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REAL NUTRICEUTICAL GROUP LIMITED

瑞年國際有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2010)

CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING

CLARIFICATION ANNOUNCEMENT

Reference is made to the announcements of the Company issued on Thursday, 22 October 2015 in relation to the suspension of trading in the Company's shares. This announcement is published by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to refute and/or clarify the key negative commentaries made by the Report. Save as disclosed in this announcement, after having made reasonable enquiries with respect to the Company and its subsidiaries as is reasonable in the circumstances, the Company confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or any inside information that needs to be disclosed under the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

As stated in the disclaimer of the Report, the entity that issued the Report (possibly along with or through its members, partners, affiliates, employees and/or consultants) along with its clients and/or investors has a short position in the Shares (and/or options) of the Company and therefore stands to realize significant gains in the event that the price of the Company's Shares declines. The Report contains errors of fact, misleading statements and unfounded malicious accusations against the Company and its management which the Company believes are combined in the Report with a view to undermine the Company's reputation and manipulate the price of the Company's Shares. Shareholders and potential investors are therefore reminded to exercise extreme caution when dealing in the securities of the Company and reading the Report. Shareholders and potential investors should also read this announcement and the Company's Clarification Announcement to be published in response to the allegations in the Report carefully.

The Board confirms that all the consolidated financial statements of the Company for the years ended 31 December 2011, 2012, 2013 and 2014 have been audited by Deloitte which issued unqualified audit opinions on the Group's consolidated financial statements throughout all those years. At the date of this announcement, Deloitte has not withdrawn or revised its unqualified audit opinions in the auditors' reports in respect of the Group's audited consolidated financial statements for the years ended 31 December 2011, 2012, 2013 and 2014.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 1:51 p.m. on Thursday, 22 October 2015 pending the release of this announcement. The Company has applied to the Stock Exchange for resumption of trading in its shares on the Stock Exchange with effect from 9:00 a.m. on Monday, 28 December 2015.

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

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The Company reserves its right to take legal actions for damages or other relief against such entity and/or associated individual(s) and anyone responsible for disseminating misleading and malicious statements designated to manipulate the price of the Company's Shares for their gains.

This announcement is published by the Company to refute and/or to clarify the negative commentaries made by the Report. Accordingly, the Company hereby makes the following clarifications:

Allegation 1: 84% less revenue and 99% less operating profits than reported in the Company's filings on the Stock Exchange from 2011–2013 allegedly based on publicly available PRC government filings

Company's response:

None of the above statement or the statements in Allegation 1 of the Report is true. **The Group only has ONE SET of books and accounts and financial statements.** As explained below, the so called "income statements" screenshots of Wuxi Ruinian Industry & Commerce Co., Limited ("**Ruinian Industry**") and Wuxi Zhenqian Bio-Technology Co., Limited ("**Wuxi Biotech**") presented on pages 5, 6, 7 and 8 of the Report are not the income statements of Ruinian Industry or Wuxi Biotech filed by the Company with the Ministry of Commerce ("**MOFCOM**"). It follows that the alleged discrepancies between the reported revenues and estimated operating profits of Ruinian Industry and Wuxi Biotech sourced from the annual reports of the Company for the years 2011, 2012 and 2013 and the respective revenues and estimated operating profits of Ruinian Industry and Wuxi Biotech and the alleged "*Mofcom filings*" in the Report are erroneous and misleading.

Company refutes the allegation for the following reason:

Only the annual filings with the Administration of Industry and Commerce are publicly available.

The Company reiterates that each of Ruinian Industry and Wuxi Biotech only has one set of books and accounts that has been audited by its PRC auditor, Wuxi Daming Public Accountants* (無錫大明會計師事務所) in accordance with the PRC GAAP. Their respective annual inspection reports of foreign invested enterprises (外商投資企業聯合年檢報告書) ("**Annual Inspection Report**") containing their audit reports have been duly filed with the local Administration of Industry and Commerce ("**AIC**") and the local MOFCOM of the PRC each year in accordance with the PRC laws.

The Company understands that the AIC is the official government department responsible for supervising the business registration, issuing and renewing business licenses, keeping official records of enterprises such as articles of association, registered capital, shareholding and shareholders' information, personal details of directors and legal representative and receiving and keeping annual reporting declarations containing audited reports of enterprises. The AIC also has a similar role as the companies' registrar to maintain the official records of enterprises and enable access by the public. According to the Company's PRC legal advisers, Grandall Law Firm ("**PRC Counsel**"), copies of Annual Inspection Reports of

foreign invested enterprises containing the audit reports filed with the Wuxi City AIC prior to 21 April 2014¹ are publicly available and can be searched and obtained by the public. However, that is not the case for MOFCOM. The PRC counsel confirmed after its enquiry with the Foreign Investment Administration Department of Wuxi City MOFCOM* (無錫市商務局外國投資管理處) on 26 October 2015 that filing made by foreign invested enterprises with MOFCOM, including copy of the enterprise's Annual Inspection Reports containing the audit reports are not publicly available from MOFCOM either by physical search at MOFCOM's office or online search at MOFCOM's online system. Only the subject company itself and its holding company but no other persons or entities including the subject company's lawyers, are permitted to search and download only the records of its financial information kept by MOFCOM in a prescribed format of MOFCOM's online system with a designated password provided by MOFCOM. Therefore, the records at AIC are the only publicly available and authoritative source of the financial information of Ruinian Industry and Wuxi Biotech that were filed at PRC government departments and for their taxation purpose.

Ruinian Industry and Wuxi Biotech's true records filed with MOFCOM and AIC

In order to verify the records of Ruinian Industry and Wuxi Biotech maintained at the AIC, on 26 October 2015, the Company conducted a search against the records at the AIC online search website and retrieved copies of the following documents (collectively, the “**AIC Records**”):

- (a) copies of the Annual Inspection Report containing the audit reports of Ruinian Industry for the years ended 31 December 2011 and 2012;
- (b) copies of the Annual Inspection Report containing the audit reports of Wuxi Biotech for the years ended 31 December 2011 and 2012;
- (c) copies of basic corporate and financial information of Ruinian Industry for the year ended and as at 31 December 2013 in the prescribed format of the AIC from Jiangsu Province AIC online search system; and

¹ Before 21 April 2014, foreign invested enterprises registered in Wuxi City are required to participate in joint annual inspection by filing their annual inspection reports with various government departments including the AIC and MOFCOM. The annual inspection reports are reports containing updated corporate information such as registered capital, contribution made by shareholders, shareholding percentages, identities of shareholders, directors, legal representative, etc., and the reports would also enclose the audit reports of the foreign invested enterprises. After 21 April 2014, foreign invested enterprises registered in Wuxi City are only required to submit their updated basic corporate and financial information with the local AIC in the prescribed format as required in AIC's online submission system, but they need not file annual inspection reports and audit reports with AIC. As regards MOFCOM, after 21 April 2014, foreign invested enterprises registered in Wuxi City are required to submit their updated basic financial information with MOFCOM in the prescribed format as required in MOFCOM's online submission system together with a hard copy of their audit reports, but they need not file annual inspection reports. Accordingly, for the year ended 31 December 2013, Ruinian Industry and Wuxi Biotech have only filed their basic corporate and financial information in the prescribed format on the AIC online submission system instead of filing the Annual Inspection Report containing the audit reports at AIC, while they are still required to file hard copies of their audit reports at MOFCOM.

- (d) extract of the basic corporate and financial information of Wuxi Biotech for the year ended and as at 31 December 2013 in the prescribed format of the AIC from Jiangsu Province AIC online search system.

As confirmed with its auditors, Wuxi Daming Public Accountants* (無錫大明會計師事務所), the audit reports contained in the AIC Records are the same as the audit reports of Ruinian Industry and Wuxi Biotech in the respective years.

In order to verify the records of Ruinian Industry and Wuxi Biotech maintained at the MOFCOM, on 26 October 2015, the Company logged into the online system of MOFCOM in respect of the accounts of Ruinian Industry and Wuxi Biotech and noted that copies of the Annual Inspection Report and the audit reports filed by Ruinian Industry and Wuxi Biotech are not available from the MOFCOM online system. Only through the use of the designated password provided by MIFCOM to Ruinian Industry and Wuxi Biotech could the Company retrieve the following documents from the MOFCOM's online system (collectively, the **“MOFCOM Records”**):

- (a) balance sheets, profit and loss statements, cash flow statements, statements of changes in equity and financial index supplemental information of Ruinian Industry for the years ended 31 December 2011, 2012 and 2013 in the prescribed format of MOFCOM's online system; and
- (b) balance sheets, profit and loss statements, cash flow statements, statements of changes in equity and financial index supplemental information of Wuxi Biotech for the years ended 31 December 2011, 2012 and 2013 in the prescribed format of MOFCOM's online system.

As confirmed with its auditors, Wuxi Daming Public Accountants* (無錫大明會計師事務所), the financial information contained in the MOFCOM Records are consistent with the audited accounts of Ruinian Industry and Wuxi Biotech in the respective years.

In order to further verify the MOFCOM Records, on 28 October 2015, the Group has brought the hard copy printouts of the MOFCOM Records to Wuxi City MOFCOM and Wuxi City MOFCOM checked and confirmed that the MOFCOM Records are accurate and stamped its official chop onto the hard copy MOFCOM Records retrieved by the Group.

Extracts of the AIC Records and MOFCOM Records

The audited revenues and operating profits of Ruinian Industry and Wuxi Biotech as contained in the MOFCOM Records and AIC Records for the years ended 31 December 2011, 2012 and 2013 are reproduced as below:

Table 1

		Year ended 31 December			Total RMB'000
		2011 RMB'000	2012 RMB'000	2013 RMB'000	
Audited revenue of Ruinian Industry	MOFCOM Records	1,715,879	1,636,116	1,651,235	5,003,230
	AIC Records	1,715,879	1,636,116	1,651,235	5,003,230
Audited operating profit of Ruinian Industry	MOFCOM Records	724,040	651,675	673,287	2,049,002
	AIC Records	724,040	651,675	673,287	2,049,002
Audited revenue of Wuxi Biotech	MOFCOM Records	N/A (Note)	25,612	154,343	179,955
	AIC Records	N/A (Note)	25,612	154,343	179,955
Audited operating profit of Wuxi Biotech	MOFCOM Records	(3,253)	(8,520)	(1,941)	(13,714)
	AIC Records	(3,253)	(8,520)	(1,941)	(13,714)

Note:

Wuxi Biotech was established on 22 June 2010 and its business operation commenced in August 2012 and therefore no revenue was recorded for the year 2011.

The figures in Table 1 above form part of the financial information in the audited consolidated financial statements of the Group for the financial year ended 31 December 2011, 2012 and 2013 which have been audited by Ruinian Industry and Wuxi Biotech PRC auditor, Wuxi Daming Public Accountants* (無錫大明會計師事務所).

Table 2

		2011	2012	2013	Total
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Aggregated revenues of Ruinian Industry and Wuxi Biotech	<i>Based on MOFCOM Records</i>	1,715,879	1,661,728	1,805,578	5,183,185
	<i>Based on AIC Records</i>	1,715,879	1,661,728	1,805,578	5,183,185
Aggregated operating profits of Ruinian Industry and Wuxi Biotech	<i>Based on MOFCOM Records</i>	720,787	643,155	671,346	2,035,288
	<i>Based on AIC Records</i>	720,787	643,155	671,346	2,035,288

The figures in Table 2 above were presented as the aggregate of the audited revenues of Ruinian Industry and Wuxi Biotech and the aggregate of the audited operating profits of Ruinian Industry and Wuxi Biotech for each of the financial years ended 31 December 2011, 2012 and 2013 respectively.

In order to enhance transparency to the public, hard copies of the MOFCOM Records stamped with official chop of Wuxi City MOFCOM and hard copy printouts of the AIC Records are made available for public inspection at the office of the Company's Hong Kong Counsel at 38th Floor, Jardine House, 1 Connaught Place Central, Hong Kong from 9:00 a.m. to 5:00 p.m. for a period of 14 days from the date of this announcement. The Company also welcomes its shareholders and the public to conduct independent search and retrieve the AIC Records of Ruinian Industry and Wuxi Biotech at the local AIC department in their own interests and at their own costs for verifying the financial statements of Ruinian Industry and Wuxi Biotech contained in their respective annual inspection reports.

Unofficial budget figures of a specific market for government internal use

In an attempt to find out and verify the source of the purported "Mofcom filings" presented on pages 5 to 8 of the Report, on 30 October 2015, the Company conducted online search at the official annual reporting database of Wuxi City Government and none of the corporate records or financial data of Ruinian Industry or Wuxi Biotech were publicly available nor were the purported "MOFCOM filings" retrieved. Only when using the password designated to Ruinian Industry and Wuxi Biotech to log in the database and download the records of Ruinian Industry and Wuxi Biotech, the Company noted that the so called "Mofcom filings" appeared to be extract of certain data found in the "foreign exchange reports" in the database. The Company believes that if there is any possibility that the alleged "Mofcom filings" were sourced from that database, such information might possibly have come from the miscellaneous data in those foreign exchange reports. The corporate records and

financial information relating to individual entities in the annual reporting database are not available for access by the public and any data found in the foreign exchange reports are obviously not designated for public reference.

The Company confirms that the financial data found in the “foreign exchange reports” in the database come from certain budget data submitted by the Group to the local district Finance Bureau in around the mid of 2011, 2012 and 2013 at the request of the local government departments, namely, Administrative Committee of Wuxi Taihu National Tourist Report Zone (無錫太湖國家旅遊度假區管委會) (“**Taihu District Government**”), being the competent authority in relation to Ruinian Industry, and Administrative Committee of, Xishan Economic and Technological Development Zone of Jiangsu Province (江蘇省錫山經濟技術開發區管理委員會) (“**Xishan District Government**”), being the competent authority in relation to Wuxi Biotech for their respective internal use. Each year local government departments are required to prepare working plans in relation to introduction of foreign investments to their districts and foreign exchange budget reports. In around mid of each year between 2011 and 2013, Taihu District Government and Xishan District Government requested Ruinian Industry and Wuxi Biotech respectively to submit their budget financial data only for that year in the prescribed format to the local district Finance Bureau to enable Taihu District Government and Xishan District Government to compile their statistics and budget reports in relation to foreign investments. The Group’s finance department then prepared the budgeted income statements (利潤表), budgeted balance sheets (資產負債表) and foreign equity confirmation sheets for foreign invested enterprise (外商投資企業外方權益確認表) of Ruinian Industry and Wuxi Biotech² based on the minimum targeted budget data pre-discussed with the respective government and the Group’s administration department then input the budget data into the prescribed forms of spreadsheets provided by the relevant local district Finance Bureau and submitted them to the relevant local district Finance Bureau. As the budget data were compiled on a conservative approach based on the budgeted sales for Zhejiang Province (including Shanghai) only but not including other sales markets for Ruinian Industry and Wuxi Biotech in other provinces in the PRC, the actual financial performance of Ruinian Industry and Wuxi Biotech for the full years of 2011, 2012 and 2013 which covered sales from all sales markets were substantially different from the budget data submitted to the local government departments.

² The major budget data required in the prescribed form of budgeted income statements of Ruinian Industry and Wuxi Biotech submitted to the local Finance Bureau are sales revenue, cost of goods sold, operating profit, net profit and earning per share.

The major budget data required in the prescribed form of budgeted balance sheets of Ruinian Industry and Wuxi Biotech submitted to the local Finance Bureau are non-current assets, current assets, total assets, current liabilities, non-current liabilities, total liabilities, total owner’s equities, total liabilities and owner’s equities.

The major budget data required in the prescribed form of budgeted foreign equity confirmation sheets of Ruinian Industry and Wuxi Biotech submitted to the local Finance Bureau are actual contribution made by foreign investor in the registered capital, provident funds and retained earnings enjoyed by foreign investor, dividends distributed to foreign investor but not yet been remitted out of China, balance in foreign exchange accounts, amount of distribution to foreign investor that has already been remitted out of China in the year, newly added external guarantee amount in the year.

The Company has obtained confirmation letters issued by the Taihu District Government and Xishan District Government both dated 9 November 2015 which confirmed that the budget filings made by Ruinian Industry and Wuxi Biotech, as the case may be, as described above were requested to be submitted by and only used by Taihu District Government and Xishan District Government respectively in their work planning on introduction of foreign investments to their districts. Such budget data were stored in the Wuxi City government's database for government departments' internal reference and are not intended to be accessed by the public or used for public reference. A copy of the confirmation letters issued by Taihu District Government and Xishan District Government is made available for public inspection at the Company's Hong Kong counsel at 38th Floor, Jardine House, 1 Connaught Place Central, Hong Kong from 9:00 a.m. to 5:00 p.m. for a period of 14 days from the date of this announcement.

Based on the above reasons, the statements under Allegation 1 are therefore substantially misleading and groundless. The Company confirms that the so called "Mofcom filings" and "financial statements" quoted in the Report are not the official MOFCOM Records and AIC Records filed by the Group with the AIC and the local MOFCOM. To purportedly state that the Group's financial information is overstated without verifying them with the publicly accessible audited financial statements filed at the AIC and further mislead readers by alleging certain non-public budgeted data to be official "Mofcom filings" simply illustrate the author's intention to mislead readers, or his recklessness.

Allegation 2: PRC government tax rankings indicate net income a fraction of reported figures

Company's response:

Allegation 2 was mainly about Ruinian Industry not being included in a report alleged to be published by the government of Binhu District, Jiangsu Province, the PRC and thus concluded that the Group overstated the taxes paid by Ruinian Industry and hence the net income of Ruinian Industry for the year 2013.

The Company refutes the allegation for the following reasons:

Tax payments are verified by official tax receipts issued by the relevant local tax authorities

For the year ended 31 December 2013, pursuant to the relevant taxation laws and regulations, the actual amount of total PRC income tax paid by Ruinian Industry was approximately RMB176 million, together with the PRC income tax paid by the Company's other PRC subsidiaries which amounted to approximately RMB20 million, the total amount of "Taxation paid" by the Group as disclosed in the consolidated statement of cash flows in the annual report of the Company for the year ended 31 December 2013 was approximately RMB196 million. These tax payments are verified by the office tax payment receipts issued by the relevant taxation authorities.

Not an official tax report issued by the State Administrative of tax

In the last paragraph on page 10 of the Report, it was alleged that the Binhu District Government released a report regarding its 2013 tax base in which and it only highlighted two companies that paid over RMB100 million in taxes in 2013. By following the link to the website where the alleged report was published, the Company noted that the headline of the alleged report was “Emphasis of works in relation to fiscal, financial, auditing and state-owned assets for this year* (我區明確今年財政金融審計國資等工作重點)” published on 10 March 2014 (the “Documents”) but not the alleged “tax report of Binhu district government” as mentioned in the Report. The Company noted that the Documents was in fact not an exhaustive official tax report issued by the local tax authority of Binhu District or Wuxi City, but was an article discussing about the planning of work emphasis of the Wuxi City government in the year of 2014. From the website quoted on page 11 of the Report, the Company noted that the article was published on the website of the Binhu District Government of Wuxi City at (<http://www.wxzh.gov.cn/bhmb/sitePages/subPages/1360019001484500.html?sourceChannelId=197&did=337878>) under the webpage headed “Invest in Binhu — Foreign economic and trade* (投資濱湖>>外經貿)”, rather than from the official website of Jiangsu Wuxi Municipal Office, State Administration of Tax (“SAT”). The Company further notes that Jiangsu Wuxi Municipal Office, SAT has its own official website at <http://wx.jszs.gov.cn/index.html> and regular reports on amounts and percentages of different categories of taxes are published on the website but the names of individual tax payers are not disclosed in those reports of the Jiangsu Wuxi Municipal Office, SAT;

Not an exhaustive list of taxpayers that paid over RMB100 million of taxes in 2013

The English summary of the extract of that article provided in page 11 of the Report was not an accurate translation of the original text of the article which was written in Chinese “其中：製造業完成稅收40.3億元，華瑞製藥[華瑞製藥有限公司]、工裝自控[工裝自控工程(無錫)有限公司]2家企業稅收超億元 ...”，the Company believes that the correct English translation of such sentence segment should be “among others: tax income from manufacturing industry reached RMB4.03 billion, of which the tax income from the two enterprises namely Sino Swede Pharmaceutical Co., Ltd* (華瑞製藥有限公司) and Koso (Wuxi) Co., Ltd.* (工裝自控工程(無錫)有限公司) exceed RMB100 million...”. The extract of the article clearly did not state or in any way implied that the two enterprises named above were the only two taxpayers of Binhu District or Wuxi City that paid over RMB100 million taxes in the year 2013. To arrive at the conclusion that Ruinian Industry had not paid over RMB100 million and had overstated its taxes paid in the year 2013 based on that article is not logical and ignoring factual information.

Allegation 3: The Company is perpetuating a fraud on the market because the Company employs Mr. Philip Poon who worked in CMED in 2007 and 2008 as a director of finance

Company’s response:

Based on the following reasons, the Company believes that the allegations against Mr. Poon are totally unfounded and malicious and the opinion of Report that the Company is also perpetuating a fraud on the market because of the past connection of Mr. Poon with CMED is totally groundless.

Mr. Poon has never been approached by any regulatory authorities for investigation nor is a party to any legal proceedings filed against CMED.

As confirmed by Mr. Philip Poon (“**Mr. Poon**”), the Chief Financial Officer and company secretary of the Company, he had served as a director of finance (but not a member of the board of directors) of China Medical Technologies, Inc. (“**CMED**”) from July 2007 to June 2008 and he was mainly responsible for assisting and providing supportive work to the then chief financial officer of CMED in mergers and acquisitions. The Report alleged that CMED had perpetuating fraud on the market and accordingly, the Company is also perpetuating a fraud on the market because Mr. Poon had been employed by CMED before. Without commenting on the truthfulness and accuracy of the statements about CMED under Allegation 3, Mr. Poon confirmed that he has never been approached by any regulatory authorities for investigation nor is a party to any legal proceedings filed against CMED in the United States or in any other jurisdictions. In each of the years from 2011 to 2015, Mr. Poon had visited the United States and attended investors conferences hosted by international investment banks and gave presentations on behalf of the Company. The Company is satisfied that Mr. Poon is competent and has been acting with integrity and the required levels of skill, care and diligence that commensurate with his positions as the Chief Financial Officer and company secretary of the Company.

Internal control

Since IPO, the Company has adopted internal control policies and procedures designed and reviewed by independent internal control consulting firm. The Audit Committee of the Company also reviews on a regular basis the effectiveness of the Group’s internal control system against unauthorized monetary transactions or fraud. All the Company’s notifiable transactions are required to be reviewed and approved by the Board of the Company.

Allegation 4: Customers as undisclosed related parties

Company’s response:

Based on the following reason, the Company refutes the allegation that the Group has undisclosed related parties transactions or any violation of the Listing Rules or misrepresentation to Hong Kong investors and regulators.

Confirmation of independence

Wuxi Lianren Trading Co., Ltd.* (無錫聯仁貿易有限公司) (“**Wuxi Lianren**”) has since 2007 been one of the Group’s distributors which mainly distributes health and nutritional products manufactured by the Group. Wuxi Zongwei Logistics Co., Ltd (無錫縱緯物流有限公司) (“**Wuxi Logistics**”) has since 2007 been one of the Group’s distributors which mainly distributes health and nutritional products manufactured by the Group. As disclosed in the Company IPO Prospectus, each of Wuxi Lianren and Wuxi Logistics was an independent third party and not a connected person of the Company within the meaning of the Listing Rules. The Company reiterates and confirms that each of Wuxi Lianren and Wuxi Logistics and their respective beneficial owners has been and is still an independent third party not connected with the Company or any connected person of the Company within the meaning

of the Listing Rules. The Company also confirms that each of Wuxi Lianren and Wuxi Logistics has not been and is still not a related party under the relevant financial reporting standards in respect of related party disclosures.

Inaccurate statements in the job postings

The Company noted the job postings on the two university websites stated on pages 13 and 14 of the Report which purported to describe Wuxi Lianren as a subsidiary of the Company. The Company confirms that the Group had no knowledge of the existence or content of those job postings until the Company's management first noticed the publication of the Report on 22 October 2015 and the purported descriptions of Wuxi Lianren as a subsidiary of the Company. The Company had promptly contacted Wuxi Lianren and requested it to correct the description and remove any incorrect statements that Wuxi Lianren was a subsidiary of the Company or in any way connected with the Group in those job postings. The Company noted that the corrections had already been made to those job postings. Without commenting on whether the incorrect statements in the job postings were inadvertent or intentional on the part of the distributor over which the Group has no control and no prior knowledge of its act, the Company believes the act of an independent third party posting such job postings with incorrect statements and descriptions about itself and the Group unilaterally without the Group's consent does not render such distributor having any connection with the Group, its directors or substantial shareholders as a connected person under the Listing Rules nor a related party under relevant financial reporting standards in respect of related party disclosures.

Wuxi Logistics' address is different from the Group's address

The Report further alleged that Wuxi Logistics had a registered address identical to the Company's subsidiary Wuxi Ruinian Pharmaceutical Co., Ltd. ("**Ruinian Pharmaceutical**"), at No. 102 Furongzhong No. 2 Road, Xishan Economic Development Area, Wuxi City (無錫市錫山經濟開發區芙蓉中二路102號). The Company confirms that the Group has not and is not sharing any premises of members of the Group with Wuxi Logistics or Wuxi Lianren. The addresses of Wuxi Logistics and of Ruinian Pharmaceutical, although with similarities in many Chinese characters, are different and describe different locations.

No relationship between Mr. Wang Fucui and the shareholder of Wuxi Logistics

On page 16 of the Report, it is alleged that one of Wuxi Logistics' shareholders is Ms. Fan Xijuan who is an employee of a company controlled by Mr. Wang Fucui, an executive Director and Chairman of the Company. Mr. Wang Fucui has confirmed to the Company that each of his company and himself has never employed Ms. Fan Xijuan. Mr. Wang Fucui came to know Ms. Fan Xijuan because she was the shareholder of Wuxi Logistics, and Wuxi Logistics has business relationship with the Group as one of the Group's distributors. As Mr. Wang Fucui learnt from Ms. Fan Xijuan that she had encountered similar kinds of commercial dispute in which Mr. Wang Fucui's company was involved and Ms. Fan Xijuan was more familiar with the legal proceedings of such kind of dispute, Mr. Wang Fucui asked Ms. Fan Xijuan to attend the legal proceedings for his company as presented in the litigation case screenshot presented on page 16 of the Report. Mr. Wang Fucui believed that Ms. Fan Xijuan inadvertently stated that she was an employee of Mr. Wang Fucui's company, so that she would be allowed by local court to assist in following up the legal procedures for his

company. It did not alter the fact that each of Wuxi Logistics and its beneficial owners is an independent third party not connected with any connected persons of the Company and is not a related party under the relevant financial reporting standards in respect of related party disclosures.

The Company would wish to state that it has strictly followed the requirements of the Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants in compiling its consolidated financial statements, which reflect the transactions between the Group and its suppliers and customers (which are mainly distributors) in a true and authentic manner. Moreover, the Group has been selecting its distributors based on their reputation, market coverage, sales experience and the scale of their marketing and distribution resources. The Company further confirms that all the transactions between the Group and its suppliers or customers including Wuxi Lianren and Wuxi Logistics were entered into on an arm’s length basis.

Allegation 5: Exaggerated retail presence as retail store count likely exaggerated and Real Nutri’s products either absent or limited at many retailers

Allegation 5a: Retail store count likely exaggerated

Company’s response:

Page 17 of the Report states that although the Group claims to have around 200 Real Nutri Health Stores as at 31 December 2014, an on-site due diligence on 9 of these stores suggested that the Group’s retail store count was likely exaggerated.

The Company strongly refutes this allegation based on the following reasons:

Relocation of stores upon expiry of leases

The Real Nutri Health Store shown on page 17 was closed due to the expiry of the tenancy agreement on 31 December 2014 and it was relocated to another location in Nanjing, Jiangsu in January 2015. The alleged photos on pages 18 and 19 the Report of the stores not being in existence was due to the fact that the stores have changed locations: (i) in respect of the upper photo on page 18, the “Liu He Qu” store in Nanjing, Jiangsu was relocated to another address in Nanjing in August 2015; (ii) in respect of the lower photo on page 18, the Real Nutri Health Store previously located at Nanhuan Road, Xiaoshan District, Hangzhou City was relocated to another location in Hangzhou City in August 2015 due to the expiry of the tenancy agreement in October 2015; and (iii) the photo on page 19 of the store location at No. 36 Yongfeng Road, Wuxi, Jiangsu which appeared to be under construction but by a firm unrelated to the Group was because the original store located there were moved to another shop location on the same street, namely, No. 5 Yongfeng Road, Wuxi, Jiangsu. It is highly questionable why the purported independent investigator would not notice that there is a Real Nutri Health Store located in the same street where they conducted on-site due diligence or tried to contact the Group to find out or clarify the location of the Real Nutri Health Stores. As seen from the above, the Company believes that the purported on-site due diligence alleged to be conducted by the investigator had not been carried out in a diligent manner and up to standard.

The store locations obtained by the investigations are not up-to-date

The Company also believes that the source of information about the store locations alleged to have been relied on by the Report is questionable and such a list of store locations could well be not up to date. Since the lease agreement for each of the Real Nutri Health Stores was entered into on various dates, months and years with different durations, and upon expiry of any of the lease agreements, the relevant Real Nutri Health Store may be relocated to another address or closed down and new Real Nutri Health Store(s) may be opened from time to time, the addresses and status of all Real Nutri Health Stores may change from time to time. The conclusion that the Group has exaggerated the number of Real Nutri Health Stores based on not up to date information is simply unfounded and reckless.

Allegation 5b: Real Nutri's products either absent or limited at many retailers

Company's response:

The 8 pages (from pages 19 to 26 of the Report) of purported evidence in the Report in support of the allegation that the Group's products were either absent or limited at many retailers were grandless as demonstrated below:

Investigation was based on visit to 59 stores out of 80,000 retail outlets

As published in the Company's interim report for the 6-month period ended 30 June 2015, at 30 June 2015, the Group's health products are sold health and nutritional supplement products were sold through approximately 80,000 third-party retail outlets in China, and the Group's pharmaceutical products were sold to about 700 hospitals nationwide. As published in the Company's 2014 Annual Report, the Group's health and nutritional supplement products were sold through third parties' retail outlets which totaled approximately 77,000 points in China as at 31 December 2014, and its pharmaceutical products were sold to about 600 hospitals.

Notwithstanding the large number of retail outlets that sell the Group's products, the total number of retail outlets alleged to have been visited by the purported independent investigator was only 59. Comparing this against the Group's actual numbers of third-party retail outlets of approximately 80,000 as at 30 June 2015 and approximately 77,000 as at 31 December 2014, the investigation only represented a sampling size of approximately 0.073% and 0.076% respectively. By taking such an extremely small sampling size in conducting the purported on-site due diligence of the Group's third party retail outlets, it is extremely unlikely that the so called on-site due diligence results has any reference value.

Unrepresentative samples

The Company has never claimed that the Group's products are sold in each and every stores of Wal-Mart, Auchan, RT-Nart, Vanguard and Suguo (all of which are supermarket stores) and each and every store of LBX, Nepstar and Guosheng (all of which are drug chain stores) all over China. In respect of the retails sales at supermarket stores, the Group has been focusing its resources on second and third tiers cities and towns. Accordingly, the percentages of stores that have the Group's products presented in those 8 pages of the

Report are based on false assumptions and flawed methodologies with disproportionately small sampling size designed to lead to incorrect conclusion and such information and its presentation are therefore unfounded and misleading;

Reliability of the investigation

The author of the Report has not disclosed the identity and background of the so-called “independent investigator” which had allegedly conducted the on-site due diligence visits. With the other unreliable evidence and erroneous and misleading analysis presented in the Report such as the alleged “Mofcom filings”, and the poor quality of the photos taken by an anonymous and untraceable investigator shown on pages 20 to 25 of the Report without sufficient evidence to prove the locations of images shown, the analysis and conclusions based on those photos are simply unconvincing and unreliable.

Allegation 6: Reported expenditures simply not credible in terms of advertising expenses, capital expenditure, expenses on technical know-how and acquisition

Allegation 6a: Advertising expenses not credible

Company’s response:

On page 27 of the Report, it was alleged that “*Real Nutri claimed that it spent RMB320 million, RMB348 million and RMB346 million on advertising expense in 2014, 2013 and 2012, respectively, ...*” and “*the Company’s spending is unusually high on both an absolute and relative basis when compared to other nutritional supplement and health drink companies. Yet the Company has comparatively little to show for such enormous expenses.*”

As demonstrated below, the Company strongly refutes such allegations and the statement of “*Yet the Company has comparatively little to show for such enormous expenses*” is simply groundless with no supporting evidence at all in the Report.

Group’s major promotional and marketing activities

In respect of products targeted at consumers in second and third tiers cities in the PRC, the Group has organized promotional events include setting up booths at retail outlets where the Group’s sales and marketing personnel explain the benefits and characteristics of the products, conducting small promotional games and distributing product samples or other promotional souvenirs, organizing promotional events by conducting promotional conferences, particularly in regions in which the Group intended to increase the penetration of its products, displaying large-sized outdoor advertisement in highways, train stations, large billboards, sponsoring various athletic races, sports games, charitable activities, beauty contests and parties. The scale of the Group’s promotional campaigns ranges from a single retail outlet to an entire province, depending on the type of promotion, targeted region and season. The Company believes that these promotional campaigns help the Group in establishing direct contact with end-users of its products, thereby enhancing its brand image as well as allowing it to obtain direct customer feedback. The Group also distributes marketing posters and souvenirs from time to time.

TV advertising and spokespersons

To enhance customer awareness and brand recognition, the Group also advertised its products on both national and regional television networks. It has launched a nation-wide advertisement campaign on major television stations in China, including China Central Television, or CCTV, and more than ten national satellite television stations. The group also engages in consumer advertising and educational campaigns in newspapers, magazines, billboards and electronic media, and through celebrity spokesperson endorsements and promotional campaigns. Mr. CHEN Baoguo (陳寶國), a well-known PRC actor, has been the Group's spokesperson since 2007. In its efforts to promote our Shun-branded herbal tea, the Group also appointed Mr. GE You (葛優), a well-known PRC actor, as the Group's brand spokesperson from 2008 to 2012. In Hong Kong, the Group has engaged KWAN Wing Ho (關詠荷), a well-known Hong Kong actor, as the Group's spokesperson from 2010 to 2012.

Amount of advertising expenses does not necessarily correlated to brand ranking

The Company also strongly disagrees with the author's statement that *"By comparison, Real Nutri is a regional brand with a presence in Eastern China. It is credible that its reported advertising foot print matches some of China's most popular national brands? We think not."* The Company also strongly refutes the allegation that *"Such reported spending is simply not credible. Even though it spends less than half the amount of Real Nutri on advertising, By-Health is a nationally recognized brand that has marshaled advertising campaigns led by famous athletes such as Yao Ming"* on page 28 and the statement *"We do not believe that such reported expenses are credible, rather we believe that such expenses are a convenient black hole on the Company's income statement to swallow some of its fabricated "profits"."*

The Company believes what the author thinks is totally groundless. More popular brands do not necessarily spend more on advertising in comparison to the relatively less well-known brands such as the Group which is still in its development stage and striving for rapid growth in market share and penetration. The Company believes that it is reasonable to expect a company like the Group which is not among the first tier popular brands in the PRC but has ambition to grow to the next level to spend more of its revenue on advertising to promote further public awareness.

The top 30 spenders shown in the Report are not companies comparable to the Group

Without admitting the authenticity of the information and figures about the companies listed on the Shanghai and Shenzhen exchanges as shown in the purported screenshot table on page 27 of the Report, the Company wants to point out the statement *"To put Real Nutri's absurd advertising expenses into context, if true, Real Nutri would be among the top 30 spenders on advertising of all Chinese companies listed on the Shanghai and Shenzhen exchanges:"* and the table with rankings on biggest spenders on advertising presented on page 27 of the Report were presented as related but in fact they are not related. The rankings table only purported to list out the top 30 advertising spenders that are listed on the Shanghai and Shenzhen exchanges with their stock codes set out on the second left hand side column. The Company is not listed on the Shanghai Exchange or Shenzhen Exchange. Obviously, the Company should not appear on that list. Moreover, none of the 12 selected

companies listed on that table were in the health products industry. Accordingly, the advertising expenses of those purported big advertising spenders and that incurred by the Group are not comparable and have no reference value.

Taking a closer look at the source of the purported rankings table, the Company noted that the rankings table was extracted from an article published on the internet (http://news.xinhuanet.com/yuqing/2015-03/11/c_127569515.htm), in which it was stated that the methodologies employed to generate the rankings were based on online surveys, yet how they were conducted, the size of pools of respondents, the underlying assumptions, the scope and sampling criteria of such surveys were not clearly defined or disclosed and there were no assurance as to the reasonableness of the underlying assumptions. The Company believes that the author's conclusion is unfounded and relied on ranking table with questionable accuracy and accountability is reckless and misleading to shareholders and the public.

Allegation 6b: Questionable capital expenditure

Company's response:

Based on the following reason, the Company strongly refutes the allegation that the Company has fabricated its capital expenditure to mask inflated sales and profits.

Construction of production facilities

From 2011 to 2013, substantial capital expenditures were invested in the construction of the Group's health drinks production facilities, the new health and nutritional production facilities and upgrade the equipment and facilities for pharmaceutical production in the PRC. In 2014, substantial capital expenditures have been invested into the construction of the Group's two new production bases in Suqian, Jiangsu, PRC and Suzhou, Anhui, PRC.

The detailed addresses, products or functions of each of the production facilities, capital expenditures invested in each of the years ended 31 December 2011, 2012, 2013 and 2014 and the latest status of each of the production facilities are set out in Appendix 1 to this Announcement. The capital expenditures on the seven production facilities for each year disclosed in Appendix 1 can be reconciled with the Purchase of property, plant and equipment and Deposits paid on acquisition of property, plant and equipment in the consolidated statement of cash flows in the Company's annual reports in each year of 2011, 2012, 2013 and 2014.

Beneficial to its long term development

The Group regards all the capital expenditures are necessary for the long term development of its business. Production buildings and related infrastructure have been built in the last few years to fulfill the expansion needs in next 5 years where production facilities for new products will be installed by phases according to market demand and business outlook. The Group's peers or indirect competitors may adopt different capex schedule and business models which would best fit their respective strategies. The Group's core competence lies in the amino acids know-how and production technology, and thus the Group's capital investment will tend to be relatively bigger than those of its peers who may put more

emphasis on brand building, expansion of retail points coverage or distribution by third parties or imported health supplement products. As such, the analysis and conclusion made by the Report are of very limited reference value.

Allegation 6c: Mystery of advanced technical know-how

Company's response:

As explained below, the alleged figures presented as “*Increase (decrease) in Technical know-how*” in the table on page 31 of the Report are not correct and misleading.

Consistent with the figure plans stated in the IPO prospectus

The Report attempts to question the substantial payments for acquisition of technical know-how and that the technical know-how are pending to be licensed with prolonged expected licensing period. As disclosed in the section headed “Future plans and use of proceeds from the Global Offering” in the Company's IPO Prospectus, among others, approximately RMB33.6 million of the net proceeds raised in the initial listing and offering of shares of the Company in 2010 (“**IPO**”) were allocated to be used for product development, of which 60% will be used for further development of nutritional supplements and general health food products and 40% will be used for research and development of pharmaceutical products. The Company considers that the continued investment in development of new products by acquisition of technical know-how since the IPO are in line with the Group's strategies to develop new amino acid-based products, expand and diversify the types of nutritional supplements and general health food products, health drinks and pharmaceutical products as disclosed in the Company's IPO Prospectus.

Cooperation with a research institute since 2010

In implementing this strategy, in late 2010, the Group entered into various agreements with a research institute which is an independent third party research company in the PRC pursuant to which the research institute until conduct researches on new products and ultimately will transfer all the rights associated with the research results and technical expertise in the form of technical know-how to the Group for its manufacturing of the newly developed health products and pharmaceutical products for commercial purposes. Further information about the Group's business operations regarding product development have been disclosed in the section headed “Business — Product Development” in the Company's IPO Prospectus.

Long research and approval process

Pursuant to the terms of the agreements and in line with general market practice, the Group was required to make advance payments to the research institute for funding the costs of carrying out the researches and applying for registration by government authorities. Pursuant to the agreements, the transfer of a technical know-how or formula can only be done after the grant of the relevant licenses and permits by the relevant PRC authorities. According to PRC laws and regulations, all nutritional supplements and pharmaceutical products must be approved by the China Food and Drug Administration (中華人民共和國國家食品藥品監督管理局) (“CFDA”) before they can be marketed and sold in the PRC. From the Group’s experience, it often takes a number of years before a product is approved by the CFDA. This is corroborated by an announcement published by the CFDA on 31 July 2015 titled “Announcement on Consultation of Certain Policies to Accelerate the Resolution of the Backlog of Drug License Application for Registration of the CFDA (Issue No. 140 of 2015) (國家食品藥品監督管理總局關於徵求加快解決藥品註冊申請積壓問題的若干政策意見的公告(2015年第140號))” dated 31 July 2015 on the website of CFDA at <http://www.sfda.gov.cn/WS01/CL0087/125660.html>, in which the CFDA admits that the backlog of drug applications needs to be resolved and it sought consultation on its proposals to reduce the backlog problem and expedite the approval process.

Besides the long review and approval time by the CFDA, the research institute is required to conduct vast amounts of preliminary works before its filing of the application with the CFDA including researching, selecting drug formula, preparing technological demonstration documents, selecting the function, conducting testing and trials and conducting market research. After filing the application, besides the waiting time before CFDA starts to review the application, the research institute is also required to answer enquiries, modify its application documents, conduct further testing and research and waiting for the examination of the drugs to be conducted by the CFDA. Further, the Group may also face further delays in production due to regulatory restrictions as the CFDA and other regulatory authorities may apply new standards for safety, manufacturing, packaging, and licensing of new products, and that complying with such standards may be time-consuming and expensive and could result in delays in obtaining CFDA approvals for the Group’s product applications, or possibly preclude the Group from obtaining CFDA approvals. All of these have been disclosed in the “Risk factors” section of the Company’s IPO Prospectus.

Transfer of technical know-how from 2009 to 2014

For ease of reference, details of the beginning balance, additions, transfer to intangible assets and ending balance of the advance payments appeared on the balance sheet of the Group's audited consolidated financial statements for the years from 2009 to 2014 are summarized in the table below:

	2009	2010	2011	2012	2013	2014
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Opening balance of advance payments for acquisition of technical know-how as at 1 January	—	27	66	175	162	156
Advance payments for acquiring addition of technical know-how in the year	27	39	118	27	5	1
Amount transferred to intangible assets in the year	<u>—</u>	<u>—</u>	<u>(9)</u>	<u>(40)</u>	<u>(11)</u>	<u>(45)</u>
Ending balance of advance payments for acquisition of technical know-how as at 31 December	<u>27</u>	<u>66</u>	<u>175</u>	<u>162</u>	<u>156</u>	<u>112</u>

The Company also strongly refutes the author's conclusion that this balance sheet items appear fabricated and a sham of expenditures designed to mask fabricated profits. The author comes to this conclusion without providing any evidence in support, but it also illustrates the author's lack of industry knowledge and ignorance of factual information. The amount of advance payment for acquisition of technical know-how as disclosed in the Company's consolidated financial statements for the year ended 31 December 2014 covers over 20 products which have been agreed to be transferred to the Group. Currently there are still over 10 health and nutritional products and over 10 pharmaceutical products in progress of applying for the approval and registration by CFDA. Based on the latest available information to the Group, the Group anticipated that for health and nutritional products, around two to three products will be obtained in 2015 and around three to four products will be obtained in 2016 and 2017, and for pharmaceutical products, the Group anticipated that the approvals could be obtained in phases in 2016. Once the transfers are completed, the Group intends to apply those technical formulae to manufacture a line of products or several lines of products including health and nutritional supplements and pharmaceutical products under the Group's brand names. The conclusion that the acquisition consideration of such substantial amounts of technical know-how as being unreasonably high without knowing the quantity, the content and the potential commercial value is totally groundless, reckless and misleading. The author commented that "*Real Nutri is not purchasing protected intellectual property, such as patented formula*". This is simply not true. All those technical know-how

which are the subject matter of the transfers, even though not yet patented, are protected by the confidentiality agreements entered into between the research institutes and the Group. Besides applying for registration of patent, the technical know-how is protected as trade secrets/proprietary information and/or copyright by confidentiality agreements.

Allegation 6d: Sham Acquisition of Anhui Province Shuangke Pharmaceutical Company Limited in 2014

Company's response:

The author again presented a screenshot of an alleged “Mofcom filings” of Anhui Province Shuangke Pharmaceutical Company Limited (“**Anhui Shuangke**”). **The Company believes that the author of the Report made the same mistake as in Allegation 1, namely, using alleged “Mofcom filings” are not the official records retrieved from MOFCOM.**

Alleged Mofcom filings are not the true Anhui Shuangke AIC Records and the Anhui Shuangke MOFCOM Records

As explained under the Company's response to Allegation 1, MOFCOM filings are not publicly available. Whereas the records at AIC can be retrieved by the public. In order to verify the audited accounts filed with the relevant PRC government authorities, the Company, on 26 October 2015, retrieved the financial information records of Anhui Shuangke from Anhui Hefei City AIC (“**Anhui Shuangke AIC Records**”) and the financial information records of Anhui Shuangke from MOFCOM's online system (“**Anhui Shuangke MOFCOM Records**”), which clearly showed that the “Retained earnings” of Anhui Shuangke in 2014 is RMB44,873,354, instead of a loss of RMB28,591,092.02 as shown on the Report. On 2 November 2015, the Group brought the hard copies of the Anhui Shuangke MOFCOM Records to the supervising authority of Anhui Shuangke, namely, the New High-Tech Industrial Development Zone, Hefei, Anhui Province (安徽省合肥高新技術產業開發區), which is the local authority where Anhui Shuangke filed its statutory annual reporting documents since the year ended 31 December 2014, and requested the administration service counter to check and verify the Anhui Shuangke MOFCOM Records retrieved by the Group. The authority has checked and confirmed that the Anhui Shuangke MOFCOM Records are accurate and stamped its official examination and approval chop onto the hard copy of Anhui Shuangke MOFCOM Records retrieved by the Group.

In order to enhance transparency to the public, copies of the Anhui Shuangke MOFCOM Records stamped with the official examination and approval chop of the supervising authority and the Anhui Shuangke AIC Records will be made available for public inspection at the office of the Company's Hong Kong counsel at 38th Floor, Jardine House, 1 Connaught Place Central, Hong Kong from 9:00 a.m. to 5:00 p.m. for a period of 14 days from the date of this announcement.

Alleged overstatement of intangible assets of Anhui Shuangke is incorrect

In respect of the allegation that the Company claimed the value of approximately RMB306 million in intangible assets of Anhui Shuangke in the 2014 Annual Report, the Company would like to point out the such value is clearly disclosed under the item of “**Fair value** of assets acquired and liabilities recognized at the date of acquisition” in page 102 of the 2014 Annual Report, but not the book value of the intangible assets of Anhui Shuangke at the

time of acquisition. In the Company's announcements dated 29 June 2014 and 21 July 2014 in relation to the discloseable transaction of acquisition of 60% equity interest of Anhui Shuangke, the Company has disclosed that the consideration of the acquisition was based on, among other things, the fair market value of the business enterprise value of the target group as indicated in the valuation report issued by an independent valuation specialist and also the principal assumptions, including commercial assumptions, used by the independent valuation specialist in estimating the fair market value of the target group. Without commenting on the authenticity of the so called "Mofcom filings", the Company believes that the author has mixed up the fair value and book value as they are estimated based on different assumptions. Accordingly, the allegation that the fair value of intangible assets of Anhui Shuangke in the 2014 Annual Report has been overstated is clearly misleading and has no reference value.

Allegation 7: Retail sales data indicates fabricated reported sales

Company's response:

The Company refutes the allegation that the Group's retail sales data are fabricated reported sales based on the following reason:

No evidence to support its allegation except the conversation with unnamed industry expert

Referring to the statement "Based on conversation with industry experts, we estimate that at least 25%-30% of Real Nurti's sales are through pharmacies and drug stores" on page 36 of the Report, the source and accuracy of such information is highly questionable, with purported "industry experts" remaining anonymous in the Report and, apart from mentioning the alleged conversations with these so called industry experts, not a single trace of the evidence of the estimation made by the author in the second paragraph on page 36, if it exists at all, was provided in the Report. In view of the Report has used highly questionable techniques and presented false and misleading information throughout as demonstrated above, the reliability and reasonableness of the estimation made by the purported industry experts or the author of the Report are highly doubtful.

Lack of details on methodologies and sampling size of the CMH ranking

Without commenting on the authenticity of the purported research data of CMH presented in the Report, the Company notes that in the website quoted on page 36 of the Report where the purported research result is presented by CMH or its affiliated companies, there is no disclosure of the methodologies used in such research, the sampling size and underlying assumptions behind the results. CMH has never approached the Group to obtain the Group's sales data. It follows that CMH would not have the necessary sales data of the Group for it to take into consideration in compiling the list.

Allegation 8: Real Nutri's supposed efficiency almost impossible

Company's response:

The Company firmly refutes the allegation that the Group's revenue per employee being substantially higher than the three other health supplement brands quoted on page 40 of the Report, namely, By-health, Jiao Da Onlly and Tai Tai, and thereby the Group's revenue is exaggerated, as the Company believes such conclusions are based on incorrect assumptions and insufficient information.

A majority of the Group's sales revenue comprises sales to distributors which are much larger in scale compared to retail sales. The Group's sales representatives are mainly responsible for developing and following up sales made to distributors rather than retail customers. As at today, the Group has in total around 60 regional distributors with which the Group is maintaining business relationships. The Group's sales to retail customers are mainly made by offering the products for sale at third party retail outlets (approximately 77,000 third party retail outlets as at 31 December 2014). During peak seasons, the Group may have arrangements with its distributors to organize promotional sales and may employ additional sales representatives on a part-time basis. These part-time sales representatives which may be up to a few hundred in number during the peak seasons are not reflected in the Group's total number of employees as of the year-end date disclosed in its annual reports.

Other companies may be operating on a different business model with emphasis on retail instead of distribution sales may need to employ more employees at the front line retail stores so that those companies may have a seemingly lower so called "productivity", which may not be comparable to the Group's unless they operate under substantially the same business model and marketing channels.

Allegation 9: Inexplicable short-term borrowings

Company's response:

As explained below, the Company refutes the allegation that the Company's reported cash reserves are significantly overstated because the Group has taken out short terms borrowings despite the Company has a large cash balance of exceeding approximately RMB1.3 billion in each of the years from 2012 to 2014.

The alleged implied interest rate is inaccurate

The purported "*Implied interest rate*" presented on page 41 of the Report cannot represent the interest rates paid by the Group for its short term borrowings as the short term loans amounts disclosed in the Company's annual reports were the balances of short term loans as at the year-end date, but not the aggregated short term loan amounts borrowed by the Group for the whole financial year, while the interest expenses amounts represent the total amount of interests paid by the Group for the aggregated short term loan amounts borrowed by the Group for the whole financial year. Therefore, the purported "*Implied interest rate*" presented on page 41 of the Report are substantially misleading. As disclosed in the Company's annual reports for the years of 2012, 2013 and 2014, the bank loan interest rates paid by the Group for its short term bank loans were approximately 6.0% to 6.9%, 6.0% to

6.9% and 5.6% to 7.2% respectively. This is another illustration of the author's attempt to mislead shareholders and the public by deliberately presenting selective information (false or otherwise) in a misleading way to support its malicious unfounded allegations.

The Company hereby presents details of the amounts of short-term loans that had been drawn down and repaid during each of the years ended 31 December 2012, 2013 and 2014 and the use of the short-term loans drawn:

	2012	2013	2014
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Short-term loans balance as at 1 January	127	195	435
Short-term loans drawn down for the year	670	568	1,025
Addition from acquisition of a subsidiary	—	—	6
Short-term loans repaid for the year	<u>(602)</u>	<u>(328)</u>	<u>(582)</u>
Short-term loans balance as at 31 December	<u>195</u>	<u>435</u>	<u>884</u>

The figures presented in the above table form part of the audited consolidated financial statements of the Company for the year ended 31 December 2012, 2013 and 2014. Apart from the approximately RMB6 million short-term loan during 2014 resulting from the acquisition of a subsidiary, Anhui Shuangke, the short-term loans drawn down in each of the years of 2012, 2013 and 2014 were used for purchase of machinery, equipment, intangible assets such as the prepayments for research and development and transfer of the technical know-how and the general working capital.

Provide Flexibility and additional fundings to meet future needs

In order for the Company to meet its working capital needs and potential funding needs for the Group's potential merger and acquisitions which may be identified by the Group from time to time, such as Anhui Shaungke acquired by the Group in 2014 and the Potential Acquisition as disclosed in the Company's announcement dated 5 October 2015, the Company will take into consideration the credit environment, availability of credit facilities, interest rates, equity fund raising market and the amount of the funding needs to adopt different fund raising methods, such as borrowing long term loans or conducting equity fund raising to raise relatively larger amounts of funds to satisfy the Group's long term funding needs such as the Potential Acquisition and short-term loans as a quick liquidity resource for relatively small amounts of funding needs. Besides, borrowing of short-term loans will help the Group to maintain a good relationship with the banks and build up the bank's trust in the Group so that the existing banking facilities could be maintained and will not be cancelled due to unutilization for a long period of time and it also facilitates the Group in obtaining banking facilities for long term loans in the future in case such funding needs arise.

Allegation 10: Serial capital raiser and the illustration of dividends

Company's response:

The allegation of the Report that the Company paid dividends not out of profits generated from business but from the proceeds of debt and equity fund raising activities is unfounded and showed a lack of basic accounting knowledge of the author.

Pursuant to HKFRS and the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), a company can only make distribution such as dividend out of its realized profits. Proceeds raised from equity and debt fund raising are share capital and debt of the company and are not distributable to shareholders without sufficient profits from its business and distributable reserves, or through capital reduction. As clearly seen from the annual reports of the Company, the Group has realized profits from its business since the financial year ended 31 December 2010 up to 2014 which have been sufficient for the payment of dividends in the respective financial year.

Like other parts of the Report, despite presenting many tables, charts and information such as those on page 43 and 44 of the Report, it does not mask or disguise the fundamental flaw in its analysis and an attempt to mislead shareholders and the public by presenting misleading information recklessly without proper verification.

Allegation 11: Chinese SOE quietly cashed out at a loss

Company's response:

The author alleged that Newport Consulting Limited (“**Newport**”) has converted all its convertible bonds on 10 July 2015 with the converted Shares being held by its nominee means that Newport has fully exited its position as a shareholder of the Company and trying to portray the action as Newport exiting at a loss and thereby signaling a red flag with respect to the Company and “*the Company has attempt to spin the conversion as a positive development*”.

The Company clarifies that it has never attempted to or actually commented on or speculated the reasons of Newport's decision to the conversion on 10 July 2015 either in announcements or its press releases. The Company is not in a position to confirm Newport's decision to convert its convertible bonds. But the Company believes such conclusion of the author seems irrational and illogical. If a convertible bondholder is desperate to exit its investment because of any red flags discovered in relation to the financial or business operation or whatever aspects of its invested company, it would declare that an event of default has taken place and demand immediate redemption of the bonds, and not choose to fully convert into shares which ranks lower on priority in recovery of funds, and seems even more peculiar given that Newport will be receiving the full investment amount in cash on the maturity date of such convertible bonds, namely, on 22 July 2015, which was only 12 days after the date of conversion.

Allegation 12: Valuation

Company's response:

The Company strongly refutes the allegation that the Company has inflated the value of assets such as its cash reserves. As disclosed in the 2014 Annual Report, the Group had bank balances and cash of approximately RMB1,904 million which are supported by monthly bank statements and deposit certificates issued by banks to the Group from time to time. The allegation that the bank balances and cash of the Group are overstated without any supporting evidence is totally baseless and misleading.

The author's purported opinion that the Company's equity is worth HK\$0.00 means that the author is intentionally ignoring factual information that the Company has net assets of approximately RMB4,469 million and bank balances and cash approximately RMB1,904 million as at 31 December 2014, as disclosed in the Company's audited consolidated financial statements.

CONCLUSION

As stated above, the Company reiterates that the allegations in the Report are groundless and contains misrepresentations, malicious and false allegations and obvious factual errors. The Company believes that it is likely that a repeated theme and methodology used in the Report is to pre-determine certain false findings and then selectively mix up inaccurate data with selected unverified information to corroborate such false findings. The Company reserves its right to take legal actions for damages or other relief against such entity and/or associated individual(s) and anyone responsible for disseminating misleading and malicious statements designated to manipulate the price of the Company's Shares for their gains.

To safeguard the interests of all shareholders of the Company, Mr. Wang Fucai, a substantial shareholder of the Company, has confirmed to the Company that, he is considering to increase his shareholding in the Company (by himself or through his controlled corporations) through on-market purchase(s) to stabilise and reflect the true value of the share price of the Company, subject to full compliance with the Listing Rules and other applicable laws and regulations, and without incurring any obligation to make any mandatory general offer to acquire all outstanding issued securities of the Company under the Code on Takeovers and Mergers.

CONFIRMATION FROM THE COMPANY'S AUDITORS

The Board confirms that all the consolidated financial statements of the Company for the years ended 31 December 2011, 2012, 2013 and 2014 have been audited by Deloitte which issued unqualified audit opinions of the Group's consolidated financial statements throughout all those years. As at the date of this announcement, Deloitte has not withdrawn or revised its unqualified audit opinions in the auditors' reports in respect of the Group's audited consolidated financial statements for the years ended 31 December 2011, 2012, 2013 and 2014.

OPINIONS OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS AND THE AUDIT COMMITTEE

The Directors, including the independent non-executive Directors and the audit committee of the Board have reviewed the Report, the responses set out in this announcement and relevant evidence prepared by the Company as disclosed in this announcement and submitted to the Stock Exchange, and discussed in detail among themselves and with the management of the Company. On this basis, the independent non-executive Directors and the audit committee consider that the allegations in the Report are groundless and that it contains various malicious misrepresentations, malicious and false accusations and obvious factual errors. They agree with the Company's responses to the allegations as set out in this announcement.

For the benefits of the Company's shareholders and to further enhance public confidence, the board and the audit committee of the Company decide that the Company shall voluntarily engage an independent professional Big Four accounting firm to conduct an independent review on all the allegations and the Group's rebuttal of the allegations presented by the author of the Report. The Company expects the result of the independent review to be conducted by the independent professional Big Four accounting firm be disclosed by the Company in its announcement to be published in due course. The Company will publish further announcement(s) to inform shareholders of any update in this regard as and when appropriate.

Further allegation

Subsequent to the publication of the Report, the issuer of the Report referred to an article on the website of Wenweipo News on 3 November 2015 containing a statement from the Company's chairman, Mr. Wang Fucui, that the Company's staff continues to work 24 hours to produce products ("**Statement**"), and alleged that the Statement was incorrect as its investigator noted that two of the Company's principal factories in Wuxi were shut down in the evening during the period between 17 and 18 November 2015.

The Company refutes the above allegation as its two health supplements production facilities in Wuxi were operating day and night on 3 November 2015 (the date on which Mr. Wang Fucui made the Statement) and subject to the amount of orders and time for delivery, the two facilities may operate 24 hours from time to time during peak season in preparation for the increase in sales.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 1:51 p.m. on Thursday, 22 October 2015 pending the release of this announcement. The Company has applied to the Stock Exchange for resumption of trading in its shares on the Stock Exchange with effect from 9:00 a.m. on Monday, 28 December 2015.

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
Real Nutriceutical Group Limited
Wang Fucai
Chairman

The People's Republic of China, 24 December 2015

As at the date of this announcement, the executive Directors are Mr. Wang Fucai, Mr. Yu Yan, Mr. Li Lin, Mr. Yi Lin, Mr. Zhang Yan and Ms. Au-Yeung Kam Ling, Celeste; the non-executive Directors are Mr. Ip Tak Chuen Edmond and Mr. Tsang Tse Wai, Claudius, and the independent non-executive Directors are Dr. Wong Lung Tak Patrick, BBS, J.P., Dr. Fong Chi Wah, Mr. Xu Hua Feng and Mr. Chan Kee Ming.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

* *Unofficial English translation denotes for identification purposes only*

APPENDIX 1

Products/functions of the production base	Address	Capital expenditures invested as at 31 December				Latest status
		2011 (RMB million)	2012 (RMB million)	2013 (RMB million)	2014 (RMB million)	
1. Health supplement production base	68 Meiliang Road, Mashan, Wuxi, Jiangsu, PRC	59	24	14	69	In use for production
2. Health supplement production base (new)	No. 36, Changkang Road, Mashan, Wuxi, Jiangsu, PRC	53	77	183	130	In use for production
3. Health drinks production base	No. 111, Furongzhong No. 1 Road, Xishan Economic and Technological Development Zone, Wuxi, Jiangsu, PRC	168	99	11	0	In use for production
4. Pharmaceutical production base	No. 169, Jiangjun Road, Jiangning Economic and Technological Development Zone, Nanjing, Jiangsu, PRC	27	71	162	41	In use for production
5. Eye drops production base	No. 80, Kexue Road, Hi-tech Zone, Hefei, Anhui, PRC	0	0	0	0	In use for production
6. Next-generation polypeptide production base	The Cross between the North No. 6 and No. 7 Road, Yanghexinqu, Suqian, Jiangsu, PRC	0	0	70	131	Under construction
7. Raw material plantation base	The Cross between Chujiang Road and Suzhou Road, Suma Modern Industrial Park, Suzhou, Anhui, PRC	0	0	62	100	Under construction
	Other property, plant and equipment expenses on the production bases	67	50	40	61	
	Total capital expenditure	374	321	542	532	