



# GLAUCUS RESEARCH GROUP 格勞克斯研究

“May you live in interesting times.” - Robert Kennedy

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COMPANY: Real Nutraceutical Group Limited | HK: 2010  
INDUSTRY: Nutritional Supplements

On October 22, 2015, we published our investment opinion (the “[Report](#)”) on Real Nutraceutical Group Limited (2010.HK) (“[Real Nutri](#)” or the “[Company](#)”), a PRC based producer of nutritional supplements and health drinks.<sup>1</sup> In our Report we presented publicly available evidence, including PRC government filings, tax rankings, and the results of retail channel checks, which in our opinion, indicates that Real Nutri’s sales and net income are substantially less than reported to investors and regulators in the Company’s Hong Kong filings. On **Christmas Eve at 11:00 p.m.** (Hong Kong time), Real Nutri responded with a Clarification Announcement (the “[Clarification](#)”). Real Nutri took 64 days to respond to basic questions about its business and the timing of its Clarification suggests that the Company was trying to sneak back into the market without adequately addressing the substantial, independent evidence indicating that Real Nutri is fabricating its reported financial performance.

On December 28, 2015, Glaucus issued a detailed, 30-page rebuttal (available [here](#)) (the “[Rebuttal](#)”), which picked apart Real Nutri’s contradictory and nonsensical responses and offered **NEW evidence indicating that Real Nutri does not pay the amount of taxes that it claims (and thus does not generate the net income that it claims)**.

On January 5, 2016, Real Nutri issued a flimsy one-and-half page response (the “[Second Clarification](#)”) which addressed neither the new evidence raised in our Rebuttal nor our detailed, line-by-line dissection of its inadequate responses.

Real Nutri is hiding, and each day, the Company continues to fail in its legal obligation to give sufficient and accurate information about its business to the investing public. We do not believe that Real Nutri will be able to hide for long, as we think it will **fail** both its annual audit (by Deloitte) and its special, independent investigation by a big four accounting firm.

## 1) **Real Nutri is Hiding**

In our Rebuttal, we challenged Real Nutri to answer basic questions about its business, which, if the Company was not deceiving investors about its reported financial performance, would be easy. Every day that the Company is silent is a stain on the integrity of the capital markets. Here is a brief list of questions and evidence, to which Real Nutri has failed to respond:

- We **directly challenged** the Company: if your retail store count is true, then provide the addresses of all **200 stores** and we will visit each one. Any legitimate company would have **quickly disclosed** its retail store locations. Yet, given two weeks, **Real Nutri has inexplicably failed to provide a list of its retail stores**, reinforcing our conviction that the Company is lying about its retail presence.

<sup>1</sup> Our Report is available for download at our website: [https://glaucusresearch.com/wp-content/uploads/downloads/2015/10/GlaucusResearch-Real\\_Nutri-HK\\_2010-Strong\\_Sell\\_Oct\\_21\\_2015.pdf](https://glaucusresearch.com/wp-content/uploads/downloads/2015/10/GlaucusResearch-Real_Nutri-HK_2010-Strong_Sell_Oct_21_2015.pdf).

- **Disclose** the amount of **VAT** paid by each of the Company’s operating subsidiaries (including VAT returns and top ten invoices). We now have shown **two tax lists** (2012) and (2013), both of which are independent evidence indicating that Real Nutri does not pay the taxes it claims and thus does not generate the net income that it claims.
- **Release to all investors the publicly available Mofcom and SAIC filings which supposedly exonerate the Company.** In our Report, we highlighted publicly available Mofcom filings which show that Real Nutri’s two primary operating subsidiaries only generated RMB 839 million in combined revenues from 2011-2013, 84% less than reported to Hong Kong investors and regulators. Mofcom filings also show that rather than generate RMB 1.97 billion in operating profits from 2011-2013 (as reported), Real Nutri’s primary operating subsidiaries only generated RMB 26 million in operating profits over that period, which is 99% less than reported in HKEX filings. We believe that the Company is presenting fabricated Mofcom and SAIC filings in an effort to continually deceive investors and regulators about the performance and profitability of its underlying business. If the Company’s records are reliable and accurate, why not disseminate them to the investing public?
- **Disclose** in detail the Company’s reported spending on advertising. Real Nutri claims to have spent over **RMB 1 billion on advertising expenses over the last three years**, amounting to approximately 18% of its revenues over this period. If true, Real Nutri would be among the top thirty advertising spenders of A-share companies, alongside popular national brands such as Unicom and Yanjing Beer. This is simply not credible and we challenge the Company to provide a detailed response on how, where, and with whom such advertising money was spent.

## 2) **New Tax Evidence**

In our Rebuttal, we highlighted tax rankings, [published](#) by the Xinhua news agency based on information obtained **directly** from the Jiangsu provincial office of the State Administration of Taxation (“**SAT**”), which lists the top 100 tax payers in Jiangsu province in 2012. The rankings include both VAT and income taxes paid, and there is a detailed description from the head of the SAT as to how the list is compiled.

Based on the reported financial performance of Real Nutri’s primary operating subsidiary (Ruinian Industry),<sup>2</sup> we estimate that Ruinian Industry paid RMB 197 million in income taxes and RMB 192 million in VAT in 2012 for a total of **RMB 389 million in total taxes paid in 2012**. The [threshold](#) for the top 100 taxpayers in the 2012 Jiangsu tax rankings was RMB 280 million, so if Real Nutri’s reported financials are true, **Ruinian Industry should have easily made this list. It did not.**

In its Second Clarification, the Company’s only response was that it is “not in a position to comment on or verify the source of the information” and that there “may be certain considerations, criteria or assumptions, not being explained in the article, which have been taken into account in compiling the list.”<sup>3</sup>

This answer is wholly insufficient. Contrary to the Company’s meek evasion, the methodology for the tax rankings was clearly disclosed, as any investor can see (link [here](#)). The rankings are based on the taxes received directly by the SAT, so **participation in the rankings is not voluntary** and there should be no question about the accuracy of the tax information. Furthermore, the tax rankings include both income tax and VAT.

If Real Nutri’s reported financials are true, it should have easily made the list. In fact, it should have paid over RMB 110 million more in taxes than the last-ranked company on the list. Yet Real Nutri is conspicuously absent from this tax list, and the [2013](#) tax list highlighted in our initial Report. This is concrete, undeniable evidence that Real Nutri does not pay the taxes it claims, and thus does not generate the net income reported in its Hong Kong filings.

**In our opinion, Real Nutri has simply failed in any meaningful way to address the wealth of clear and convincing evidence that the Company’s sales and profits are substantially less than reported to investors. We confidently stand by our Report and continue to value Real Nutri’s equity at HKD 0.00.**

<sup>2</sup> Clarification, p.6. states that Ruinian Industry accounted for 93% of the Company’s revenues in 2012, thus we estimate it paid 93% of the Company’s reported income tax and 93% of its VAT.

<sup>3</sup> Second Clarification, p. 1.

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