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Company: Superb Summit International Group Limited Industry: Forestry Report Date: November 20, 2014	Stock Price: HK\$1.55 Market Cap: HK\$12.3bn Float: 4.27 Billion Avg Volume: 22.3 Million
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Superb Summit (Part I): It's a Long Way Down from Here

We are short Superb Summit International Group Ltd. (1228.HK, “Superb”) because virtually all of its reported 2012 and 2013 revenue belongs to a different company, its recent acquisition of a stake in coal liquefaction company Beijing Jinfeite (“JFT”) is utterly without substance because JFT is effectively a one-man operation, and Superb has an unbroken seven-year track record of completely failing in every new line of business it has purportedly pursued. In short, Superb’s *raison d’être* is being a public company.

Superb Summit Reported 2013 Revenue of HK\$773.3 million. Its Real Revenue Was Likely Close to Zero.

Almost all of the revenue Superb Summit reported in 2013 and 2012 was likely attributed to Superb Summit’s purported subsidiary Tianjin Libao Coal Trading Company (“Tianjin Libao”). The problem is that Superb Summit has never owned any stake in Tianjin Libao. Superb Summit falsely claims to have acquired 80% of Tianjin Libao in 2012. It is hard to think of an explanation other than fraud to explain why Superb Summit claims to own a company that it in fact does not own.

Tianjin Libao purportedly enabled Superb Summit to enter the coal trading and logistics business. Superb Summit claimed to acquire Tianjin Libao in July 2012, which is when Superb Summit first began issuing releases about coal trading agreements with China State Shipbuilding Corp.’s (“China Shipbuilding”) procurement department.^{1,2} None of Superb Summit’s subsidiaries shown in the 2013 AR have coal-related businesses in their scopes of business.³ The first year for which Superb Summit recorded coal trading revenue was 2012, during which Tianjin Libao constituted the entirety of Superb Summit’s coal trading revenue.

¹ <http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0726/LTN20120726006.pdf>

² The procurement department later became a subsidiary of China Shipbuilding, and was named China State Shipbuilding Logistics Corp. (“China Logistics”).

³ In the 2012 AR, Superb Summit shows a Tibet coal trading subsidiary (Lhasa Summit Ganjing Industrial Development Ltd.); however, if this subsidiary were material in 2013, another disclosure would have been required. According to the 2014 interim report, the Tibet subsidiary was dissolved in 2014, and Tibet SAIC’s website is showing no information on the entity.

Superb Summit falsely claims to have acquired Tianjin Libao

Superb Summit's 2012 AR reads:

“On July 31, 2012, the Group acquired 80% equity interest in Tianjin Libao Coal Trading Company (“Tianjin Libao”), a company incorporated in Tianjin, People’s Republic of China (“the PRC”) at a total consideration of RMB 1,300,000 (equivalent to HK\$1,579,858). Tianjin Libao is principally engaged in trading of coals in PRC.

The acquired business contributed revenue and net loss of HK\$112,080,000 and HK\$61,901,000 respectively to the Group for the period from 31 July 2012 to 31 December 2012.”⁴

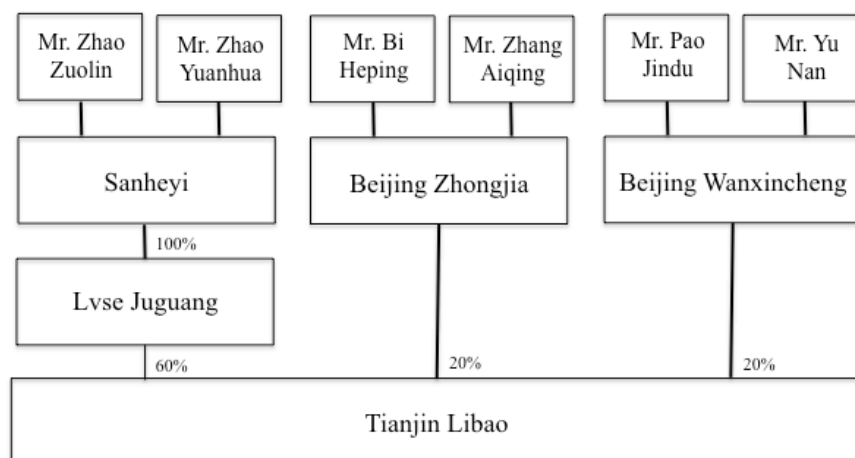
Superb Summit's 2013 AR shows it owns 80% of Tianjin Libao:

21. INVESTMENT IN SUBSIDIARIES				21. 於附屬公司之投資 (續)			
(Continued)							
Name	Place of Incorporation/ establishment and operations	Nominal value of Paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities		
公司名稱	註冊成立／成立 及營業地點	實繳股本／ 註冊資本面值	公司應佔股本百分比		主要業務		
			2013 二零一三年		2012 二零一二年		
			Direct 直接	Indirect 間接	Direct 直接	Indirect 間接	
天津市利寶煤炭銷售有限公司 (Note 2)(附註2)	The PRC 中國	RMB30,000,000 人民幣30,000,000元	—	80	—	80	Trading of coal and related products 買賣煤炭及相關產品
Superb Summit International Commerce & Trade Company Limited (Note 1) (附註1)	BVI 英屬處女群島	HK\$546 546港元	—	70	—	70	Trading 貿易
Grand Rich International Ltd	BVI 英屬處女群島	Ordinary US\$100 普通股100美元	—	100	—	100	Investment holding 投資控股
Sing Mau Limited	BVI 英屬處女群島	Ordinary US\$10 普通股10美元	—	100	—	100	Investment holding 投資控股
Note 1: The companies were incorporated during 2012. 附註1：該等公司於二零一二年註冊成立。							
Note 2: The company was acquired during 2012. 附註2：該公司於二零一二年被收購。							

Tianjin SAIC shows that Superb Summit's ownership claim is completely false. The current owners are companies named Lvse Juguang, Beijing Zhongjia, and Beijing Wangxincheng. Nor does Superb Summit own any of these companies that own Tianjin Libao. Six individuals are the ultimate beneficial owners of Tianjin Libao, as shown below.

⁴ Superb Summit 2012 AR, p. 110.

Tianjin Libao Ownership at Present



Moreover, Superb Summit has never owned Tianjin Libao. The below table shows the history of its ownership from inception.

Tianjin Libao Shareholders Inception through Present							
29-Sep-2003	10-Jul-2005	18-Oct-2005	3-Mar-2006	24-Dec-2007	3-Feb-2010	20-Feb-2014	
Shareholders							
Wang Jun	51% Feifei Senwang Group	51% Feifei Senwang Group	50.0% Feifei Senwang Group	51% Feifei Senwang Group	51% Lvse Juguang	60% Lvse Juguang	60%
Ji Jingsheng	49% Beijing Zhongjia	20% Beijing Zhongjia	42.5% Beijing Zhongjia	20% Beijing Zhongjia	20% Beijing Zhongjia	20% Beijing Zhongjia	20%
	Beijing Wangxincheng	20% Beijing Wangxincheng	2.9% Beijing Wangxincheng	20% Beijing Wangxincheng	20% Beijing Wangxincheng	20% Beijing Wangxincheng	20%
	Furuisen	9% Furuisen	4.6% Furuisen	9% Furuisen	9%		
	100%	100%	100%	100%	100%	100%	100%

There were no changes to Tianjin Libao's Legal Representative, directors, manager, or supervisor from December 2007 until February 2014. In China, when one company buys another, there are usually changes to at least one of the aforementioned positions – otherwise, it would be hard to actually exercise control of the acquired company.

It would be ridiculous on its face if Superb Summit were to respond by stating that it merely overlooked perfecting ownership. Very few people in the world would do business that way – especially when the company in question is the only material revenue producing entity of a public company. Putting that to the side though, the lack of any changes to Tianjin Libao's insiders between 2010 and 2014 further indicate there was no change of control. The table below shows the changes to Tianjin Libao's insiders over the years.

Tianjin Libao Insiders Inception through Present													
as of	29-Sep-2003		10-Jul-2005		18-Oct-2005 ⁽¹⁾		3-Mar-2006 ⁽¹⁾		24-Dec-2007		3-Feb-2010 ⁽¹⁾		20-Feb-2014
Legal Rep	Wang Jun	王军	Yang Dongjun	杨东军	Yang Dongjun	杨东军	Yang Dongjun	杨东军	Wang Yunzhang	王云章	Wang Yunzhang	王云章	Chen Xiuping 陈秀萍
Directors													
	Wang Jun	王军	Yang Dongjun	杨东军	Yang Dongjun	杨东军	Yang Dongjun	杨东军	Wang Yunzhang	王云章	Wang Yunzhang	王云章	Chen Xiuping 陈秀萍
	Ji Jingsheng 纪景升		Pao Jindu	鲍晋都	Pao Jindu	鲍晋都	Pao Jindu	鲍晋都					
			Bi Heping	毕和平	Bi Heping	毕和平	Bi Heping	毕和平					
			Chen Hong	陈宏	Chen Hong	陈宏	Chen Hong	陈宏					
			Jing Bing	景滨	Jing Bing	景滨	Jing Bing	景滨					
			Wang Yunzhang	王云章	Wang Yunzhang	王云章	Wang Yunzhang	王云章					
			Su Wei	苏维	Su Wei	苏维	Su Wei	苏维					
Manager			Jing Bing	景滨	Jing Bing	景滨	Jing Bing	景滨	Wang Yunzhang	王云章	Wang Yunzhang	王云章	Chen Xiuping 陈秀萍
Supervisor			Han Chunrong	韩春荣	Han Chunrong	韩春荣	Han Chunrong	韩春荣	Xu Ying	许颖	Xu Ying	许颖	Cao Yong 曹勇

⁽¹⁾ Noted in SAIC file because of shareholding change on the same date.

Superb Summit's claim to own a stake in Tianjin Libao is completely false, and Superb is therefore not permitted to consolidate any results from Tianjin Libao.⁵

Substantially all of Superb Summit's 2013 and 2012 revenue appears to have been attributed to Tianjin Libao. Superb Summit's reported revenue is therefore massively and improperly inflated.

Superb Summit attributed 93.2% of its 2012 revenue to Tianjin Libao. Superb Summit's 2012 revenue should therefore be restated from HK\$120.3 million to HK\$8.2 million.

Superb Summit reported revenue of HK\$ 773.3 million in 2013, but its actual revenue appears to be no greater than HK\$ 18.8 million (if that). All of Superb Summit's HK\$773.3 million 2013 revenue was attributed to "sale of coal and related products". We therefore assume that Superb Summit's real 2013 revenue was zero; however, Superb Summit made no specific disclosure related to Tianjin Libao's purported 2013 revenue.

Paying HK\$1.5 Billion for Jinfeite would be like Paying for a Bentley and Getting a Bus Pass.

Jinfeite is barely a business, its technology has little value, and purchase of the JFT stake highly likely was not an arms length transaction. Superb Summit's May 2014 purchase of a 40.8% (indirect) stake in Beijing Jinfeite Energy Technology Company Ltd. ("JFT") for HK\$600 million, valuing JFT at HK\$1.5 billion, does not even pass the laugh test. JFT is a tiny, obscure chemical engineering consulting business with few of its own long-term assets, no in-house R&D team, and only a single engineer (its founder). Its key technology consists of the founder's know-how to customize catalysts for coal liquefaction, which is an approximately 100-year old technology. Recent regulatory changes in China that prohibit the construction of small coal liquefaction plants could prevent JFT from doing any business other than building demonstration plants. (One expert



⁵ We preclude the possibility of Tianjin Libao being a "variable interest entity" because coal trading is not prohibited from foreign investment, there are no VIE disclosures, and there is no share pledge registered at SAIC.

whom we consulted believes that the prohibition could apply even to demonstration plants.) All of JFT's prior projects, albeit demonstration projects, are a fraction of the minimum permitted capacity. As we discuss infra, Superb Summit did not actually acquire JFT from its original shareholders – it purchased the stake from a mysterious “Mr. Ng” who only held his shares for two months before agreeing to flip 51% of them to Superb Summit.⁶ We do not know how much cash Mr. Ng actually paid, but we feel confident that it was massively less than a HK\$1.5 billion valuation. This is particularly the case because the entity through which he purchased the JFT stake, Chongcheng, only has registered capital of US\$10,000 – making it unclear how he could legally pay much more for the stake.

Amazingly, Superb Summit's stock has soared over 300% since announcing on June 7, 2013 the letter of intent to acquire JFT:



JFT is Barely a Business

Superb Summit can be commended for truthfully disclosing that JFT essentially had no revenue in 2013 and barely has positive net assets. What Superb Summit has not told investors is that JFT is effectively a one-person consulting business without an engineering, R&D, or marketing

⁶ Mr. Ng's company Chongcheng (Shanghai) became an 80% owner in JFT in January 2014. Superb Summit announced the purchase of 51% of the shares of the holding company that owns Chongcheng in March 2014. The purchase closed in May 2014.

department. JFT has been in existence since 2008. The reason that it has never generated much revenue is not because it was still developing its technology, or waiting for the right partner to help commercialize its technology, or waiting for the coal liquefaction industry in China to develop. The reason JFT has not grown into a substantial company is the same reason why your neighborhood tailor has not developed into a world famous fashion brand – there is no scalable business there.

	RMB (000s)			
	CY 2010 ⁽¹⁾	CY 2011 ⁽¹⁾	CY 2012 ⁽²⁾	CY 2013 ⁽²⁾
Revenue	-	3,104	4,435	3
Pre-tax Income (Loss)	(175)	279	410	(321)
Net Income (Loss)	(175)	268	308	(321)
Total Assets	9,929	12,835	15,494	13,677
Net Assets (Liabilities)	735	1,003	1,311	975

⁽¹⁾ JFT SAIC financial statements

⁽²⁾ March 3, 2014 Disclosable Transaction Announcement. Note that the financials match the 2012 SAIC financials (the most recent year in the SAIC financials)

Note that JFT has very few tangible assets of its own. The bulk of the assets on its balance sheet is Construction in Progress, which will be transferred to its client upon completion of the project. Each project will typically yield new patents in the form of new chemical catalysts. Intangible assets, such as catalysts, formulation, or process improvements will usually be transferred to the client, calling into question Superb Summit's HK\$1.5 billion of patent value resulting from the transaction.

JFT is essentially a one-man band. Substantially all of its IP is in the head of its founder, Mr. Jin Jun. Mr. Jin was a chemical engineer with PetroChina until 2006 when he left to start his consulting business. Mr. Jin's son, Jin Fei, handles administrative matters for JFT. JFT has a total of five to six people in its office: one general manager, one accountant, one supervisor, and one to two office staff. JFT has no direct engineering employees other than Mr. Jin, and it outsources the design work to third party design institutes or technical personnel at some of its project sites. It also sub-contracts the construction of plant equipment. JFT process payments to about 100 temporary site construction and maintenance workers its client selects.

JFT is essentially a niche consulting firm, and its role in the construction of coal liquefaction plants is limited. JFT oversees the design and installation of the processing lines that produce oil from coal, or extra heavy crude oil, using iron-based catalysts. JFT's clients are oil companies. The oil companies provide the location and facilities, and JFT is responsible for working with a design firm to prepare the full set of designs, including the designs for the specific equipment/devices/parts. JFT is also responsible for paying the temporary labor for installing the processing lines. Once completed, JFT will transfer the production line to the client. After completion, JFT might also do maintenance work.

Mr. Jin's largest added value is that he helps formulate the chemistry requirements for the project. He also operates as somewhat of a managing contractor, building and operating the projects, and then transferring them to the clients. JFT's projects have all been medium size demonstration units. To date, JFT has built three projects. None of the projects have been

commercial scale. The first project was only 5,000 tons per year (100 barrels per day), another 10,000 tons per year (200 barrels per day), and the largest is approximately 100,000 tons per year (2,000 barrels per day).

Even though Mr. Jin Jun runs JFT and is its only revenue generator, he has never appeared as an owner of its shares. Instead, his son and a Ms. Zhang Manxia were the only shareholders prior to “Mr. Ng” purchasing 80% of JFT. The fact that Mr. Jin Jun was not a public shareholder along with JFT’s business model give rise to the question of whether a non-SOE business would ever engage JFT. (When considering this strange series of transactions involving Superb Summit and JFT, it is worth remembering the PRC government has recently made a point of investigating people working at the state-owned oil majors.)

JFT’s revenue model is to charge up to 20% of the gross project value as its fee. However, JFT must pay a significant amount of the fees to third parties because of its reliance on outsourcing. It is unclear what its fee would be if it worked on a significant project; however, JFT appears not to have the capability to have a major role on a large-scale project.

Coal liquefaction has limited potential for growth and is dominated by much larger and heavily capitalized players. The core technology for coal liquefaction has existed for over 100 years and was utilized by Germany in WWII and many other nations since. It is very water intensive, and creates a good deal of carbon dioxide. Coal liquefaction only makes commercial sense if oil prices are high because the process is highly energy intensive, and maintenance expenses and capex tend to be quite high. The two major developers of coal liquefaction in China are Shenhua Energy Co. Ltd. (with its subsidiary China Shenhua Coal to Liquid and Chemical Corp. Ltd.) and Yitai Coal Oil Manufacturing Co. Ltd.⁷ Shenhua is one of China’s largest SOE’s and one of the largest coal companies in the world. CSCLC has completed numerous demonstration projects, including a RMB 15 billion Direct Coal Liquefaction Demonstration Project to produce one million tons of oil per year. (We understand that JFT’s largest demonstration project was approximately 100,000 tons per year.)

The major trend in China now is toward the gasification of coal, which is a process that is more complex and capital intensive than liquefaction. Shenhua established multiple research institutes for developing and improving liquefaction and gasification technologies. Shenhua also established a joint venture with General Electric.

The bottom line is that coal liquefaction is a challenging technology. While JFT might be a nice consulting gig for Mr. Jin, JFT is not even close to playing in the top tier of major projects in China – and almost certainly never will be.

A recent National Energy Agency regulation prohibits construction of coal liquefaction plants with capacities lower than one million tons per year. We understand that this regulation will likely be enforced reasonably strictly. Given that JFT’s largest project to date is only 100,000 tons per year, this regulation imperils its ability to do business. The demonstration project for China Shipbuilding is supposed to be well below that threshold.⁸

⁷ <http://www.csclc.com.cn/ens/gsx/fengs/2010-12-20/292.shtml>

⁸ http://www.nea.gov.cn/2014-07/25/c_133510624.htm

JFT's Patents are Worth Very Little – Definitely not Anything Close to the HK\$1.5 billion claimed on Superb Summit's Balance Sheet.

JFT's three patents are of little value. However, this did not stop Superb Summit from booking them as intangible assets worth HK\$1.5 billion.

Because the catalytic and refining processes are not new, the major challenge is adapting them at each project to the particular types of coal being used and various other factors. It is typical in China to file for a patent each time a new plant is built, as the processes are somewhat customized. We understand that there is little commercial value to the patents because they are neither applicable elsewhere (due to the patents resulting from customization) nor cover the fundamental technology. We understand that because the clients are typically state-owned enterprises, the SOEs like to obtain patents because they make the project sound more impressive. JFT typically transfers most to all of the technology and patent rights on a given project to the client, while the rest is retained in Mr. Jin Jun's name. Purchasing JFT does not provide a portfolio of highly valuable patents that can be used to build an industrial powerhouse.

JFT's HK\$1.5 Billion Valuation is a Farce, and is Based on a Reality-Independent Financial Model

JFT was valued based on a discounted cash flow model with the overall assumption that JFT's future performance will be many orders of magnitude better than in the past. We believe that Superb Summit manipulated the valuation to astronomical levels in order to justify paying a massive HK\$600 million to the mysterious intermediary Mr. Ng. Beijing Tian Hai Hua Asset Valuation Firm appears to have had 2013 revenue less than RMB 10 million, possibly making Superb Summit a reasonably large client.⁹

The most perverse aspect of this transaction is that the consideration Superb Summit would pay for its JFT stake purportedly was not fixed – the amount would have been less had the valuation not hit the upper band of its limit. Thus, in an arms length transaction, Superb Summit's incentive would have been to keep the valuation low so that it would pay less for the business. Of course when one considers the more than 300% gain in Superb Summit's stock since June 7, 2013, other reasons for an inflated valuation present themselves.

There are other reasons why the purportedly independent valuation Superb Summit commissioned seems spurious. Inconsistent with prior practice, Superb Summit did not release the actual valuation report. Instead, Superb Summit released a letter from each of CCB International Capital Ltd. and Superb Summit's auditor, Parker Randall CF (H.K.) CPA Ltd. discussing the valuation.

To say that it is "optimistic" to value a company with RMB 3,000 (three thousand only) in revenue in 2013 and RMB 975,000 of net assets at RMB 1.2 billion would be a gross

⁹ Based on the minimum amount of revenue to make the Top 100 PRC Valuation Firm list for 2013, published by the Ministry of Finance – see http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/201404/t20140422_1070340.html.

understatement. The valuation was based solely on a discounted future cash flow model, and it is clear that Superb Summit had a large influence on the assumption. The auditor's letter reads in relevant part:

“The directors of [Superb Summit] are solely responsible for the preparation of the Discounted Future Cash Flows with the Valuation which the directors have adopted the Valuation prepared by the Valuer with those bases and assumptions stated in the Valuation with input from the Company and the Valuer.”

The auditor, Parker Randall, also seems to express skepticism about the valuation (this is no small feat, as we have significant concerns about Parker Randall and its engagement partner Man Fai “Parker” Seto):

“The Discounted Future Cash Flows depend on future events and on a number of bases and assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period.”

There is precedent for showing that Superb Summit's valuation of JFT is ridiculous. China E-Learning Group Ltd. (8055.HK) comes from the same lineage as Superb Summit. The companies' largest shareholder is the same company – Magic Stone Fund (China),¹⁰ which is principally owned by Mr. Yang Dongjun. Mr. Yang controlled a PRC company called Feifei Senwang Muye that sold assets that both Superb Summit and E-Learning ultimately bought. (Both companies' purchases first passed through intermediaries before the public companies bought them.)

At the time E-Learning acquired a company called the New Beida Group in October 2007, it made a series of projections that were very optimistic, and valued New Beida at HK\$800 million. Similar to what must have been the case with JFT, the revenue projection showed an enormous jump in the first year after the acquisition, with each subsequent year growing at a very healthy clip.

However, New Beida turned out to be a pipedream. We are confident the same will be the case with JFT. The table below shows the assumptions made in valuing New Beida, versus the reality of the first three years of ownership.

New Beida Group Forecast vs. Reality 2008 - 2010 (HK\$)				
	2007A	2008	2009	2010
Forecast revenue	N/A	422,549,000	517,352,000	570,588,000
Actual Revenue	13,056,000	26,615,000	23,239,000	37,082,000
Variance	N/A	-93.70%	-95.51%	-93.50%

RMB 1=HK\$1.02

¹⁰ Source: Bloomberg

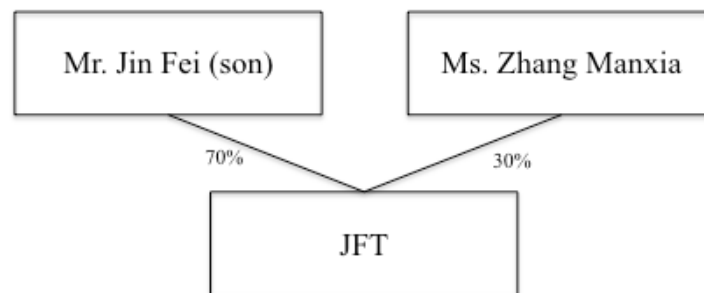
Incidentally, the New Beida valuation was also done by an “independent” asset valuation firm, LCH (Asia-Pacific) Surveyors Ltd. Ultimately in 2008 and 2009, E-Learning wrote off the entire amount of goodwill that resulted from the transaction.

Superb Summit’s HK\$ 600 Million Purchase of a 40.8% Indirect Stake in JFT is Likely a Sham.

The following describes the major events leading to Superb Summit’s acquisition of the 40.8% indirect stake in JFT:

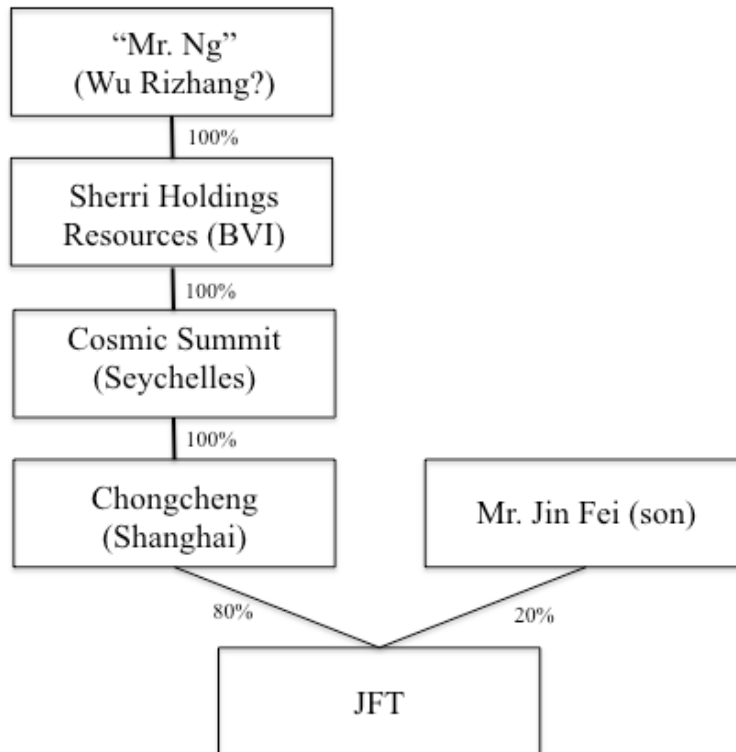
- On June 5, 2013, Superb Summit signed a letter of intent to acquire “no less than 80%...or the controlling interest” of JFT. At the time Superb Summit made the announcement, it did not disclose JFT’s name, and only referred to it as the “Target Company”. As of this date, Mr. Jin’s son and a Ms. Zhang together owned 100% of JFT.

JFT Ownership 14-Aug-2008 through 10-Jan-2014



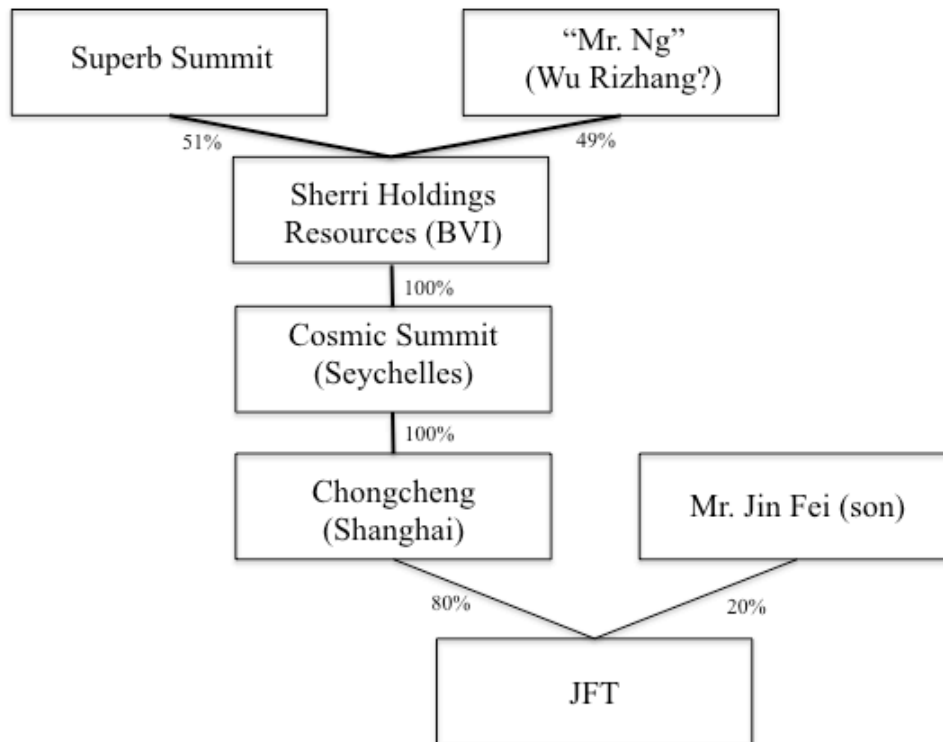
- On December 25, 2013, a new PRC entity was formed, Chongcheng (Shanghai) Energy Technology Co. Ltd. The shareholder was a Seychelles company called Cosmic Summit Ltd.
- On January 10, 2014, Chongcheng bought 80% of the registered capital of JFT. Strangely, Superb Summit never disclosed the full name of the beneficial owner of Cosmic Summit – it only identified him as “Mr. Ng” in the various disclosures about the transaction. Mr. Ng owned his stake in Cosmic Summit through a BVI company called Sherri Holdings Resources Ltd. We cannot know for certain who Mr. Ng is, but Chongcheng’s legal representative was Wu Rizhang (吴日章). (“Wu” is the Mandarin equivalent of “Ng”), so it is possible that Wu Rizhang was the seller of the indirect stake in JFT.
- On March 3, 2014 Superb Summit agreed to buy a 40.8% indirect stake in JFT for up to HK\$600 million. The actual consideration amount could have been less than HK\$600 million, and would be determined by the “independent” valuation that Superb Summit would commission.

JFT Ownership 10-Jan-2014 through 30-May-2014



- On March 23, 2014 Superb Summit announced that the valuer, Beijing Tian Hai Hua, had valued JFT at HK\$1.5 billion, which of course necessitated that Superb Summit pay the maximum possible HK\$600 million for its stake.
- On May 30, 2014, Superb Summit announced that it would satisfy the consideration with only HK\$50 million in cash, issuing a HK\$500 million promissory note for the balance.
- Also on May 30, 2014, Superb Summit closed the transaction by acquiring 51% of Cosmic Summit from Sherri.

JFT Ownership 30-May-2014 through Present



The JFT acquisition seems likely to be a sham transaction for the following reasons:

1. Superb Summit paid the bulk of the consideration with “funny money” – i.e. Superb Summit issued a HK\$550 million promissory note for the stake. The promissory note is purportedly due February 28, 2015.¹¹ As shown below, since the present management became involved with Superb Summit in 2007, Superb Summit has never had close to HK\$550 million in cash on the balance sheet. Moreover, Superb Summit’s operation cash flow is greatly negative. Unless Superb Summit converts the note to equity, it will almost certainly have to raise money in order to pay this note. It is unlikely that a bona fide, arms-length seller with any financial sophistication would have accepted this credit risk, especially at 1% per year.¹²

¹¹ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0530/LTN20140530893.pdf>

¹² <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0530/LTN20140530893.pdf>

In Millions of HKD	S1 2007	FY 2007	S1 2008	FY 2008	S1 2009	FY 2009	S1 2010	FY 2010
6 Months Ending	2007-06-30	2007-12-31	2008-06-30	2008-12-31	2009-06-30	2009-12-31	2010-06-30	2010-12-31
- Cash & Equivalents	132.7	149.8	86.9	54.6	222.0	73.6	78.7	100.0
Cash from Operations	N/A	291.7	N/A	-40.3	N/A	-30.8	N/A	22.5
Capital Expenditures	N/A	-13.3	N/A	-4.9	N/A	-18.3	N/A	-2.1
Free Cash Flow	N/A	278.4	N/A	-45.2	N/A	-49.0	N/A	20.3

In Millions of HKD	S1 2011	FY 2011	S1 2012	FY 2012	S1 2013	FY 2013	S1 2014
6 Months Ending	2011-06-30	2011-12-31	2012-06-30	2012-12-31	2013-06-30	2013-12-31	2014-06-30
- Cash & Equivalents	52.7	15.7	1.4	10.5	32.3	36.3	20.9
Cash from Operations	N/A	-62.5	-44.7	-62.0	-67.7	-106.7	-234.6
Capital Expenditures	N/A	-16.2	N/A	-0.2	N/A	-1.9	N/A
Free Cash Flow	N/A	-78.7	N/A	-62.2	N/A	-108.5	N/A

- Superb Summit's failure to provide Mr. Ng's full name is unusual and can reasonably be interpreted as a deliberate attempt to obscure his identity. In Superb Summit's past acquisitions, it generally fully identified the individuals who beneficially owned the companies and assets being purchased. This circumspection also gives rise to serious concerns about whether Mr. Ng is really an arms-length party.
- That Superb Summit acquired JFT through an intermediary who had held the shares for a mere four months gives rise to a reasonable suspicion that the transaction is not arms length, and that there could have been substantial inflation of the value of the JFT stake.

The particularly damning fact is that the June 5, 2013 letter of intent gave Superb Summit the exclusive right for the next 12 months to negotiate the purchase of JFT with "a PRC individual holding the entire equity interest in the Target Company as at the date of the Letter of Intent".¹³ Chongcheng had not even been established at that point in time.

It is therefore clear that Superb Summit caused Mr. Ng to be inserted into the transaction because as of the date of the LOI, none of Mr. Ng, Cosmic Summit, or Chongcheng owned any equity of JFT. Moreover, the possible seller of the stake to Superb Summit, Wu Rizhang, is a Hong Kong resident.¹⁴

- Chongcheng's registered capital is only US\$10,000. It is difficult to understand how Chongcheng could have legally paid much more than its registered capital amount for JFT, which is therefore one more reason to doubt that the HK\$600 million purchase is an arms-length transaction.

Our interpretation of the preceding information is that Superb Summit likely influenced the valuation by providing wildly optimistic assumptions without significant input from JFT management. If we are correct, it would also support the proposition that the transaction was not arms length because a less optimistic set of assumptions would have allowed Superb Summit to pay less than HK\$600 million for the stake.

¹³ We note that there is a small error in the LOI because two PRC individuals owned the registered capital of JFT.

¹⁴ Chongcheng SAIC file.

Superb Summit Has Announced Numerous New Business Lines over the Past Seven Years, None of Which has Amounted to Anything.

Superb Summit has an unblemished track record of failing in new initiatives, which is likely due to decision-making being driven more by stock promotion than real business considerations. (We fully expect JFT to follow this pattern.) Since Superb Summit stopped focusing on manufacturing electronic calculators in 2007, it has shown no competence in any line of business whatsoever, despite numerous announced ventures and initiatives. This list of abject failures includes:

- entering the forestry business, which purportedly included timber marketing, processing and forestry investments,¹⁵
- establishing an electronic timber exchange for China,
- building a forestry products exhibition center in Tianjin,¹⁶
- developing a port in Tianjin,¹⁷
- acquiring Australian gold mining companies,¹⁸
- buying “not more than one billion cubic meters” of natural gas per year,¹⁹ and
- buying a majority stake in a coal conveyer belt and logistics companies.²⁰

It should not surprise anybody that these various initiatives amounted to nothing. Many of them would have required Superb Summit have a competence in something. Superb Summit’s only business skill seems to be having a public company, which is not really applicable to undertaking real world projects.

Failure #1: Forestry business is a 95%+ failure

The closest Superb Summit has come to not failing is in its forestry business that it entered through the acquisition of Green & Good Limited in 2007.

Superb Summit’s initial pronouncements focused on the acquisition of 70% of “Green and Good whose sole asset is the entire equity interest in LEEKA Wood, a WOFE, whose subsidiaries and itself are principally engaged in the (i) exploitation and management of timber resources in the PRC; and (ii) research and development, processing, manufacture, distribution, marketing and sales of a wide range of wood products.”²¹ It sounded as though Superb Summit were acquiring a fairly robust business: “The consideration has been determined with reference to, amongst other things, (i) the business prospect, potential profitability, market scalability and product mix

¹⁵ June 11,2008: <http://www.irasia.com/listco/hk/superbsummit/announcement/a28571-e01228.pdf>

¹⁶ Sept 15,2010: http://www.irasia.com/listco/hk/superbsummit/announcement/a62873-e_announce12282010_09_15_3rddraft.pdf

³ Dec 3,2010: http://www.irasia.com/listco/hk/superbsummit/announcement/a66148-essie_announcement2010_12_03c.pdf

¹⁸ Nov 17,2011: <http://file.irasia.com/listco/hk/superbsummit/announcement/a111117.pdf>

¹⁹ April 8,2013: <http://file.irasia.com/listco/hk/superbsummit/announcement/a130408a.pdf>

²⁰ July 17,2012 <http://file.irasia.com/listco/hk/superbsummit/announcement/a120718.pdf>

²¹ June 8,2007 <http://file.irasia.com/listco/hk/superbsummit/announcement/a070611.pdf>

of LEEKA Wood and its subsidiaries, (ii) the asset quality back-up by Green & Good Group, (iii) the Profit Guarantee.”²²

However, Superb Summit managed to report a cumulative total of only HK\$194 million in forestry-related revenue in the seven full years it has owned the forestry business. (This revenue number excludes the HK\$265 million in dubious 2007 revenue Superb Summit generated by purportedly selling logs to Feifei Senwang Muye.) Superb Summit paid HK\$1.8 billion for the forestry business.²³ Thus, in our view, the forestry business is only a 95% failure. Regardless, the forestry business seems like a stunning success compared to all of Superb Summit’s other announced ventures though.

Failure #2: China electronic timber exchange initiative is a failure

Superb Summit announced that it had obtained permission from the National Timber Association Industry Administration Office to build an electronic trading platform for timber products.²⁴ The business opportunity for an electronic standardized platform was detailed in a June 2008 pronouncement “By proceeding to comprehensive and in-depth research, investigation and analysis on the issue of standardization of the current transaction flow in sawn wood and major wood-based panel, making reference to the relevant information in domestic and overseas timber trade standardization as well as conducting on-site investigation and study, the following five sets of standards to China’s timber trading activities were proposed by the Study and being reviewed by experts of the National Technical Committee 41 on Timber of Standardization Administration of China, which served to lay the foundation in facilitating related industry standards in the future and in establishing a well-regulated timber trading market:

1. Standardization in trading of sawn wood;
2. Standardization in trading of medium density fibreboard;
3. Standardization in trading of particle board;
4. Standardization in trading of joinery board; and
5. Standardization in trading of plywood;”²⁵

Despite all of the pomp of Superb Summit’s statements, its electronic timber exchange seems never to have gone anywhere, and quickly disappeared from releases.

Failure #3: Timber exhibition center initiative is a failure

Superb Summit appears never to have made any material progress on developing a timber exhibition center. Superb Summit continued its obsessive fantasy with the timber business through a series of releases from 2008 through early 2011 culminating in a claim that it had

²² June 8, 2007 <http://file.irasia.com/listco/hk/superbsummit/announcement/a070611.pdf>

²³ Total consideration paid for the 70% G&G acquisition was HK\$955.3m as per the disclosures on p50 + 51 of the 2008 AR. The remaining 30% of G&G was purchased in consideration for HK\$799m, split across Convertible Note A with a principal amount of HK\$417m and Convertible Note B with a principal amount HK\$382m. This is explained in note 33 (ii) on p116 of the 2009 AR.

²⁴ Oct. 21, 2008: <http://www.irasia.com/listco/hk/superbsummit/announcement/a33345-e01228.pdf>

²⁵ June 19, 2008: <http://www.irasia.com/listco/hk/superbsummit/announcement/a28856-e01228.pdf>

proposed a joint venture with the Dagang Management Committee of Tianjin Binhai new area and Tianjin Goods Trading Market Co. Ltd. to construct a timber trading, exhibition and convention center and logistics base for the National Bonded Trading Processed Manufacturing Industry.²⁶

Failure #4: Tianjin port initiative is a failure

Superb Summit appears to have completely fizzled in its efforts to build a timber port and quarantine area for imported timber. In December 2010, Superb Summit announced a joint initiative with Tianjin Port in which the two would invest in each other, and Tianjin Port would provide 100 hectares or more of land for Superb Summit's effort. The port initiative appears to have died after Superb Summit's January 5, 2011 release that offered more detail on the plan. At the time, Superb Summit wrote "Tianjin Harborside (wholly owned by Tianjin Port) will provide 120 hectares, assist in acquiring commercial and residential lands, secure a preferential price for Superb while conducting tender auction", and "Tianjin will provide additional land to provide commercial accommodation services and living facilities."²⁷

Failure #5: Plan to acquire Australian gold mining companies fails

Superb Summit's November 17, 2011 announcement that it was in negotiations to potentially acquire Stone Resources Holding and Crescent Gold Ltd., which both own gold mining properties in Australia, lasted less than one year before the Framework Agreement was terminated. At the time of the initial announcement, Superb Summit stated, "Part of the Gold Mine(s) A has been explored and ascertained to contain approximately 780,000 ounces of gold", and "Target Company B owns the mining right as to certain gold mine(s) containing 2,070,000 ounces of gold."²⁸

Failure #6: Initiative to buy "not more than one billion cubic meters" per year of natural gas fails²⁹

Technically maybe Superb Summit did not fail in buying "not more than one billion cubic meters" per year of natural gas, as it appears to have bought none. Nonetheless, we consider this initiative a failure because it seems that the intent was to create the impression that Superb Summit was going to do something significant, and it likely ended up doing nothing. At the time, Superb Summit "Party A and Party B agree to explore the PRC and international natural gas markets, compete for long-term and stable natural gas resources supply within and outside the PRC, establish sales channels and explore the forms of cooperation, ranging from trading to industrial investment... The Strategic Cooperation Agreement will be effective for a term of ten

²⁶ Sept 15, 2010: http://www.irasia.com/listco/hk/superbsummit/announcement/a62873-e_announce12282010_09_15_3rddraft.pdf

²⁷ Jan 5, 2011: http://www.irasia.com/listco/hk/superbsummit/announcement/a67406-e_announcement2011_01_05%28draft_07%29.pdf

²⁸ Nov 17, 2011: <http://file.irasia.com/listco/hk/superbsummit/announcement/a111117.pdf>

²⁹ April 8, 2013: <http://file.irasia.com/listco/hk/superbsummit/announcement/a130408a.pdf>

years, and will be automatically extended if there is no written objection from either party." ³⁰
We look forward to the automatic renewal of the agreement.

Failure #7: Initiative to buy stake in Mongolia to China coal conveyer belt and logistics companies fails

In July 2012, Superb Summit went on a coal kick. It falsely claimed to acquire Tianjin Libao on July 11, 2012.³¹ On July 17 and 18, 2012, it also announced a complex series of LOIs to acquire stakes in seven Mongolia to China conveyer belt and logistics companies. It supplemented those announcements on July 25 and 28, 2012 by announcing a coal supply agreement and mine acquisition. The purchases announced in these releases never came to fruition. As for the coal supply agreement, if coal were supplied, it was not by Superb Summit.

³⁰ April 8, 2013: <http://file.irasia.com/listco/hk/superbsummit/announcement/a130408a.pdf>

³¹ July 11, 2012 p.110: <http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0429/LTN20130429321.pdf>