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Hua Han Health Industry Holdings Limited

華瀚健康產業控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 587)

## **FURTHER CLARIFICATION ANNOUNCEMENT IN RELATION TO THE SECOND ALLEGATION REPORT**

Reference is made to (i) the announcement of Hua Han Health Industry Holdings Limited (“**Company**”, together with its subsidiaries, “**Group**”) dated 17 August 2016 (“**17 August Announcement**”) in relation to, among other matters, the clarification of the allegations contained in the negative report (“**First Allegation Report**”) from Emerson Analytics Co. Ltd. (“**Emerson**”) dated 10 August 2016; and (ii) the announcement of the Company dated 29 August 2016 in relation to the clarification of the allegations contained in the negative report (“**Second Allegation Report**”, together with the First Allegation Report, are collectively referred to as the “**Emerson Reports**”) from Emerson dated 26 August 2016.

This announcement is made pursuant to Part XIVA of the SFO and Rule 13.09(2)(a) of the Listing Rules. Along the same vein as the First Allegation Report, the Second Allegation Report again sought to use groundless and nonsensical allegations to misguide the readers so as to undermine the confidence of the Company’s shareholders in its business and financial condition. The Board vigorously denies the allegations against the Group in the Second Allegation Report.

The board (“**Board**”) of directors (“**Directors**”) and the senior management of the Company confirmed that, as with the First Allegation Report, they had not been contacted or interviewed by Emerson before the issuance of the Second Allegation Report to verify any data or information mentioned in the Second Allegation Report.

### **RESPONSES TO THE ALLEGATIONS**

#### **Interests in Changdu Kangyuan**

It was alleged in the Second Allegation Report that the Company had no interest in 西藏昌都地區康源醫藥有限公司 (Xizang Changdu District Kangyuan Pharmaceutical Company Limited\*) (“**Changdu Kangyuan**”) which reported more than 80% of the combined revenue of the Group during the calendar years 2013 and 2014.

The Group’s acquisition of 80% equity interest in Changdu Kangyuan has been disclosed in both the 2010/2011 and the 2011/2012 annual report of the Company. And the Group’s 80% equity interest in Changdu Kangyuan has continuously been included in the Company’s annual report until the Group disposed of its interest in such company in 2015, the disclosure of which was included in the 2014/2015 annual report of the Company.

According to the Catalogue of Industries for Guiding Foreign Investment (as amended in 2007) (《外商投資產業指導目錄(2007年修訂)》), distribution of pharmaceutical products in the PRC falls under the restricted category and foreign investment is restricted (“**Foreign Investment Restriction**”). In light of the Foreign Investment Restriction, the Group resolved to hold its 80% equity interest in Chandu Kangyuan through a PRC domestic enterprise, 深圳市雲晨廣江貿易有限公司 (Shenzhen Yunchen Guangjiang Trading Company Limited\*) (“**Shenzhen Yunchen**”) which was established by the Group on 6 July 2011. The fact of the setting up of Shenzhen Yunchen has also been disclosed in the 2011/2012 annual report of the Company. The Group entered into nominee arrangements (“**Nominee Arrangements**”) in July 2011 with each of Mr. Cheng Yun and Ms. Han Dong for holding 60% and 40% equity interest in Shenzhen Yunchen respectively on behalf of the Group. Each of Mr. Cheng Yun and Ms. Han Dong was a PRC resident and an employee of the Group at the time of entering into the Nominee Arrangements. Materials evidencing the existence of the Nominee Arrangements and the Group’s ownership to Shenzhen Yunchen were available when preparing the Group’s financial statements, and no doubt had ever been raised as to the Group’s ownership to Shenzhen Yunchen, and also the Group’s ownership to 80% interest in Changdu Kangyuan through Shenzhen Yunchen. The holder of the remaining 20% of Changdu Kangyuan (“**Changdu NCI**”), was an independent third party during the relevant period.

The Company would like to point out that the Nominee Arrangements were entered into between the Group and the relevant nominee in July 2011, which was the relevant time when the Group acquired interests in Changdu Kangyuan through Shenzhen Yunchen, and not “after-being-exposed nominee holding” as alleged in the Second Allegation Report.

The Group has been advised by its PRC legal advisers that such nominee arrangement did not violate PRC laws and would be legal and valid and also binding on the nominees. It was also disclosed in both the 2012/2013 and the 2013/2014 annual reports of the Company that pursuant to profit sharing agreements entered into between the Group and the Changdu NCI, revenue and profit generated from the sale of major products of such company were wholly attributable to the Group, with the remaining revenue and profit to be shared between the Group and the Changdu NCI in accordance with their respective interests in the company. The Company considers that under the then prevailing Foreign Investment Restrictions, the holding of 80% interest in Changdu Kangyuan through nominee arrangement and profit sharing agreements enabled the Group to legally enjoy the economic benefits of Changdu Kangyuan, which was in the interest of the Company.

As disclosed in the 2014/2015 annual report of the Company, the Group disposed of 100% equity interest in Shenzhen Yunchen (and also the 80% interest in Changdu Kangyuan held by Shenzhen Yunchen) to two independent third parties at a consideration of RMB4,000,000 (“**Disposal**”) on 31 January 2015. Relevant registration procedures with the PRC government authorities for the disposal were completed in February 2015.

During the period between July 2011 and the Disposal when the Group held 80% equity interest in Changdu Kangyuan through Shenzhen Yunchen, there was no change in the Nominee Arrangements.

In the Second Allegation Report, it was alleged that in the 2014 annual report of Shenzhen Yunchen, it was shown that there was a change of shareholder during the year. According to the public filings of Shenzhen Yunchen on the Enterprise Credibility Information System\* (全國企業信用信息公示系統) by the State Administration of Industry and Commerce (國家工商行政管理總局) (“SAIC”) and its provincial branches, the 2014 annual report of Shenzhen Yunchen was published on 23 June 2015, which was after the completion of the Disposal. Therefore, the Group was in no position to verify or comment on the correctness of such 2014 annual report published by Shenzhen Yunchen after the Disposal.

In the Second Allegation Report, reference was also made to a change of 80% ownership of Changdu Kangyuan in August 2015 from Shenzhen Yunchen to one company named Guangzhou Keeshi Bio-Technology Co., Ltd., and allegations were made to suggest the Group used “new nominees”. However, it was apparent that on January 2015 the Group had already disposed of its interest in Shenzhen Yunchen and Changdu Kangyuan and information regarding the Disposal has already been disclosed in the Company’s 2014/2015 annual report.

### **The existing subsidiary which is responsible for distribution of pharmaceutical products**

Since the Disposal, 西藏益德醫藥有限公司 (Xizang Yide Pharmaceutical Company Limited\*) (“**Xizang Yide**”), which is a company established in the PRC, became the major subsidiary of the Group which was responsible for the distribution of pharmaceutical products. As at the date of this announcement, the Group was the beneficial owner of 80% of the equity interest of Xizang Yide.

### **GENERAL**

Further clarification announcement in respect of the allegations made in the First Allegation Report will be published by the Company in due course.

The Company reserves the right to take legal action against Emerson and those who are responsible for the Emerson Reports and to hold them responsible for all losses caused to the Group.

**As the author of the Second Allegation Report or the Emerson Reports may be a short seller or may associate with short seller(s), who stands to gain from its and/or its associates’ short position when the prices of the Company’s shares and/or debt securities fall, the Board would like to emphasise that the shareholders and potential investors of the Company should exercise extreme caution in reading the Second Allegation Report or the Emerson Reports, which are seriously misleading, groundless and full of hyperboles and logic flaws. Shareholders and potential investors of the Company should also read this announcement carefully.**

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.**

By Order of the Board of  
**Hua Han Health Industry Holdings Limited**  
**Zhang Peter Y.**  
*Chairman*

Hong Kong, 6 September 2016

*As at the date of this announcement, the Board comprises Mr. Zhang Peter Y., Mr. Deng Jie, Mr. Zhou Chong Ke, Mr. Chen Lei and Mr. Luo Zhan Biao as executive Directors, Mr. Tarn Sien Hao as non-executive Director, and Professor Lin Shu Guang, Professor Zhou Xin and Mr. Tso Sze Wai as independent non-executive Directors.*

*\* For identification purposes only*