



ZHONGKUI RESEARCH

钟馗研究

Company: Hua Han Health Industry Holding Limited | HK 00587

Industry: Health

Recommendation:

Stongly Sell

Price
(as of 22/09/2016):

HKD 0.55

Market Cap:

HKD 4.29 billion

Daily Volume:

**38.8 million shares
(avg.3 months)**

Price Target:

HKD 0.00



Hua Han Health Industry Holdings Limited ("Hua Han") is a fraudulent company that is engaged in Chinese medicine and bio-pharmaceutical medicine in the People's Republic of China and involved in the provision of hospital management services and in the hospital supply chain business. Through our due diligence and research, we have found that Hua Han has significantly inflated their capex to balance the cash fabricated from their inflated revenue and/or have simply stolen money away from their shareholders. Either way, we urge the SFC and the HKEX to step in with an investigation, to cleanse the bad reputation of the Hong Kong stock market as a fraud haven, and to protect minority shareholders in Hong Kong. Our conclusion on this case is Delisting and Regulatory Prosecution.

i. Overstatement of capex in Liupanshui Liangdu People's Hospital (六盘水凉都人民医院): As of June 30, 2015, the construction cost of RMB 182 million should be included under CIP for this project based on project progress, which is only ~42% of Hua Han's disclosure of RMB 428,748,800. **While the total investment of the hospital project is RMB 908 million, the company claimed only 59% of this amount in its annual report.**

- ZHONGKUI conducted a site visit on December 10, 2015 and learned that this project had completed roof sealing in October 2015 while its interior construction is still ongoing.
- Contract value: Total contract value stood at ~RMB 908 million, RMB 490 million for infrastructure construction and RMB 418 million for building construction. Up to December 2015, only 70% of the building construction had been completed and infrastructure construction had not yet started.
- CIP calculation: As of June 30, 2015, 70% of the engineering work has been completed and engineering investment was estimated to be RMB 260 million. As a result, the construction cost of only RMB 182 million should be included under CIP, which is ~42% of the company's disclosure of RMB 428,748,800.
- The project bidding notification (www.gzzbw.cn/plus/view.php?aid=138886) also stated the total investment was estimated to be ~RMB 900 million, only 59% of the amount claimed by the company.

ii. **Overstatement in capex of Hanfang's plant in Guiyang Shawen Industrial Park:**

In 2014FY, according to our due diligence, only ~30% of construction was completed as of June 30, 2014 and thus only RMB 27-30 million (given total RMB 90-100 million contract value) should be recognized as CIP for this project in 2014FY, which is only 39%-43% of Hua Han's disclosed figure of RMB 70 million. **The total contract value for Hanfang's new plant is between RMB 90-100m, only 56% of what the company claimed in its annual report.**

- Project progress: This project is said to have started construction in January 2014 and project acceptance occurred in July 2015. The construction period lasted 18 months.
 - Progress in 2014FY (ended as of June 30, 2014): Approximately 30% of the construction work was completed as of June 30, 2014.
 - Progress in 2015FY (ended as of June 30, 2015): The major buildings, pre-treatment workshop, liquid formulation workshop, office building, and R&D building are 100% completed as of June 30, 2015. ~95% of the construction of the dormitory and solid formulation workshop is completed.
- Project value: Sources from Zhongfu Construction disclosed that the initial contract value stood at RMB 80 million. In 2015 Hanfang required Zhongfu to build additional facilities, one water treatment pool and one boiler room (锅炉房). As a result, the total project value came to RMB 90-100 million in total.

iii. **Overstatement in Investment in Factorr stem cell project:** Hua Han disclosed that the total investment of the JV between Guizhou Factorr, Guizhou Hanfang and Shenzhen Beike would be RMB 300 million. However, ZHONGKUI has found that **the total investment in the Factorr stem cell bank incurred is only RMB 34.5 million, 88% less than the RMB 300 million claimed in the company announcement:**

- Equipment expense of this project stood at RMB 14.05 million.
- As for the plant, initially the stem cell bank was using space at Factorr's old plant. After Factorr built two new buildings in the second half of 2013, the stem cell bank was moved to one of the new buildings. According to the general contractor, the construction cost of the two new buildings was only RMB 10-20 million.

iv. **Overstatement in land acquisition cost:** Based on expert interviews, ZHONGKUI confirmed Hua Han acquired ~500mu land in Shawen Ecological Industrial Park at

RMB 168,000 per mu and the total consideration was RMB 80-90 million, merely 32%-36% of the RMB 250 million disclosed by the company. The land was already readily useable for construction work and didn't require any further primary development such as compensation for farmer relocation, surrounding auxiliary facilities, and geological exploration, as Hua Han had claimed in its announcement on August 17, 2016. The disclosed unit price by the company is RMB 480,000 per mu, almost three times as much as the amount received by the owner of the park, Guiyang High Technology Holdings Group.

- Unit price: Our three sources, former senior management of Guiyang High Technology Holdings Group (贵阳高科控股), staff of Guiyang National High-Tech District Administrative Committee (贵阳高新区管委会) and officials of Guiyang Baiyun District Bureau of Land and Resources (贵阳白云区国土资源局), disclosed in 2011 that Factorr acquired the land at a cost of RMB 168,000 per mu, which is the benchmark price for industrial use land, as regulated by the Guiyang Municipal Government.
- These three sources are consistent with the fact that the Company acquired ~500 mu land in Shawen Industrial Park. The total consideration was RMB 80-90 million and the land was ready for use. Hua Han didn't have to pay anything extra to the government nor need to further develop the land.

- v. **Falsification of drug sales:** ZHONGKUI has acquired the hospital sales data from IMS to compare against Hua Han's reported numbers. IMS provides data tracking services to established pharmaceutical companies in China and is considered a go-to data vendor by healthcare consulting firms such as BCG, LEK and ZS Associates. IMS data showed only 1/7 of the revenue that was claimed by the company and is closer to the SAIC filing data of three of Hua Han's major subsidiaries detailed in Emerson Analytics' report dated August 10, 2016. We therefore believe that Hua Han has indeed massively inflated its revenue, which also explains why Hua Han needs to inflate its capex: they need to balance out the fake cash balance from the fabricated earnings.

We have concluded that Hua Han is worthless and that its management must be criminally prosecuted. We urge the SFC and HKEX to step in and investigate them, to cleanse the bad reputation of the Hong Kong stock market as a fraud haven, and to protect minority shareholders in Hong Kong. For such a long-running fraud, the only appropriate regulatory action is Delisting and Prosecution.

I. Overstated Capex in Liupanshui Liangdu People's Hospital (六盘水凉都人民医院)

Liupanshui Liangdu People's Hospital (六盘水凉都人民医院): As of June 30, 2015, 70% of the engineering of Liupanshui Liangdu People's Hospital (六盘水凉都人民医院) had been completed and the total estimated investment of the project was estimated to be RMB 260 million. As a result, the construction cost of RMB 182 million should be included under CIP, which is only ~42% of the RMB 428,748,800 figure that the company disclosed. **At the same time, the total investment of the hospital project is only RMB 908 million, only 59% of the amount that Hua Han claimed in its annual report.**

Hua Han in its 2015 AR (Page 106) has disclosed "CIP as of June 30, 2015 included the construction cost paid for a new hospital located at Liupanshui of approximately HK\$ 535,936,000 (0 for 2014), namely RMB 428,748,800." This new hospital is Liupanshui Liangdu People's Hospital:

- The company's 2015 AR (Page 13) has stated the construction of Liang Dou People's Hospital proceeded smoothly. The project covered a site area of 188 mu and gross floor area of 220,000 m². Total investment amounted to RMB 1.53 billion.
- Hua Han would also construct another hospital, Liupanshui Liuzhi Hospital of Chinese Traditional Medicine (六盘水六枝中医院). This hospital would occupy a site area of 12 mu and a gross floor area of 42,000 square m² with total investment RMB 290 million. (Page 16, 2015 AR).

ZHONGKUI finding: Via site visit and interviews with sources from the project's general contractor, ZHONGKUI has learned that this project completed its engineering work this October and currently interior decoration is ongoing; Total contract value stood at RMB ~908 million, RMB 490 million for infrastructure construction and RMB 418 million for building construction. As of June 30, 2015, around 70% of engineering has been completed and infrastructure construction has not yet started.

- i. Site visit: ZHONGKUI conducted a site visit on December 10, 2015 and learned that this project has completed roof sealing and the interior construction of buildings is ongoing.
- ✓ The notice at the site showed that this project was owned by Liupanshui Liangdu People's Hospital Co., Ltd (六盘水凉都人民医院有限公司). According to its SAIC file, the shareholder of this company is Guizhou Hanfang Pharmaceutical Management Co., Ltd (贵州汉方医药资产管理有限公司), one wholly-owned subsidiary of Huahan, and Liupanshui People's hospital. In addition, the general contractor of the project is China Construction Sixth Engineering Division Co., Ltd. (中建六局). The total construction period will be around 900 days.

工程概况	
工程名称	六盘水市凉都人民医院项目
工程地址	六盘水市钟山区钟山西路旁
建设单位	六盘水市凉都人民医院有限公司
勘察单位	贵州首钢国际工程技术有限公司
设计单位	中国建筑设计院
监理单位	中国建筑标准设计研究院有限公司
施工单位	中国建筑第六工程局有限公司
绝对工期	800日历天
主要用途	集医疗、教学、科研、预防、保健为一体的三级甲等医院
结构形式	N1-N3框架 N4-N9 S1-S5框架
层数	地下一层，地上3-15层
建筑安全等级	N1-N9 S2-S3一级 S1 S4 S5二级
抗震等级设计等级	N1-N9 S1甲级 S2-S5丙级
占地面积	124160.80M ²
总建筑面积	183071M ²

Source: ZHONGKUI Research

- Roof sealing of the main building has been completed.



Source: ZHONGKUI Research



Source: ZHONGKUI Research

- Interior construction of the buildings is ongoing.



Source: ZHONGKUI Research

- ii. Project investment check: through the bid-winning announcement provided by the general contractor China Construction Sixth Engineering Division Co., Ltd. (中建六局), ZHONGKUI has learned that the total contract value is RMB 907,680,000 and the contract value of the infrastructure is RMB 490,000,000. As a result, the contract value for the other part, building construction, would be RMB 417,680,000.

人民币(大写): 玖亿零柒佰陆拾捌万元整(¥: 907680000.00 元);

其中: 基础设施(道路、市政管网、垃圾处理系统、污水处理系统、室外配电系统

合同额为人民币(大写): 肆亿玖仟万元整(¥: 490000000.00 元);

Source: Bid-winning announcement provided by the general contractor

The project bidding notification (www.gzzbw.cn/plus/view.php?aid=138886) also stated the total investment was estimated to be RMB ~900 million.

贵州省招标投标网 文章打印 发布时间:2014-10-29 浏览次数:951次

六盘水市凉都人民医院建设项目工程施工招标公告

1. 招标条件

本招标项目六盘水市凉都人民医院建设项目可行性研究报告已由六盘水市发展和改革委员会以六盘水发改社会【2014】132号批复, 招标人为六盘水市凉都人民医院有限公司, 建设资金来自采取TROT模式融资建设, 资金已落实。项目已具备招标条件, 现对该项目的施工进行公开招标。

2. 项目概况与招标范围

2.1 招标项目的建设地点: 北邻钟山西路、南邻凉都大道西段、东临西山路(规划路)、西邻西宁路(规划路)。

建设规模: 建筑面积183071平方米, 实际建筑面积以施工图设计文件为准。(含: 诊疗、住院综合楼、餐厅、高压氧舱治疗楼、感染科门诊、住院楼、办公、会议楼、连廊、手术室、ICU、CCU等、室外工程、其他工程等), 总床位数1200-1500张。

合同估算价: 约90685万元; 计划工期: 900天(日历天), 计划开工日期: 2014年11月。

招标范围: 招标文件、施工图设计所包含的全部内容(含: 1、基坑开挖及支护工程; 2、土建工程; 3、二次装修工程; 4、给排水工程; 5、消防工程; 6、电气工程; 7、室外工程(含: 围墙、大门、道路、地面硬化、绿化、综合管网、垃圾收集系统等); 8、电梯工程(含: 自动人行道电梯); 9、幕墙工程; 10、建筑智能化及医院信息化系统工程(含: 医院对讲呼叫系统, 电子信息管理系统, 网络综合布线系统, 有线电视系统, 电子屏公告栏及信息查询系统, 远程探视系统, 安保人员巡查系统, 安全广播系统, IPTV直播和点播系统, 安防监控系统, 出入口控制及门禁系统, 设备监控系统, 软件开发及购置等。); 11、中心供氧及医用气体工程; 12、净化工程(含: 中心供应室、手术室及ICU等); 13、采暖通风及空气调节工程; 14、污水处理工程; 15、室外供配电工程(含: 变压器、柴油发电机、高低压柜及电缆工程等); 16、蒸汽及卫生热水工程; 17、其他单位工程。

2.2 本工程不采取简易程序法。

3. 投标人资格要求

3.1 本次招标要求投标人须同时具备建设行政主管部门颁发的房屋建筑工程施工总承包一级(注册资本金3亿元人民币及以上)及以上资质和市政公用工程施工总承包二级及以上资质的独立法人。近三年企业类似业绩1个, 近三年项目经理已完成类似业绩1个, 并在人员、设备、资金等方面具有相应的施工能力, 其中, 投标人拟派项目经理须具备建筑工程专业壹级注册建造师执业资格, 具备有效的安全生产考核合格证书, 且未担任其他在建建设工程项目的项目经理。

3.2 本次招标不接受联合体投标。

Source: www.gzzbw.cn/plus/view.php?aid=138886

Investment split: the construction work can be split into two parts, the construction of the building and the construction of outdoor infrastructure.

- Building construction refers to engineering (土建), interior decoration (二次装修), drainage (给排水) etc.
- Other items can be regarded as infrastructure (those facilities outside the buildings), including the road, pipeline, power supply etc.

Based on interviews with sources from the general contractor, as of June 30, 2015, around 70% of the engineering work has been completed. Infrastructure construction didn't start in December 2015 yet.

- The execution manager of this project from China Construction Sixth Engineering Division disclosed that the construction started in November 2014 and engineering work (including the roof sealing) was completed in October 2015. The total working period is designed for 300 days.
- Project progress as of December 10, 2015: engineering work has been completed and in total 60-70% of building construction work has been completed. Infrastructure construction has not started.
- Project progress as of June 30, 2015: Only 70% of the engineering work has been completed.

Sources disclosed that the engineering investment was estimated to be RMB 260 million. As of June 30, 2015, 70% of the engineering work has been completed and as a result, construction cost of RMB 182 million should be included under CIP, ~42% of the company disclosed amount.

- The execution manager of this project confirmed that in November 2015 Huahan paid the first-time payment, around RMB 200 million, ~80% of the engineering cost for the general contractor, which is only ~46% of the cost that was booked 5 months ago in the company's June 2015 Annual Report

"The engineering investment per m² is RMB 1,300 and GFA of this project is approximately ~200,000 m². As a result, the total engineering investment will stand RMB 260 million. Since engineering was completed this October, Huahan paid ~RMB 200 million, 80% of total engineering investment for our company in November."

Mr. X, Project Execution Manager, China Construction Sixth Engineering

II. Overstated Capex in Hanfang's new plant in Shawen

Hanfang's new plant in Shawen: the total contract value for Hanfang's new plant is between RMB 90-100 million, only 56% of what Hua Han claimed in their annual reports. In 2014FY, only ~30% of construction was completed as of June 30, 2014 according to an expert interview and only RMB 27-30 million (given total RMB 90-100 million contract value) should be recognized as CIP for this project in 2014FY, 39%-43% of its disclosed figure of RMB 70 million.

- Company disclosure: Company 2015 AR (Page 106) has disclosed "the construction cost of RMB 90,766,000 (2014: RMB 70,000,000) paid for the new plant up to June 30, 2015 was included under construction in progress." So a total of RMB 160,766,000 in 2014 and 2015 were recognized in CIP for Hanfang's new plant in Shawen
- ZHONGKUI finding: ZHONGKUI has learned that the total contract value between Hanfang and the general contractor Zhongfu Construction (中扶建设) was RMB 90 million to 100 million via interviews with sources at Zhongfu Construction. The gate of the site showed the general contractor of the project was Zhongfu Construction.



Source: ZHONGKUI Research

Project timeline: Sources from Zhongfu disclosed that the project started construction in January 2014 and was finally completed in July 2015. The construction period lasted 18 months.

- Progress in 2014FY (ended as of June 30, 2014): ~30% of construction was completed.
- Progress in 2015FY (ended as of June 30, 2015): The major buildings, pre-treatment workshop, liquid formulation workshop, office building and R&D building are 100% completed as of June 30, 2015. ~95% of the construction of the dormitory and solid formulation workshop is completed.

"Most of the construction has been completed in May 2015 and Hanfang has started trial operations since May. As for the dormitory and solid formulation workshop, a very small proportion of work was completed in June 2015. Project acceptance occurred in June 2015."

Mr. Y, Project Security Management Specialist

Project value: Sources from Zhongfu disclosed that the initial contract value stood at RMB 80 million. In 2015 Hanfang required Zhongfu to build additional facilities, one water treatment pool and one boiler room (锅炉房). As a result, the total project value came to RMB 90-100 million in total. This is at least RMB 61 million less than what Hua Han claimed in its annual reports.

III. Overstated Capex in Factorr stem cell bank project

Company disclosure: Hua Han's announcement issued on March 26, 2012 disclosed that Guizhou Factorr, Guizhou Hanfang and the JV Partner Shenzhen Beike Biotechnology entered into an agreement to establish the JV Company and develop the stem cell business. The total investment of the JV Company would be RMB 300 million.

ZHONGKUI finding: Equipment expense of this project stood at RMB 14.05 million. Initially the stem cell bank was using space at Factorr's old plant. After Factorr completed two new buildings in the second half of 2013, the stem cell bank was moved to one of the new buildings and took over use of two floors. According to the general contractor, the construction cost of the two new buildings was RMB 10-20 million.

In the best case scenario, the total investment of Factorr stem cell bank has incurred a RMB 34.5m investment, 88% less than the RMB 300 million claimed in the company's announcement

- Equipment expense: A former employee of Shenzhen Beike, who was sent to the JV to offer technical support, disclosed that the equipment expense amounted to RMB 14.05 million. The details were as follows:
 - Stem cell isolation and amplification room (干细胞分离扩增室): Total expense was RMB 9.7 million.
 - ✓ 8 units of cell culture box (细胞培养箱), RMB 0.5 million per unit;
 - ✓ 8 units of biology safety cabinet (生物安全柜), RMB 0.5 million per unit;
 - ✓ 4 units of centrifuge (离心机), RMB 0.35 million per unit;
 - ✓ 1 unit of umbilical cord blood isolation equipment (脐血分离设备), RMB 0.3

million;

- Stem cell storage room (干细胞存储室): 2 units of liquid nitrogen tank, RMB 0.35 thousand per unit; as a result, total expense was RMB 0.7 million.
 - QC room (质量控制室): Total expense was RMB 2.35 million.
 - ✓ 1 unit of flow cytometer (流式细胞仪): RMB 1 million;
 - ✓ 1 unit of microbial detector (微生物检测仪): RMB 1 million;
 - ✓ 1 unit of centrifuge (离心机): RMB 0.35 million;
 - Program cooling room(程序降温室): Total expense was RMB 1.1 million.
 - ✓ 2 units of hypothermia apparatus (程序降温仪): RMB 0.35 million per unit;
 - ✓ 1 unit of low temperature freezer (超低温冰箱): RMB 0.4 million
 - Specimen receptor room (标本接收室): total equipment expense was RMB 0.1 million
 - Warehouse: RMB 0.1 million consumables.
- Plant expense: Sources disclosed that since the second half of 2013, the stem cell bank was moved to the new property built by Factorr, the construction cost of which was RMB 12 million. As for the new property, the stem cell bank was only using two floors.
- The move of the stem cell bank: During 2012 to the first half of 2013, Factorr assigned an area of 1,000 m² in their old plant to develop the JV's stem cell bank. In the second half of 2013, the cell bank was moved to the new building.



Source: ZHONGKUI Research

- ✓ Since the second half of 2013, Factorr completed two new buildings next to the old plant.



Source: ZHONGKUI Research

- Building A: This is one office building. A former employee at Factorr disclosed that Factorr Hanfang Medicine, Hanfang Group, and other company subsidiaries were all working here.



Source: ZHONGKUI Research

- Building B: A former engineer at Factorr disclosed that the stem cell bank was developed on the 2nd floor of this building. This building consisted of four floors: the 1st floor and 4th floor was the warehouse of Dechangxiang Medicine (德昌祥药业), one subsidiary of Huahan. The 3rd floor was the office area of Factorr (Only Factorr's senior management of were working in Building A and the others were all working in Building B).



Source: ZHONGKUI Research

- Construction cost: The bidding announcement revealed that the construction cost was RMB 12 million and the general contractor was Chongqing Zhongchuan Construction (重庆中川建设).
- ✓ ZHONGKUI has confirmed with the employee of the general contractor, who was involved in this project, that the project of this bidding announcement was exactly the two buildings (Building A and Building B).

扩建人胎盘血白蛋白生产线建设项目施工直接发包公示

扩建人胎盘血白蛋白生产线建设项目项目的报建工作已经结束，现将结果公示如下：

项目报建号：ZSG5201152011121301
 项目名称：扩建人胎盘血白蛋白生产线建设项目
 招标类别：施工
 项目地址：贵阳市金阳新区创新路9号
 登记部门：高新区招标办
 建设规模：11509.99平方米
 招标方式：直接发包
 项目投资：1200万元
 结构类型：框架
 资金来源：民营资金：100.0%
 发包金额：600万元
 建设单位：贵州泛特尔生物技术有限公司
 建设单位联系人：伍联平
 联系方式：13984399115

Source: www.bidcenter.com.cn/newscontent-9215538-4.html

- Address verification: The guidepost shows Factorr is located at No. 109, Duyun Road (都匀路) while the bidding announcement reveals the Factorr's project is located at No. 9 Chuangxin Road (创新路).



Source: ZHONGKUI Research

- ZHONGKUI has confirmed with a government official from the Planning and Construction Bureau (规划建设局) of Guiyuan Hi-tech Industrial Development Zone (贵阳高新区) that the previous name of Duyun Road was Chuangxin Road and the government made the change three or four years ago.
- Furthermore, when we search the database of the bid center (www.bidcenter.com.cn), apart from the project disclosed in the above bidding announcement, no other project relevant to Factorr is identified, indicating the project of the bidding announcement is the same as the project Factorr constructed on No. 109, Duyun Road.

中国采招网 用户中心

当前位置: 会员用户中心 > 招投标应用 > 历史数据查询

信息编号: 泛特生 全文 全部 类型: 所有 贵州 2011年 搜索

以下是您所搜索的结果:

信息标题	类型	地区	时间
扩建人胎盘血白蛋白生产线建设监理中标结果【内容包含关键词泛特生】	中标结果	贵州	2011/12/13
扩建人胎盘血白蛋白生产线建设施工中标结果【内容包含关键词泛特生】	中标结果	贵州	2011/12/13

当前第1/1页 共2条记录 上一页 1 下一页

Source: www.bidcenter.com.cn

IV. Overstated Land Acquisition Cost in Shawen Ecological Industrial Park

ZHONGKUI confirmed that Hua Han acquired ~500mu land in Shawen Ecological Industrial Park at RMB 168,000 per mu and TOTAL consideration was RMB 80-90 million, merely 32%-36% of the disclosed figure of RMB 250 million. The disclosed unit price is RMB 480,000 per mu, almost three times as much as our figure.

Company disclosure: According to the company's announcement, "On October 25, 2011, Guizhou Factorr, an indirect 75% owned subsidiary of Hua Han, entered into the Construction Intention Agreement with the vendor (Guiyang High Technology Holdings Group, 贵阳高科技控股集团) to acquire the land with an estimated area of 521 mu at a consideration of RMB 250 million. The land is located at Shawen Ecological Industrial Park of Guiyang National High-Tech District (贵阳高新区沙文生态科技园)." Hua Han acquired the land at RMB 480,000 per mu.

Emerson Analytics, an independent research firm, challenged Hua Han in their report dated August 10, 2016 and had the same conclusion as our finding based on the disclosure on the information from the Ministry of Land and Resources of China. The company issued a rebuttal on August 17th and claimed that the land premium figure in the database of Ministry of Land and Resources of China doesn't include other costs: "the development expenses of the land parcel is expected to be RMB 250 million, besides land assignment fees (land listed price), including compensation costs for farmers (shortfall shall be compensated by the government),

planning and design fees, costs for surrounding auxiliary facilities, processing fees for construction permits and licenses and geological exploration expenses. Hua Han has made a pre-payment of RMB 200 million”.

We have interviewed officials from the Shawen Ecological Industrial Park of Guiyang National High-Tech District, dug into the land sales system in Guiyang and concluded that Hua Han was lying in their rebuttal.

ZHONGKUI finding: Hua Han acquired the land at RMB 168,000 per mu and in total paid only RMB 87.5 million, rather than the RMB 250 million as disclosed, which ZHONGKUI has double confirmed with three sources, a former senior management of Guiyang High Technology Holdings Group, staff of Guiyang National High-Tech District Administrative Committee (贵阳高新区管委会) and an official of Guiyang Baiyun District Bureau of Land and Resources (贵阳白云区国土资源局)

- Unit price: According to interviews with the above three sources, Hua Han acquired the land at RMB 168,000 per mu, which was the benchmark price (基准地价) for industrial use land in Shawen Industrial Park regulated by Guiyang Municipal Government. During 2009-2013 the benchmark land price of Shawen Industrial Park was RMB 168,000 per mu and since Jan 1, 2014 it has increased to RMB 187,000 per mu, still much lower than RMB 480,000 per mu.
 - Benchmark price of 2009-2013: The above sources disclosed that during 2009-2013 the benchmark land price was RMB 168,000 per mu in Shawen Industrial Park.
 - Benchmark price of 2014-present: Not only the aforementioned sources confirmed the price, Guiyang Municipal Government's Notification also stated the benchmark price for industrial use land is divided into five levels, from RMB 240 per m² (RMB 160,000 per mu) to RMB 510 per m² (RMB 340,000 per mu) based on its locations. Shawen's price stays at level IV with RMB 187,000 per mu (RMB 280 per m²).

Benchmark price for industrial use land in Guiyang

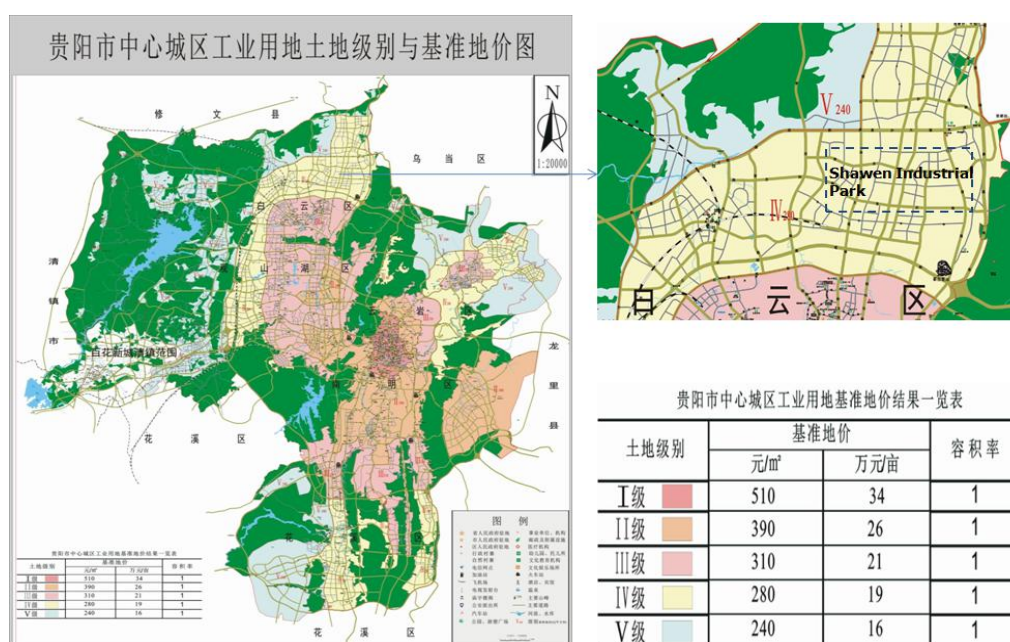
Unit: RMB/m²

	Level I	Level II	Level III	Level IV	Level V
Benchmark land price	510	390	310	280	240

Source: <2013 年贵阳市中心城区土地定级与基准地价实施细则>

www.gygtzy.gov.cn/Item/2693.aspx

- ✓ Shawen's price stays at level IV according to a government notification.



Source: ZHONGKUI Research

- Final land price: The government specifies that the benchmark price and the final price of each piece of land is determined by the assessment of the third party assessor based on the land infrastructure (road condition, accessibility to water and electricity etc.) The final price is generally equal to the benchmark price or no more than 5% higher than benchmark price.

Based on the Guiyang government's definition, Level IV industrial land has already been through the primary development, which includes relocation of farmers, access of the roads and connectivity of water, electricity and cable. Basically the Level IV industrial land that Hua Han purchased was readily useable for the further construction of factories on it. Therefore, the company's claim that the premium includes "compensation costs for farmers (shortfall shall be compensated by government), planning and design fees, costs for surrounding auxiliary facilities, processing fees for construction permits and licenses and geological exploration expenses" is an outright lie.

三、基准地价的含义。

1、基准期日

基准地价的评估基准日为：2008年12月31日

2、土地开发程度

(1) 商业用地：一至二级地范围内达到“五通一平”（通路、通上水、通下水、通电、通讯和场地平整），三、四级范围内达到“四通一平”（通路、通上水、通电、通讯和场地平整）；

(2) 住宅用地：一至二级地范围内达到“五通一平”（通路、通上水、通下水、通电、通讯和场地平整），三、四级范围内达到“四通一平”（通路、通上水、通电、通讯和场地平整）；

(3) 工业用地：一至二级地范围内达到“五通一平”（通路、通上水、通下水、通电、通讯和场地平整），三、四级范围内达到“四通一平”（通路、通上水、通电、通讯和场地平整）。

Source: <http://www.gyqxqt.gov.cn/article/328.html>

Based on our conversation with an official at the Guiyang Baiyun District Bureau of Land and Resources and former senior management of Guiyang High Technology Holdings Group, the **TOTAL** payment the Company paid was RMB 80-90 million and there was no extra cost such as compensation to farmers etc imposed by the industrial park on Hua Han. This figure is consistent with our understanding of how the industrial land system in Guiyang and Shawen Ecological Industrial Park of Guiyang National High-Tech District works and is only 32%-36% of the company's disclosed figure.

"Factorr purchased the land at the benchmark price RMB 168,000 per mu. Currently the benchmark land price of Shawen was RMB 187,000 per mu. Next year, the benchmark price is likely to increase by 6%. Shawen was already done with primary development by the government and readily available for Factorr to erect their factory on it"

Miss Z, Official of Guiyang Baiyun District Bureau of Land and Resources

"I am pretty sure Factorr acquired the land at RMB 168,000 per mu and total consideration was around RMB 80-90 million. Hanfang Medicine was the first one to start construction in the North Area of Shawen Industrial Park. The land they acquired was already preliminarily developed and cleansed and was ready to use. We did not charge any further costs to Factorr"

Mr. X, former Senior Management of Guiyang High Technology Holdings Group

V. Falsification of the Drug Sales

We have acquired the hospital sales data from IMS to compare against the reported numbers of Hua Han. IMS provides data tracking services to established pharmaceutical companies in China and is considered a go-to data vendor by healthcare consulting firms such as BCG, LEK and ZS Associates. We believe IMS is a 100% independent third party that has no interest whatsoever in inflating or deflating Hua Han's actual sales.

China's drug distribution is a complicated system but it's never so complicated that independent databases overstate or understate, in Hua Han's case, by multiple times. Especially when the same difference is found from an alternate credible source, we have to wonder who on earth is presenting "incomplete, biasedly selected and presented and materially misleading information."

Below is what Hua Han provided in its FY15 investor presentation

自有產品銷售明細（以招標供貨價核算）

	截至2014年6月30日止 之一年（百萬港元）	截至2015年6月30日止 之一年（百萬港元）	變動 百分比
婦科再造丸（含膠囊）	476.8	485.8	2%
芪膠升白膠囊	665.6	793.5	19%
止嗽化痰丸	114	124.1	9%
易孚及易貝	590	512.8	-13%
日舒安洗液	136.9	177.3	30%
金紫肽	98.5	140.7	43%
其他自有產品	288.3	283.5	-2%
合計	2370.1	2517.7	6%

Source: <http://img3.gelonghui.com/pdf201510/pdf20151030193651527.pdf>

How does this set of data compare against IMS's? It's so off the mark that any future rebuttal from the company pale in comparison. It is not hard for anyone to see that not only the absolute amount for every single drug was substantially lower but the inter-year changes were also not consistent with the company reported numbers – not for even one single drug! We urge E&Y, Hua Han's auditor, to conduct a thorough review of its sales receipts and to interview the customers before releasing another "unqualified" opinion, not just sitting in an air-conditioned room flipping thru the documents supplied by the company.

	IMS data			
HK\$m		FY14	FY15	Change
婦科再造丸	✓	23.3	29.6	27%
芪膠升白膠囊	✓	120.7	134.1	11%
止嗽化痰丸	✓	5.6	4.8	-14%
易孚及易貝		95.0	117.3	24%
日舒安洗液	✓	19.3	20.1	4%
金紫肽		N/A	N/A	
其他自有產品		72.8	67.5	-7%
Total	✓	336.7	373.5	11%

Source: ZHONGKUI Research and IMS

Note: IMS data was presented in RMB and was converted into HKD at the rate of 0.81 RMB/HKD

	IMS vs Company Data	
% of reported	FY14	FY15
婦科再造丸	5%	6%
芪膠升白膠囊	18%	17%
止嗽化痰丸	5%	4%
易孚及易貝	16%	23%
日舒安洗液	14%	11%
金紫肽	N/A	N/A
其他自有產品	25%	24%
Total	14%	15%

Source: ZHONGKUI Research

As anyone would reasonably expect, the sum of sales from IMS is merely one seventh of reported sales. The difference between IMS and reported numbers cannot be explained by statistical error:

- IMS tracks hospitals across city tiers and hospital tiers and the data presented above has already considered the sales in lower tier markets;
- According to PwC the tier 1/2 markets account for some 25-30% of total drug sales in China. To be extremely conservative here and if we assume that IMS's data's weight on lower tier markets is not accurate and we divide the IMS data by 25-30% market share –

the result is still some 40% below the reported numbers.

Market Classification*			Market Share	
	2012	2020	2012	2020
Tier 1 and tier 2 cities	City Hospitals	Top hospitals	~ 30%	20-25%
	Community Hospitals			
Tier 3 to tier 5 cities	City Hospitals	Community Hospitals	~45%	35-40%
	County Hospitals	Village Clinics		
Tier 6 and tier 7 cities	County Hospitals, ~ 160 billion		~25%	~40%
	Village Clinics			
		County/rural healthcare system		

Source: http://pwccn.com/webmedia/doc/635847474330894695_hc_chasing_opportunity_country_level.pdf

- Lastly, the IMS data is very much in line with the reported financials of the three manufacturing entities disclosed in Appendix III of the first Emerson Report (August 10, 2016)

Exhibit 17 – Subsidiaries' Revenue Change, 2013-2014			
Year end Dec 31 (Rmb m)	2013	2014	Change
Guiyang DCX	233	109	-123
Hanfang Pharma	55	243	189
GHMM	75	6	-69
Total	362	359	-3

Source: ECIS (Guizhou), Emerson Analytics

Comparison between IMS data and reported financials of the three manufacturing entities disclosed in Appendix III of the first Emerson Report

	IMS data		SAIC Filing from Emerson Report	
RMB \$m	FY14	FY15	FY13	FY 14
妇科再造丸	18.9	24.0		
芪膠升白膠囊	97.8	108.6		
止嗽化痰丸	4.5	3.9		
易孚及易貝	77.0	95.1		
日舒安洗液	15.7	16.3		
金紫肽	N/A	N/A		
其他自有產品	59.0	54.7		
Total	272.8	302.6	362.0	359.0

Source: ZHONGKUI Research

VI. Conclusion

Based on the above analysis, we have concluded that Hua Han has massively falsified its revenue and significantly inflated their capex. Falsified revenue leads to inflated earnings and inflated cash balance if the company doesn't inflate the capex to "exhaust" the inflated cash inflow. At the same time, the overstated capex is also a convenient way for the senior management to steal money from the company. We highly suspect it is a combination of draining fake cash inflow as well as stealing money in Hua Han's case. We urge the SFC and HKEX to step in and investigate, to cleanse the bad reputation of the Hong Kong stock market as a fraud haven, and to protect minority shareholders in Hong Kong. Our conclusion on the case is Delisting and Regulatory Prosecution.

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