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The Farce Awakens: CIFS

Report Date: December 20, 2017	Industry: Financial Services
Company: China Internet Nationwide Financial Services Inc.	Stock Price: \$38.32
Ticker: CIFS (NASDAQ: CIFS)	Market Cap: \$842 million
	Float: 25.9% (5.7m of 22m)
	Average Daily Volume (90-day): \$11.5m

A long time ago (in many investors' minds) in a country far, far away, literally hundreds of tiny, failing businesses were packaged up as fast-growing, dynamic companies and sold to unsuspecting Americans. The country was China, and the toll was staggering – literally hundreds of frauds that listed in the U.S. through reverse mergers, sold billions of dollars in stock, and then went dark. Almost without exception, these companies' "chairmen" got away scot-free with their stolen money.¹

Thanks to the comically named 2012 JOBS Act, the "Reg A+ offering" offers a way for dog shit companies to go public while avoiding the stigma of a reverse merger listing. In another depressing sign of the decay of America's institutions, the once-venerable New York Stock Exchange is now even promoting this type of IPO.^{2,3} And now...

THEY'RE BAAACK



¹ The upcoming documentary The China Hustle chronicles this massive wave of stock fraud. It is scheduled for release in theaters, on demand, and on iTunes and Amazon Video on March 31, 2018.

² <https://www.nyse.com/regulation-a>

³ On a related topic: we call upon the courts to hold that the (publicly traded, for profit) exchanges have no immunity from actions seeking monetary damages. Their enforcement arms have become little more than country club rules committees, and can no longer adequately perform their quasi-governmental functions.

We conclude that China Internet Financial Services Inc. (NASDAQ:CIFS) is a King Zero – just another worthless China fraud.

- We believe zero to almost none of CIFS’s purported business is real. PRC financials show that CIFS overstated its 2016 revenue by 5x.
- Every one of the purported borrowers to which CIFS disclosed having made loans (accounting for 84.2% of loan balances) appears to be a sham counterparty. (The purported borrowers of the remaining 15.8% of reported loan balances were not disclosed; however, we strongly suspect that most – if not all – of these loans and associated income are also fabrications.) Therefore, the associated loans, revenue, and profits appear to be completely fake.
- CIFS has disclosed doing business with two related parties, and even those loans and associated revenue appear to be fraudulent.
- CIFS’s recently announced “big data” company purchase also appears to be a lie. It is from sham counterparties, and therefore a fraudulent purchase of an empty box, rather than of a real or even promising company.
- 47.3% of CIFS’s reported 2016 net income purportedly was generated by its Kashgar subsidiary; however, that subsidiary existed for only two days in 2016. Further, Kashgar, accurately in our view, reported in its PRC financials zero revenue and income.
- CIFS is too good to be true – claiming to turn a seeming commoditized business model into an overnight juggernaut with purported gross margins over 97% and net margins over 70%. However, Chairman Lin seems to be an obscure and fairly unsuccessful businessman, which in our view makes him about number 450 million in line to pull off a business miracle like this. CIFS is therefore one of the most implausible – if not the most implausible – China fraud stories we have ever come across.
- CIFS’s corporate structure ensures that not only does Chairman Lin get to keep investors’ money, not have to worry about prison or any legal repercussions, but the ownership of his company is not the least bit at risk. In other words, this structure is the coup de grace of the numerous middle fingers he’s extending at U.S. investors.

PRC Financials Show CIFS Overstated its 2016 Revenue by 5x

PRC financials make clear that CIFS is a fraud. We obtained the SAIC financials for CIFS’s operating entities, Sheng Ying Xin (Beijing) Management Consulting Co. Ltd. (“BJ SYX”) and Kashgar Sheng Ying Xin Enterprise Consulting Co. Ltd. (“Kashgar SYX”). These two entities account for all of CIFS’s reported revenue and profit.⁴ CIFS is such a lazy and / or stupid fraud that it harkens back to the early days of shorting U.S.-listed China frauds.

Corporate entities in China are required to file summary financial statements with the State Administration of Industry and Commerce (“SAIC”). Muddy Waters, LLC began the wave of exposing China frauds on June 28, 2010 by shorting Orient Paper Inc., and using its SAIC financials to help prove that it was a fraud. After our Sino-Forest exposé one year later, China frauds began also filing fraudulent financials with SAIC. As a result, it became fairly rare to find

⁴ CIFS F1, p. 11

the smoking gun in SAIC financials. We suppose we owe thanks to CIFS for setting its fraud time machine far enough back that it did not submit fraudulent financials to SAIC.

BJ SYX 2016 SAIC financials are below.⁵ Kashgar SYX was formed only two days before the end of 2016, and reported to SAIC zero assets, liabilities, equity, revenue, and net income. (Note that as we discuss in a later section, CIFS's fraudulent SEC filings imply that Kashgar SYX generated 47% of CIFS's 2016 consolidated net income during those two days.)

BJ SYX	2016	
	Rmb000	US\$000
Assets	145,830	21,004
Liabilities	66,260	9,543
Equity	79,570	11,460
Revenue	22,350	3,358
Main rev	19,080	2,867
Pre tax income	9,430	1,417
Net income	6,840	1,028

It is not surprising that there is a tiny amount of revenue in the VIE. All of these China frauds have a kernel of truth. That said, we suspect that the character of the revenue is quite different than CIFS's purported business. As we discuss in a later section, Chairman Lin has a (likely illegal) P2P lending business. We suspect that the BJ SYX financials show a part of this P2P business. (Note that the P2P business appears to lose significant amounts of money based on SAIC financials of one of the two main entities.)

The Purported Borrowers CIFS Discloses All Appear to be Sham Counterparties

The backbone of China fraud is creating fake customers and suppliers. We understand that out of the literally hundreds of China stock frauds perpetrated on U.S. investors, only one company chairman has ever gone to jail for these crimes. There is absolutely no disincentive for a buddy of a chairman to help him out by creating fake counterparties. They get paid a little bit of money, and probably sit around laughing with the chairman over beers and bai jiu at the gullibility of U.S. investors.

CIFS discloses the identities of four of the six purported borrowers to which it lent money in 2015 and 2016. Purported loans to these four purported borrowers equaled 84.2% of the combined loan balances CIFS shows on its 2015 and 2016 balance sheets. We conclude that each of these four purported borrowers is a sham counterparty, and that the loans are therefore fake. The sham counterparties are: Beijing Ailirui Trading Co. Ltd., Xiamen Jingsu Trading Co. Ltd., Fujian Jin Xin Import Export Trading Co. Ltd., and Cai Long Ge.

⁵ BJ SYX's 2015 SAIC revenue was \$10.1 million, which exceeds reported revenue; however, as we discuss in a later section, this revenue appears to have come from a likely illegal P2P business that is now being conducted by an entity that Chairman Lin and Huang Shaoyong own and is not consolidated by CIFS. In other words, we believe that the business that was responsible for generating most, if not all, of BJ SYX's 2015 revenue has been retained by Chairman Lin and Huang.

Note that as of December 31, 2016, the loans CIFS claims to have made account for 64.2% of its assets.

I. Beijing Ailirui Trading Co. Ltd. (北京艾利瑞商贸有限公司) appears to be a sham counterparty, and therefore a fake loan. CIFS purports to have loaned it \$23.1 million.⁶ This alone equaled 77.3% of CIFS's purported 2015 assets. We believe Ailirui is a sham counterparty because a) its SAIC financials show that it is a tiny company that could not conceivably have received such a loan (hint: zero revenue), b) our fieldwork shows a vacant office typical of the ghost offices we saw for Sino-Forest's purported counterparties (and in many other China frauds), c) CIFS appears not to have had the cash on hand to make the loan at the time it purports to have made the loans to Ailirui, and d) its SAIC file also shows it is almost certainly effectively controlled by Chairman Lin, reaffirming our view that it is a sham counterparty.

Ailirui's SAIC financials (converted to USD) are below. They show effectively zero revenue, zero net income, and de minimis assets. The SAIC files also show that Ailirui's shareholders had not registered their expected capital contributions of approximately \$795,000 with SAIC by December 31, 2016, making it likely that there had been no money ever injected into the company. (We theorize that the assets in 2014 and 2015 were receivables for the expected capital contributions.) Finally, CIFS's purported loans are not shown on the balance sheet.

BJ Ailirui	2014		2015		2016	
	Rmb000	US\$000	Rmb000	US\$000	Rmb000	US\$000
Total assets	500	79	502	77	2	0.3
Total liabilities	1	0	4	1	4	0.6
Total equity	499	79	498	77	(2)	(0.3)
Revenue	-	-	2	0.3	-	-
Net income	(1)	(0)	(1)	(0.2)	-	-

⁶ CIFS F1, p. F-20.

Our investigators visited the office given in Ailirui's SAIC file, and found that it is unfinished and unoccupied.⁷ It appears to be a non-functioning business to which nobody would lend tens of millions of dollars. The following are pictures of its office:



CIFS appears not to have had the cash necessary to make the loans to Ailirui at the time it purports to have. CIFS discloses Beijing SYX agreeing to lend Ailirui \$6.8 million on June 10, 2015 and another \$15.8 million on June 15, 2015.^{8,9} Beijing SYX's operating cash flow would have been insufficient to fund the loan. By December 31, 2015, CIFS still had 62.5% of its 2015 revenue outstanding, and its 2015 OCF was only \$598,000. That means that Beijing SYX would have had to rely on its capitalization to fund the loan.

However, Beijing SYX did not have sufficient capitalization as of mid-June to fund such a large loan. CIFS discloses increasing Beijing SYX's registered capital to approximately \$22,556,391 on June 30, 2015. SAIC files show the registered capital increase was effective on July 8, 2015. Therefore, even had Ailirui been a bona fide borrower, CIFS appears not to have had the liquidity to make the loans.

⁷ Room 103-222, Unit 2, Building 10, 1 Gaolizhang Road, Haidian District, Beijing.
北京海淀区高里掌路1号院10号楼2单元103-222

⁸ CIFS 424B4, p. 25.

⁹ Note that CIFS's PRC counsel refers to the loans as having been "made" on those dates
<https://www.sec.gov/Archives/edgar/data/1687542/000149315217003932/ex99-2.htm>

Ailirui's SAIC file shows that it was almost certainly effectively controlled by Chairman Lin, which reinforces our view that Ailirui is a sham counterparty. Companies are required to provide SAIC with their contact information, including telephone numbers, email addresses, and physical addresses. It is a staple of China fraud detection to look for linkages in SAIC contact information, which is included in publicly available SAIC files, to establish undisclosed related parties. Once again, Ailirui does not disappoint.

In 2015, Ailirui's registered phone number with SAIC was the same as that of a company owned by Chairman Lin and his trusted sidekick Huang Shaoyong.¹⁰ This other company, Ding Zhi Tai Da Wealth (Beijing) Financial Service Outsourcing Co. Ltd. ("DZTD"), is the one running the likely illegal P2P lending business, which we discuss in a later section. The phone number at issue is 189 1020 0801. As we show later, that same phone number in 2015 also shows up as the number for the selling shareholder of CIFS's recent "big data" acquisition (spoiler alert: that transaction also looks like total bullshit), Beijing Tianhuang Tongda Technology Co. Ltd. ("BJ Tongda"). In 2016, both Ailirui and BJ Tongda changed their shared SAIC contact phone number to the same new number: 158 1077 6839. Ailirui and BJ Tongda also have the same contact emails: 787856583@qq.com.

II. Xiamen Jingsu Trading Co. Ltd. (厦门径速贸易有限公司) appears to be a sham counterparty, and therefore a fake loan. In 2016, CIFS purports to have loaned it a total of \$2.6 million. Jingsu's SAIC file shows zero revenue from 2014 through 2016. The entity is almost certainly effectively controlled by Chairman Lin, as its SAIC file shows the same contact phone number as two disclosed related parties: Xiamen Luye Trading Co. Ltd. and Xiamen Beiruichen Trading Co. Ltd. Jingsu's office address – as provided in CIFS's prospectus and confirmed in its SAIC file – actually leads to a dead end (very typical of China fraud sham counterparties): the fifth floor of an orthopedic hospital.¹¹ (There was no sign of Jingsu Trading there.) Pictures from our investigators' attempted visit:



¹⁰ Sidekick Huang is Chairman Lin's nominee 1% shareholder in both BJ and Kashgar SYX.

¹¹ From p. 49: 5th floor, No. 22 Dongpu Road, Siming District, Xiamen.

III. Fujian Jin Xin Import Export Trading Co. Ltd. (福建金欣进出口贸易有限公司) appears to be a sham counterparty, and therefore a fake loan. CIFS discloses Jin Xin as its only entrusted loan borrower through the end of 2016. The disclosure is in Exhibit 10-7 to the prospectus, and shows a loan in late 2015 of approximately \$7.7 million.^{12,13} We view this as a sham counterparty because Chairman Lin and CIFS COO Xu Jinchi (who is a shareholder in related parties Xiamen Beiruichen Trading Co. Ltd. and Xiamen Luye Trading Co. Ltd.¹⁴) were the two shareholders of Jin Xin until one month before Chairman Lin established BJ SYX. We suspect that they transferred their shares of Jin Xin on August 1, 2014 in order to set up Jin Xin as a sham counterparty for business with BJ SYX. The shareholder change is below:

2 投资人(股权)变更 2014-08-01

变更前	变更后
林建欣 证照号码***** 证照号码: *****;	欧阳建加 证照号码: *****;

收起 ▲

3 法定代表人变更 2014-08-01

变更前	变更后
许金池	欧阳建加

收起 ▲

The SAIC contact phone number for Jin Xin changed in 2015 and again in 2016, but matches exactly the phone number changes of companies in which Lin is one of two shareholders, Sheng Qi (Fujian) Investment Co. Ltd. and Shishi City Sheng Qi Textile Trading Co. Ltd. – note that CIFS COO Xu Jinchi is one of the shareholders of Sheng Qi (Fujian):

Company	Shareholders	2015 Phone Number	2016 Phone Number
FJ Jin Xin	Lin Jianxin (pre-8/2014) Xu Jinchi (pre-8/2014) Ouyang Jianjia (8/2014-present)	0595-8366 6333	0595-8672 2808
Sheng Qi (FJ)	Lin Jianxin Xu Jinchi	0595-8366 6333	0595-8672 2808
Shishi Sheng Qi	Lin Jianxin Lin Yuyi	0595-8366 6333	0595-8672 2808

¹² <https://www.sec.gov/Archives/edgar/data/1687542/000149315216014512/filename24.htm>

¹³ We note that CIFS’s prospectus shows no entrusted loan balance as of Dec. 31, 2015, so this is either an error (not uncommon with fraudulent accounts) or the loan did not fund until the following calendar year.

¹⁴ CIFS COO Xu Jinchi transferred his shares of Luye on July 26, 2016; however, the remaining shareholder Xu Qingwei is the co-shareholder, along with COO Xu, in (disclosed related party) Beiruichen.

IV. Cai Long Ge (an individual) and the company that purportedly guaranteed his loan from BJ SYX, Jiang Xi Hua Tai Industry and Trade Co. Ltd., appear to be sham counterparties, and therefore a fake loan. CIFS states that in late 2016, it loaned Mr. Cai a total of \$2.23 million.¹⁵ Exhibit 10.23 is the purported loan agreement, which shows Mr. Cai's ID number and that Hua Tai is guaranteeing the loan.¹⁶

Our investigators searched the SAIC database for Mr. Cai, and found only three companies nationwide associated with him: Hua Tai (the guarantor), Nanchang Mingcheng Trading Co. Ltd. (it appears to have been a tiny company until its business license was revoked), and Jiang Xi Jinda Clothing and Textile Co. Ltd. (which has never undergone annual SAIC inspection, leading us to believe it is defunct). Hua Tai has SAIC financials for 2014-2016, and appears to have been wholly incapable of guaranteeing a \$2 million loan:

JX Huatai	2014		2015		2016	
	Rmb000	US\$000	Rmb000	US\$000	Rmb000	US\$000
Total assets	1,994	317	1,987	306.8	1,979	285.1
Total liabilities	-	-	-	-	-	-
Total equity	1,994	317	1,987	306.8	1,979	285.1
Revenue	-	-	-	-	-	-
Net income	(1)	(0)	(13)	(2.0)	(21)	(3.1279)
	-	-	-	-	-	-

All three of the Cai Long Ge companies are registered to the same address: Wen Zhen New Industrial Zone, Jin Xian County, Nan Chang City. Guess who is the Legal Representative for two companies operating at the exact same address with the exact same phone number?¹⁷ Chairman Lin of course! (Note that one of those companies is also part owned by CIFS COO Xu Jin Chi.)

Company	Shareholders	Legal Rep	Address	Phone Number
JX Hua Tai	Cai Long Ge Xie Song Bin	Cai Long Ge	Wen Zhen New Industrial Zone, Jinxian County, Nanchang City, Jiangxi Province	185 0700 8900
JX Taiyu Shi Ye	Xu Jin Chi Huang Ting	Lin Jian Xin	Wen Zhen New Industrial Zone, Jinxian County, Nanchang City, Jiangxi Province	185 0700 8900
Jin Xian Bai Xiang	Lin Jianxin Lin Benxing	Lin Jian Xin	Wen Zhen New Industrial Zone, Jinxian County, Nanchang City, Jiangxi Province	185 0700 8900

¹⁵ CIFS 424B4, p. 95.

¹⁶ <https://www.sec.gov/Archives/edgar/data/1687542/000149315217003932/ex10-23.htm>

¹⁷ The Legal Representative is an official title, and has the sole authority to bind a company in most matters.

Given the non-existent to small size of Mr. Cai’s businesses, he seems to have no business purpose for borrowing such money. Hua Tai appears so small as to offer zero improvement to Mr. Cai’s creditworthiness. Finally, the shared address and phone number across Hua Tai and two Chairman Lin businesses makes clear that there is no arms-length relationship here, and therefore this appears to be a sham loan.

Even CIFS’s Revenue from 2 Disclosed Related Parties Appears to be Fraudulent

CIFS claims that it generated revenue in 2015 for arranging loans for two related parties. This appears to be a lie. The related parties, Luye and Beiruichen, purportedly accounted for \$421,105 of revenue. This implies that each company received debt financing ranging from approximately \$10 million to \$60 million. The only problem is that these companies appear to be empty boxes that would never receive loans remotely approaching this range.

The below shows the purported amounts of revenue from each related party.¹⁸

Company Name	Revenue Amount Year ended December 31, 2015
Xiamen Luye Trading Co., Ltd	\$ 230,910
Xiamen Beiruichen Trading Co., Ltd	190,195
Total	<u>\$ 421,105</u>

CIFS discloses that it provided consulting services to Luye and Beiruichen “in its normal course of business on the same terms as those provided to unrelated clients.”¹⁹ CIFS discloses the transaction volumes and revenue from October 1, 2014 through December 31, 2016 for each of its three categories of advisory services.²⁰ The below table calculates the ratio of purported loan size to purported revenue CIFS records in each category.

	Revenue (000s)	Volume (000s)	Resulting Ratio
Commercial	\$14,370.2	\$1,300,000	90.5
International	\$2,108.5	\$550,000	260.8
Intermediary	\$7,124.9	\$379,000	53.2

The table below estimates the potential range of funding for each company based on the lowest and highest of the above ratios.

	Low (53.2x)	High (260.8x)
Luye	\$12,284,412	\$60,221,328
Beiruichen	\$10,118,374	\$49,602,856

¹⁸ CIFS F1, p. 119.

¹⁹ CIFS F1, p. F-21.

²⁰ CIFS F1, pp. 87-92.

A quick glance at each of Beiruichen and Luye’s SAIC financials immediately moots any discussion of leverage ratios and security packages.

In 2015, Beiruichen had about \$150,000 in assets and \$20,000 in revenue:

XM Beiruichen	2014		2015		2016	
	Rmb000	US\$000	Rmb000	US\$000	Rmb000	US\$000
Total assets	998	158	986	152.2	1,655	238.4
Total liabilities	-	-	35	5.4	725	104.4
Total equity	998	158	950	146.7	930	133.9
Revenue	-	-	125	19.9	40	6.0106
Net income	(2)	(0)	(48)	(7.6)	(21)	(3.1556)
	-	-	1	0	-	-

We are advised that Luye reported zero revenue to SAIC from 2014 through 2016.

In the case of Luye, it is interesting that it is deemed a related party. Xu Jinchi transferred his shares three months after establishing it (it was established in July 2014) to Xu Qingwei. (Xu Qingwei pops up again as the Supervisor and a shareholder of Xiamen Fengteng Trading Co. Ltd., in which CIFS COO Xu Jinchi owns shares indirectly through his ownership of Jiangxi Taiyu Shiye Co. Ltd.)

Note that the SAIC contact phone number for both Beiruichen and Luye (again, each a disclosed related party) is 152 6083 8888. As previously mentioned, they also share this number with sham counterparty Jingsu; and, they also share it with the abovementioned Fengteng, which reinforces the importance of looking at shared SAIC contact information to connect purportedly unrelated parties.

Recent “Big Data” Acquisition Looks like a Big Lie

The big data company CIFS announced on November 14, 2017 that it would acquire for \$1.8 million appears to be a sham transaction.²¹ The acquisition target is Beijing Anytrust Science & Technology Co. Ltd. (“Dontrust”). The key to understanding the apparent lie behind this acquisition is to look at Dontrust’s shareholder, Beijing Tianhuang Tongda Technology Co. Ltd. (“Tongda”). Tongda itself came to own Dontrust on November 8, 2017 – only six days before the purported sale to CIFS:

²¹ <https://www.prnewswire.com/news-releases/china-internet-nationwide-financial-services-inc-to-acquire-big-data-company-300555536.html>

3 投资人 2017-11-08

变更前	变更后
刘静,自然人股东;杨志强,自然人股东;张杰,自然人股东;周智,自然人股东。	北京天潢通达技术有限公司,企业法人。

收起 ▲

Tongda appears to be a sham counterparty. It shares SAIC phone numbers in 2015 and 2016 with Ailirui and in 2015 with DZTD (a company owned by Chairman Lin and Sidekick Huang Shaoyong, and that is carrying out a P2P lending business that is likely illegal). Tongda shares a SAIC contact email with Ailirui as well.

The foregoing confirms what our instincts already knew – there’s no reason for a company that purports to have only 51 customers (in reality, much likely far fewer) to buy a “big data” business.²²

Kashgar SYX’s \$6.6 Million Pre-tax Income for 2 Days of Operations is Almost Certainly a Lie

CIFS’s SEC filings imply that during the first two days of Kashgar SYX’s existence (December 29 – 31, 2016), it generated pre-tax income of \$6.6 million (which translated into an astounding 47.3% of CIFS’s consolidated net income). In addition to this being absurd on its face, Kashgar SYX’s SAIC financials confirm that was not the case, and that in reality, it generated zero revenue and profit during that time.

CIFS’s SEC filings imply this pre-tax income by disclosing a \$1.6 million “Effect of tax holidays”.²³

	Year ended	Year ended
	December 31, 2016	December 31, 2015
Profit before income taxes	16,341,589	7,482,773
Statutory EIT rate	25%	25%
Income tax expenses computed at statutory EIT rate	4,085,397	1,870,693
Reconciling items:		
Valuation Allowance	7,904	-
Effect of tax holidays	(1,640,885)	-
Others	406	55
Income tax expense	<u>2,452,822</u>	<u>1,870,748</u>

CIFS also discloses “Kashgar Sheng Ying Xin, which was incorporated in Kashgar City, Xinjiang Autonomous Region in People’s Republic of China, is exempted from income tax from its inception to December 31, 2020 and is subject to a tax rate of 25% after December 31,

²² CIFS F1, p. 96.

²³ CIFS F1, p. F-15.

2020.”²⁴ We assume that Kashgar SYX is the only entity capable of generating a tax benefit, due to the disclosure and its location (which is often entitled to tax preferences). Therefore, applying the 25% tax rate to the purported \$1.6 million tax holiday (\$1,640,885 / 25%) yields pre-tax / net income of \$6.6 million.

Kashgar SYX was formed on December 29, 2016 (only two days before the end of 2016), and ratified common sense when it reported to SAIC zero assets, liabilities, equity, revenue, and net income.

Chairman Lin & Sidekick Huang’s P2P Business

Until February 2016, BJ SYX’s name was Ding Zhi Tai Da Investment Management (Beijing) Co. Ltd.²⁵ However, the great name of Ding Zhi lives on. Chairman Lin and Huang Shao Yong together own Ding Zhi Tai Da Wealth (Beijing) Financial Service Outsourcing Co. Ltd. (“DZTD Wealth”). Huang (who evidently is the “Ding Zhi” half of this constellation of entities) co-owns a company called Ding Zhi Sheng Qi (Beijing) Enterprise Management Consulting Co. Ltd. (“DZSQ”). DZTD Wealth and DZSQ appear to be the heirs to the business BJ SYX (then called “Ding Zhi blah blah blah”) was running through 2015. DZTD Wealth and DZSQ together have offices in more than 20 cities. (Our investigators visited offices in four cities.)

The fact that DZTD Wealth and DZSQ inherited this fairly real P2P lending business from BJ SYX matters because it further shows how blatantly made up CIFS’s books are. The P2P business was THE business at some point in 2015, yet there is no mention in CIFS’s filings of it. The closest CIFS seems to come is referencing a “sale of [a] non-operating department” in September 2015.²⁶

²⁴ CIFS F1, p. F-14.

²⁵ CIFS 424B4, p. 111.

²⁶ CIFS F1, p. F-19.

Below is a WaybackMachine.org capture from September 27, 2015 of www.toprule.cn, which is the website for the P2P business.



The ICP registration (jing ICP bei 14055607) for this website belongs to the Ding Zhi that became BJ SYX and also hosts www.cifsp.com, CIFS's current Chinese website.

The websites under the same ICP registration are as follows:

序号	主办单位名称	主办单位性质	网站备案/许可证号	网站名称	网站首页网址	审核时间	是否限制接入	详细信息
1	圣盈信(北京)管理咨询有限公司	企业	京ICP备14055607号-1	鼎治泰达投资管理(北京)有限公司	www.toprule.cn	2016-09-02	否	详细
2	圣盈信(北京)管理咨询有限公司	企业	京ICP备14055607号-2	互联网金融平台	www.cifs.com	2016-09-02	否	详细
3	圣盈信(北京)管理咨询有限公司	企业	京ICP备14055607号-3	互联网金融平台	www.cifsp.com	2016-09-02	否	详细
4	圣盈信(北京)管理咨询有限公司	企业	京ICP备14055607号-4	互联网金融平台	www.chinaifp.net	2016-09-02	否	详细
5	圣盈信(北京)管理咨询有限公司	企业	京ICP备14055607号-5	圣盈信	www.shengyinxin.net	2016-09-02	否	详细

DZTD Wealth and DZSQ representatives told our investigators that the business was BJ SYX, but then was spun out so that BJ SYX / CIFS could IPO. These conversations led our investigators to conclude that DZTD Wealth and DZSQ are taking investors' money and sticking them in products that are loans to individuals and SMEs – in other words, P2P lending. Because neither of their business scopes allow them to do this, this appears to be illegal.²⁷ The representatives of these businesses state that Chairman Lin will personally ensure that investors

²⁷ We would expect a scope of business similar to that of Lufax (<https://www.lu.com>), which includes financial product research and development, portfolio design, private offerings of equity investment funds, and financial advice.

do not lose money and that he is very rich because he has a public company in the U.S. This brings up a risk that CIFS might effectively be on the hook for bad debts. We thought we should mention this, but it is honestly immaterial next to our conclusion that CIFS is a fraud.

For sentimental reasons, we include the below picture from toprule.cn showing a February 2015 gathering with customers. (Hope you're watching your wallet, friend.)

www.toprule.cn/news/detail?cid=5&id=29



(图为：新春老客户答谢活动进行中)

From Founding to 97% Gross Margin Instantly?

All of the foregoing analysis should in actuality be superfluous. When we first heard of CIFS, it had us at 97% gross, and 70% net, margins – upon startup no less! Such instant business dominance seldom happens in the real world. Even though it's China, and it's a fast growing economy, pigs do not fly.²⁸

Let's also consider what this extremely lucrative business model purportedly is: Starting in 2015 (not 1995) helping companies that are evidently large enough to qualify for \$10 million to \$60 million loans figure out where the bank is. Per the prospectus, the companies still have to fill out their own paperwork. These companies would need to have sizable businesses (particularly by China standards) to get loans of such sizes. They would therefore already have bank accounts and banking relationships. They would have finance departments with multiple employees who could call – and even visit in person – various banks' loan officers to compare rates and terms. Particularly given that these companies are borrowing at such high interest rates, bankers would likely be lining up out the door to sell them loans, especially when the loans are often secured by

²⁸ <https://www.cnbc.com/video/2011/04/12/dredging-muddy-waters.html>

their own deposits! And to top it all off, this business opportunity was apparently lying around undiscovered in Fujian province for all these years!

The forgetful or more recent additions to the investing crowd might say “But wait! Isn’t there this thing in China about relationships, isn’t it WHO you know and not WHAT you know?” If you are reading this report and find yourself asking this question, the word you are looking for is “guan xi”, loosely translated as “relationships”.

Here is an example of how guan xi works. Let’s say a smalltime, largely unsuccessful businessman in China meets some people who have experience listing frauds overseas. That businessman then turns to his network of friends and family. They set up new corporate entities to enter into sham business arrangements with the to-be-public company. They also could use existing companies – some of which might even do some level of real business – to enter into sham arrangements. Everybody is in on the con, everybody trusts the chairman to pay them some money if the con pays off, and nobody is at any risk of any legal jeopardy. That is guan xi at work.

What is NOT guan xi is some businessman having been so successful in textiles that he becomes a folk hero to businesspeople in his home province; sets up a business making “rips” from secured, ultra-high interest loans; and, businesses flock to him to so that he can charge them 1% for emailing them a loan application.

We greatly doubt that Chairman Lin has any prestige in the banking world that would cause banks to lend to otherwise non-creditworthy borrowers. Chairman Lin has been a defendant in two lawsuits brought by small banks: Quanzhou Bank, and by Shishi Agricultural Commercial Bank for approximately \$350,000.²⁹ Based on these suits, Lin seems more likely to be seen as a huckster than as J. Pierpont Morgan.

It also turns out that Chairman Lin isn’t that accomplished a businessman. The background CIFS presents on Chairman Lin includes:

- Founder and CEO of Shishi City Sheng Qi Textile Trading Company (2006 – present)
- Founder and CEO of Nanchang Hansheng Industry & Trade Co. Ltd. (2011 – present)
- Founder and CEO of Sheng Qi (Fujian) Investment Management Co. Ltd. (2012 – present)

The SAIC system classifies each of these companies as being in the smallest category, and shows them having registered capital of about \$75,000 each (assuming it was actually contributed).

Against this backdrop, we decided to test our theory of the absurdity of this purported business model and financials by calling BJ SYX and posing as a potential borrower. We expected a well-oiled sales machine that would’ve wasted no time in propositioning us like Roy Moore to a cheerleader. However, that is decidedly not what happened when we called the number shown in BJ SYX’s SAIC file and on BJ SYX’s website.³⁰ Similar to many of the China frauds we

²⁹ He was voluntarily dismissed as a defendant by Shishi.

³⁰ 010 5981 7999, which is one of two contact numbers presently shown on the website.

have researched, the idea of a potential client calling was either such an unanticipated – or unwanted – event that we could not make any headway. Below is a translation of the transcript.

Receptionist Sheng Ying Xin

MW I saw online that your company can help businesses get overseas financing, correct?

Receptionist I'm not clear on this because I'm the company receptionist.

MW Then can you transfer me to someone who handles overseas finance?

Receptionist I'm just the front desk, I don't have any way to transfer your call.

MW Well, can you give me the number of someone I can call?

Receptionist How about this, you give me your number and I'll ask around for someone to call you back, does that work?

MW May I have your name please?

Receptionist I'm Zhang.

MW Ms. Zhang, I'm worried that I'll miss the call because I won't recognize the caller. Can you at least give me someone's phone number? Isn't that a little easier?

Receptionist Ah, actually it's not that easy. We need the real name here, if you don't have an appointment, I have no way to help connect you.

MW That's fine, if you need a real name, I can give you my name.

Receptionist You need to give us the name of the person you have an appointment with, tell us you have a call scheduled, and then you can call.

MW So how do I schedule an appointment?

Receptionist They have their own clients there, or it's... Because this here is our headquarters. How about you give me your number?

MW Fine, I'll think about it and call back.

Heads Lin Wins, Tails You Lose: Another Unnecessary VIE

Like almost all of the China frauds that went public in the U.S., CIFS is structured as a “variable interest entity” (or “VIE”). Whatever value – if any – in this business is therefore directly owned by Chairman Lin. Shareholders own a company that has a contract with the operating business. Chinese internet companies traded in the U.S. are all structured in this way, but that is for legitimate legal reasons. Foreign ownership of companies that have ICP licenses (internet business licenses) is prohibited. There is no reason to structure CIFS as a VIE other than to make going public the ultimate asymmetrical trade for Chairman Lin: Steal money from U.S. investors, run almost zero risk of being imprisoned, and not even risk ownership of the operating business.

One might point out that BJ SYX does have an ICP license.³¹ However, there is absolutely no reason for it to – just as there is no reason to put the word “Internet” in the name of this company, which, even if taken at its word, does business the incredibly old fashioned way of personal relationships. Also, as we pointed out, Chairman Lin and Sidekick Huang use that ICP license for their Ding Zhi P2P mini empire. We therefore conclude structuring this as a VIE is just another way of giving the finger to U.S. investors.

Conclusion

CIFS is in our opinion an old style China fraud, and is worthless.

³¹ CIFS F1, p. 6.