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Tianhe Chemicals

Alchemy

The Basics

Ticker:	1619.HK
Market Cap:	HK\$62 billion
Recent Price:	HK\$2.43
Target Price:	HK\$0.00
Expected Return:	-100%
Conclusion:	<i>Strong Sell</i>

The Quick and Dirty

- This report presents substantial, overwhelming, and conclusive evidence that Tianhe is one of the largest stock market frauds ever conceived.
- SAIC filings and third-party documents show that Tianhe generates a fraction of the revenues and profits it reports.
- We present smoking gun evidence that Tianhe does not pay the taxes it claims, and therefore could not have generated the profits it claims.
- Site visits show that most of Tianhe's SFC customers are related parties that share offices and overlapping management.

You should have expected us

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Don’t be stupid and invest in the public markets unless you are prepared to do your own homework and due diligence.

Introduction



JP Morgan was lucky to have [withdrawn](#) from Tianhe's IPO.

It's hard to imagine that three years after the fall of Sino-Forest, a fraud twice its size could navigate through a sea of regulators, investment bankers, and auditors to list on a global stock exchange.

Yet here we are.

Tianhe Chemicals is a US\$8 billion company that went public on the Hong Kong Stock Exchange earlier this year as one of the biggest IPOs of 2014. The listing turned the Company owner and founder, Mr. Wei Qi into a billionaire and Northeast China's richest man.¹

However, we have conducted months of due diligence, field research and analysis which show that Tianhe is a massive fraud and one of the largest stock market scams ever conceived. This report details our findings, including extensive analysis of government documents and SAIC filings, site visits to Tianhe's purported customers and review of industry data. Our sources also conducted field interviews with former employees and competitors that completely contradict Tianhe's stated position as a leader in China's chemical market.

Additionally, this report will also provide background on Frost & Sullivan, a firm that had a significant role to play in legitimizing Tianhe's claims, and is cited throughout its prospectus.

In the end, we don't just expect Tianhe to be unwound and delisted, we also expect the Securities and Futures Commission to bring criminal charges against the architects of its IPO.

¹ <http://www.forbes.com/sites/russellflannery/2014/06/22/listing-makes-chemicals-supplier-northeast-chinas-richest-man/>

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Executive Summary



Our investigation shows that Tianhe Chemicals (“Tianhe”) is one of the largest stock market frauds ever conceived. We present irrefutable evidence that Tianhe’s IPO prospectus and subsequent earnings announcements massively overstate the scale, scope and profitability of Tianhe’s business.

Overstated profitability: original SAIC filings of Tianhe’s relevant operating subsidiaries show that in 2012, Tianhe’s true revenue was 85% less than it reports, and its net income was almost 100% less. Similar overstatements were made for 2011. We present additional government and third-party evidence that corroborate the SAIC filings and discredit the IPO prospectus.

Contradictory tax data: we present smoking gun evidence from relevant tax authorities that Tianhe does not pay the taxes it claims. If its financial statements were accurate, Tianhe’s tax payments would exceed all the tax revenue collected by the jurisdictions in which it operates

Two sets of books: we provide evidence that Tianhe has created fake SAIC filings to match its prospectus, and in the process, presented two sets of books to the SAIC. The original set was audited by a registered local auditing firm and shows that Tianhe is a fraud. This set contains anti-counterfeit stamps which can be used to verify the authenticity of the SAIC filings online with the relevant accounting oversight body. A second set was audited by Deloitte and matches with Tianhe’s IPO prospectus. However, we believe this set to be a fake created ahead of the IPO because among other reasons, it does not contain the necessary anti-counterfeit stamps, nor any form of verification code.

Related-party customers: our investigation shows that most of Tianhe’s biggest, disclosed SFC customers are all either related parties, very small and/or bordering on non-existent.

Impossible market size: Tianhe claims the secret of its profitability stems from its ability to produce and sell anti-mar in commercial quantities. However, reports by industry experts, backed up by market research show that i) Tianhe’s claimed sales of anti-mar are twice the size of the total market, ii) Tianhe is not known by industry players, and iii) statements by former employees show that Tianhe does not produce anti-mar, but a far less profitable and less valuable solvent used in the anti-mar process.

Conclusion: we believe that this is the end for Tianhe. Tianhe came to the market as one of the biggest IPOs of 2014, and at US\$8 billion we believe it will collapse as one of the biggest frauds in history.

Background



Tianhe claims to be one of China's leading chemical producers with two principal business segments, namely Lubricant Oil Additives ("**LOA**") and Specialty Fluorochemicals ("**SFC**").²

- **LOA:** Lubricant additives are added to base oils and used by lubricant manufacturers to produce industrial and commercial lubricant products. In turn, these products are used in a broad range of industries, including engine oil for automobiles, ships and turbines, and in virtually any other application where metal-to-metal moving parts are utilized. Tianhe considers itself the largest LOA producer in China and the sixth largest producer worldwide.³ Tianhe names its top LOA competitors as Lubrizol, Infineum, Chevron Oronite, Afton, and Chemtura.
- **SFC:** Specialty fluorochemicals have a diverse range of applications, including anti-corrosion, fire/water resistance and surface protectants. Given their wide-ranging use, SFCs are used in everything from leather and textile finishing agents to eyeglasses and touch panel coating. Tianhe names its SFC competitors as DuPont, Solvay, Asahi Glass, and Daikin.

Public Competitors

Name	Ticker	Market Cap (US\$)	Founded	Geography	Business
Chemtura	CHMT.NYSE	\$2 billion	1900	US	LOA
NewMarket (Afton)	NEU.NYSE	\$5 billion	1887	US	LOA
DuPont	DD.NYSE	\$60 billion	1802	US	SFC
Solvay	SOLB.BRU	\$13 billion	1863	Belgium	SFC
Asahi Glass	5201.TYO	\$6 billion	1907	Japan	SFC
Daikin	6367.TYO	\$20 billion	1924	Japan	SFC
Tianhe Chemicals	1619.HK	\$8 billion	1992	China	LOA/SFC

Source: Financial Times, Yahoo Finance

The specialty chemical industry is defined by significant barriers to entry, including advanced R&D capabilities, complicated production processes, and arduous certification and testing requirements. Even if an emerging chemical company has the technical capabilities, OEMs generally stick with established suppliers that have a proven track record, brand recognition, and quality assurance systems. The product certification process itself is highly complex and time-consuming which discourages customers from switching chemical suppliers.

Given these immense barriers, the most successful chemical companies got their start over a century ago and developed their technical know-how through two World Wars. The one notable exception is Tianhe who can trace its roots back to 1992, and only established its first operating subsidiary in 2004.⁴

² <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 1

³ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 145

⁴ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 112

Fabricated Revenues and Profits



In its prospectus, Tianhe reports incredible revenue growth and profitability. Between 2011 and 2013, Tianhe's revenue purportedly grew an average of 22.4% annually to RMB5 billion (US\$812M). In that same period, Tianhe claims net income tripled from RMB0.9 billion to RMB2.6 billion (US\$424M):

Exhibit 1

Tianhe Consolidated Income Statement

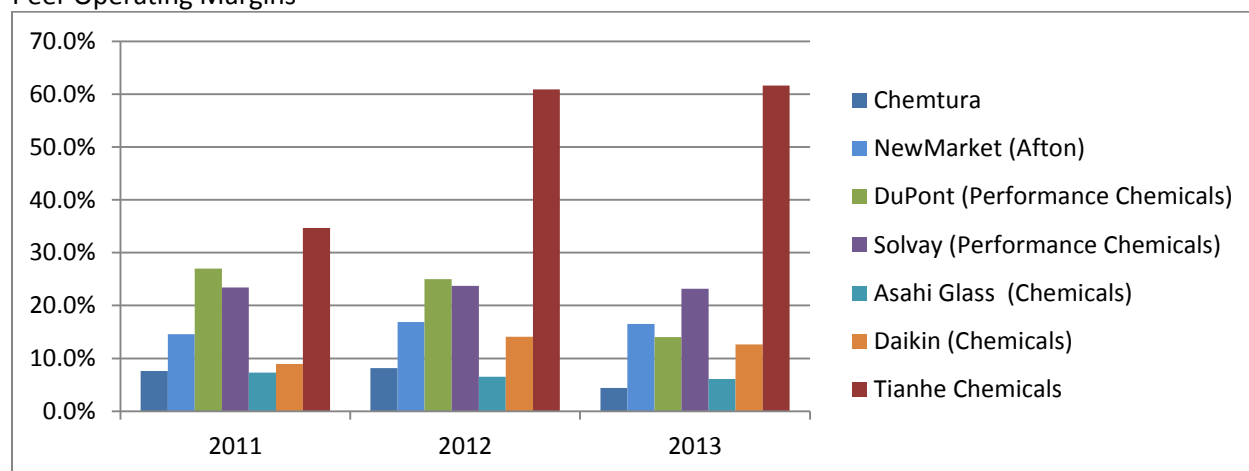
	For the year ended December 31,		
	2011	2012	2013
	<i>(RMB in thousands)</i>		
Revenue	3,359,368	4,192,553	5,033,795
Cost of sales	(1,869,454)	(1,651,300)	(1,986,805)
Gross profit	1,489,914	2,541,253	3,046,990
Profit before taxation	1,164,220	2,553,656	3,100,407
Income tax expenses	(216,109)	(363,692)	(474,178)
Profit and total comprehensive income for the year attributable to the owners of the Company	948,111	2,189,964	2,626,229

Source: IPO Prospectus, pg. 7

Tianhe's stated profitability is derived from superior operating margins of over 60%. By comparison, all of Tianhe's competitors report operating margins well below 30%:

Exhibit 2

Peer Operating Margins



Source: company filings

While Tianhe presents itself as a top-tier chemical company to investors, government documents show that the reality of Tianhe is much different than what the Company has presented in its prospectus and subsequent earnings announcements. SAIC⁵ filings for Tianhe's operating subsidiaries show that the Company's revenue and size as stated in its IPO prospectus are grotesque fabrications.

According to the prospectus, Tianhe has five onshore subsidiaries of which only two had commenced business operations as of 31 December 2013: Jinzhou DPF-TH and Fuxin Hengtong. Tianhe conducts all its business through these two subsidiaries:

Name of company	Date and place of incorporation/ establishment	Issued and fully paid-up share capital/ registered capital	Equity interest attributable to the Group					Principal activities
			At 31 December			At the date of this report		
			2011	2012	2013			
阜新恒通氟化學有限公司 Fuxin Hengtong Fluoride Chemicals Co., Ltd. * ("Fuxin Hengtong")	30 August 2004 People's Republic of China ("PRC")	Registered capital Renminbi ("RMB") 80,000,000	100%	100%	100%	100%	Manufacturing of specialty fluorochemicals	
錦州惠發天合化學有限公司 Jinzhou DPF-TH Chemicals Co., Ltd.* ("Jinzhou DPF-TH")	15 May 2007 PRC	Registered capital US\$107,450,000	100%	100%	100%	100%	Manufacturing of lubricant additives and specialty fluorochemicals	
中北石油化工有限公司 North China Petrochemical Co., Ltd.* ("North China")	27 April 2010 PRC	Registered capital US\$60,000,000	100%	100%	100%	100%	Not yet commence business	
中亞石化科技有限公司 Sino-Asia Petrochemical Technology Co., Ltd. * ("Sino Asia")	28 April 2010 PRC	Registered capital US\$50,000,000	100%	100%	100%	100%	Not yet commence business	
錦州惠發天合置業有限公司 Jinzhou Huifa Tianhe Zhiye Co., Ltd.* ("Tianhe Zhiye")	19 March 2013 PRC	Registered capital RMB8,000,000	—	—	100%	100%	Not yet commence business	

Source: IPO Prospectus, pg. I-2

⁵ By way of background, chinese companies are required to file annual financial and business information with the State Administration for Industry and Commerce (SAIC). SAIC filings are public documents.

We present the SAIC income statements for these two subsidiaries below. These documents show that Tianhe's real revenue and net income are SIGNIFICIANTLY LESS than what has been presented to investors. SAIC filings show that in 2012, Tianhe's actual revenue was 85% less than it claimed in its prospectus, and its net income was nearly 100% less. Similar dramatic overstatements were made for 2011:

SAIC vs Prospectus

(RMB Millions)

Revenue	2011	2012
Jinzhou DPF-TH	485	506
Fuxin Hengtong	275	143
Total	760	649
vs. IPO Prospectus	3,359	4,193
% Difference	-77%	-85%
Net Profit		
Jinzhou DPF-TH	-1	-9
Fuxin Hengtong	56	11
Total	55	2
vs. IPO Prospectus	948	2,190
% Difference	-94%	-100%

Source: IPO Prospectus, SAIC

The SAIC filings show that at best, Tianhe is a relatively small company which generates only a fraction of the business it claims. This is a far cry from the unbelievably lucrative US\$8 billion chemical giant that has been presented to investors. Given these discrepancies, **Tianhe's IPO prospectus appears to contain some of the most fabricated financial statements we have ever encountered.**

Jinzhou DPF-TH (Chinese: 锦州惠发天合化学有限公司)

2011 SAIC Income Statement

Revenue: RMB485 million (US\$76 million)

Net Income: -RMB1 million (-US\$0.16 million)

利 润 表

会企02表

编制单位: 锦州惠发天合化学有限公司

2011年度

单位: 元

项 目	本 年 金 额	上 年 金 额
一、营业总收入	485,390,496.05	297,769,042.95
其中: 主营业务收入	433,375,211.15	288,382,128.75
其他业务收入	52,015,284.90	9,386,914.20
二、营业总成本	490,761,338.33	316,466,542.73
营业成本	435,503,254.81	272,618,739.49
其中: 主营业务成本	384,833,394.72	263,714,443.64
其他业务成本	50,669,860.09	8,904,295.85
营业税金及附加	2,117.30	
销售费用	5,589,295.30	4,225,391.76
管理费用	49,622,578.62	29,970,345.48
其中: 业务招待费		
研究与开发费		
财务费用	2,123,263.97	9,652,066.00
其中: 利息支出		
利息收入		
汇兑净损失(净收益以“-”号填列)		
资产减值损失	-2,079,171.67	
加: 公允价值变动收益(损失以“-”号填列)		
投资收益(损失以“-”号填列)		
其中: 对联营企业和合营企业的投资收益		
三、营业利润(亏损以“-”号填列)	-5,370,842.28	-18,697,499.78
加: 营业外收入	4,664,625.29	2,916,583.12
减: 营业外支出	381,623.12	3,920,748.40
其中: 非流动资产处置损失		
四、利润总额(亏损总额以“-”号填列)	-1,087,840.11	-19,701,665.06
减: 所得税费用		
五、净利润(净亏损以“-”号填列)	-1,087,840.11	-19,701,665.06

Jinzhou DPF-TH (Chinese: 锦州惠发天合化学有限公司)

2012 SAIC Income Statement

Revenue: RMB506 million (US\$82 million)

Net Income: -RMB9 million (-US\$1.5 million)

利 润 表

编制单位: 锦州惠发天合化学有限公司		2012年度	会企02表 单位: 元
项 目	本年金额	上年金额	
一、营业总收入	505,817,874.64	485,390,496.05	
其中: 主营业务收入	482,591,602.41	433,375,211.15	
其他业务收入	23,226,272.23	52,015,284.90	
二、营业总成本	512,988,007.39	490,761,338.33	
营业成本	416,983,855.57	435,503,254.81	
其中: 主营业务成本	395,630,711.32	384,833,394.72	
其他业务成本	21,353,144.25	50,669,860.09	
营业税金及附加		2,117.30	
销售费用	7,699,138.89	5,589,295.30	
管理费用	45,095,438.84	49,622,578.62	
其中: 业务招待费			
研究与开发费			
财务费用	43,209,574.09	2,123,263.97	
其中: 利息支出			
利息收入			
汇兑净损失(净收益以“-”号填列)			
资产减值损失		-2,079,171.67	
加: 公允价值变动收益(损失以“-”号填列)			
投资收益(损失以“-”号填列)			
其中: 对联营企业和合营企业的投资收益			
三、营业利润(亏损以“-”号填列)	-7,170,132.75	-5,370,842.28	
加: 营业外收入	1,088,790.72	4,664,625.29	
减: 营业外支出	2,832,633.71	381,623.12	
其中: 非流动资产处置损失			
四、利润总额(亏损总额以“-”号填列)	-8,913,975.74	-1,087,840.11	
减: 所得税费用			
五、净利润(净亏损以“-”号填列)	-8,913,975.74	-1,087,840.11	
六、每股收益:			

Fuxin Hengtong (Chinese: 阜新恒通 化学有限公司)

2011 SAIC Income Statement

Revenue: RMB275 million (US\$37 million)

Net Income: RMB56 million (US\$9 million)

利 润 表

编制单位: 阜新恒通化学有限公司

2011年度

会企02表

单位: 元

项 目	本年金额	上年金额
一、营业总收入	275,040,400.63	89,805,045.98
其中: 主营业务收入	194,772,929.86	88,519,026.89
其他业务收入	80,267,470.77	1,286,019.09
二、营业总成本	216,812,711.79	102,276,435.15
营业成本	203,745,060.25	79,274,306.31
其中: 主营业务成本	124,053,363.37	77,998,600.62
其他业务成本	79,691,696.88	1,275,705.69
营业税金及附加	649,687.69	
销售费用	1,138,387.15	638,734.89
管理费用	12,287,049.36	20,660,960.40
其中: 业务招待费		
研究与开发费		
财务费用	5,446,024.45	1,702,433.55
其中: 利息支出		
利息收入		
汇兑净损失(净收益以“-”号填列)		
资产减值损失	-6,453,497.11	
加: 公允价值变动收益(损失以“-”号填列)		
投资收益(损失以“-”号填列)		
其中: 对联营企业和合营企业的投资收益		
三、营业利润(亏损以“-”号填列)	58,227,688.84	-12,471,389.17
加: 营业外收入	1,415,822.91	2,769.43
减: 营业外支出	7,548,301.94	1,996.97
其中: 非流动资产处置损失		
四、利润总额(亏损总额以“-”号填列)	52,095,209.81	-12,470,616.71
减: 所得税费用	-3,536,424.73	-3,115,309.63
五、净利润(净亏损以“-”号填列)	55,631,634.54	-9,355,307.08

Fuxin Hengtong (Chinese: 阜新恒通 化学有限公司)

2012 SAIC Financial Summary

Revenue: RMB143 million (US\$23 million)


Net Income: RMB11 million (US\$1.7 million)

The 2012 SAIC filings contained a financial summary page which shows revenue and net income figures for the year. This form is signed by the Chairman Wei Qi, under a sentence which reads "I confirm the content of the submitted annual audited report is true."

四、经营情况

企业名称	阜新恒通氟化学有限公司		注册号	210900004029229
营运状况	<input type="checkbox"/> 筹建 <input checked="" type="checkbox"/> 投产开业 <input type="checkbox"/> 停业 <input type="checkbox"/> 清算			
全年销售(营业)收入	142532703.84 元	其中: 服务营业收入	0.00 元	
全年利润总额	12931545.95 元	全年净利润	10977962.26 元	
全年纳税总额	1330197.73 元			
全年亏损额	0.00 元			
年末资产总额	240150681.66 元	其中: 长期投资	0.00 元	
年末负债总额	240150681.66 元	其中: 长期负债	0.00 元	

本人确认公司提交的年检报告书所填内容属实。

公司法定代表人签名: 

年 月 日

Supporting Evidence from Industry Website

In addition to SAIC filings, numerous government and third-party documents contradict Tianhe's reported financials. In a press release dated 25 November 2011, an industry website citing the Fuxin local government announced that Tianhe's Fuxin Hengtong subsidiary generated revenue of RMB230 million in the first ten months of 2011:

海州氟化工基地发展质量和效益稳步提升

<http://www.chem.hc360.com>

2011年11月25日 10:31

阜新政府网站

慧聪化工网讯：海州氟化工产业基地内共有阜新恒通氟化学有限公司、奇凯(阜新)化工有限公司、辽宁天华化工有限公司等企业11户，其中投产企业10户。

一、龙头企业带动作用日益凸显

阜新恒通氟化学有限公司在常温常压下生产氟碳醇技术处于国际领先水平，是世界第四家生产该产品的企业。**截至10月末，实现销售收入2.3亿元**，出口创汇643万美元。一是企业今年将年产200吨氟碳醇生产线的产能扩建到1000吨，目前该项目已经竣工投产。二是新建一条年产1000吨氟碳醇及1500吨高品质氟树脂生产线，该项目土建工作已经完成，正在进行设备安装，预计2012年5月份可试生产。目前，国际市场氟碳醇价格为110万元/吨，市场发展前景非常可观。此外，该公司以氟碳醇为基础，研发的下游产品达十几种，产业链延伸成效明显。

Source: <http://info.chem.hc360.com/2011/11/251031323958.shtml>

If we annualize that figure (RMB230 million ÷ 10 x 12) we get RMB276 million, which matches Fuxin Hengtong's 2011 SAIC revenue figure of RMB275 million. This announcement further proves that Tianhe's prospectus is a work of fiction.

Supporting Evidence from Liaoning Daily

The Liaoning Daily is the official newspaper of the Liaoning Province Committee of the Communist Party of China, and distributed in Tianhe's home province of Liaoning. According to an article published by the newspaper on 19 June 2012, Fuxin Hengtong generated revenue of RMB43 million and pre-tax earnings and VAT of RMB8 million in the first four months of 2012:

阜新海州区依托现有企业扩项目

2012-06-19 06:16 辽宁日报



- 品牌厨房电器5折狂甩
- 北国网营销人才招聘
- 沈阳交通违章查询
- 汽车频道换装上线

6月13日，阜新恒通氟化学有限公司内一片繁忙景象，公司投资3000万元的四氟乙烯3000吨扩建项目正在进行紧张的安装调试，预计月底前将全部安装完成并投入使用，届时，公司的生产能力可达3000吨/年。

阜新市海州区区长马永生告诉记者：“恒通氟化学有限公司是海州氟化工产业基地的重点企业。年初以来，该公司严格依照海州氟化工产业基地‘做大总量、做强财力’的发展思路，着力在科技成果转化上钻深度。”

成立于2004年8月的阜新恒通氟化学有限公司是天合化工集团旗下从事氟化工生产的专业公司。公司占地13万平方米，有员工300余人。公司十分注重国内外氟化工产业新技术的引进、消化、吸收和再创新，聚四氟乙烯树脂系列产品出口至欧美多个国家，自主研发的氟碳醇系列产品被列为国家科技支撑项目，氢氟醚和精细氟化学品系列中的大部分产品均为世界首创。今年前4个月，公司累计实现工业总产值5836万元、销售收入4330万元，上缴利税828万元。公司负责人告诉记者：“在接下来的4个月里，通过项目的新建扩建以及技术改造，投资6000万元的年产2000吨氟碳醇项目预计8月投产；投资2000万元的氢氟醚工业化项目预计10月可达1000吨/年的生产能力。公司的TEAC车间预计8月投产，氟碳醇车间预计9月投产。所有项目建成达产后，公司年产值将超过10亿元。”

Source: http://news.lnd.com.cn/htm/2012-06/19/content_2361265.htm

If we annualize the revenue figure (RMB43 million ÷ 4 x 12) we get RMB129 million, which is consistent with Fuxin Hengtong's 2012 SAIC revenue figure of RMB143 million. Once again, this confirms the numbers in the SAIC filings, and discredits the IPO prospectus.

Supporting Evidence from Local Chemical Industry Size

According to the prospectus, Tianhe generated SFC revenue of RMB1.5 billion in 2011.⁶ The prospectus does not disclose the SFC revenue split between Fuxin Hengtong and Jinzhou DPF-TH. However, the prospectus does note that prior to October 2013, both subs operated four SFC production lines each.⁷ Given that Fuxin Hengtong operated half the SFC production lines, it's reasonable to assume that it also generated half the revenue, or RMB750 million.

Fuxin is home to a number of fluorochemical companies, with a fluorochemical industrial park having been built in the city in 2004.⁸ However, according to an announcement dated 19 December 2011 by the Fuxin government, the entire City's fluorochemical industry generated total output of only RMB900 million for the 11 months from January 2011 to November 2011:

目前，我市规划了20平方公里土地专项用于氟化工产业基地建设，已累计完成基础设施投资1.7亿元，其中的一期起步区5平方公里已达到企业入驻条件，鹰鹏公司、韩国OCI公司、联化科技等一批备受瞩目的重点项目已开工建设。我市氟化工企业的主要产品有氟材料和精细化学品两大系列，包括聚四氟乙烯树脂、含氟农药及医药中间体等上百种产品。其中，**阜新恒通**公司自行研制的氟碳醇产品处于国际领先水平，该公司是继美国杜邦公司、德国拜尔公司之后，世界第五家、国内第一家掌握氟碳醇生产技术的企业。金凯、奇凯等企业开发的芳香族含氟中间体处于国际领先水平。金凯公司正在研发试制的六氟磷酸锂产品是国家重点鼓励开发的新能源产品，目前国内尚没有工业化生产企业投产此产品，其市场前景十分广阔。东欣化工公司生产4万吨氢氟酸项目，可为我市氟化工产业发展下游产品，实现精深加工提供了源头保障。

今年1-11月，阜新氟化工产业基地共入驻企业32户，其中投产运行企业19户，完成工业总产值**9亿元**，同比增长**73.1%**，预计全年可完成**10亿元**，同比增长**77%**；实现固定资产投资**7.5亿元**，同比增长**108.3%**，为历年最高。

Source: <http://www.fuxin.gov.cn/fx/zwgk/zdxm/content/183667.html>

Given the limited output and considering that numerous companies operate in the City, we are not sure how Tianhe can claim to have generated total SFC sales of RMB1.5 billion. Furthermore, this announcement mentions Fuxin Hengtong by name as one of 19 active contributors, so it would be impossible to argue that the government forgot to include the output from Tianhe's subsidiary in its calculations.

⁶ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 144

⁷ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pgs 156 and 203

⁸ <http://www.ncbi.nlm.nih.gov/pubmed/20964291>

Adding further doubt to Tianhe's claims, we found the following company profile for Fuxin Hengtong on an industry website where buyers and sellers connect:

Fuxin Hengtong Fluorine Chemicals Co., Ltd manufactures four major categories of fluorinated products based on tetrafluoroethylene. These are polytetrafluoroethylene [PTFE] resin, fluorinated telomer alcohols, hydrofluoro ethers [HFE] and fine fluorine chemicals. FHT manufactures both the suspension and dispersion types of PTFE resin. The annual output is 1,200 MT of suspension resin and 600 MT of dispersion resin. The independently developed fluorinated telomer alcohol series of products has been identified as a national technology support project. Our corporation is one of the few enterprises in the world with large-scale production capability for fluorinated telomer alcohols with an annual capacity for these products of 3,000 MT. HFE products are mainly used in refrigeration, foaming, industrial cleaning and solvent applications. Our capacity of HFE products is 1,000 MT. At present FHT has the ability to produce more than 30 fine fluorine chemicals. FHT's products are highly sophisticated and internally developed. We have the ability to adapt these products to our customers' specific needs.

[Selling Categories]

- [Chemicals](#) >> [Organic Intermediate](#)

[keyword]

Fluorine Chemicals, HFE, PTFE, fluorinated telomer alcohol, fine chemicals

Registration Date	2012/11/19 (Year/Month/Date)
Buyer / Seller in EC21	Seller
Business Type	Manufacturer
Year established	2004
Employees total	101 - 500
Annual revenue	USD 10,000,001 - 50,000,000

Source: http://fxht.en.ec21.com/company_info.jsp

Considering the wording, this profile appears to be written by the subsidiary itself. We note that this profile was registered at the end of 2012 (19 November 2012) and states that the annual revenue of Fuxin Hengtong is between US\$10M and US\$50M.

In 2012, Tianhe reported SFC revenue of RMB2.4 billion.⁹ Again, if we assume that Fuxin Hengtong generated half, it would translate to revenue of RMB1.2 billion or US\$194M. This amount falls outside the range of US\$10M to US\$50M.

However, worth mentioning is that the SAIC filings show that Fuxin Hengtong generated revenue of RMB143 million (US\$23M) in 2012. This number fits perfectly in the range provided by the company profile.

⁹ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 144

Tax Discrepancies: The Smoking Gun



If Tianhe's sales and profit figures as presented in its prospectus were accurate, the Company would be a substantial tax payer in the jurisdictions in which it operates. In China, there are two major taxes:

1. A 17% VAT (Value Added Tax) is paid on sales less cost of goods sold, adjusted for D&A and direct labor (adjusted gross profit), and
2. Income tax on pre-tax earnings.

Exhibit 3 shows our calculations of total Company-level taxes and Exhibit 4 shows subsidiary-level taxes.

Exhibit 3

Total Taxes (RMB millions)

	2011	2012	2013
LOA			
Revenue	1,817	1,775	2,063
CoGS - D&A - direct labor	1,262	1,197	1,390
VAT basis	555	578	674
VAT tax (17%)	94	98	115
SFC			
Revenue	1,542	2,418	2,971
CoGS - D&A - direct labor	475	305	423
VAT basis	1,068	2,113	2,548
VAT tax (17%)	182	359	433
Total VAT tax	276	457	548
Income tax paid	201	366	438
VAT + Income tax	477	823	986

Note: we subtract D&A and direct labour from CoGS because these components receive no VAT tax returns. We note that equipment and machinery get tax returns, but [not property purchases or construction in progress](#). Page I-33 of the prospectus shows that machinery spending was minimal, so we ignore this for calculation purposes. Income tax paid figures are from page I-8 and CoGS figures and adjustments are from page 214.

Exhibit 4

Total Taxes by Subsidiary (RMB millions)

	2011	2012	2013
Jinzhou DPF-TH			
VAT tax	185	278	331
Income tax paid	131	217	259
VAT + Income tax	316	495	590
Fuxin Hengtong			
VAT tax	91	180	217
Income tax paid	70	149	179
VAT + Income tax	160	328	396

Note: the prospectus states that Jinzhou DPF-TH generates all the LOA business, and we assume the SFC revenue is split equally between the two subs, as discussed on page 15. Accordingly, we have prorated income taxes based on percent of gross profit as determined by the revenue split.

In this section, we present smoking gun evidence that Tianhe is not paying the taxes it claims and therefore not generating the profits it claims.

According to the prospectus, in 2011 Tianhe reported adjusted gross profit of RMB1.62 billion which translates to VAT taxes of RMB276 million. Additionally, Tianhe reported income taxes paid of RMB201 million that year. Combined, Tianhe should have paid total taxes of RMB477 million in 2011.

In subsequent years, Tianhe's tax payments would have grown in tandem with its gross profit and income, reaching RMB823 million in 2012 and nearly RMB1 billion in 2013. These sums would be paid by Tianhe's two operating subsidiaries, Jinzhou DPF-TH and Fuxin Hengtong.

Based on our calculations, Jinzhou DPF-TH alone would have paid total taxes of RMB316 million in 2011. However, according to the Jinzhou local government, only seven companies paid more than RMB100 million in national taxes (VAT and income tax) in 2011, and Jinzhou DPF-TH was not one of them:

2011年我市国税亿元纳税企业达7户

时间: 2012-03-21 来源: 文字大小: 大 中 小 打印: 打印 关闭

近日,锦州市2011年国税纳税排行榜揭晓,年纳税千万元以上企业达45户,纳税数额合计达到68亿元,约占全市整体税源的75%,基本上奠定了全市税收收入以至各税种收入的基础。与以前年度相比,2011年重点税源监控的最大亮点是中石油东北销售锦州分公司、锦州供电公司 and 阜新矿务局八道壕煤矿三户重点税源企业跨过亿元“门槛”,全市纳税亿元以上重点税源企业达到7户,成为1994年税制改革以来国税收入的一个重要里程碑。

在纳税排行榜中,锦州石化分公司依然以绝对优势稳居“榜首”,2011年税收收入完成484591万元,约占全市整体税收的54%,国税、地税合计排名列全省第4位,堪称全市国税收入的“中流砥柱”;锦州银行股份有限公司经营效益日趋提升,2011年其总行及锦州地区支行合计入库所得税31684万元,约占全市所得税收入的三分之一;辽宁省烟草公司锦州市公司受卷烟消费税政策调整拉动,2011年各项税收合计达到18562万元,同比增长42%,再创历史新高;锦州市沥青厂完成11469万元,对拉动全市税收增长,尤其是县(市)区级收入增长做出积极贡献;中石油东北销售锦州分公司完成12361万元,同比增长73%,增收5228万元,占全市批发零售企业税收增收总额的40%;锦州供电公司增值税、所得税完成11749万元,同比增长23%,增收2202万元,撑起全市电力行业税收“半壁江山”;阜新矿务局八道壕煤矿厚积薄发,2011年增值税入库10593万元,税收总量、增量、增幅均创历史最高纪录。

Source: <http://www.jz.gov.cn/jnjz/2012/03/21/156428.html>

If Tianhe's prospectus is to be believed, Jinzhou DPF-TH would have been among the biggest local tax payers and certainly made this list.

But it did not.

Furthermore, on the website of Yi County – where Jinzhou DPF-TH is based and pays taxes to – the government’s *Year in Review* report for 2013 notes that there was no company in Yi County that paid more than RMB100 million in taxes.¹⁰

五、财税金融再有新举措

狠抓财源建设，壮大县域综合实力，提高财税金融对县域经济的调控支持能力。培植财源，增加收入。扶持重点企业做大做强，提高对财税增长的贡献率。争取纳税超亿元的企业达到 1 家，纳税超5000万元的企业达到 4家，纳税超千万元的企业达到 10家。挖掘税源，应收尽收。全力组织收入，确保完成全年收入任务。同时广开渠道，积极争取上级各类专项资金和转移支付补助，积极申报世行贷款等项目。深化改革，科学理财。深化预算管理体制，规范预算执行，推进国库集中支付改革等一系列财政制度改革。提高财政管理的科学化、精细化水平。优化支出结构，在确保公教人员工资、社会保障资金发放的基础上，集中财力支持教育、医疗卫生等社会事业发展，加大对“三农”的投入，确保城市建设等方面的刚性支出。

Source: http://www.lnyx.gov.cn/ztzl_news.asp?news=show.Shtml&Id=663

In fact, according to the government, the entire bureau of Yi County only collected tax revenue of RMB303 million in 2012:



The screenshot shows a webpage with a red banner at the top containing the characters '义县' (Yixian County). Below the banner is a navigation path: '当前位置: 首页 -> 政府信息 -> 全省各地 -> 锦州 -> 义县'. There are links for '字体大小: 大 中 小' and '【打印文章】 【关闭窗口】'. The main title of the article is '锦州义县国税税收突破3亿元超额完成全年任务'. The source is listed as '锦州市政府' and the release time is '2012年12月21日'. The text of the announcement states that since the start of the year, the Jinzhou Yixian County National Tax Bureau has adhered to the principle of standardizing tax enforcement and optimizing tax services, relying on scientific management to establish a tax linkage mechanism. It reports that by December 17, 2012, the bureau had organized tax revenue of 30346.8 million yuan, an increase of 9211.4 million yuan (43.58%) compared to the same period last year, with a general budget revenue increase of 3082.5 million yuan (54.9%), exceeding the annual tax revenue task.

Source: http://www.ln.gov.cn/zfxx/qsgd/yks_1/yx/201212/t20121221_1026592.html

This announcement dated 21 December 2012, suggests that the Yi County government is proud of its RMB303 million tax revenue, noting 2012 as a historic milestone for achieving its annual budget two weeks before year-end. If Tianhe’s reported numbers were accurate, then Jinzhou DPF-TH alone would have paid approximately RMB495 million in total taxes, which is far more than the entire County collected.

¹⁰ http://www.lnyx.gov.cn/ztzl_news.asp?news=show.Shtml&Id=663

To be clear, Jinzhou DPF-TH is not the only company in Yi County. In its announcement, Yi County ascribes the success of collecting RMB303 million to the growth of several companies. Jinzhou DPF-TH is not acknowledged, but the list provides an interesting read.

深入开展税源调查，认真搞好税收分析。为了贯彻执行“依法征税、应收尽收、坚决不收过头税、坚决防止和制止越权减免税”的组织收入原则，他们不断加强税源管理，在全县范围内组织开展税源清查，并对30户年纳税额在50万元的重点税源企业实行了跟踪管理，同时牢固树立全方位税收观，对重点税源与零散税源一视同仁，努力挖潜增收，做到“抓大放小”，摸清收入底数。通过采取静态和动态相结合的收入分析方法，定期组织征收、评估、稽查等部门的人员召开税收分析例会，预测税收变化趋势，分析重点行业税负水平等情况，准确掌握目前辖区内纳税申报的真实程度和管理质量，挖掘征管漏洞及薄弱环节，保证了税收分析的科学性和税收预测的准确性。

建立和完善责任制，切实加强税收征管。年初以来，义县国税局认真落实领导管户工作制度，经常深入基层、深入征管第一线、深入工作联系点督促检查，及时发现并解决组织收入工作中存在的问题。在强化征管和服务中，他们对辖区内达到起征点的纳税户适时调整税收定额，激发了广大纳税户依法纳税的积极性，通过开展纳税评估，加大税务稽查力度，对个别有偷税漏税的纳税户，按照有关法律、法规规定，严格加收滞纳金和罚款，杜绝了税收的跑、冒、滴、漏，增加了税收收入。

落实税收优惠政策，促进税源企业发展。义县国税局在抓好税源管理的同时，积极加大对企业的扶持力度，及时准确地将各项税收优惠政策对纳税人进行宣传，真正把国家的税收政策落实到全县经济发展之中，帮助企业用足用好税收优惠政策，为当地经济更好更快发展做出了积极贡献。其中，辽宁九道岭煤业有限公司、国大乳业和辉山销售公司、锦州天合进出口贸易有限公司等企业的税收收入大幅增长，有力促进了义县国税局全辖收入实现历史性突破。

Source: http://www.ln.gov.cn/zfxx/qsgd/yks_1/yx/201212/t20121221_1026592.html

First on the list is Liaoning Jiudaoling coal mine which paid RMB138 million in taxes.¹¹ Second and third are subsidiaries of Huishan Dairy (6863.HK), a Hong Kong listed company. The last and most interesting name on the list is Jinzhou Tianhe Import & Export, which is actually a private company owned by Tianhe's Chairman, Mr. Wei Qi.¹²

We find it telling that Mr. Wei's private company made the list, but the US\$8 billion company he took public did not. Clearly, one is more profitable than the other.

¹¹ <http://www.jz.gov.cn/lnjz/2013/01/18/168199.html>

¹² <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. I-45

The story is much the same with Tianhe's other subsidiary, Fuxin Hengtong. According to the Fuxin Haizhou District Tax Bureau – where Fuxin Hengtong is located and pays taxes – the District collected tax revenue of RMB103 million in the first five months of 2014.

Fuxin Haizhou District Tax Bureau announcement dated 6 July 2014

海州区国税局抓住有利时机、多措并举实现组织收入增长

发布人： 李晓茵 发布时间： 2014/7/6 20:43:00 阅读次数： 7 次

自年初以来海州区国税局始终坚持以组织收入为中心，狠抓任务落实，推进依法治税。加强分析预测，强化税源监控，细化征管，在经济形势低迷的情况下，税收收入仍保持良好态势，公共预算收入稳步增长。一是截至5月末，共组织收入10315万元（含查补84万元，含代征），比上年同期增收22万元，增长0.2%。其中运管代征地税税种入库116万元，全额增收。公共预算收入完成2793万元，比上年同期增收719万元，增长34.7%。二是强化组织收入预测和增减因素分析，为区局制定措施提供可靠依据。从税种看除增值税较同期略有下降外，其他税种全部实现增收；由于竞争激烈大型商贸企业连续几年呈下降，但通过监控重点税源企业恒通氟化学和阜新宏地勘新能源有限公司本年度据实现了大幅增长，还有就是“营改增”相关收入实现稳步增长。三是抓住群众路线教育实践活动和便民办税春风行动的有利时机，广泛征求各方意见和建议、并调动广大干部职工的工作积极性，通过稳定税源、强化服务、加大政策宣传和培训范围，深入挖潜取得实效。四是以风险管理为导向，继续扩大纳税评估工作成果。重点抓好规模大但税负明显偏低高风险企业的增值税纳税评估；抓好重点行业（房地产开发、大型商贸企业）的企业所得税纳税评估，汇算清缴后亏损大户的纳税评估工作，提高组织收入质量。五是强化发票使用管理。继续开展增值税专用发票最高开票限额审批情况检查和普通发票使用风险管理检查。规范发票代开手续。对发票的开具、使用、税款纳税情况进行检查，达到规范内部管理，堵塞征管漏洞，防止税款流失。六是积极为区政府招商引资工作服好务，利用好海州区地处市中心、商业信息资源丰富、代理商、个体经营者辐射面广、大众认可度高等优势，引导外地来阜投资者做好总部经济，将税收留在海州。

通讯员： 李晓茵/阜新市海州区国税局

Source: <http://www.mxwz.com/center/view.aspx?ID=1748474>

If Tianhe's prospectus were true, then in 2013 Fuxin Hengtong should have paid total taxes (VAT + income taxes) of approximately RMB396 million. This amount would have increased in 2014 considering Tianhe reported marvelous first-half 2014 results.¹³ However, if we assume no growth in 2014, on a pro-rated basis, Fuxin Hengtong should still have paid ~RMB165 million in the first five months of 2014 (RMB396 ÷ 12 x 5). This is more than all of Fuxin Haizhou District collected in taxes.

¹³ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0824/LTN20140824061.pdf>

The amount of tax revenue collected by the relevant local governments is only a fraction of what would be needed to validate Tianhe's reported financial statements. The sources we have cited are all competent government authorities responsible for collecting taxes in their jurisdictions. Tianhe's absence from these announcements, combined with the amount of taxes collected by these jurisdictions is irrefutable evidence that Tianhe is not paying the taxes it claims, and therefore not generating the profit it claims.

Two Sets of Books



Historically, discrepancies between SAIC filings and regulatory filings (SEC, HKex) have been the foundation of most Chinese fraud whistleblower pieces. In the last few years, a legion of Chinese stock market scams have been exposed this way and ultimately collapsed.

As a sign of the entrepreneurial spirit, fraudsters have changed their tactics, often resorting to forging their SAIC filings to make them consistent with their regulatory filings. We believe this is the path Tianhe took, albeit at a grade-school level.

Over the course of our investigation into Tianhe, we were surprised to discover that Jinzhou DPF-TH has two sets of income statements with the SAIC. The first set appear to be the 'original' income statements which we have presented thus far, and which have been audited by registered local firm Liaoning Zhongheng Certified Public Accountants. This set contradicts the prospectus and shows that Tianhe is a massive fraud.

There is also a 'new' income statement, which was audited by Deloitte and matches with Tianhe's prospectus, as presented below:

锦州惠发天合化学有限公司

公司及合并利润表

2012 年 12 月 31 日止年度

	附注七	合并		公司	
		本年累计数 人民币元	上年累计数 人民币元	本年累计数 人民币元	上年累计数 人民币元
营业收入	27,40(19)	4,241,667,798.46	3,401,847,794.76	4,134,288,548.33	3,243,781,886.89
减：营业成本	28,40(20)	1,676,576,912.95	1,893,933,903.84	1,610,815,970.95	1,815,849,794.78
营业税金及附加	29,40(21)	25,326,617.22	16,373,900.77	25,184,095.98	15,724,213.08
管理费用		60,557,129.46	67,417,428.02	45,859,930.38	53,890,569.26
销售费用		8,784,264.73	6,850,861.18	7,782,917.42	5,712,474.03
财务费用	30,40(22)	48,714,375.21	4,017,301.67	43,209,574.09	(1,428,722.78)
资产减值损失	31,40(23)	(311,405.08)	-	(311,405.08)	-
营业利润		2,422,019,903.97	1,413,254,399.28	2,401,747,464.59	1,354,033,558.52
加：营业外收入	32,40(24)	4,584,685.90	6,080,448.20	3,901,404.76	4,664,625.29
减：营业外支出	33,40(25)	3,172,817.15	7,935,803.11	2,832,633.71	387,501.12
其中：非流动资产处置损失		2,904,914.52	7,673,786.30	2,553,712.10	201,991.79
利润总额		2,423,431,772.72	1,411,399,044.37	2,402,816,235.64	1,358,310,682.69
减：所得税费用	34,40(26)	365,097,030.01	204,822,859.73	360,862,929.04	200,687,046.68
净利润		2,058,334,742.71	1,206,576,184.64	2,041,953,306.60	1,157,623,636.01

An analysis of the facts suggests that the Deloitte-audited income statement is a fake created by Tianhe ahead of its IPO.

First, this filing reflects a consolidated income statement, which is odd. In our experience, SAIC financial statements generally pertain to individual subsidiaries and are not consolidated to the parent company level.

Second, this new SAIC income statement is audited by Deloitte. We find it unusual that Tianhe would use Deloitte to sign off on its SAIC filings. In our experience, SAIC filings are always signed off by a local auditing firm. We suspect that since Deloitte had already been retained to sign off on Tianhe's prospectus, it was easy to get them to sign off on matching SAIC files as well. Deloitte is by no means a stranger to signing off on fraudulent financial statements, having one of the worst auditing records in China.¹⁴

To maintain consistency with this new SAIC income statement, the prospectus claims that the auditor of the Jinzhou DPF-TH subsidiary was Moore Rowlands in 2011, and Deloitte in 2012 and 2013:

Name of subsidiary	Financial period/year ended	Name of auditors
China Vision	31 December 2011 and 2012	Sky Trend CPA Limited
China Venture	31 December 2011 and 2012	Sky Trend CPA Limited
Jinzhou DPF-TH	31 December 2011	Moore Rowland Certified Public Accountants
	31 December 2012 and 2013	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Fuxin Hengtong	31 December 2011 and 2012	Liaoning Zhongheng Certified Public Accountants Co., Ltd.
North China	31 December 2011 and 2012	Liaoning Zhongheng Certified Public Accountants Co., Ltd.
Sino Asia	31 December 2011 and 2012	Guangxi Jiahai Certified Public Accountants Co., Ltd.

Source: <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. I-3

However, the original SAIC filings for Jinzhou DPF-TH, which we presented earlier, were actually audited by Liaoning Zhongheng Certified Public Accountants in 2011 and 2012. This is the same local auditor that the prospectus acknowledges audits the Fuxin Hengtong subsidiary. Naturally, it makes perfect sense that one local auditor would audit both of Tianhe's operating subsidiaries.

But the prospectus makes no mention that Jinzhou DPF-TH was ever audited by Liaoning Zhongheng. This is a key point because it appears that Management does not want to acknowledge that a version of the Jinzhou DPF-TH SAIC filings that were audited by Liaoning Zhongheng exists. This is not surprising because those filings, as we have explained, show that Tianhe is a fraud.

Below, we present proof that Jinzhou DPF-TH was in fact audited by Liaoning Zhongheng, and that this set is authentic. We wonder if Deloitte is aware that Tianhe has two sets of books, with two different auditors:

¹⁴ <http://goingconcern.com/post/deloitte-audit-firm-has-had-most-trouble-china-far>

辽宁中衡会计师事务所有限责任公司锦州分所

审计报告

辽中衡锦分会审[2013]324号

审计报告防伪标识
2013S37844

诚信 独立
客观 公正

辽宁省注册会计师协会监制

Anti-counterfeit stamp

锦州惠发天合化学有限公司:

我们审计了后附的锦州惠发天合化学有限公司财务报表, 包括 2012 年 12 月 31 日的资产负

债表, 2012 年度的利润表和现金流量表、所有者权益变动表以及财务报表附注。

(一) 管理层对财务报表的责任

编制和公允列报财务报表是锦州惠发天合化学有限公司管理层的责任, 这种责任包括:

按照企业会计准则的规定编制财务报表, 并使其实现公允反映;(2) 设计、执行和维护必要的内

部控制, 以使财务报表不存在由于舞弊或错误导致的重大错报。

(二) 注册会计师的责任

我们的责任是在执行审计工作的基础上对财务报表发表审计意见。我们按照中国注册会计师

审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道

德守则, 计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。

审计工作涉及实施审计程序, 以获取有关财务报表金额和披露的审计证据。选择的审计程序

取决于注册会计师的判断, 包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行

风险评估时, 注册会计师考虑与财务报表编制和公允列报相关的内部控制, 以设计恰当的审计程

序。

本报告防伪标识号码为 2013S37844, 欢迎登陆辽宁省注册会计师协会网站 www.lncpa.org.cn 查询

审计报告

辽宁中衡会计师事务所有限责任公司锦州分所

辽中衡锦分会审[2012]211号

审计报告

审计报告防伪标识
2012S32871
诚信 独立
客观 公正
辽宁省注册会计师协会监制

Anti-counterfeit stamp

锦州惠发天合化学有限公司:

我们审计了后附的锦州惠发天合化学有限公司财务报表 包括 2011 年 12 月 31 日的资产负

债表, 2011 年度的利润表和现金流量表、所有者权益变动表以及财务报表附注。

(一) 管理层对财务报表的责任

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部控制, 以使财务报表不存在由于舞弊或错误导致的重大错报。

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审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道

德守则, 计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。

审计工作涉及实施审计程序, 以获取有关财务报表金额和披露的审计证据。选择的审计程序

取决于注册会计师的判断, 包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行

风险评估时, 注册会计师考虑与财务报表编制和公允列报相关的内部控制, 以设计恰当的审计程

本报告防伪标识号码为 2012S32871, 欢迎登陆辽宁注册会计师协会网站 www.lncpa.org.cn 查询

In a bizarre twist, on page 8 of the Deloitte-audited SAIC set there is a note that states the name of the auditor as Liaoning Zhongeng:

	克罗地亚	12.29	
	中国台湾	2.41	
	意大利	57.26	
	英国	13.49	
	埃及	0.78	
	约旦	1.11	
	韩国		814.78
	合计	1636.07	969.65
验资（审计）机构名称		辽宁中衡会计师事务所有限责任公司锦州分所	
企业经营状态	筹建	投产开业	√ 停业
投产开业日期	2007-05-15		
亏损及非正常生产原因			
是否承包经营管理	否	承包者名称	

We do not know what to make of this page, but we assume that in an attempt to legitimize the fake set of SAIC filings, Tianhe carelessly repackaged sections of the original SAIC filings and submitted it as part of the Deloitte audit.

We presume that Tianhe will respond to this report by claiming that the original SAIC filings we have presented are fake and that investors should rely on the Deloitte version. However, any such argument is easily refuted because by government order, the Liaoning Institute of Certified Public Accountants set up an audit verification tool so that the public could verify the authenticity of SAIC filings.¹⁵ This tool can be accessed [here](http://www.lncpa.org.cn/index.php?m=content&c=index&a=show&catid=85&id=1230).

Our readers can verify the authenticity of the original SAIC filings by inputting the follow five data points found on the documents:

- 1) Authentication code on the SAIC filing
- 2) Name of auditing firm
- 3) Company name
- 4) First auditor
- 5) Second auditor

We present the inputs and corresponding outputs below:

¹⁵ <http://www.lncpa.org.cn/index.php?m=content&c=index&a=show&catid=85&id=1230>

Jinzhou DPF-TH

Input information:

- 1) Authentication code on SAIC filings: 2013S37844
- 2) Auditor firm: 辽宁中衡会计事物所有限责任公司锦州分所 (Liaoning Zhongheng)
- 3) Company name: 锦州惠发天合化学有限公司(Jinzhou DPF-TH)
- 4) First auditor: 张福贵
- 5) Second auditor: 莫辉

辽宁中衡会计师事务所有限责任公司锦州分所 审计报告

辽宁中衡会计师事务所有限责任公司锦州分所

辽中衡锦分会审[2013]324号

审计报告

审计报告防伪标识
2013S37844
诚信 独立
客观 公正
辽宁省注册会计师协会监制
www.lncpa.org.cn

锦州惠发天合化学有限公司:

我们审计了后附的 **锦州惠发天合化学有限公司** 财务报表, 包括 2012 年 12 月 31 日的资产负

辽宁中衡会计师事务所有限责任公司
中国 锦州

中国注册会计师: **莫辉**

中国注册会计师: **张福贵**

2013 年 5 月 3 日

Translation: This report's anti-counterfeit number is 2013S37844, welcome to verify at www.lncpa.org.cn

本报告防伪标识号码为 2013S37844, 欢迎登陆辽宁省注册会计师协会网站 www.lncpa.org.cn 查询

Output result:

 **防伪标识信息查询** [Anti-Counterfeit Information Inquiry]

信息查询

防伪标识编号: 2013S37844 (标识中的字母请使用大写)

事务所名称: 辽宁中衡会计师事务所有限责任公司锦州分所

客户名称: 锦州惠发天合化学有限公司

第一签字注师: 张福贵

第二签字注师: 莫辉

查询

查询结果

防伪标识编号: 【2013S37844】

事务所名称: 【辽宁中衡会计师事务所有限责任公司锦州分所】

客户名称: 【锦州惠发天合化学有限公司】

第一签字注师姓名: 【张福贵】

第二签字注师姓名: 【莫辉】

业务类型: 【年报审计】

报告文号: 【[2013]324】

报告出具日期: 【2013年5月3日】

意见类型: 【无保留】

收费审核状态: 【收费金额待审核】

Business type: [Annual report auditing]

Document number: [[2013]324]

Date report issued: [3 May 2013]

Opinion type: [Unqualified]

Condition of fee auditing: [Fee waiting to be audited]

Fuxin Hengtong

Input information:

1. Authentication code on SAIC filings: 2012S32870
2. Auditor firm: 辽宁中衡会计事物所有限责任公司锦州分所 (Liaoning Zhongheng)
3. Company name: 阜新恒通氟化学有限公司(Fuxin Hengtong)
4. First auditor: 张福贵
5. Second auditor: 支秀英

辽宁中衡会计师事务所有限责任公司锦州分所

辽中衡锦分会审[2012]210号

审计报告



阜新恒通氟化学有限公司:

辽宁中衡会计师事务所有限责任公司



中国注册会计师:



中国注册会计师:



2012年5月12日

Translation: This report's anti-counterfeit number is 2012S32870, welcome to verify at www.lncpa.org.cn

本报告防伪标识号码为 2012S32870, 欢迎登陆辽宁省注册会计师协会网站 www.lncpa.org.cn 查询

Output results:

 **防伪标识信息查询** [Anti-Counterfeit Information Enquiry]

信息查询

防伪标识编号: 2012S32870 (标识中的字母请使用大写)

事务所名称: 辽宁中衡会计师事务所有限责任公司锦州分所

客户名称: 阜新恒通氟化学有限公司

第一签字注师: 张福贵

第二签字注师: 支秀英

查询

查询结果

防伪标识编号: 【2012S32870】

事务所名称: 【辽宁中衡会计师事务所有限责任公司锦州分所】

客户名称: 【阜新恒通氟化学有限公司】

第一签字注师姓名: 【张福贵】

第二签字注师姓名: 【支秀英】

业务类型: 【年报审计】

报告文号: 【[2012]210】

报告出具日期: 【2012年5月12日】

意见类型: 【无保留】

收费审核状态: 【收费金额待审核】

Business type: [Annual report auditing]


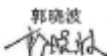
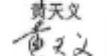
Document number: [[2012]210]

Date report issued: [12 May 2012]

Opinion type: [Unqualified]

Condition of fee auditing: [Fee waiting to be audited]

These verification codes clearly show that the SAIC filings as audited by Liaoning Zhongheng are genuine, even if Tianhe does not want to acknowledge their existence.

<h1>Deloitte.</h1> <h2>德勤</h2>	德勤华永会计师事务所(特殊普通合伙) 中国注册会计师 中国注册会计师执业证书 事务所名称: 德勤华永会计师事务所(特殊普通合伙) 事务所地址: 100075	Deloitte Touche Tohmatsu Certified Public Accountants (LLP) Beijing Branch 8th Deloitte Tower the Towers, Oriental Plaza 1 East Chang An Avenue Beijing 100075, PRC
<h3>审计报告</h3>		
德师京报(审)字(13)第 P0839 号		
锦州惠发天合化学有限公司:		
<p>我们审计了后附的锦州惠发天合化学有限公司(以下简称“贵公司”)的财务报表,包括 2012 年 12 月 31 日的公司及合并资产负债表、2012 年度的公司及合并利润表、公司及合并所有者权益变动表和公司及合并现金流量表以及财务报表附注。</p> <p>一、管理层对财务报表的责任</p> <p>编制和公允列报财务报表是贵公司管理层的责任。这种责任包括:(1)按照企业会计准则的规定编制财务报表,并使其实现公允反映;(2)设计、执行和维护必要的内部控制,以使财务报表不存在由于舞弊或错误而导致的重大错报。</p> <p>二、注册会计师的责任</p> <p>我们的责任是在执行审计工作的基础上对财务报表发表审计意见。我们按照中国注册会计师审计准则的规定执行了审计工作。中国注册会计师审计准则要求我们遵守中国注册会计师职业道德守则,计划和执行审计工作以对财务报表是否不存在重大错报获取合理保证。</p> <p>审计工作涉及实施审计程序,以获取有关财务报表金额和披露的审计证据。选择的审计程序取决于注册会计师的判断,包括对由于舞弊或错误导致的财务报表重大错报风险的评估。在进行风险评估时,注册会计师考虑与财务报表编制和公允列报相关的内部控制,以设计恰当的审计程序。但目的并非对内部控制的有效性发表意见。审计工作还包括评价管理层选用会计政策的恰当性和作出会计估计的合理性,以及评价财务报表的总体列报。</p> <p>我们相信,我们获取的审计证据是充分、适当的,为发表审计意见提供了基础。</p> <p>三、审计意见</p> <p>我们认为,贵公司财务报表在所有重大方面按照企业会计准则的规定编制,公允反映了贵公司 2012 年 12 月 31 日的公司及合并财务状况以及 2012 年度的公司及合并经营成果和公司及合并现金流量。</p>		
德勤华永会计师事务所(特殊普通合伙)北京分所		中国注册会计师
<div style="display: flex; justify-content: space-between; align-items: flex-end;"> <div style="text-align: center;"> <p>郭晓波</p> <p>黄天文</p> <p>2013 年 5 月 15 日</p> </div> <div style="text-align: right;">   </div> </div>		

There should be no reason that the SAIC set audited by Deloitte does not have an authentication code unless it contains fake financial statements.

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Related-Party Customers



As presented below, Tianhe's LOA business has been relatively stagnant over the last three years. This is not surprising because the LOA industry is mature and generally grows in line with the engine oil and automobile market.

This leaves the key to Tianhe's revenue growth in its SFC segment. As per the prospectus, sales of SFC products have reportedly doubled between 2011 and 2013. The impact of this purported growth has been even more pronounced on Tianhe's bottom line given that SFC margins (~85%) are substantially higher than LOA margins (~27%).¹⁷

Exhibit 5

Revenue Mix

	For the year ended December 31,			2011-12 YoY%	2012-13 YoY%
	2011	2012	2013		
	(RMB in thousands)			(%)	(%)
Lubricant additives business segment	1,817,006	1,774,503	2,063,112	(2.3)	16.3
Specialty fluorochemicals business segment					
Downstream specialty fluorochemical products	289,815	1,343,050	1,702,353	363.4	26.8
Telomers and specialty fluorochemical intermediates	1,101,726	994,591	1,198,412	(9.7)	20.5
Others ⁽¹⁾	150,821	80,409	69,918	(46.7)	(13.0)
Subtotal-specialty fluorochemicals	1,542,362	2,418,050	2,970,683	56.8	22.9
Total	3,359,368	4,192,553	5,033,795	24.8	20.1

Source: IPO Prospectus, pg. 212

Yet, despite a prospectus that clocks in at 429 pages, Tianhe does not name a single one of its SFC customers or end-users. Instead, Tianhe has chosen to label its biggest customers as Customer A, B, C:¹⁸

(f) Revenue from major customers accounting for 10% or more of total revenue are as follows:			
	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Customer A (lubricant additives)	271,474	278,604	289,952
Customer A (specialty fluorochemicals)	557,525	674,536	1,195,497
	828,999	953,140	1,485,449
Customer B (lubricant additives)	1,080,791	1,046,298	1,065,054
Customer C (specialty fluorochemicals)	761,097	1,145,945	702,906

Source: <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. I-27

¹⁷ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 7

¹⁸ By contrast, when chemical company Dongyue Group (189.HK) went public in Hong Kong in 2007, its prospectus disclosed a comprehensive list of customers.

The one time that Tianhe disclosed in writing the name of an SFC customer was in its draft prospectus, where it named CITIC International Co. Ltd. (“CITIC International”) as a customer. For whatever reason, CITIC International’s name was dropped from the final prospectus.

The only other time we are aware that Tianhe has disclosed any information about its SFC customers was as part of the buildup to the IPO in response to investor inquiries. Management named its four biggest SFC customers as a percent of sales as:

- CITIC International Co. Ltd., the trading and export/import subsidiary of state-owned CITIC Group, accounts for 40% of Tianhe’s SFC revenue (presumably Customer A)
- Shanghai Xidatong, a private company, accounts for ~20% (presumably Customer C)
- Shanghai Top Fluoro, a private company, accounts for ~15%
- Heilongjiang Taina, a private company, purchased RMB300 million worth of SFC product

Exhibit 6

Major SFC Customers
(RMB millions)

Name	Percent of SFC Revenue	2012	2013
SFC Segment Revenue	-	2,418	2,971
CITIC International	~40%	675	1,195
Shanghai Xidatong	~20%	1,146	703
Shanghai Top	~15%	363	446
Heilongjiang Taina	~10%	300	300

Source: Management

Notably, the prospectus states that 65% to 90% of Tianhe’s SFC sales between 2011 and 2013 were to trading companies.¹⁹ A recurring theme among the legion of stock market frauds that have blown up over the years is the use of trading companies or intermediaries as customers.^{20,21,22} Fake intermediaries are relatively easy to set up, and they provide a means to plug the audit hole through paper transactions.

For example, for over a decade Sino-Forest maintained that its business was conducted through a series of “authorized intermediaries” and in the process raised US\$3 billion from unsuspecting investors. When Sino-Forest was eventually exposed as a massive fraud by Muddy Waters Research, it was revealed that the intermediaries were in fact undisclosed related parties that had been set up by the company itself.²³

¹⁹ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 161

²⁰ http://www.thestar.com/business/2012/07/31/sinoforest_says_several_companies_that_owe_it_millions_no_longer_exist.html

²¹ <http://www.citronresearch.com/longtop-financial-nyselt-final-proof-of-undisclosed-related-party-transactions/>

²² <http://www.citronresearch.com/citron-updates-home-solutions-of-america-nasdaqhsoa/>

²³ <http://www.theglobeandmail.com/globe-investor/sino-forests-business-model-still-shrouded-in-fog/article4181019/>

In the case of Shanghai Xidatong, Shanghai Top, and Heilongjiang Taina, our investigation found that these 'independent customers' are all actually related parties with close ties to Tianhe that go far beyond a customer/supplier relationship. SAIC filings and site visits show that these customers share office buildings, overlapping management, and have limited business operations.

Customer: Shanghai Xidatong

During the IPO roadshow, the CEO of Xidatong, Mr. Zhang Silang was brought in to provide customer verification to prospective investors. On an Investec conference call held on 16 May 2014, Mr. Zhang told investors that Xidatong purchases (among other products) anti-mar from Tianhe.

Anti-mar is an incredibly expensive substance primarily used to coat touch panels. On the call set up and moderated by Investec, Xidatong was said to have purchased from Tianhe 4 tons of pure anti-mar in 2013, down from 6 tons in 2012. According to Investec, Xidatong accounted for approximately 20% of Tianhe's SFC sales in 2013. Based on this information, we can conclude that Xidatong is Customer C, as per the prospectus. This means that Xidatong accounted for sales of RMB703 million in 2013 and RMB1.1 billion in 2012.

However, SAIC filings we pulled for Xidatong show that this claim is a lie. The SAIC filings show that Xidatong is a tiny company with *de minimis* operations that generates negligible revenue and profits. In 2012, Xidatong only generated RMB265 thousand on revenue of RMB36 million:

Xidatong 2012 SAIC Income Statement

Revenue: RMB36 million (US\$5.7M)

CoGS: RMB34 million (US\$5.4M)

Net Income: RMB265 thousand (US\$42K)

利润表

财会年企02表

金额单位：元

编制单位：上海保达通国际贸易有限公司

2012 年度

项目	行次	本期金额	上期金额	项目	行次	本期金额	上期金额
一、营业总收入	1	36,390,750.04	72,973,157.48	其他	28	-	-
其中：营业收入	2	36,390,750.04	72,973,157.48	加：公允价值变动收益（损失以“-”号填列）	29	-	-
其中：主营业务收入	3	36,390,750.04	72,973,157.48	投资收益（损失以“-”号填列）	30	-	-
其他业务收入	4	-	-	其中：对联营企业和合营企业的投资收益	31	-	-
△利息收入	5	-	-	△汇兑收益（损失以“-”号填列）	32	-	-
△已赚保费	6	-	-	三、营业利润（亏损以“-”号填列）	33	248,304.97	-724,045.58
△手续费及佣金收入	7	-	-	加：营业外收入	34	34,783.45	199.00
二、营业总成本	8	36,142,445.07	73,667,203.06	其中：非流动资产处置利得	35	-	-
其中：营业成本	9	33,995,439.99	67,669,225.42	非货币性资产交换利得	36	-	-
其中：主营业务成本	10	33,995,439.99	67,669,225.42	政府补助	37	-	-
其他业务成本	11	-	-	债务重组利得	38	-	-
△利息支出	12	-	-	减：营业外支出	39	17,609.76	162.39
△手续费及佣金支出	13	-	-	其中：非流动资产处置损失	40	-	-
△退保金	14	-	-	非货币性资产交换损失	41	-	-
△赔付支出净额	15	-	-	债务重组损失	42	-	-
△提取保险合同准备金净额	16	-	-	四、利润总额（亏损以“-”号填列）	43	265,478.66	-724,008.97
△保单红利支出	17	-	-	减：所得税费用	44	-	17,538.35
△分保费用	18	-	-	五、净利润（净亏损以“-”号填列）	45	265,478.66	-741,547.32
营业税金及附加	19	67,315.15	62,953.43	归属于母公司所有者的净利润	46	-	-
销售费用	20	422,947.52	2,981,515.40	*少数股东损益	47	-	-
管理费用	21	1,705,276.24	3,429,959.55	六、每股收益：	48	-	-
其中：研究与开发费	22	-	-	基本每股收益	49	-	-
财务费用	23	-48,533.83	-446,450.74	稀释每股收益	50	-	-
其中：利息支出	24	-	-	七、其他综合收益	51	17,564.66	-
利息收入	25	10,339.61	15,756.23	八、综合收益总额	52	283,043.32	-741,547.32
汇兑净损失（净收益以“-”号填列）	26	-57,701.52	-455,356.92	归属于母公司所有者的综合收益总额	53	-	-
资产减值损失	27	-	-	*归属于少数股东的综合收益总额	54	-	-

注：表中“*”科目为合并会计报表专用；加△指体项目为金融类企业专用。

C

On the other side of its books, the balance sheet confirms that Xidatong is a thinly capitalized company unlikely to carry out business at the scope and size claimed, having only RMB7 million in cash and RMB1 million in inventory:

Xidatong 2012 SAIC Balance Sheet

Cash: RMB7 million (US\$1.1M)

Inventory: RMB1 million (US\$160K)

资产负债表				
2012年12月31日				
编制单位: 上海锦达通国际贸易有限公司				
项目	行次	期末余额	年初余额	项目
流动资产:	1			流动资产:
货币资金	2	7,235,132.50	3,682,282.52	货币资金
△结算备付金	3	-	-	△向中央银行借款
△拆出资金	4	-	-	△吸收存款及同业存放
交易性金融资产	5	-	-	△拆入资金
应收账款	6	-	934,000.00	交易性金融负债
应收票据	7	133,566.89	281,482.79	应付票据
预付账款	8	70,041.98	1,398,152.93	应付账款
△应收保费	9	-	-	预收账款
△应收分保账款	10	-	-	△卖出回购金融资产款
△应收分保合同准备金	11	-	-	△应付手续费及佣金
应收利息	12	-	-	应付职工薪酬
应收股利	13	-	-	其中: 应付工资
其他应收款	14	7,690,844.64	6,635,952.36	应付福利费
△买入返售金融资产	15	-	-	其中: 应付工资
存货	16	1,015,447.04	5,195,372.27	应交税费
其中: 原材料	17	-	-	其中: 应交税费
库存商品(产成品)	18	1,015,447.04	5,195,372.27	应付利息
一年内到期的非流动资产	19	-	-	应付股利
其他流动资产	20	-	-	其他应付款
流动资产合计	21	16,145,033.06	18,127,242.97	△应付分保账款
非流动资产:	22			△保险合同准备金
△发放贷款及垫款	23	-	-	△代理买卖证券
可供出售金融资产	24	-	-	△代理承销证券
持有至到期投资	25	-	-	一年内到期的非流动资产
长期股权投资	26	-	-	其他流动资产
长期股权投资	27	-	-	非流动负债:
投资性房地产	28	-	-	长期借款
固定资产原价	29	739,841.95	735,765.04	应付债券
减: 累计折旧	30	680,682.64	668,823.85	长期应付款
固定资产净值	31	58,159.32	66,941.19	专项应付款
减: 固定资产减值准备	32	-	-	预计负债
固定资产净额	33	58,159.32	66,941.19	递延所得税负债
在建工程	34	-	-	其他非流动负债
工程物资	35	-	-	其中: 专项应付款
固定资产清理	36	-	-	
生产性生物资产	37	-	-	
油气资产	38	-	-	
无形资产	39	3,905.00	4,554.00	所有者权益(或股东权益):
开发支出	40	-	-	实收资本(股本)
商誉	41	-	-	国有资本
长期待摊费用	42	268,604.98	-	其中: 国有资本
递延所得税资产	43	-	-	集体资本
其他非流动资产	44	-	-	民营资本
其中: 特准储备物资	45	-	-	其中: 国有资本
非流动资产合计	46	330,520.30	71,495.19	外币资本
	47			其中: 已归还本

To learn how it was possible for Xidatong to conduct business with almost no assets, we sent a team to the company's registered address in Shanghai at:

上海市浦东新区花木镇罗山路1700弄14号388室

This address turned out to be an empty room in an old residential community that neighbors said hadn't been used in at least five years:



We have serious doubts that a multi-million dollar chemical enterprise ever operated out of this housing community.

Xidatong also has a [website](#) which provides a contact address for the company in Shanghai at:

中国 上海 上海市 上海市延安西路726号10楼F室

Our team visited this address which turned out to be an office occupied by Boss International and FY. No one at the address had heard of Xidatong.



Eventually, our team was able to locate Xidatong's office, but it wasn't until much later in our investigation. We revisit Xidatong's office on page 52.

All the evidence so far suggests that Xidatong is not the large customer that Mr. Zhang Silang presented on the Investec conference call. The CEO of an independent customer would have very little reason to lie about its relationship with Tianhe – but our background check shows that Mr. Zhang is far from independent – indeed, he is a key figure that connects Tianhe and several of its key customers.

A background check on Mr. Zhang shows that he has held his current position as far back as 2006, when he attended an industry conference as CEO of Xidatong:

聚氨酯工业协会第十三次年会最终议程

2006年08月31日 星期六

来源：PUWORLD独家发布, 未经许可严禁转载 我来说两句

保存为书签

PUWORLD（2006/9/1）——备受瞩目的中国聚氨酯工业协会三届二次会员代表大会暨第十三次年会即将于明天隆重揭幕，会议的第一天将以到会厂家报道为主，9月3日开始，将开始技术报告演讲。环球聚氨酯网普华咨询工作室汪蕾分析师的报告《中国PU树脂行业发展现状及展望》将作为本次年会的压轴之作。

技术报告具体时间安排见下表：

时间	内容	发言人	报告人单位
9月3日上午			
10:30-11:00	中国聚氨酯工业现状和未来发展展望	张杰 秘书长	中国聚氨酯工业协会
11:00-12:00	日本聚氨酯市场动向，日本的环境规则，全球化学品分类和标识系统（GHS）等三篇	长田 笃 奥野利文 山下英生	日本聚氨酯工业协会， III AP 事务所
9月3日下午			
13:30-14:10	空气产品公司与亚洲聚氨酯发展	罗帕特 亚太区总裁	美国空气产品公司
14:10-15:10	聚氨酯喷涂设备	崔晓明 保温与防腐产品经理	美国固瑞克公司
15:10-15:30	建筑外墙外保温聚氨酯泡沫技术及施工原则	张树华 PU资深专家 建设部PU建筑节能推进小组特聘专家	青岛金北洋工程材料有限公司
15:30-15:45	阻燃型聚氨酯的最新发展	刘结	美国旭瑞达公司
15:45-16:15	新一代氢氟醚发泡剂	张泗银 总经理	上海锡达通国际贸易有限公司

Source: <http://news.puworl.com/html/20060831/34026700.html>

However, we found that Mr. Zhang also had other roles, such as a top-level executive at Tianhe. In June 2008, Mr. Zhang attended a conference in Guangzhou as VP of Fuxin Hengtong (wholly-owned subsidiary of Tianhe):

由建设部政策研究中心主办的聚氨酯、氟产业发展与应用峰会于2008年6月4日~2008年6月5日在青岛举行, 业内精英齐聚青岛。共同探讨了聚氨酯、氟产品在建筑节能、纺织印染方面的应用技术及发展前景, 阜新恒通公司的张泗银副总经理出席此次峰会并发表了精彩演讲, 重点介绍了我司的拒水拒油剂的优势, 得到了业内专家的一致认同。

Source: <http://club.tnc.com.cn/thread-423705-1-1.html>

That same year, Mr. Zhang co-authored a paper with Mr. David Flanigan, a US scientist who works for Tianhe and is credited with building the Company's technical capabilities.²⁴ This paper was written on behalf of Fuxin Hengtong and presented at the Fluorochemical Development Application Summit held in Chingdao on 4 June and 5 June, 2008.

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【机构】阜新恒通氟化学有限公司;
【摘要】主要介绍了1,1,2,2-四氟乙基甲基醚(HFE-254),它的ODP值为零,GWP值较低,在大气中的寿命仅为0.22年,对环境的影响小,且各项指标与CFC-11较为接近,符合传统发泡工艺习惯,是CFC-11和HCFC-141b长期替代品的理想选择。
【Abstract】The new generation environmental-friendly blowing agent HFE-254 was introduced. Its Ozone Depletion Potential (ODP) is zero, Global Warming Potentials (GWP) is 25, atmospheric life time is 0.22 years, and has a smaller impact on environment. Most of the physical properties are close to CFC-11 in application. Hence it is the right substitute for CFC-11 and HCFC-141b.
【关键词】发泡剂; 氢氟醚; HFE-254; 环保型; 1,1,2,2-四氟乙基甲基醚; ODP; GWP; 聚氨酯;
【Key words】blowing agent; hydrofluoroether (HFE)-254; environmental-friendly; methyl 1,1,2,2-tetrafluoroethyl ether; ODP; GWP; polyurethane;

Source: <http://kxrc.cnki.net/kcms/detail/detail.aspx?filename=FCYY200808018&dbcode=CJFQ&dbname=CJFD2008>

²⁴ <http://www.ft.com/intl/cms/s/0/74b65b4e-9ace-11e3-946b-00144feab7de.html#axzz37MwwclSS>

Then in October 2009, Mr. Zhang attended another conference in Shanghai, this time as the CEO of Shanghai Top (another one of Tianhe's 'independent' customer discussed infra):

[DOC] 关于泰普杯2009中国国际含氟织物皮革纸张整理剂高层论...
chem.wzu.edu.cn/UploadFile/20092705112754.doc ▾ 轉為繁體網頁
大会报告主要专家 (名次不分先后): 大会将交流28位专家教授和企业家行家的报告。
大会第一天半天报告主要专家教授和行家. 1. 张泗银 上海太普化工有限公司CEO.

Source: chem.wzu.edu.cn/UploadFile/20092705112754.doc

We even found a short paper written and published by Mr. Zhang of Shanghai Top:

全面国产化的环保型纺织品三防整理剂

张泗银 (太普(上海)氟化工贸易有限公司, 上海, 200050)

摘要 本文主要介绍了太普(上海)氟化工贸易有限公司的产业链, 主要产品, 技术来源等, 另外还介绍了本公司所生产的纺织物三防整理剂的主要特性, 工作原理等。

关键词 太普(上海)氟化工贸易有限公司; 全氟烷基碘调聚物; 三防整理剂; 纳米技术; SP-160; PFOA; 环保; AATCC 标准

Environmental type finishing agent with water and oil repellent for textile into nationalization

Chang suz - lang (Topfluorochem co. , Ltd shanghai 200050)

Abstract : This assay mainly introduces the industry chain, main products and technical resource of TOP FLUOROCHEM CO. , LTD (Shanghai), and also introduces the main property and working principle of Water and Oil Repellent produced by TOP FLUOROCHEM CO. , LTD (Shanghai).

Keywords: Water and Oil Repellent; nanotechnology; SP - 160; PFOA; Environmental; AATCC standard. Perfluoroalkyl iodine telomer

And finally, our sources were told by a former customer of Shanghai Top that during their two year business relationship (2010-2012), their main contact was Mr. Zhang Silang. The source even provided an old business card of Mr. Zhang back when he only held the position of Vice President at Shanghai Top:



So, who does Mr. Zhang work for?

- A) Tianhe
- B) Xidatong
- C) Shanghai Top

The answer appears to be D) All of the above.

The Many Roles of Mr. Zhang Silang

Timeline	Position
2006	CEO Xidatong
2008	VP of Fuxin Hengtong (Tianhe)
2009	CEO of Shanghai Top
2010-2012	VP of Shanghai Top
2014	CEO of Xidantong, attended the Investec conference call to promote Tianhe

However, the overlap doesn't end with Mr. Zhang.

According to SAIC filings, Xidatong is 65% owned by an individual named Ms. Wang Xidi (Chinese: 王锡娣), who is also Xidatong's board supervisor. Several former Tianhe employees explained that Ms. Wang Xidi was in charge of Tianhe's LOA business as recently as 2012.

投资人及出资简明信息							
投资人名称	证件号码	出资方式	余额缴付 期限	币种	出资比 例	认缴出资额 (万元)	实缴出资额 (万元)
刘跃生	320219590415077	货币		人民币	5.00	5.00	5.00
王锡康	3101051954112800 55	货币		人民币	30.00	30.00	30.00
王锡娣	310105420414002	货币		人民币	65.00	65.00	65.00

Source: SAIC filings

So here we have Xidatong, a company that:

- has a CEO that was/is simultaneously a top-level executive at Tianhe
- has a CEO that was/is the CEO/VP of Shanghai Top, another major Tianhe customer
- is 65% owned by someone who used to run Tianhe's LOA business as recently as 2012
- has a registered address at an abandoned housing community
- has an address on its website that leads to an office where no one has heard of Xidatong.
- is a small, thinly capitalized company that in no reasonable way could be the material customer Tianhe claims, as evidenced by SAIC filings.

Between Mr. Zhang and Ms. Wang's high-level involvement in Tianhe and other key customers, it's clear that Xidatong is not an independent customer by any conceivable definition of the word. Moreover, SAIC filings show that Xidatong is a small company and that Tianhe's sales to Xidatong could not possibly be what has been claimed.

Customer: Shanghai Top

During Tianhe's IPO marketing process, investors were told that Shanghai Top was one of Tianhe's largest customers and accounted for approximately 15% of SFC revenue. This translates to revenue of RMB446 million in 2013 and RMB363 million in 2012.

SAIC filings show that in reality, Shanghai Top is small enterprise that is actually losing money. According to its filings, Shanghai Top lost RMB529 thousand on revenue of RMB13 million in 2012:

Shanghai Top 2012 SAIC Income Statement

Revenue: RMB13 million (US\$2M)

CoGS: RMB13 million (US\$2M)

Net Income: -RMB529 thousand (-US\$85K)

太普(上海)氟化工贸易有限公司2012		
项目	本年金额	上年金额
一、营业收入	13,172,696.44	19,518,397.95
减：营业成本	12,562,707.15	18,065,609.18
营业税金及附加	4,237.87	21,347.89
销售费用	43,526.87	22,145.27
管理费用	1,103,436.09	1,370,430.71
财务费用	-7,072.26	341.75
资产减值损失	0.00	0.00
加：公允价值变动收益	0.00	0.00
投资收益	0.00	0.00
其中：对联营企业和合营企业的投资收益	0.00	0.00
二、营业利润	-534,139.06	18,523.15
加：营业外收入	459.78	0.00
减：营业外支出	0.00	0.00
其中：非流动资产处置损失	0.00	0.00
三、利润总额	-533,679.30	18,523.15
减：所得税费用	-4,630.79	4,630.79
四、净利润	-529,048.51	13,892.36

Likewise, its balance sheet confirms that Shanghai Top has minimal assets. It is inconceivable that Shanghai Top could have conducted tens of millions worth of business with Tianhe while only having US\$59,000 in cash and minimal inventory:

Shanghai Top 2012 SAIC Balance Sheet

Cash: RMB374 thousand (US\$59K)

Inventory: RMB2 million (US\$317K)

资产负表					
货币单位：人民币CNY					
太普(上海)氟化工贸易有限公司2012					
资产	期末余额	年初余额	负债和所有者权益（或 股东权益）	期末余额	年初余额
流动资产：			流动负债：		
货币资金	373,702.57	1,621,440.25	短期借款	0.00	0.00
交易性金融资产	0.00	0.00	交易性金融负债	0.00	0.00
应收票据	0.00	315,334.11	应付票据	0.00	0.00
应收账款	524,730.98	1,632,521.50	应付账款	2,508,985.89	6,911,259.00
预付账款	3,936.90	0.00	预收账款	15,987.73	216,584.11
应收利息	0.00	0.00	应付职工薪酬	0.00	0.00
应收股利	0.00	0.00	应交税费	-160,074.49	23,055.62
其他应收款	2,640,063.15	2,150,965.30	应付利息	0.00	0.00
存货	1,957,532.15	855,770.20	应付股利	0.00	0.00
一年内到期的非流动 资产	0.00	0.00	其他应付款	4,728,884.94	492,150.05
其他流动资产	0.00	0.00	一年内到期的非流动 负债	0.00	0.00
流动资产合计	5,699,985.75	6,376,051.36	其他流动负债	0.00	0.00

Furthermore, we sent a team to visit Shanghai Top at its registered address (this address can also be seen on Mr. Zhang Silan's business card on page 43):

上海市闵行区莘庄工业园春东路479号C2幢3楼



During the site visit, our team was surprised to learn that Xidatong and Shanghai Top shared the same office and operated as one company until Xidatong moved away in 2013.

We suspect that Xidatong was moved ahead of Tianhe's IPO in order to create the illusion of an additional customer.

In addition to Mr. Zhang's deep involvement as noted previously, we found more undisclosed connections between Shanghai Top and Tianhe. SAIC filings show that Shanghai Top's legal representative until 2011 was Jimmy Chen (陈介宏/陈玠宏). On 21 January 2011, the legal representative was changed from Jimmy Chen to an individual named Ms. Feng (卓淑凤). We suspect Ms. Feng is related to Mr. Chen because the BVI holding entity (Abound Fortune Limited) was left unchanged.

实收资本 变更	2010/5/20	10.5000 万美元	25.0000 万美元
法定代表 人变更	2011/1/21	陈介宏/陈玠宏	卓淑凤
注册资本 (金)变更	2012/4/14	25 万美元	50 万美元
股东变更	2012/4/14	Abound Fortune Limited 货币 25.0000 万美元	Abound Fortune Limited 货币 50.0000 万美元
实收资本 变更	2012/4/14	25.0000 万美元	30.0000 万美元
注册资本 变更	2013/6/6	50 万美元	60 万美元
实收资本 变更	2013/6/6	30 万美元	60 万美元
股东变更	2013/6/6	Abound Fortune Limited 货币 50.0000 万美元	Abound Fortune Limited 货币 60.0000 万美元

Who is Jimmy Chen?

According to the IPO prospectus, Jimmy Chen is a "Taiwanese consultant" and 4.5% shareholder of Tianhe.²⁵ During the IPO roadshow, a lot of investors seemed confused as to why a "Taiwanese consultant" was given shares of Tianhe. As explained in the prospectus, the establishment of Fuxin Hengtong back in 2004 was the result of co-operation among the Wei Family (majority owners), Mr. Chen and a group of US scientists. Mr. Chen was ultimately given a 4.5% stake in Tianhe for introducing the Wei Family to the US scientists who built Tianhe's technical capabilities.²⁶

What the prospectus does not disclose is that Jimmy Chen's contribution to Tianhe was more than just introducing US scientists – as evidenced by the SAIC filings, he is also directly responsible for one of Tianhe's largest 'independent' customers.

²⁵ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 59

²⁶ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 119

Customer: Heilongjiang Taina

During the IPO roadshow, Mr. Sun Deqing of Heilongjiang Taina was brought in to provide customer verification to potential investors.²⁷ Taina was presented to investors as one of Tianhe's largest customers, having purchased approximately RMB300 million worth of SFC in 2013 and 2012. This translates to approximately 10% of Tianhe's SFC sales.

Despite what the dreamweavers at Tianhe claim, SAIC filings show that Taina is relatively modest company that generated net income of RMB2 million on revenue of RMB72 million in 2012:

Heilongjiang Taina 2012 SAIC Income Statement

Revenue: RMB72 million (US\$11.4M)

CoGS: RMB63 million (US\$10M)

Net Income: RMB2 million (US\$317K)

利 润 表

2012年12月31日

编制单位: 黑龙江泰纳科技发展有限公司 (盖章)

单位: 元

项目	上期金额	本期金额
一、营业收入	87869010.4500	72197567.3700
减: 营业成本	68886704.6000	62588429.8700
营业税金及附加	326686.7800	191182.2600
销售费用	1195574.6300	1294033.8900
管理费用	12395125.5600	5589872.5500
财务费用	494831.7600	225429.9000
资产减值损失	0.0000	0.0000
加: 公允价值变动收益 (损失以“-”号填列)	0.0000	0.0000
投资收益 (损失以“-”号填列)	-54366.8000	0.0000
其中: 对联营企业和合营企业的投资收益	0.0000	0.0000
二、营业利润 (损失以“-”号填列)	4515720.3200	2308618.9000
加: 营业外收入	7329.2400	262071.8900
减: 营业外支出	15406.1700	6022.2700
其中: 非流动资产处置损失	0.0000	0.0000
三、利润总额 (损失以“-”号填列)	4507643.3900	2564668.5200
减: 所得税费用	1126910.8500	384700.2800
四、净利润 (净亏损以“-”号填列)	3380732.5400	2179968.2400

²⁷ IBCB conference call on 23 May 2014

Likewise, the balance sheet confirms that Taina does not have the capital to buy RMB300 million worth of SFC products from Tianhe, having only RMB1.7 million in cash and RMB10 million in inventory:

Heilongjiang Taina 2012 SAIC Balance Sheet

Cash: RMB1.7 million (US\$270K)

Inventory: RMB10 million (US\$1.5M)

资 产 负 债 表

2012年12月31日

编制单位: 黑龙江泰纳科技发展有限公司 (盖章)

单位: 元

资产	期初数	期末数	负债及所有者权益	期初数	期末数
流动资产:			流动负债:		
货币资金	170433.2700	1669909.3700	短期借款	5500000.0000	10000000.0000
交易性金融资产	0.0000	0.0000	交易性金融负债	0.0000	0.0000
应收票据	15707118.0000	9009508.0000	应付票据	0.0000	0.0000
应收账款	11752135.6100	18772671.0900	应付账款	10648748.3100	3891333.1600
预付款项	2329643.9300	887232.8400	预收款项	0.0000	0.0000
应收利息	0.0000	0.0000	应付职工薪酬	221000.0000	331700.0000
应收股利	0.0000	0.0000	应交税费	309574.4300	360628.4700
其他应收款	437.4400	50011.7200	应付利息	0.0000	0.0000
存货	11107280.7700	9623130.7100	应付股利	0.0000	0.0000
一年内到期的非流动资产	0.0000	0.0000	其他应付款	22301566.3900	24899255.8300
其他流动资产	0.0000	0.0000	一年内到期的非流动负债	0.0000	0.0000
流动资产合计	41067049.0200	4012463.7300	其他负债合计	0.0000	0.0000
非流动资产:			流动负债合计	38980889.1300	39482917.4600
可供出售金融资产	0.0000	0.0000	非流动负债:		
持有至到期投资	0.0000	0.0000	长期借款	0.0000	0.0000
长期应收款	0.0000	0.0000	应付债券	0.0000	0.0000
长期股权投资	0.0000	0.0000	长期应付款	0.0000	0.0000
投资性房地产	0.0000	0.0000	专项应付款	0.0000	0.0000
固定资产	9082820.3600	11661696.9700	预计负债	0.0000	0.0000

The question of its modest financial position aside, Taina also shares links with Tianhe and its other customers. According to SAIC filings, Taina is 85% owned by Mr. Sun Deqing:

出资信息

出资人	出资人类型	证件号码	出资额（万元）	百分比
孙德庆	自然人股东	230203197005062310	892.500000 人民币	85%
聂铁柱	自然人股东	232302193003201213	157.500000 人民币	15%

On its own, Mr. Sun's majority ownership of Taina doesn't mean anything. However, we found that Mr. Sun is also the chairman of a company named Taifu. The following is a picture of Mr. Sun hosted by his Alma Mater, the Material Science and Engineering College on 15 May 2014, where he was presented as the Chairman of Taifu:

为了加强校企联系，近距离感受企业文化，促进2014届毕业生顺利就业。材料科学与工程学院于2014年5月5日10:00，在1教J303室举行了“优秀校友报告会暨泰氟化工技术（上海）有限公司宣讲会”，参加本次会议的有材料科学与工程学院副书记、副院长张波，我校优秀校友泰氟化工技术（上海）有限公司董事长孙德庆及同行人员，学院辅导员兰天宇，2010、2011级的部分学生。

会上，泰氟化工技术（上海）有限公司董事长孙德庆根据个人的成功经验，着重从情商的培养、自信心的树立、做事态度的养成等方面进行了交流。他勉励同学们要珍惜大学时光，心怀感恩之情，拓宽成才思路，报效社会和母校。



Source: <http://news.qghru.edu.cn/Article/ShowArticle.asp?ArticleID=37467>

And what is Taifu?

To answer that question, we sent a team to Taifu's registered address in Shanghai and this is what we found:

(上海市嘉定区菊园新区环城路2222号 (嘉乐园商务大厦) 1205室)



Taifu, as it turns out, is a company that shares an office with the very elusive Xidatong. Of all the gin joints in all the towns in all the world – what are the odds?

It appears that Xidatong and Shanghai Top operated as one company prior to Tianhe's IPO. In anticipation of the IPO, Xidatong was split and had to establish its own office to create the illusion of an additional customer. It seems then that Xidatong set up a shared office with Taifu, which is chaired by the same man that controls Taina, another of Tianhe's customers. One would think that with the purported multi-million dollar chemical empires these customers run they could afford their own separate offices. Apparently not.

The number of undisclosed related parties, shared offices, and overlapping management between Tianhe and its major customers is extensive. This is not how real, independent customers and businesses operate. Indeed, the SAIC filings make clear that these customers only have minimal business operations and could not conduct business at the scope and size claimed by Tianhe. We suspect that real value of these "customers" comes from acting as counterparty and transacting with Tianhe on paper in order to satisfy the auditors.

Summary: the Intertwined Web of Xidatong, Shanghai Top and Taina

- Tianhe named its 2nd, 3rd, and 4th largest SFC customers as Xidatong, Shanghai Top and Taina during the IPO roadshow. In fact, we have shown that these customers are interconnected, related, and not credible.

Shanghai Xidatong

- Xidatong was named Tianhe's 2nd largest SFC customer. Mr. Zhang Silang was brought in as the CEO of Xidatong to provide customer verification in support of Tianhe on a conference call hosted by Investec on 16 May 2014.
- Background checks show that Mr. Zhang has been the CEO of Xidatong going as far back as 2006. However, in that time frame he has also been a top-level executive at Tianhe and Shanghai Top.
- SAIC filings show that Xidatong is a small, thinly capitalized company that cannot possibly conduct business in the amounts claimed. Its registered address is an abandoned housing community.
- Xidatong is 65% owned by an individual named Ms. Wang Xidi (Chinese: 王锡娣). According to several former Tianhe employees, Ms. Wang Xidi was in charge of Tianhe's LOA business as recently as 2012.
- Based on information from site visits, Xidatong and Shanghai Top used to share an office and effectively operate as one company until sometime in 2013 when Xidatong moved.

Shanghai Top

- Shanghai Top was named Tianhe's 3rd largest SFC customer. SAIC filings show that in reality Shanghai Top is only a modest enterprise that is losing money and would be unable to conduct business of the size claimed.
- Our investigation shows that Shanghai Top shares overlapping management with Xidatong and Tianhe, namely Mr. Zhang Silang. Moreover, Shanghai Top's legal representative until 2011 was Jimmy Chen, a shareholder and notable key individual of Tianhe.

Heilongjiang Taina

- Taina was named Tianhe's 4th largest SFC customer. Mr. Sun Deqing owns 85% of Taina and was brought in to provide customer verification to potential investors on behalf of Tianhe.
- Background checks show that Mr. Deqing is the chairman of a previously unknown company named Taifu. A visit to Taifu's registered address shows that it shares an office with Xidatong.
- SAIC filings show that Taina is a small company and does not have the capital or financial resources to carry out business of the size claimed.

Customer: CITIC International

According to Tianhe, CITIC International accounted for sales of RMB829 million in 2011, RMB953 million in 2012, and RMB1.5 billion in 2013.²⁸ Tianhe's own SAIC filings show that total Company revenue only reached RMB645 million in 2012, making Tianhe's claims that it sold RMB675 million to CITIC International that year highly unlikely.

Moreover, it's important to distinguish between CITIC International (Tianhe's customer), and CITIC Group, the sprawling SOE conglomerate that generally springs to mind. The distinction here is an important one.

On the website of CITIC Bank – the Hong Kong and China listed entity – we found a related party transaction [announcement](#) that describes CITIC Group, noting that in 2009, CITIC Group generated revenue of RMB209 billion and net profit of RMB35.4 billion:

1、中国中信集团公司
中国中信集团公司是本公司的控股股东，是中国领先的大型跨国国有企业集团，重点投资于金融服务、信息技术、能源和重工业等行业，目前在香港、美国、加拿大和澳大利亚均有业务经营。注册地和办公地均为北京。截至2009年末公司净资产2213亿元，营业收入2091亿元，净利润约354亿元。

By contrast, the same announcement also describes CITIC International in detail, noting that it generated revenue of RMB1.31 billion and net profit of RMB29 million in 2009:

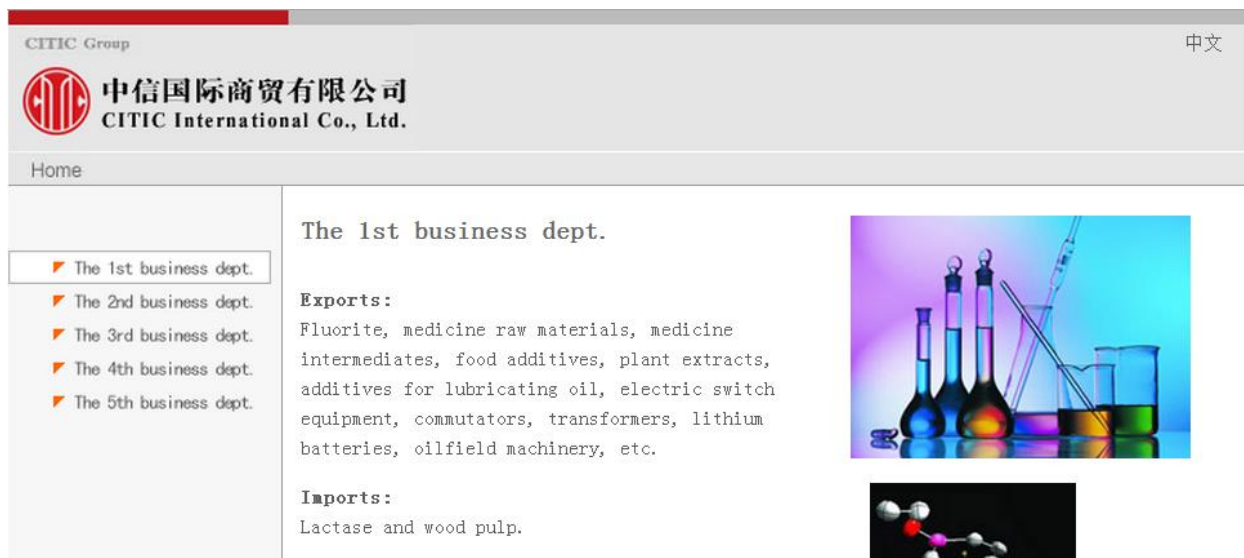
4、中信国际商贸有限公司
中信国际商贸有限公司是中信集团控股子公司，注册地址北京市朝阳区新源南路6号京城大厦45层，法人代表王炯，注册资本5000万元，股权结构为：中信集团公司持股30%；中信华东（集团）持股70%。该公司从事自营和代理各类商品及技术的进出口业务，进口产品包括铜制品、饲料、木材等，进口市场主要集中在墨西哥、智利、纳米比亚、荷兰、瑞士等国家和地区；出口商品包括化工产品、矿产品、钢材、轮毂等，出口市场主要集中在日本、欧盟、美国、韩国等国家；国内贸易品种主要是钢材和轮毂等。2009年末公司总资产15.4亿元，净资产1.33亿元，营业收入13.1亿元，净利润2935万元。

From this announcement, we can see that CITIC International is just a tiny subsidiary within a giant conglomerate. Given this, it would take a feat of mental gymnastics to assume that while CITIC International only generated revenue of RMB1.31 billion in 2009, it purchased RMB829 million worth of chemicals from Tianhe in 2011 and even more in subsequent years. This assumption becomes even more unrealistic when we consider that CITIC International's business consists of domestic trading, exporting, and importing.

²⁸ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. I-27

CITIC International's size aside, its official website makes no mention of trading in SFC chemicals, either domestically or internationally.²⁹ On the domestic side, CITIC's trading business is mainly limited to stainless steel and textile raw materials. On the export side, the website notes that it deals in fine chemicals, but makes no mention of SFC chemicals (which are an entirely different beast from fine chemicals).³⁰

Clicking on CITIC International's various business departments provides a list of products that particular department exports and imports. For example, the 1st business department is focused of chemical exports, but again, these exports are only named as LOA products and medicine intermediates (presumably fine chemicals):



The screenshot shows the website of CITIC International Co., Ltd. The header includes the CITIC Group logo and the company name in Chinese and English. A navigation menu on the left lists five business departments, with the first one selected. The main content area for the 1st business department lists exports and imports. Exports include fluorite, medicine raw materials, medicine intermediates, food additives, plant extracts, additives for lubricating oil, electric switch equipment, commutators, transformers, lithium batteries, and oilfield machinery. Imports include lactase and wood pulp. There are two images: one showing laboratory glassware and another showing a molecular model.

CITIC Group 中文

中信国际商贸有限公司
CITIC International Co., Ltd.

Home

The 1st business dept.

Exports:

Fluorite, medicine raw materials, medicine intermediates, food additives, plant extracts, additives for lubricating oil, electric switch equipment, commutators, transformers, lithium batteries, oilfield machinery, etc.

Imports:

Lactase and wood pulp.

Source: <http://www.intl.citic.com/iwcm/zxgjsmyxgs/en/ns:LHQ6MTIsZjozNCxjOixwOixhOixtOg==/channel.vsmI>

Our sources interviewed multiple manufacturers and distributors of SFC chemicals, and none of them were aware that CITIC International is involved in the SFC business in any form. This information was also corroborated through interviews with former employees of CITIC International. One former employee explained that CITIC International exports fluorite, which is used in the production of SFCs, but not SFC chemicals themselves (the 1st business department is in charge of exporting fluorite). Based on these interviews as well as website information, we suspect Tianhe is extensively fabricating its relationship with CITIC International.

Notably, during the IPO marketing process, Tianhe brought in executives from Xidatong and Taina to issue customer verification, but did not bring in anyone from CITIC International, which is purportedly their largest customer.

²⁹ <http://www.intl.citic.com/iwcm/zxgjsmyxgs/en/ns:LHQ6MTIsZjozMyxiOixwOixhOixtOg==/channel.vsmI>

³⁰ <http://pubs.acs.org/supplements/chemchronicles2/pdf/041.pdf>.

The Anti-Mar Market



During the IPO roadshow, investors had a lot of questions about how it was possible for Tianhe to achieve its financial results. These type of questions are understandable because Tianhe's reported results seems unreal – If true, Tianhe has far surpassed industry trends by growing revenue more than 20% annually, while simultaneously reporting net margins north of 50%.

Management's answer to appropriately skeptical investors is that they have a secret weapon: Anti-mar.

Tianhe claims to produce and sell anti-mar (anti-fingerprint) agents in commercial quantities. Anti-mar is an agent applied primarily to touch panels used in smartphones and tablets to make them smear and fingerprint resistant.

Anti-mar is an incredibly expensive substance, and by weight, pure anti-mar is far more expensive than gold. Management told investors that Tianhe sells one ton of 100% pure anti-mar for approximately RMB130 million (US\$20M). This is actually cheap, because price checks with Daikin and Shinetsu show that the average selling price of anti-mar is RMB100 million for one ton of 20% concentrate (20% concentrate is industry standard).³¹ Daikin and Shinetsu are both Japanese companies that are acknowledged to dominate the anti-mar market.

Management told investors that Tianhe sold 8 tons of 100% pure anti-mar in 2013. Tianhe's anti-mar sales are reported on its income statement as part of 'downstream specialty fluorochemical products'. This segment has seemingly come out of nowhere and exploded since 2011. In 2013, RMB1 billion (60%) of this line item came from the sale of anti-mar agents (8 tons of anti-mar @ RMB130 million per ton):

Exhibit 7

Tianhe Revenue Segments

	For the year ended December 31,			2011-12	2012-13
	2011	2012	2013	YoY%	YoY%
	(RMB in thousands)			(%)	(%)
Lubricant additives business segment	1,817,006	1,774,503	2,063,112	(2.3)	16.3
Specialty fluorochemicals business segment					
Downstream specialty fluorochemical products	289,815	1,343,050	1,702,353	363.4	26.8
Telomers and specialty fluorochemical intermediates	1,101,726	994,591	1,198,412	(9.7)	20.5
Others ⁽¹⁾	150,821	80,409	69,918	(46.7)	(13.0)
Subtotal-specialty fluorochemicals	1,542,362	2,418,050	2,970,683	56.8	22.9
Total	3,359,368	4,192,553	5,033,795	24.8	20.1

Source: <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 212

While anti-mar sales only contributed to 20% of Company-wide revenue in 2013, 'downstream specialty fluorochemical products' is by far Tianhe's fastest growing line item. More important than sales growth, the gross margin on anti-mar is in the neighborhood of 90%, which means the 20% revenue contribution has a wildly disproportionate effect on the Company's net income.

³¹ <http://daikin-america.com/docs/OPTOOL%20DSX.pdf> note 5

Given anti-mar's importance to Tianhe, we dedicated substantial time to analyzing and researching the anti-mar market over the span of several months. We talked to industry experts, consulted application manuals, and engaged a highly qualified outside firm to conduct research into the industry. Combined, sources along the entire anti-mar supply chain were interviewed, including Daikin, Biel, Lens One, TPK, Wintek, and XinXin. We are confident that we have spent more time and resources than any investment bank or analyst in fully understanding the anti-mar market – and all our collective research shows that Tianhe's claims of selling 8 tons of pure anti-mar in 2013 is fiction.

First, Tianhe claims that 4 out of the 8 tons of pure anti-mar were sold to Xidatong. Our investigation into Xidatong, as well as a review of its SAIC filings has already provided ample evidence that Xidatong is neither an independent customer nor has the capital to buy 4 tons of pure anti-mar. But even if we suspend disbelief and assume that Xidatong is the real, independent customer that Tianhe claims, it is highly unlikely that there would be enough global demand to absorb Tianhe's 8 tons of pure anti-mar.

Here is how the math works:

Management told investors that 1 gram of anti-mar can be applied to 200 iPhones. To verify this claim, our sources contacted two touch panel vendors who are suppliers to Fujitsu and Samsung who stated that that 1 gram of anti-mar can be applied to 150 iPhones. We also contacted a sales manager from Daikin and an expert from IHS who further confirmed these numbers. More specifically, the experts noted that when they are talking about 1 gram of anti-mar, they are referring to 20% concentrate which is the industry standard. Daikin and Shinetsu both ship anti-mar in 20% concentrate.³²

Another source of verification is an [online](#) product catalogue referencing Shinetsu, which states that the cost of applying anti-mar is around RMB0.5-0.6 per touch panel using spray coating:

产能与成本核算		
AF喷涂	PVD	喷涂维护
<ul style="list-style-type: none"> • 单片成本：0.5~0.6 • 天产量：16K • 月产量：480K 	<ul style="list-style-type: none"> • 单片成本：1.5~2.0 • 天产量：6K • 月产量：180K 	<ul style="list-style-type: none"> • 半个月换一次喷嘴密封圈
注：玻璃片尺寸为3.5寸 计算成本对比中，设备成本不在讨论范围 以每天工作24小时计算产量		

Shinetsu sells anti-mar at 20% concentrate for RMB100 million per ton. At a cost of RMB0.5-RMB0.6 per touch panel, that means 1 gram of anti-mar can be applied to between 167-200 iPhones, which once again is consistent with other sources.

For our purposes, we will use the midpoint and assume that 1 gram of 20% concentrate anti-mar can be applied to 175 iPhones.

³² <http://daikin-america.com/docs/OPTOOL%20DSX.pdf> note 5

To calculate world demand, we can start with Apple. An iPhone screen has a surface area of 11.25 square inches (2.31in x 4.87in), while an iPad screen has the surface area of 62.04 square inches (6.6in x 9.4in). Therefore, the surface area of an iPad is equivalent to 5.5 iPhones ($62.04 \div 11.25$).



Source: www.apple.com

In 2013, Apple sold 154 million iPhones and 74 million iPads globally.³³ In terms of surface area, this is the equivalent of selling 566 million iPhones ($154M + [74 \times 5.5]$).

There are 1 million grams in a metric ton. Given that 1 gram of 20% concentrate anti-mar can be applied to 175 iPhones, it means that 566 million iPhone equivalents would require 3.2 tons of anti-mar at 20% concentrate. This is the total amount of anti-mar required for all the iPhones and iPads sold in 2013.

From here, we can move beyond Apple and extrapolate global anti-mar demand for the entire smartphone and tablet industry.

According to IDC data, 1 billion smartphones and 217 million tablets were shipped globally in 2013.^{34,35} In terms of surface area, this is the equivalent of shipping 2.2 billion smartphones ($1B + [217M \times 5.5]$). Assuming the same math as above, 2.2 billion smartphone equivalents – the global shipment of all smartphones and tablets in 2013 – would require 12.5 tons of anti-mar at 20% concentrate.

³³ SEC filings, adjusted for fiscal year-end

³⁴ <http://www.idc.com/getdoc.jsp?containerId=prUS24645514>

³⁵ <http://www.idc.com/getdoc.jsp?containerId=prUS24650614>

Furthermore, according to IHS, approximately 63.5% of the touch panel market is used in smartphones and tablets. The other 36.5% of market applications includes touch screen notebooks and LCD monitors.³⁶ Therefore, we have to adjust our 12.5 ton figure to 19.7 tons ($12.5 \div 0.635$) to include all other touch panels produced in 2013.

Finally, industry experts tell us that at least 10% of touch panels do not use anti-mar, usually because the final product is of low quality and cheaply priced. Accordingly, we would need to adjust our 19.7 tons figure down by 10%. However, this is balanced by the fact that industry experts tell us that while 90% of the anti-mar market is used in the application of touch panels, the remaining 10% of the market is mostly applied to eyeglass lenses. These two adjustments cancel out and we can conclude that total global demand for anti-mar in 2013 stood at approximately 19.7 tons of 20% concentrate, or nearly 4 tons of 100% pure concentrate.

Total global demand of pure anti-mar:		Tianhe's claimed sale of pure anti-mar:
4 tons	<	8 tons

In this context, Tianhe's claims of having sold 8 tons of pure anti-mar in 2013 become untethered from reality, and imply that Tianhe effectively sold anti-mar equal to 200% of global demand, by our estimates. Moreover, this would mean that Tianhe is by far the largest supplier of anti-mar in the world, outstripping market leaders Daikin and Shinetsu.

On the other hand, when our sources conducted expert interviews with Daikin, they were told that Tianhe is not even a supplier of anti-mar, but rather a supplier of far less valuable solvents used by distributors to dilute anti-mar concentrate. These solvents are priced at around RMB300,000 per ton. This information was confirmed by former Tianhe employees who stated that the "anti-mar" product Tianhe referred to internally was priced at RMB300,000 per ton and is in fact a fluorine-contained solvent for anti-mar finished products.

Sources also believe that it would be impossible for Tianhe to have sold 8 tons of pure anti-mar without the industry having heard about it. As we have shown, 8 tons of pure anti-mar is substantially more than global demand.

Based on our research, we find it unlikely that Tianhe has the capabilities to produce anti-mar commercially or the demand to sell 8 tons of pure substance. Adding further doubt to its claims is that Tianhe has never named a single end-user of its anti-mar agent.

By our estimates, Tianhe's purported sale of 1RMB billion worth of anti-mar represents 30-35% of its operating income – all of which we believe has been fabricated.

³⁶ https://www.academia.edu/4410199/Touch_Panel_Market_Forecast_2013

Comparison of Daikin vs. Tianhe

A simple way of debunking Tianhe's anti-mar claims is to compare its reported sales to Daikin. According to industry experts, Daikin is acknowledged to dominate the anti-mar market with 60% market share, followed by Shinetsu, Dow Corning and Dupont who effectively share the other 40%. In our own market research and the market research of our outside consultant, Tianhe's name never came up as a visible anti-mar supplier. In fact, the only time Tianhe's name came up was only to mention that Tianhe is not an anti-mar supplier.

Furthermore, most anti-mar demand comes from China where the majority of smartphones/tablets are manufactured. [Biel Crystal](#) was named as consuming 57% of the world's anti-mar coating material. Biel supplies touch panels to Samsung, Apple, and Lenovo. In second place, Lens One was named as consuming 37% of the world's anti-mar coating material. Lens supplies touch panels to Apple, Samsung, HTC, and Huawei. Both Biel and Lens have substantial production in China and experts tell us that the majority of their anti-mar comes from Daikin and Shinetsu.

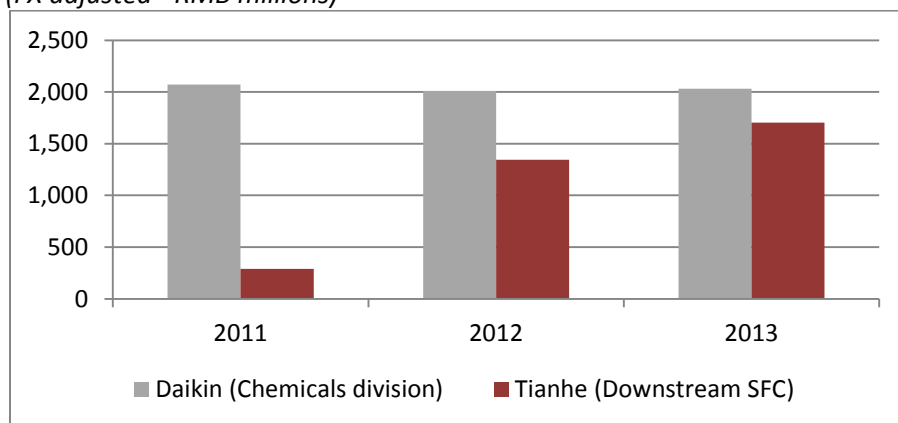
In 2013, Daikin's total chemical sales in China were RMB2.03 billion.³⁷ After adjusting for FX fluctuations, Daikin's chemical sales in China have effectively remained flat between 2011 and 2013. Notably, Daikin states in its financial summary that sales to existing customers of anti-fouling (anti-mar) coating in China and Asia were sluggish in 2013.³⁸

By contrast, during the same time period, Tianhe's downstream SFC product revenue – the line item which consists mostly of anti-mar sales – has exploded:

Exhibit 8

China Chemical Sales

(FX adjusted - RMB millions)



Source: company financial statements

We are skeptical that Tianhe, a relatively new company with no disclosed end-users has grown so fast in the last three years that it downstream SFC segment alone has effectively caught up with Daikin's entire China chemical division.

³⁷ http://www.daikin.com/investor/library/pdf/2013/summary_06.pdf pg.11

³⁸ http://www.daikin.com/investor/library/pdf/2013/summary_06.pdf pg. 17

To be fair, it's also possible that Daikin sells its anti-mar through Japanese distributors before it gets shipped to China, in which case revenue would be recognized in Japan. However, Daikin's Japan chemical sales in 2013 were comparable to its China chemical sales at RMB2.3 billion.³⁹

Even if we combine ALL of Daikin's chemical sales in Japan and China in 2013 (RMB4.3 billion), it still wouldn't lend any sense to Tianhe's claimed anti-mar sales of ~RMB1 billion.

Just to put things in perspective: most of the world's anti-mar supply is consumed in China. Daikin is widely acknowledged to dominate 60% of the anti-mar market, while Tianhe is a virtual unknown. Even still, Tianhe's claimed anti-mar sales equal nearly a quarter of ALL of Daikin's combined chemical sales in China and Japan.

³⁹ http://www.daikin.com/investor/library/pdf/2013/summary_06.pdf pg 11

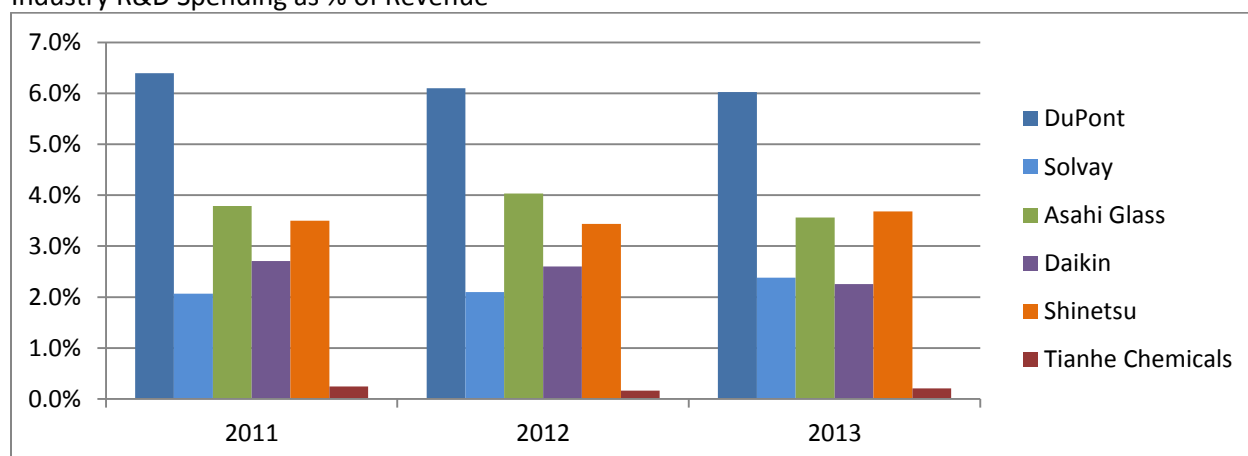
Research and Development

Expert interviews and industry research aside, there are other reasons to doubt Tianhe's anti-mar claims. Big manufacturers including Apple, LG, and Lenovo have very strict certification requirements which make it unlikely that they would change suppliers to a newcomer like Tianhe. These manufacturers work directly with their big-name suppliers to constantly improve and develop their performance chemicals. Products are fast changing and chemical suppliers need extremely high R&D capabilities to keep pace.⁴⁰

In that context, we find it questionable that in both absolute and relative terms, Tianhe spends almost no money on R&D. Exhibit 9 presents R&D expenses as a percent of revenue for Tianhe and other SFC competitors. While most industry players spend between 2% to 5% of revenue on R&D, Tianhe spends 0.2%. In fact, Tianhe's spending is so small that we had to stretch this graph to make it visible:

Exhibit 9

Industry R&D Spending as % of Revenue



Source: annual reports

Throughout the IPO marketing process, Management made a big deal of having retained three US scientists led by Dr. David Flanigan to develop Tianhe's technical capabilities.⁴¹ In return for their services, the US team was given a 5.33% equity stake in Tianhe back in 2006. As of this writing, that stake was worth quite a bit, and it is possible to look at the equity offering as a substantial one-time payment in lieu of annual R&D expenses.⁴²

Mr. Flanigan and his colleagues have been held out to be highly qualified scientist. Mr. Flanigan himself worked as a consultant to DuPont for a decade before joining Tianhe.⁴³ But here's the catch: even though Mr. Flanigan worked for DuPont, DuPont still spends 6% of its revenue on R&D annually. This is despite the fact that the value of DuPont's intangible assets + goodwill is 19% of total assets, whereas for Tianhe it is closer to 2%. DuPont, and all the other chemical companies in the world continuously spend substantial amounts on R&D just to keep them competitive and developing new products.

⁴⁰ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 93

⁴¹ <http://www.ft.com/intl/cms/s/0/74b65b4e-9ace-11e3-946b-00144feab7de.html>

⁴² <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 119

⁴³ <http://www.linkedin.com/pub/dr-david-flanigan/15/a26/796>

Considering that Mr. Flanigan lives in Colorado,⁴⁴ we find it unlikely that he has the time or the presence to fully dedicate himself to the evolving needs of Tianhe's customers. An internet search shows that Mr. Flanigan's time is spent on other projects, including running his own consulting firm.⁴⁵ We find it hard to believe that one man who lives half a world away and two of his colleagues – no matter how experienced – can act as substitute for the annual R&D spending of a US\$8 billion company.

⁴⁴ <http://www.linkedin.com/pub/dr-david-flanigan/15/a26/796>

⁴⁵

http://alpanseewater.ipage.com/uploads/3/1/4/9/3149837/20120918_awd_engineering_recommendations_w_e_xhibits.pdf



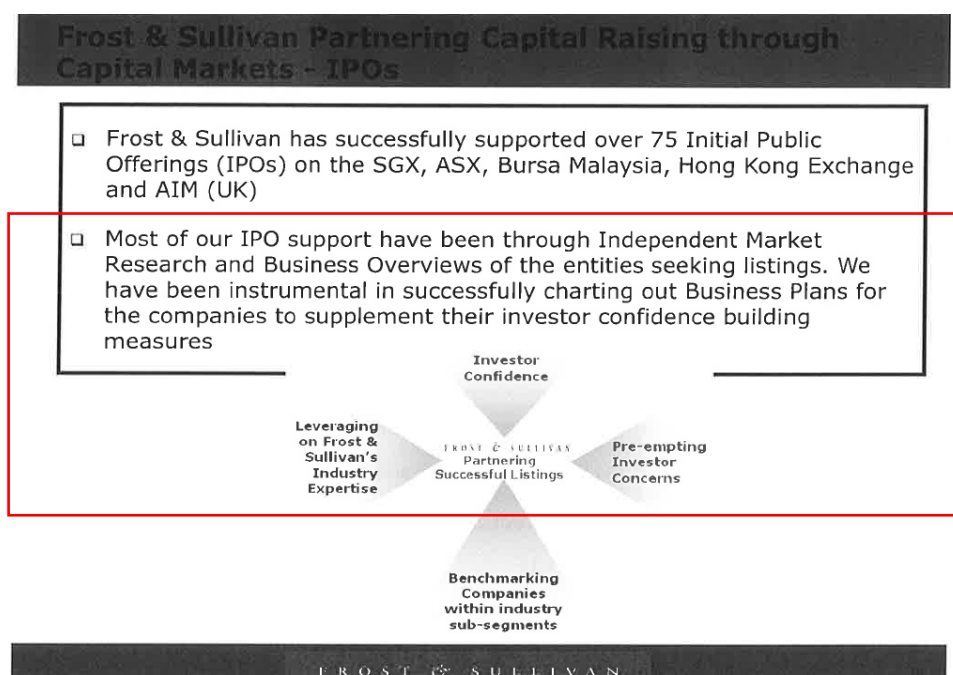
Throughout our research, we found that the source most consistent with Tianhe's claims was Tianhe's own prospectus.

In preparing its prospectus, Tianhe retained a research firm named Frost & Sullivan ("F&S") to provide business, industry, and company-specific data. As an example, the prospectus cites F&S when stating that the anti-mar market in 2013 was worth US\$2.6 billion.⁴⁶ If the anti-mar market was indeed that big, Tianhe's claims of having sold 8 tons of pure anti-mar would be plausible. However, our own substantial research shows that the anti-mar market in 2013 was only valued at US\$0.3 billion (RMB1.97 billion).⁴⁷

The prospectus relies heavily on data from F&S as evidenced by the 113 references to "Frost & Sullivan". By comparison, the word "Tianhe" appears 200 times. In turn, sell-side analysts refer to F&S data in their own research reports. For example:

- Goldman Sachs ("Buy" rating on Tianhe) refers to F&S 30 times in its initial report.
- Bank of America ML ("Buy" rating on Tianhe) refers to F&S 24 times in its initial report.
- BOC International ("Buy" rating on Tianhe) refers to F&S 16 times in its initial report.

With such heavy reliance on F&S for everything from industry metrics to company-specific market share data, one would expect F&S to be an independent, unbiased research firm that conducts rigorous due diligence for the benefit of potential investors. However, according to the marketing material we received, F&S appears to be more of a public relations company than an independent research firm. For example, here is one slide from their marketing material:




⁴⁶ <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0609/LTN20140609007.pdf> pg. 86

⁴⁷ 19.7 tons of anti-mar @ RMB100 million per ton

We find it dubious that F&S sells itself to issuers as being instrumental to “investor confidence building measures” and “pre-empting investor concerns”. Such implied support for issuers certainly calls into question F&S’ objectivity. In any case, our favorite part of the marketing material is that F&S goes on to give a case study of an IPO it supported:

F&S Case Study

IMR – Backpacks Industry



CHINAZAINO

PROSPECTUS DATED 9 APRIL 2008
AS REQUIRED BY THE SECURITIES AND FUTURES ACT OF SINGAPORE (SFA)
 1 APRIL 2008

This document is important. If you are in any doubt as to the action you should take, you should consult your legal, financial, tax, or other professional adviser.

CHINA ZAINO INTERNATIONAL LTD
 (中国箱包国际有限公司)

Our prospectus is dated on 12 December 2007.
 Company Registration Number: 410137

Offering in respect of 145,000,000
 Offering Shares

Fixed Offering Price: S\$0.60 per
 Offering Share

This is the initial public offering of our ordinary shares of our value S\$0.60 each ("our Shares") China Zaino International Ltd ("our Company") is a company incorporated in the Republic of China (Taiwan) under the name "China Zaino International Ltd". The offering consists of the following:

There is no holding period of our ordinary shares of our value S\$0.60 each ("our Shares") China Zaino International Ltd ("our Company") is a company incorporated in the Republic of China (Taiwan) under the name "China Zaino International Ltd". The offering consists of the following:

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There is no holding period of our ordinary shares of our value S\$0.60 each ("our Shares") China Zaino International Ltd ("our Company") is a company incorporated in the Republic of China (Taiwan) under the name "China Zaino International Ltd". The offering consists of the following:

Listed Co.

China Zaino International Ltd and its subsidiaries (the "Group") are involved in the design, development, manufacture and distribution of backpacks and luggage under their "DAPAI" brand. The group's products are sold through distributors in over 3,000 concessionary retail outlets in 26 provinces, municipalities and autonomous regions in China

Engagement Methodology

Frost & Sullivan partnered the IPO with an Independent Market Research on the **bag pack industry** across **APAC**. The study was presented to our client in 7 weeks. China Zaino successfully went public on the SGX in Q1-2008

Backed by: STIRLING COLEMAN
 施察高誠
 www.stirlingcoleman.com


Primary Book Underwriter and Risk Placement Agent
 UOB Kay Hian

DBS
 Asia Pacific Account Agent
 DBS VICKERS SECURITIES
 10 Tanjong Pagar

CHINA ZAINO (dollar: C25.6E)

Last Trade	0.1050	Day's Range	0.1050 - 0.1050
Trade Time	Jul 3	52 Week Range	0.06 - 0.26
Change	\$ 0.0030 (2.78%)	Volume	75,000
Prev Close	0.11	Avg Vol (3m)	0
Open	0.11	Market Cap	N/A
Bid	0.20	P/E (est)	N/A
Ask	0.1050	EPS (est)	N/A
1y Target Est	N/A	Div & Yield	N/A (N/A)

COMPANY CHART



FROST & SULLIVAN

F&S is either so robust of ego or so completely removed from reality that they chose to showcase their work on China Zaino (now named Dapai International Holdings) as marketing material. For those who aren't aware, China Zaino was part of a wave of Singapore-listed Chinese frauds that saw its stock price collapse to zero. If F&S had updated China Zaino's graph on its presentation, it would look something like this:



It's unfortunate that Tianhe needs to resort to littering its prospectus with garbage from F&S to validate its claims.

Last Words



We believe that the totality of the evidence shows that Tianhe has vastly misrepresented the size and scope of its business, and has produced false and misleading statements to the market.

All the evidence we have reviewed and relied upon in forming our views is publicly available, and set out in our report – it's what an honest and authentic due diligence exercise looks like, and the crime here is compounded by the fact that so many relevant parties have been at best negligent and derelict, and at worst guilty of false statements and fraud, in carrying out their duties related to the IPO.

We believe that the Securities & Futures Commission and the Hong Kong Stock Exchange will quickly verify the evidence we have presented herein and halt trading of Tianhe's stock. Thereafter, we expect that regulators will delist Tianhe and prosecute the executives and promoters responsible for this fraud.

