreements. We, Grande Capital Limited, was appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll and Rule 14A.36 of the Listing Rules requires any shareholder who has a material interest in the underlying transactions to abstain from voting on related resolutions. As the Equity Interest Holders have material interests in the transactions contemplated under the Agreements, they are required to abstain from voting on the proposed resolutions relating to the Agreements and the transactions contemplated thereunder and the proposed annual caps for each of the Agreements thereunder at the EGM.

During the past two years, we have not acted as an independent financial adviser to the independent board committee and/or independent shareholders of the Company. As at the Latest Practicable Date, there were no relationship or interest between (a) Grande Capital Limited and (b) the Company and its respective subsidiaries and associates that could reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the independent board committee and/or independent shareholders of the Company.

Basis of our advice

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Announcement and Circular and/or information and representations as provided to us by the Directors and the management of the Company. We have assumed that all statements, information, opinions and representations contained or referred to in the Announcement and Circular and/or information and representations provided by the Directors and the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete in all material respects and not misleading or deceptive at the time they were provided or made and will continue to be so up to the date of the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations by the Directors and there is no other fact not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company nor have we conducted any independent investigation into the business, financial conditions and affairs or the prospect of the Group or any of their associates.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have collectively and individually accepted full responsibility, including particulars given in compliance with the Listing Rules, for the purpose of giving information with regard to the Company. The Directors have confirmed, after having made all reasonable enquiries, which to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there is no other matter the omission of which would make any statement herein or the Circular misleading.

The letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration regarding the Agreements, the transactions contemplated thereunder and the proposed annual caps contemplated under each of the Agreements.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders with respect of the Agreements, the transactions contemplated thereunder and the proposed annual caps contemplated under each of the Agreements thereunder, we have taken the following principal factors and reasons into consideration:

(a) Background and reasons for entering into of the Agreements

(i) Information about the Company

The Company and its subsidiaries are principally engaged in manufacture and sales of edible collagen sausage casing products, pharmaceutical products, food products, skin care and health care products and bioactive collagen products in the PRC.

(ii) Information about the counterparties

Wuzhou Junye was established in the PRC with limited liability on 21 January 2001 and is principally engaged in the printing and production and sale of paper-made products. According to public records and to the best of the Directors' knowledge after making reasonable enquires, Wuzhou Junye is the only supplier which holds the PRC National Manufacturing Licence for Industrial Products (Paper Food Containers and Similar Products)* (全國工業產品生產許可證(食品用紙包裝容器等製品)) in Wuzhou city of the PRC, which is effective until January 2025. As at the Latest Practicable Date, Wuzhou Junye is owned as to 99.2% by Mr. Sha, the spouse of Ms. Zhou, and as to 0.8% by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Wuzhou Zhongbo was established in the PRC with limited liability on 21 March 1992 and is principally engaged in the printing, and production and sale of paper-made products. As at the Latest Practicable Date, Wuzhou Zhongbo is owned as to 98.3% by Mr. Sha, the spouse of Ms. Zhou and as to 1.7% by Mr. Sha Junqi, the son of Mr. Sha and Ms. Zhou.

Guangxi Zhiguan was established in the PRC with limited liability on 8 June 2012 and is principally engaged in processing and sale of cattle skin as raw materials, sale and purchase of and import and export of cattle skin business. Guangxi Zhiguan voluntarily applied for and was granted the Food Production Licence* (食品生產許可證) under the Measures for the Administration for Food Production Licensing* (食品生產許可管理辦法) and Food Safety Law* (食品安全法) of the PRC by the Wuzhou Bureau for Administrative Examination and Approval* (梧州市行政審批局), the local issuing authority of the China Food and Drug Administration* (國家食品藥品監督管理總局) where Guangxi Zhiguan is located, which is effective until November 2022 and Guangxi Zhiguan intended to apply extension of the licence after its expiration. During the term of the aforesaid licence, Guangxi Zhiguan is required to maintain and follow the standards in relation to plants, equipment and operation policies on food safety under the Measures for the Administration for Food Production Licensing (as amended from time to time) and is subject to regular inspections to be carried out by the relevant governmental authorities. To the best of the Directors' knowledge after making reasonable enquires, Guangxi Zhiguan was the only supplier who has been granted the Food Production Licence among all suppliers of cattle skin of the Group as at the Latest Practicable Date. As at the Latest Practicable Date, Ms. Zhou held 51% equity interest in Guangxi Zhiguan.

(iii) Reasons for entering into the Agreements

Packaging materials and cattle skin are two of the major raw material costs for production of edible collagen sausage casing products. Pursuant to the interim report for the six months ended 30 June 2020 (the “**2020 Interim Report**”), the sales volume of edible sausage casing products accounted for over 90% of the Group's revenue and the Group maintained the leading position in the domestic collagen sausage casing market. Since the fourth quarter of 2018, raw material prices have risen due to the continuously improved environmental protection requirements in the PRC. At the same time, the Group also continued to launch new products that can be applied to more types of sausages fillings to cater for the market since 2017. The entering into of the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement provides the Group with a stable and efficient supply of packaging materials for its production whereas the entering into of the Zhiguan Framework Agreement provides the Group with a steady supply, high quality and processed cattle skin for its production.

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As per discussion with management of the Company, the PRC National Manufacturing Licence for Industrial Products (Paper Food Containers and Similar Products) is important for purchasing inner packaging materials for the edible collagen sausage casing products in terms of hygiene and safety considerations. Given that Wuzhou Junye is the only entity holding this licence in Wuzhou city of the PRC according to public records, no other inner packaging material supplier of the Group possess the licence and charged a lower price (including transportation costs) than the price offered by Wuzhou Junye, it is reasonable for the Group to purchase inner packaging materials from Wuzhou Junye.

Under the Zhiguan Framework Agreement, Guangxi Zhiguan has to fulfil the 88% Requirement. As advised by the management of the Company, (i) the quality of cattle skin directly affects the processing and production cost and the production volume of collagen sausage casing products; (ii) the frequency of testing procedures to be undergone on the products if the cattle skin supplier does not possess the relevant Food Production Licence and (iii) although we noted from our review on the supply contracts and purchase orders for cattle skin among independent suppliers and the Group that certain suppliers also supplied the type of cattle skin as supplied by Guangxi Zhiguan to the Group, no other cattle skin supplier of the Group included the 88% Requirement in the relevant supply contracts or purchase orders at a reasonable cost that is acceptable to the Company and is comparable to the one offered by Guangxi Zhiguan. By entering into the Zhiguan Framework Agreement, the Group can source large volume of consistently high quality cattle skin on no less favorable terms than those offered by independent suppliers of cattle skin.

Furthermore, as advised by the management of the Company, both packaging materials and cattle skin for edible collagen sausage casing products were not readily available to be sourced from nearby suppliers in a cost-effective manner. Given Wuzhou Junye is the only supplier which holds the PRC National Manufacturing Licence for Industrial Products (Paper Food Containers and Similar Products) in Wuzhou city of the PRC and the close proximity of the business operations of Wuzhou Junye and Wuzhou Zhongbo to the major operating subsidiaries of the Company, frequent orders of packaging materials could be delivered to the Group's production base without requiring the Company to maintain a high level of stock and in turn lower the cost of storage. Given the business operation of Guangxi Zhiguan is also close to the major operating subsidiaries of the Company, high quality cattle skin could also be delivered to the Group's production base within a short period of time. By shortening the transportation time, freshness of the cattle skin can be guaranteed, wastage of raw material can be minimised and the cost of storage can be reduced. Accordingly, the arrangement under the Agreements could provide assurance on the safety and/or cost-effectiveness aspects to the production of the Group.

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The procurement arrangements regarding the purchase of packaging materials from Wuzhou Junye and Wuzhou Zhongbo have been in place since 2006 and 2015 respectively and the arrangement for procurement of cattle skin from Guangxi Zhiguan have been in place since 2015. As (i) Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan have established a long business relationship with the Company and were able to meet their procurement requirements in respect of both quality and quantity during the past years; (ii) Wuzhou Junye is the only supplier which holds the PRC National Manufacturing Licence for Industrial Products (Paper Food Containers and Similar Products) in Wuzhou city of the PRC which enables Wuzhou Junye to provide packaging materials for edible products at an approved safety level bounded by its licence; (iii) Guangxi Zhiguan, in particular, adopts relatively high standards of operation policies on food safety as stipulated under the Measures for the Administration for Food Production Licensing and Food Safety Law of the PRC and is able to supply cattle skin to the Group under the 88% Requirement not offered by other suppliers of the Group and also reduce the capital investment in equipment and corresponding human resources for processing the cattle skin; (iv) all of them are located in close proximity to the manufacturing facilities of the Group that could lower the storage costs of the Company and (v) the Agreements offer no less favourable terms when compared with other suppliers of the Group, the proposed purchase from Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan will secure a stable supply of packaging materials as well as cattle skin with processing service at high quality for edible collagen sausage casing products which enhance the overall operational effectiveness of the Group.

Each of the Agreements is non-exclusive in nature, such that the Group will not be prohibited from purchasing packaging material or cattle skin or procuring processing service from Independent Third Parties, which provides the Group with flexibility to use suppliers with more favourable terms. In this regards, the Group will adopt certain internal control procedures (further details are set out in section (e) “*Internal control measures*” below) to ensure the transaction terms to be determined are on normal commercial terms and no less favourable than those available from other independent suppliers of the Group, to govern the conduct of the transactions contemplated under the Agreements and to safeguard the interests of the Independent Shareholders.

Having considered the principal business and operations of the Group and various factors stated above, we concur the view of the Directors that the entering into of the Agreements is in the ordinary and usual course of the business of the Group and in the interest of the Company and the Shareholders as a whole.

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(b) Principal terms of the Agreements

(i) *The Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement*

We set out below a summary of the principal terms of the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement:

Date	:	16 October 2020
Parties	:	The Group as the purchaser Wuzhou Junye/Wuzhou Zhongbo as the seller, as the case may be
Nature of the transaction	:	Purchase of packaging materials by the purchaser from the seller.
Effective period	:	1 January 2021 to 31 December 2023 (both days inclusive)
Pricing principles	:	The purchase prices to be payable by the Group under the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement shall be determined with reference to the market price of the packaging materials. In determining the market price, the parties shall make reference to the prices for packaging materials offered by two to three Independent Third Party suppliers. The purchase price to be payable by the Group to Wuzhou Junye or Wuzhou Zhongbo shall not be higher than the prices offered by such independent suppliers.
Payment term	:	For each transaction with Wuzhou Junye or Wuzhou Zhongbo, the purchase price will be settled by the Group before the 20th day of the subsequent month after the Group has received and examined to the Group's satisfaction the packaging materials from Wuzhou Junye or Wuzhou Zhongbo.

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Condition precedent : The Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement are conditional upon the approval of the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement, the Transactions contemplated thereunder and the corresponding Proposed Annual Caps in aggregation by the Independent Shareholders at the EGM in accordance with the Listing Rules.

Fairness and reasonableness of the pricing principles as set under the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement

The purchase prices for the relevant transactions to be payable by the Group under the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement shall be determined with reference to the market price of the packaging materials, whilst the market price of the packaging materials is determined with reference to the prices for packaging materials obtained from two to three Independent Third Party suppliers.

As advised by the management of the Company, the Group had only purchased inner packaging materials from Wuzhou Junye and outer packaging materials from Wuzhou Zhongbo in view of Wuzhou Junye is the only supplier which holds the PRC National Manufacturing Licence for Industrial Products (Paper Food Containers and Similar Products) in Wuzhou city of the PRC and at a reasonable price that was more competitive than other Independent Third Party suppliers and Zhongbo's outer packaging material price was the lowest among all other Independent Third Party suppliers.

To assess the fairness and reasonableness of the price determination as mentioned above, we have discussed with the management of the Company and were advised that the Group will invite quotations from Independent Third Party suppliers for inner and outer packaging materials before the conclusion of any purchase orders of packaging materials. As part of the Company's internal control measures, at least two quotations from two Independent Third Party suppliers must be sought for comparison. The purchase department manager of the Group will review all quotations submitted and select the supplier with the most favourable terms after taking into consideration the price, delivery time, transportation costs and quality of the packaging materials as a whole. The Group will satisfy itself in respect of the total cost for purchase of packaging materials to the Group and ensure that the terms of the relevant procurement under the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement shall be no less favourable than those procure from Independent Third Party suppliers.

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In order to substantiate the above, we reviewed the samples of quotation comparison on the packaging materials to be procured from Wuzhou Junye, Wuzhou Zhongbo and other Independent Third Party suppliers and noticed that the Company selected the supplier with the most favourable terms after taking into consideration the availability of the relevant licence, the price, delivery time and estimated transportation costs of the packaging materials as a whole.

We were provided with samples of copies of (i) contracts for packaging materials entered into between Wuzhou Junye or Wuzhou Zhongbo with the Group during the period from 1 January 2020 and ending on 30 September 2020; (ii) invoices issued by and payments paid to Wuzhou Junye or Wuzhou Zhongbo for the sale of packaging materials to the Group during the period from 1 January 2020 and ending on 30 September 2020.

Having considered the above and the internal control measures in place as set out in the section headed “Internal control measures” in the Letter from the Board, and given the fact that there is no open market price for packaging materials in the PRC for edible collagen sausage casing products, we are of the view that the pricing principles in relation to the purchase of packaging materials from Wuzhou Junye and Wuzhou Zhongbo are fair and reasonable.

Fairness and reasonableness of the payment terms as set under the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement

The purchase price of the packaging materials will be settled by the Group before the 20th day of the subsequent month after the Group has received and examined to the Group’s satisfaction of the packaging materials from Wuzhou Junye and Wuzhou Zhongbo. We were advised by the Company that it is the standard payment term adopted by the Company, thus the same payment term has been applied to all other suppliers. Accordingly, we are of the view that the payment terms under the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement is on normal commercial terms and no less favourable to the Group when compared to those offered by other independent suppliers of packaging materials of the Group.

Based on our review on the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement, we are not aware of any other material term contained in the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement which is unfavourable to the Group.

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Having taking into account all the factors presented above, and together with the internal control measures in place as discussed in the section headed (e) “*Internal control measures*” below, we are of the opinion that the terms of the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Group, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

(ii) *The Zhiguan Framework Agreement*

We set out below a summary of the principal terms of the Zhiguan Framework Agreement:

Date	:	16 October 2020
Parties	:	The Group as the purchaser Guangxi Zhiguan as the seller
Nature of the transaction	:	Supply of cattle skin in bulk and provision of processing service for cattle skin by the seller to the purchaser.
Effective period	:	1 January 2021 to 31 December 2023 (both days inclusive)
Pricing principles	:	The purchase prices for the cattle skin and processing charges to be payable by the Group under the Zhiguan Framework Agreement shall be determined with reference to the market price of the cattle skin and market processing charges for cattle skin respectively.

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In determining the market price for cattle skin/processing charges, the parties shall make reference to the prices for cattle skin offered by two to three Independent Third Party suppliers, the difference in the location of cattle skin/processing services suppliers, transportation costs, quality of cattle skin/processing services of other Independent Third Party suppliers and the capability of Independent Third Party suppliers in satisfying the 88% Requirement for supply of cattle skin.

Payment term : For each transaction with Guangxi Zhiguan, the purchase price and the processing charges for the cattle skin will be settled by the Group before the 20th day of the subsequent month after the Group has received and examined to the Group's satisfaction the cattle skin or the processing services from Guangxi Zhiguan.

Condition precedent : The Zhiguan Framework Agreement is conditional upon the approval of the Zhiguan Framework Agreement, the Transactions contemplated thereunder and the Proposed Annual Caps for Zhiguan Framework Agreement by the Independent Shareholders at the EGM in accordance with the Listing Rules.

Fairness and reasonableness of the pricing principles as set under the Zhiguan Framework Agreement

The purchase price for the relevant transaction to be payable by the Group under the Zhiguan Framework Agreement shall be determined with reference to the market price of the cattle skin, whilst the market price of the cattle skin is determined with reference to (i) prices for cattle skin offered by two to three Independent Third Party suppliers; (ii) the difference in the locations of cattle skin suppliers; (iii) quality of cattle skin provided by other Independent Third Party suppliers; (iv) the capability of Independent Third Party suppliers in satisfying the 88% Requirement; and (v) the availability of processing service for cattle skin products.

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As advised by the management of the Company, the Group had purchased cattle skin from four cattle suppliers in 2020 (the “**2020 Cattle Skin Suppliers**”), i.e. Guangxi Zhiguan and three other Independent Third Party suppliers. It is expected that such arrangements will continue during the term of the Zhiguan Framework Agreement.

To assess the fairness and reasonableness of the price determination as mentioned above, we have discussed with the management of the Company and were advised that the Group will invite quotations from the 2020 Cattle Skin Suppliers for the supply of different categories of cattle skin before the conclusion of any purchase orders of cattle skin. As part of the Company’s internal control measures, at least two quotations from two independent suppliers must be sought for comparison. The purchase department manager of the Group will review all quotations submitted and select the supplier with the most favourable quotation after taking into consideration the price and transportation costs, delivery time, quality of cattle skin and the historical capability in satisfying the 88% Requirement as a whole. The Group will satisfy itself in respect of (i) existence of the 88% Requirement; (ii) location of the suppliers such that the freshness of the cattle skin can be guaranteed; and (iii) the total cost for purchase of cattle skin and relevant processing charges to the Group and ensure that the terms of the relevant purchase under the Zhiguan Framework Agreement taking the 88% Requirement as well as the location of the supplier into consideration shall be no less favourable than those procured from Independent Third Party suppliers.

In order to substantiate the above, we reviewed (i) the analysis on the estimated output volume of collagen extracted from cattle skin; and (ii) historical monthly purchase order summary jointly prepared by the production department and purchase department of the Group.

In relation to the analysis on the estimated output volume of collagen extracted from cattle skin, we noticed that the average volume of collagen extracted from cattle skin supplied under the 88% Requirement as guaranteed by Guangxi Zhiguan is on average approximately 3-4% higher than the average volume of collagen extracted from cattle skin supplied without the 88% Requirement by Independent Third Party suppliers.

The historical monthly purchase order summary sets out details of the unit price and class of cattle skin to be supplied, transportation terms and whether the supplier is subject to the 88% Requirement for the period commencing on 1 January 2020 and ending on 30 September 2020. We noted from the historical purchase order summary that the unit price charged by Guangxi Zhiguan to certain categories of the cattle skin were not the lowest among the 2020 Cattle Skin Suppliers. Nonetheless, in view of the 88% Requirement in placed by Guangxi Zhiguan but not offered by the other 2020 Cattle Skin Suppliers and

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taking into account the location of the factory premises of the other 2020 Cattle Skin Suppliers which usually affect the freshness of the cattle skin, the total cost for purchase and processing service of cattle skin from Guangxi Zhiguan was lower than other cattle skin suppliers according to evaluation and assessment jointly performed by the purchase department and production department of the Group.

We were also provided with samples of copies of (i) contracts for cattle skin entered into between each of the 2020 Cattle Skin Suppliers and the Group during the period from 1 January 2020 and ending on 30 September 2020; and (ii) invoices issued by and payments paid to each of the 2020 Cattle Skin Suppliers for the sale of cattle skin to the Group during the period from 1 January 2020 and ending on 30 September 2020. We noted that relevant information has been reflected in the abovementioned historical purchase order summary.

The processing charges for the cattle skin to be payable by the Group under the Zhiguan Framework Agreement shall be determined with reference to the market processing charges of the processing service for cattle skin, whilst the market price of the processing charges for cattle skin is determined make reference to the prices for processing services offered by two to three Independent Third Party suppliers, the difference in location of services supplier, transportation costs and quality of services and also other terms offered by independent suppliers for such processing services.

To assess the fairness and reasonableness of the price determination as mentioned above, we have discussed with the management of the Company and were advised that the Group will invite quotations from two to three Independent Third Party suppliers for the provision of processing services for cattle skin before the conclusion of any purchase orders of processing service. As part of the Company's internal control measures, at least two quotations from two Independent Third Party suppliers must be sought for comparison. The purchase department manager of the Group will review all quotations submitted and select the supplier with the most favourable terms after taking into consideration the price and timing required of the processing service as a whole.

In order to substantiate the above, we reviewed the samples of quotation comparison on the processing service for cattle skin to be procured from Guangxi Zhiguan and other Independent Third Party suppliers. In relation to the comparison of cattle skin processing service procurement quotations obtained from Guangxi Zhiguan and other Independent Third Party suppliers, we noticed that the Company selected the supplier with the most favourable terms after taking into consideration the price and timing required of the processing service as a whole.

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Having considered the above and the internal control measures adopted by the Group as set out in the section headed (e) “*Internal control measures*” below, and given the fact that there is no open market price in the PRC for cattle skin and related processing service, we are of the view that the pricing principles in relation to the purchase of cattle skin and procure of processing services from Guangxi Zhiguan are fair and reasonable.

Fairness and reasonableness of the payment terms as set under the Zhiguan Framework Agreement

The purchase price of the cattle skin and the processing service charge will be settled by the Group before the 20th day of the subsequent month after the Group has received and examined to the Group’s satisfaction the processed cattle skin from Guangxi Zhiguan. We were advised by the Company that it is the standard payment term adopted by the Company, thus the same payment term has been applied to all suppliers of cattle skin of the Group.

We reviewed copies of contracts for similar products between the Group and independent suppliers of cattle skin provided by the Company and noted that the payment term stipulated thereunder is in line with the above policy. Accordingly, we are of the view that the payment term under the Zhiguan Framework is on normal commercial terms and no less favourable to the Group when compared to those offered by other independent suppliers of cattle skin and processing services of the Group. Based on our review on the Zhiguan Framework Agreement, we are not aware of any other material term contained in the Zhiguan Framework Agreement which is unfavourable to the Group.

Having taken into account all the factors presented above, and together with the internal control measures in place as discussed in the section headed “(e) Internal control measures” below, we are of the opinion that the terms of the Zhiguan Framework Agreement are on normal commercial terms or better and in the ordinary and usual course of business of the Group, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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(c) Proposed annual caps contemplated under each of the Agreements

We set out below a summary the proposed annual caps for the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement:

	For the year ending 31 December 2021 (RMB)	For the year ending 31 December 2022 (RMB)	For the year ending 31 December 2023 (RMB)
Proposed annual caps contemplated under:			
Junye Sale and Purchase Agreement	34,750,000	40,660,000	47,570,000
Zhongbo Sale and Purchase Agreement	<u>8,070,000</u>	<u>9,880,000</u>	<u>11,950,000</u>
Total	<u><u>42,820,000</u></u>	<u><u>50,540,000</u></u>	<u><u>59,520,000</u></u>

As set out in the Letter from the Board, in determining proposed annual caps contemplated under the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement, the Company has made reference to (i) the actual transaction amounts for the two years ended 31 December 2018 and 2019 and the nine months ended 30 September 2020 under the Former Junye Sale and Purchase Agreement and the Former Zhongbo Sale and Purchase Agreement; (ii) the estimated demand of the Group for the packaging materials for the growth of existing edible collagen sausage casing products and the launch of new products; and (iii) the estimated price of the packaging materials for the three years ending 31 December 2023.

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The existing annual caps and the historical transaction amounts for the purchase of packaging materials from Wuzhou Junye and Wuzhou Zhongbo under the Former Junye Sale and Purchase Agreement and the Former Zhongbo Sale and Purchase Agreement for the relevant periods were shown below:

	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)	For the year ended 31 December 2020 (RMB)
Existing annual caps contemplated under the:			
Former Junye Sale and Purchase Agreement	29,550,000	33,850,000	39,690,000
Former Zhongbo Sale and Purchase Agreement	<u>6,690,000</u>	<u>7,670,000</u>	<u>8,990,000</u>
Total	<u><u>36,240,000</u></u>	<u><u>41,520,000</u></u>	<u><u>48,680,000</u></u>
	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)	For the nine months ended 30 September 2020 (RMB)
Historical transaction amounts:			
Purchase from Wuzhou Junye	25,603,000	23,230,000	22,266,000
Purchase from Wuzhou Zhongbo	<u>5,709,000</u>	<u>5,256,000</u>	<u>5,033,000</u>
Total	<u><u>31,312,000</u></u>	<u><u>28,486,000</u></u>	<u><u>27,299,000</u></u>

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The annual utilisation of the existing annual caps under the Former Junye Sale and Purchase Agreement and the Former Zhongbo Sale and Purchase Agreement for the two years ended 31 December 2019 and year ending 31 December 2020 (projected) were approximately 86.4%, 68.6% and 74.8% respectively. Except for the relatively lower purchase for the year ended 31 December 2019, the utilization rate of the existing annual caps for purchase of packaging materials from Wuzhou Junye and Wuzhou Zhongbo had remained a relatively high level, i.e. over 70%. Having considered the historical transaction amounts, the Company adopted a more conservative approach to lower the proposed annual cap for the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement by approximately 12% for the year ending 31 December 2021 compared to the previous year and also project the proposed annual caps for the two years ending 31 December 2023 for a mild increase of approximately 18% only each year as compared to the proposed cap for the year ending 31 December 2021.

We set out below the proposed annual cap contemplated under the Zhiguan Framework Agreement:

	For the year ending 31 December 2021 (RMB)	For the year ending 31 December 2022 (RMB)	For the year ending 31 December 2023 (RMB)
Proposed annual cap contemplated under the: Zhiguan Framework Agreement	229,860,000	303,160,000	384,990,000

As set out in the Letter from the Board, in determining the proposed annual cap contemplated under the Zhiguan Framework Agreement, the Company has made reference to (i) the actual transaction amounts for the two years ended 31 December 2018 and 2019 and the nine months ended 30 September 2020 under the Former Zhiguan Framework Agreement; (ii) the estimated demand of the Group for the cattle skin and the processing service required for the growth of existing edible collagen sausage casing products and the launch of new products; (iii) the proportion of cattle skin to be supplied and processed by Guangxi Zhiguan and by independent suppliers; and (iv) the estimated price of the cattle skin, the estimated price and volume of cattle skin subject to processing services and the estimated price of the processing services for the three years ending 31 December 2023.

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The existing annual cap and the historical transaction amounts for the purchase of cattle skin from Guangxi Zhiguan under the Former Zhiguan Framework Agreement for the relevant periods were shown below:

	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)	For the year ended 31 December 2020 (RMB)
Existing annual cap contemplated under the:			
Zhiguan Framework Agreement	103,240,000	137,970,000	161,780,000
	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)	For the nine months ended 30 September 2020 (RMB)
Historical transaction amounts:			
Purchase from Guangxi Zhiguan	102,584,000	129,869,000	107,205,000

The annual utilisation of the existing annual caps under the Former Zhiguan Framework Agreement for the two years ended 31 December 2019 and year ending 31 December 2020 (projected) were approximately 99.4%, 94.1% and 88.4% respectively. Given the historical high utilization of the annual caps for the purchase of cattle skin from Guangxi Zhiguan, the estimated demand for the growth of existing edible collagen sausage casing products, the launch of new products and the additional processing services for cattle skin to be provided by Guangxi Zhiguan in the three years ending 31 December 2023, the proposed annual cap contemplated under the Zhiguan Framework Agreement increased by approximately 42.1% for the year ending 31 December 2021 compared to the previous year and also project the proposed annual caps for the two years ending 31 December 2023 for an increase of approximately 32% and 27% respectively as compared to the proposed cap for the year ending 31 December 2021.

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As stated in the 2020 Interim Report, the sales volume of edible sausage casing products accounted for over 90% of the Group's revenue and maintained the leading position in the domestic collagen sausage casing market. Since the fourth quarter of 2018, raw material prices have risen due to the continuously improved environmental protection requirements in the PRC. At the same time, the Group also launched new products that can be applied to more types of sausages fillings to cater for the market since 2017. We have discussed with the Directors on the demand for the edible sausage casing products and business prospects of the Group and were given to understand that the Group's demand for edible sausage casing products is expect to increase mainly due to the price of natural sausage casings is high, the demand for high-end collagen sausage casings to replace pig sausage casings will further increase and to satisfy the growth of the Company.

We have also obtained the Group's procurement plan for packaging materials, cattle skin and its processing service for its business operation for the three years ending 31 December 2023 which includes breakdowns regarding (i) the expected production quantity of collagen sausage casing products; (ii) the expected proportion of packaging materials, cattle skin and its processing service to be supplied by Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan; (iii) the historical and expected average cost of the packaging materials, cattle skin and its processing service used in producing collagen sausage casing products; and (iv) the expected increase in prices of packaging materials, cattle skin and its processing service.

Further to the discussion with the management of the Company and our review on the Group's procurement plan for cattle skin, we understood that the Company have considered the following factors in determining the proposed annual caps contemplated under each of the Agreements: (i) the expected production quantity of the existing collagen sausage casing products increase at an annual rate of approximately 12%, for each of the three financial years ending 2023; (ii) due to seasonality factor, the first and fourth quarter of the year are normally the production peak seasons of the Group of collagen sausage casing and the purchase of cattle skin in the fourth quarter will relatively higher; (iii) four cattle skin suppliers will be engaged during the term of the Agreements; (iv) approximately 78% of the total amounts of cattle skin purchased by the Group were supplied by Guangxi Zhiguan for the nine months ended 30 September 2020 and the Group plans to increase the proportion of cattle skin to be supplied by Guangxi Zhiguan by approximately 5 to 10% until 2023 after taking into account the quality of cattle skin, cost and operation efficiency and processing services provided for cattle skin; (v) all packaging materials purchased by the Group were supplied by Wuzhou Junye and Wuzhou Zhongbo for the two years ended 31 December 2019 and for the nine months ended 30 September 2020 and the Group expects to remain the same arrangement until 2023; (vi) the launch of new products in 2021 and is expected to produce approximately 5,000 tons for the financial year ending 2021, in which the usage of cattle skin will be equivalent to approximately 16.7% of cattle skin usage for producing the existing collagen sausage casing products for the year ended 31 December 2019 and also representing approximately 11.9% of total forecasted usage of cattle skin for the year ending 31 December 2021, and increase at an annual rate of approximately 100% and further 50% for the financial years ending 2022 and 2023

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respectively; (vii) it is expected approximately 20% of cattle skin purchased will undergo processing by Guangxi Zhiguan charged on average at approximately RMB1,050 per ton in 2021 and the Group has estimated the processing volume remains in a similar trend as cattle skin purchased until 2023; and (viii) the Company has estimated a potential increase in the price of packaging materials, cattle skin and the associated processing costs of cattle skin at a rate of approximately 5% in each of the three years ending 31 December 2023.

We have also reviewed the historical purchase order summary and the historical costs associated with the packaging materials purchased by the Group and noted that there was a recent increase in the price of approximately 3% for 2020 when compared to that of 2019 while the historical costs associated with the purchase of cattle skin in 2020 remained at a similar level with a slight increase trend when compared to that of 2019.

By taking into consideration the combined effect of (i) the aforesaid increase in the expected production quantity of collagen sausage casing products; (ii) the potential increase in the proportion of cattle skin and additional processing service to be supplied by Guangxi Zhiguan and packaging materials to be supplied by Wuzhou Junye and Wuzhou Zhongbo as detailed above; (iii) the number of suppliers of cattle skin, processing service for cattle skin and packaging materials of the Group during the term of the Agreements; (iv) the estimation of a potential increase in the price and associated processing costs of cattle skin of approximately 5% in each of the three years ending 31 December 2023 as abovementioned; (v) the estimation of the new product to be launched in 2021 as abovementioned, we concur with the view of the Directors that (i) the estimated increase of the transaction amounts for the Agreements for each of the three financial years ending 31 December 2023 is justifiable; and (ii) the proposed annual caps contemplated under each of the Agreements are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

However, Shareholders should note that the proposed annual caps contemplated under each of the Agreements relate to future events are estimated based on assumptions which may or may not remain valid during the term of the Agreements, thus they do not represent a forecast of revenue to be generated from the transactions contemplated under the Agreements. Consequently, we express no opinion as to how closely the actual amounts to be generated under the transactions correspond with the proposed annual caps contemplated under each of the Agreements.

(d) Nature of products and services supplied by Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan

For the two years ended 31 December 2019 and for the nine months ended 30 September 2020, the purchases from Wuzhou Junye and Wuzhou Zhongbo accounted for approximately 100%, 100% and 100% respectively of the Group's purchases of packaging materials for collagen sausage casings business and the purchases from Guangxi Zhiguan accounted for approximately 68%, 72% and 78% respectively of the Group's purchases of cattle skin. Despite the Group is expected to remain similar levels of approximately 100% purchases of packaging materials from Wuzhou Junye and Wuzhou Zhongbo and approximately 80% purchases of cattle skin and processing service from Guangxi Zhiguan for the three years ending 31 December 2023, the Directors considered that the Group is not dependent on Wuzhou Junye and Wuzhou Zhongbo for the supply of packaging materials and Guangxi Zhiguan for the supply of cattle skin and its processing service because (i) Guangxi Zhiguan does not dominate the cattle skin provision and processing industry and cattle skin and packaging material are not the only major raw material of the Group's finished products; (ii) the cattle skin and packaging materials by the Group for its production is not unique in nature and the supply of cattle skin in the market is abundant and readily available from other independent suppliers in the PRC; (iii) while meeting the 88% Requirement will reduce the overall costs associated with the processing of cattle skin, purchasing cattle skin from suppliers which do not meet the 88% Requirement will not affect the quality and safety of end products of the Group; (iv) Guangxi Zhiguan is substantially held by Ms. Zhou, an executive Director and one of the controlling Shareholders of the Company, the business relationship between the Group and Guangxi Zhiguan is stable since its establishment and there is no red flag indicating that the relationship between the Group and Guangxi Zhiguan will be materially adversely changed or terminated; (v) the Group has established relationships with different suppliers who can easily substitute each other in terms of the supply of cattle skin, its processing service and packaging materials; (vi) the supply by Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan as contemplated under Agreements is not on an exclusive basis, which provides the Group with sufficient independence and flexibility; and (vii) the Agreements did not impose any minimum procurement requirement or restrictive obligation on the Company on the procurement of packaging materials, cattle skin and its processing service from other suppliers.

Accordingly, the Company may adjust its procurement policies in respect of packaging materials, cattle skin and processing service from time to time. Although the Group plans to increase or remain the procurement proportion of the packaging materials, cattle skin and its processing service from Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan in the three years ending 31 December 2023, we concur with the view of the Directors that the entering into of the Agreements would not pose reliance issue on the supply of packaging materials, cattle skin and processing service for cattle skin by Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan after taken into consideration (i) there are alternative independent cattle skin suppliers, processing service suppliers and inner and outer packaging material suppliers available to the Group; (ii) cattle skin and packaging materials

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are not the only major raw material of the Group's finished products; (iii) the Company will procure packaging materials, cattle skin and processing service for cattle skin from Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan only if Wuzhou Junye, Wuzhou Zhongbo and Guangxi Zhiguan offers no less favourable terms as a whole under the Agreements when compared with other independent suppliers of the Group; (iv) the Company is not restricted to packaging materials, cattle skin and its processing service from any suppliers; and (v) our review on the historical purchase order summary of cattle skin jointly prepared by the production department and purchase department of the Group showed the reduce in overall costs associated with the processing of cattle skin when 88% Requirement is imposed.

(e) Internal control measures

As stated in the Letter from the Board, the Company has adopted a number of internal control measures to ensure that the transactions contemplated under each of the Agreements will be conducted in accordance with the terms of the Agreements, on normal commercial terms or better, and in accordance with the pricing policy of the Company, which include:

Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement

- the purchase department of the Company will be responsible for identifying suitable suppliers of packaging materials. During the selection process, at least two quotations from two independent suppliers will be sought for comparison and the Group will select the supplier with the most favourable terms after taking into consideration the price, delivery time, transportation costs and quality of the packaging materials as a whole;
- all individual contracts for the sale and purchase of packaging materials will be notified to the finance department of the Group, which keeps record of connected party transactions and oversees and controls such transactions; and
- the management of the Company will ensure that the transactions contemplated under the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement will be conducted in accordance with the terms of the Junye Sale and Purchase Agreement and Zhongbo Sale and Purchase Agreement, on normal commercial terms or better terms, and in accordance with the pricing policy of the Company.

Zhiguan Framework Agreement

- the purchase department of the Company will be responsible for identifying suitable suppliers of cattle skin and the purchase department manager will be primarily responsible for inviting quotations from at least two independent suppliers for the supply of cattle skin and its processing service. In comparing such quotations, the purchase department manager will apply the abovementioned

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pricing principles of the Group as detailed under the section “Fairness and reasonableness of the pricing principles as set under the Zhiguan Framework Agreement” above, which include (i) the price; (ii) the difference in the locations of cattle skin suppliers; (iii) transportation costs; (iv) quality of cattle skin provided by other Independent Third Party suppliers; and (v) the capability of Independent Third Party suppliers in satisfying the 88% Requirement. The purchase department manager will submit all quotations obtained to the vice-president of the Group who oversees the purchase department for his approval in order to ensure only the quotation with the most favourable terms is selected;

- all individual contracts for the sale and purchase of cattle skin will be notified to the finance department of the Group, who keeps record of connected party transactions and oversees and controls such transactions; and
- the management of the Company will ensure that the transactions will be conducted in accordance with the terms of the Zhiguan Framework Agreement, on normal commercial terms or better, and in accordance with the pricing policy of the Company.

Based on our review on the historical purchase order summaries prepared by the production department and purchase department of the Group which is expected to remain in use throughout the term of the Agreements, we are of the view that the abovementioned internal control measures have been effectively implemented.

In addition, as advised by the management of the Company, the Company will comply at all times with the applicable provisions under Rules 14A.34, 14A.51 to 14A.54 of the Listing Rules in respect of the Agreements and transactions contemplated thereunder.

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Agreements and transactions contemplated thereunder are subject to the following annual review requirements:

- (a) the independent non-executive Directors must review the transactions contemplated under the Agreements and confirm in the annual report whether the transactions contemplated under the Agreements have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

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- (b) the Company must engage its auditors to report on the transactions contemplated under the Agreements every year. The auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the transactions contemplated under the Agreements:
 - (i) have not been approved by the Board;
 - (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
 - (iv) have exceeded the proposed annual caps contemplated under each of the Agreements;
- (c) the Company must provide a copy of the auditors' letter to Stock Exchange at least 10 business days before the bulk printing of its annual report;
- (d) the Company must allow, and ensure that the counterparties to the transactions contemplated under the Agreements allow, the auditors sufficient access to their records for the purpose of reporting on the transactions contemplated under the Agreements; and
- (e) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters as required. Stock Exchange may require the Company to re-comply with the announcement and shareholders' approval requirements and may impose additional conditions.

Given the above, we are of the view that there are appropriate measures in place to govern the Company in carrying out the Agreements and transactions contemplated thereunder and safeguard the interests of the Shareholders.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that (i) the terms of the Agreements and the transactions contemplated thereunder are on normal commercial terms or better and in the ordinary and usual course of business of the Group and no less favourable to the Group than those of Independent Third Parties, and (ii) the terms of the Agreements, the transactions contemplated thereunder and the proposed annual caps contemplated under each of the Agreements are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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Accordingly, we advise the Independent Shareholders, and recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the proposed ordinary resolutions at the EGM in respect of (i) the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement, the transactions contemplated thereunder and the proposed annual caps contemplated under each of the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement, and (ii) the Zhiguan Framework Agreement, the transactions contemplated thereunder and the corresponding proposed annual cap contemplated under the Zhiguan Framework Agreement.

Yours faithfully,
For and on behalf of
Grande Capital Limited
Matthew Leung
Managing Director

*Mr. Matthew Leung (“**Mr. Leung**”) is a Responsible Officer of Grande Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. Mr. Leung has over 10 years of experience in corporate finance in Hong Kong.*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; or (b) section 352 of the SFO, to be entered in the register required to be kept by the Company under such provision; or (c) the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange:

(a) Long positions in the Shares, underlying Shares and debentures of the Company

Name of Director	Number of Shares			Approximate % of shareholding as at the Latest Practicable Date
	Beneficial interests	Interests in controlled corporation	Total	
Ms. Zhou	3,144,000	2,257,628,000 (Note 1)	2,260,772,000	69.98%
Dato' Sri Low Jee Keong ("Dato' Sri Low")	–	78,936,000 (Note 2)	78,936,000	2.44%
Mr. Shi Guicheng	800,000	–	800,000	0.02%
Mr. Ru Xiquan	800,000	–	800,000	0.02%
Mr. Mo Yunxi	800,000	–	800,000	0.02%

Notes:

1. Ms. Zhou holds 100% interest in Shenguan Biology Science & Technology Investment Company Limited (“**Hong Kong Shenguan**”) which holds 100% interest in Glories Site Limited (“**Glories Site**”), which holds approximately 65.45% interest in Rich Top Future Limited (“**Rich Top Future**”). Hong Kong Shenguan also holds 100% interest in Xian Sheng Limited (“**Xian Sheng**”). Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Hong Kong Shenguan, Rich Top Future and Xian Sheng for the purpose of the SFO.
2. Dato’ Sri Low holds 100% interest in Wealthy Safe Management Limited (“**Wealthy Safe**”), which holds 78,936,000 Shares. Therefore, Dato’ Sri Low is deemed or taken to be, interested in all the Shares held by Wealthy Safe for the purpose of the SFO.

(b) Aggregate long positions in the shares, underlying shares and debentures of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Number and class of securities	Approximate % of shareholding as at the Latest Practicable Date
Ms. Zhou	Rich Top Future	Interest in controlled corporation (Note 1)	65,454	65.45%
Dato’ Sri Low	Rich Top Future	Interest in controlled corporation (Note 2)	20,835	20.84%

Notes:

1. Ms. Zhou holds 100% interest in Hong Kong Shenguan which holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future.
2. Dato’ Sri Low holds 100% interest in Brighten Lane Limited, which holds approximately 20.84% interest in Rich Top Future.

3. COMMON DIRECTORS

The following is a list of Directors who, as at the Latest Practicable Date, were also directors of the companies which had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of common director	Name of company
Ms. Zhou	Hong Kong Shenguan Glories Site Xian Sheng Rich Top Future
Dato' Sri Low	Rich Top Future

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors, the interests of substantial Shareholders in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in the Shares and underlying Shares

Name of substantial Shareholder	Number of Shares				Approximate % of shareholding as at the Latest Practicable Date
	Beneficial interests	Family interests	Interests in controlled corporation	Total	
Rich Top Future	1,936,434,000	–	–	1,936,434,000	59.94%
Xian Sheng	248,724,000	–	–	248,724,000	7.70%
Glories Site	–	–	1,936,434,000 (Note 1)	1,936,434,000	59.94%
Hong Kong Shenguan	72,470,000	–	2,185,158,000 (Note 2)	2,257,628,000	69.89%
Mr. Sha	–	2,260,772,000 (Note 3)	–	2,260,772,000	69.98%

Notes:

1. Glories Site holds approximately 65.45% interest in Rich Top Future. Therefore, Glories Site is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future for the purpose of the SFO.
2. Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Hong Kong Shenguan is deemed or taken to be, interested in all the Shares which are beneficially owned by Rich Top Future and Xian Sheng for the purpose of the SFO.
3. Ms. Zhou holds 100% interest in Hong Kong Shenguan and Hong Kong Shenguan holds 100% interest in Glories Site, which holds approximately 65.45% interest in Rich Top Future. Hong Kong Shenguan also holds 100% interest in Xian Sheng. Therefore, Ms. Zhou is deemed or taken to be, interested in all the Shares which are beneficially owned by Hong Kong Shenguan, Rich Top Future and Xian Sheng for the purpose of the SFO. Ms. Zhou beneficially owns 3,144,000 Shares. Mr. Sha is the spouse of Ms. Zhou and therefore, Mr. Sha is deemed or taken to be, interested in all the Shares in which Ms. Zhou is interested for the purpose of the SFO.

5. COMPETING INTEREST

Save as disclosed on pages 40 to 41 of the Annual Report 2020 of the Company dated 30 March 2020, as at the Latest Practicable Date, none of the Directors or their respective close associates was considered to have any interest in a business which competed or may compete with the business of the Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group, other than contracts expiring or terminable by the Company within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS' INTERESTS IN CONTRACTS, ASSETS AND ARRANGEMENTS OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular and which is significant in relation to the business of the Group.

8. MATERIAL ADVERSE CHANGE

Reference is made to the profit warning announcement of the Company dated 14 July 2020 in relation to the expected decrease of approximately 30–50% in the profit attributable to the equity owners of the Company for the six months ended 30 June 2020 (the “**Reporting Period**”). As disclosed in such announcement, such decrease was mainly due to (i) during the outbreak of the 2019 novel coronavirus disease (COVID-19), the customers postponed the resumption of work after the Lunar New Year holiday, which in turn led to decrease in demand of the products; (ii) the increase in costs of sales due to increase of costs in product development during the Reporting Period; and (iii) a provision for relatively aged inventories was made.

Please refer to the relevant announcement and Interim Report 2020 of the Company dated 28 August 2020 for further details. Save as disclosed above, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated accounts of the Company were made up.

9. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Grande Capital Limited	A corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or reports and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding, directly or indirectly, in any member of the Group, nor had any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interest in any asset which had been, since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

10. MISCELLANEOUS

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and the principal place of business of the Company in Hong Kong is at Room 2902, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (c) The company secretary of the Company is Mr. Ng Yuk Yeung.
- (d) Save as otherwise stipulated in this circular, the English text of this circular shall prevail over the Chinese text in the event of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the following documents is available for inspection at principal place of business in Hong Kong of the Company at Room 2902, Sino Plaza, 255–257 Gloucester Road, Causeway Bay, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

- (a) the articles of association of the Company;
- (b) the letter from the Board to the Shareholders, the text of which is set out on pages 5 to 22 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 23 to 24 of this circular;
- (d) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 25 to 50 of this circular;
- (e) the consent letter of the Independent Financial Adviser referred to in the paragraph headed “9. Expert and Consent” in this appendix;
- (f) the Junye Sale and Purchase Agreement;
- (g) the Zhongbo Sale and Purchase Agreement;
- (h) the Zhiguan Framework Agreement; and
- (i) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Shenguan Holdings (Group) Limited (神冠控股(集團)有限公司) (the “**Company**”) will be held at iPro Financial Press Limited, Units 1203B, 1204–1205, 12/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong on Wednesday, 16 December 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments the following as ordinary resolutions of the Company.

Words and expressions that are not expressly defined in this notice shall bear the same meanings as those defined in the circular dated 25 November 2020 published by the Company (the “**Circular**”).

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the entering into of the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement (copies of which are signed by the chairman of the EGM for identification purpose and have been tabled at the EGM), the Transactions and the corresponding Proposed Annual Caps contemplated thereunder, be and are hereby approved, ratified and confirmed; and
- (b) any one or more director(s) of the Company (the “**Director**”) be and are hereby authorised for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and deeds as such Director(s) may consider necessary, expedient or desirable to give effect to or otherwise in connection with the Junye Sale and Purchase Agreement and the Zhongbo Sale and Purchase Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder.”

2. “**THAT**

- (a) the entering into of the Zhiguan Framework Agreement (copy of which is signed by the chairman of the EGM for identification purpose and has been tabled at the EGM), the Transactions and the corresponding Proposed Annual Caps contemplated thereunder, be and are hereby approved, ratified and confirmed; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) any one or more Director(s) of the Company be and are hereby authorised for and on behalf of the Company to, amongst other matters, sign, execute and deliver or to authorize the signing, execution and delivery of all such documents and deeds as such Director(s) may consider necessary, expedient or desirable to give effect to or otherwise in connection with the Zhiguan Framework Agreement, the Transactions and the corresponding Proposed Annual Caps contemplated thereunder.”

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

Hong Kong, 25 November 2020

Notes:

1. To safeguard the health and safety of the Shareholders, the Company will implement the following precautionary measures at the EGM to prevent the spreading of the COVID-19:
 - (1) Compulsory body temperature checks will be conducted for every attendee at the entrance of the EGM venue. Any person with a body temperature of over 37.4 degrees Celsius may be denied entry into the EGM venue and be requested to leave the EGM venue;
 - (2) Every attendee will be required to wear surgical facial mask throughout the EGM and maintain a safe distance between seats. Please note that no masks will be provided at the EGM venue and attendees should wear their own masks; and
 - (3) The Company will not provide refreshments and will not distribute corporate gifts.

In light of the continuing risks posed by the COVID-19, the Company encourages the Shareholders to consider appointing the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

2. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or, if he holds two or more shares, more proxies to attend and vote in his stead. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
4. To be valid, the instrument appointing a proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered to the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
5. No instrument appointing a proxy shall be valid after expiration of 12 months from the date named in it as the date of its execution, except at an adjourned meeting or on a poll demanded at the EGM or any adjournment thereof in cases where the EGM was originally held within 12 months from such date.

NOTICE OF EXTRAORDINARY GENERAL MEETING

6. In the case of joint holders of a share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto. If more than one of such joint holders are present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
7. Completion and delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the EGM or any adjournment thereof if the member so wish and in such event, the instrument appointing a proxy should be deemed to be revoked.
8. For the purpose of determining the entitlement to attend and vote at the EGM, the transfer books and register of members of the Company will be closed from 11 December 2020 (Friday) to 16 December 2020 (Wednesday) (both days inclusive). During such period, no share transfers will be effected. In order to qualify for attending the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 10 December 2020 (Thursday).
9. Voting on the above resolution will be taken by poll.
10. A proxy form for use at the EGM is enclosed.
11. As at the date of this notice, the Board of the Company comprises (a) four executive Directors, namely Ms. Zhou Yaxian, Mr. Shi Guicheng, Mr. Ru Xiquan and Mr. Mo Yunxi; (b) one non-executive Director, namely Dato' Sri Low Jee Keong; and (c) three independent non-executive Directors, namely Mr. Tsui Yung Kwok, Mr. Meng Qinguo and Mr. Yang Xiaohu.