



China Fiber Optic – Shocking Lies

August 7, 2015

The Basics		Emerson Analytics Forecast
Ticker:	HK:3777	Delisting
Recent Price:	HK\$1.57	
Market Cap:	HK\$3.4bn	

China Fiber Optic, the self-proclaimed market leader of fiber optic patch cords, is in fact in the business of fabricating lies. It has been exaggerating its revenue, and therefore profit and other financial data, by many, many times from its IPO track record period of 2008-2010 all through the years till now.

- We have obtained the annual filings of Sifang Telecom, the group's only manufacturing subsidiary that matters, with the SAIC for 2008 through 2012. Comparing Sifang Telecom's SAIC filings and the data China Fiber disclosed to its shareholders, taking into account the non-existent "export business", it is clear that during 2008-2012, China Fiber exaggerated its revenue by a whopping 4-10x!
- At the bottom line level, Sifang Telecom's 2012 SAIC net profit was merely 7.4% of that disclosed by China Fiber. Since 2012, China Fiber's main businesses and revenue mix have shown little change. So China Fiber's financial fraud has continued to this day.
- Chinese Customs data show that China Fiber/Sifang Telecom had no exports whatsoever during 2008-2014, contrary to the company's claim of more than Rmb1.4bn worth of exports during the same period. The fact that China Fiber/Sifang Telecom has no exports has also been confirmed by its employees.
- China Fiber boasts that its fiber optic patch cord prices have been far higher than market average because of its focus on "customization" of fiber optic patch cords. Our two taped conversations with China Fiber's sales executives on the pricing of fiber optic patch cords show that as "commodity"-type products, there is no "customization" to speak of.

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- We have come to process a sales contract and its related invoice issued by China Fiber during the first half of 2015. They clearly show that China Fiber was selling non-bundle patch cords at merely Rmb6.32 per set, a price similar to those quoted by China Fiber's staff in taped conversations with our investigators. This price was merely 1/8 of the 2012 full year average claimed by China Fiber.
- The recent market average price for bundle patch cords with 12 connectors is about Rmb40.8 per set, compared with Rmb38 and Rmb42 quoted by two separate China Fiber sales executives to our investigators. These prices were also way below China Fiber's claim of Rmb134 per set for 2012.
- Sifang Telecom SAIC filings reveal that China Fiber actually had very few telecom carrier clients. Over the years, the trend has been one of shrinkage – shrinking from two carriers (China Mobile and China Telecom) to just one (China Telecom), and from several provinces (Hunan, Guizhou, Guangdong, and Hebei) to merely its home province (Hebei). Such a small client base cannot possibly sustain China Fiber's relentless revenue growth that amounted to Rmb8.55bn over seven years.
- Using assumptions that are most favorable to China Fiber, we estimate, with two different methods, that the company's actual revenue in 2012 was about Rmb287m or Rmb267m, respectively. The two numbers are less than a fifth of the Rmb1.49bn reported by China Fiber, but we suspect even our estimates are still too high.
- This is a case of outrageous fraud. Delisting is the only appropriate outcome for a crime perpetuated over at least five years.

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Disclaimer

We are a group of seasoned equities analysts with many years of experience in the research of economic and political trends as well as individual stocks around the world. With background in various international investment banks, we have followed the development of the Chinese equities market right from day one.

We are determined to expose as much of the fraud in the Chinese stock market as we can. The most widespread and serious fraud is probably that undertaken by listed companies, in fabricating non-existent businesses and stealing shareholders money, among other tricks.

In exposing these crimes we challenge the listed companies to prove the integrity of their announcements and financial statements. The listed companies, of course, want everybody to believe that their announcements and financial statements are true. Their auditors, employees, independent directors, lawyers, shareholders and even the general public all hope that these announcements and financial statements are true.

We have made our best effort to ascertain that everything we say in this report is accurate. We have obtained our information from public sources that we believe to be accurate and reliable, or from sources whom we believe are not insiders or connected parties to the companies mentioned herein. However, we are certainly NOT in the business of making investment recommendations. This is not an investment report and should not be regarded as such. Read and use our reports at your own risk. Most important of all, DO YOUR OWN RESEARCH BEFORE YOU COMMIT OTHER PEOPLE'S MONEY.

We and/or our associates/partners may have long or short positions in the equities and/or their derivatives at the time of publication of our reports, and we and/or our associates/partners may maintain or change our positions at any time.

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China Fiber Optic, which claims to be the country's largest producer of fiber optic patch cords, was listed on the Hong Kong market in mid-2011 with BOC International, the investment banking arm of Bank of China, as the sponsor and lead manager and Ernst and Young as the auditor. Since its Rmb316m IPO, the company has reported steady revenue and profit growth with minor margin erosion.

However, we have irrefutable evidence that China Fiber fabricated revenue and profit during the preparation of its IPO prospectus and has perpetuated this crime until this day. We also believe that the professional advisers were totally unprofessional and did not do a proper due diligence at the time of the company's IPO.

Compared with the fraudulent companies China Lumena (0067.HK), Shenguan Holdings (0829.HK) and Sound Global (0967.HK) that we have exposed earlier, China Fiber has a smaller market capitalization but a shockingly higher degree of forgery.

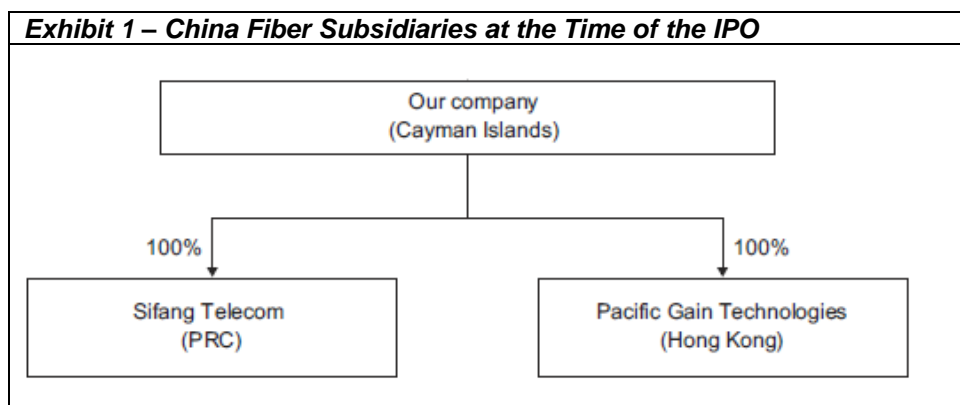
When we first saw the annual filings by China Fiber's principal Mainland subsidiary with the State Administration of Industry and Commerce (SAIC) in Hebei, we were shocked to see that its revenue was way below that reported by China Fiber to its shareholders and regulators. When we could not find China Fiber's subsidiary in Chinese Customs' database, we couldn't believe our own eyes. And when we obtained a sales contract and invoice issued by China Fiber showing that it was selling its products at merely 1/8 of its claimed average selling price (ASP), we thought we were looking at something else.

The fact is irrefutable. China Fiber is a fraudulent company that has been using simple and primitive methods to exaggerate its accounts as it prepared its IPO in 2011. The crime has been perpetuated all through the years to this date.

Part 1. Annual SAIC Filings Deviate Significantly from Reports to Shareholders

1.1. Sifang Telecom is the Only Subsidiary That Matters

At the time of the IPO, China Fiber had only two operating subsidiaries, as shown below in Exhibit 1. Sifang Telecom was the only operating subsidiary of China Fiber in the Mainland China.



Source: China Fiber IPO Prospectus, p.91

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Sifang Telecom remained China Fiber's only operating subsidiary in the Mainland China until 2013, as shown in Exhibit 2. In 2014, China Fiber set up eight other subsidiaries in the Mainland, the biggest in terms of registered capital being Hebei Smart Communication Technology Co., Ltd.¹ ("Hebei Smart"), which engaged in the manufacture and sale of ceramic ferrule.

Exhibit 2 – China Fiber Subsidiaries at the End of 2013

Particulars of the subsidiaries are as follows:

Name	Place and date of establishment or incorporation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
<i>Directly held:</i>				
Sifang Telecom	Mainland China April 9, 1998	RMB528 million	100	Manufacture and sale of fiber optic patch cords and other accessories
Pacific Gain Technologies	Hong Kong June 20, 2008	HK\$1	100	Dormant
Waywise Corporation Limited	Hong Kong May 27, 2011	HK\$1	100	Export of fiber optic patch cords
China Fiber Optic (Hong Kong) Limited	Hong Kong August 5, 2011	HK\$1	100	Dormant
China Fiber Optic Holdings Limited	Hong Kong January 4, 2012	HK\$1	100	Dormant
China Fiber Optic (2013) Limited	Hong Kong September 19, 2013	HK\$1	100	Investment holding
First Bright Technology Limited	Hong Kong October 4, 2013	HK\$1	100	Investment holding

Source: *China Fiber 2013 annual report, p.87-88*

Of course we know that Sifang Telecom's financial numbers are not consolidated numbers, but there is little doubt that Sifang Telecom's revenue and expenses are very close to those of China Fiber, for the following reasons:

- The Hong Kong companies responsible for exports adopted the business model of buying from Sifang Telecom and then selling to overseas clients. While China Fiber's export revenue should be higher than the revenue that Sifang Telecom achieved from selling to the Hong Kong exporters, but

¹ <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0429/LTN20150429283.pdf>, p.92-94

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the difference should not be that substantial given the generally narrow export margins. (In any case, as we'll show later, China Fiber does not have an export business at all!)

- Prior to the end of 2013, no other Mainland entity contributed to China Fiber's revenue. For 2014, the newly created subsidiaries probably made limited contribution to China Fiber's business. As an example, Hebei Smart, the new biggest subsidiary in terms of registered capital, only "began mass production in the fourth quarter of 2014", according to p.10 of China Fiber's 2014 annual report. Further, the real contribution of Hebei Smart's ceramic ferrule business was to lower China Fiber's cost of production, rather than to expand sales.

1.2. SAIC Filing Shows China Fiber Numbers Hugely Inflated

Due to changes in China's policy with regard to SAIC annual filings, we have not been able to access Sifang Telecom's SAIC filings from 2013 onward. However, Sifang Telecom's SAIC filings up to 2012 demonstrate very clearly that China Fiber hugely exaggerated its financial performance.

Exhibit 3 below is the cover of Sifang Telecom's 2012 annual SAIC filing.

Exhibit 3 – Cover of Sifang Telecom 2012 SAIC Filing

打印整套报表 页码: 1/1

21 000001

Annual Report of Joint Examination of Enterprises with Foreign Investment

外商投资企业联合年检报告书

(2012年度)
Year of 2012



谨此确认: 本公司对年检报告书、资产负债表、损益表及提交的其他年检材料的真实性负责。


企业名称: **河北四方通信设备有限公司 Sifang Telecom**

注册号: 130000100000708

登记机关: **河北省工商行政管理局 Hebei Administration for Industry & Commerce**

填报日期: 2013-4-19

法定代表人签字:   **Sifang Telecom**

企业公章:  **Sifang Telecom**

中华人民共和国国家工商行政管理总局制

Source: Sifang Telecom 2012 SAIC Filing

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According to China Fiber's IPO prospectus, the statutory financial statements for Sifang Telecom were audited by Shijiazhuang Cai Xin Certified Public Accountants Co., Ltd. (石家莊財信會計師事務所有限責任公司).

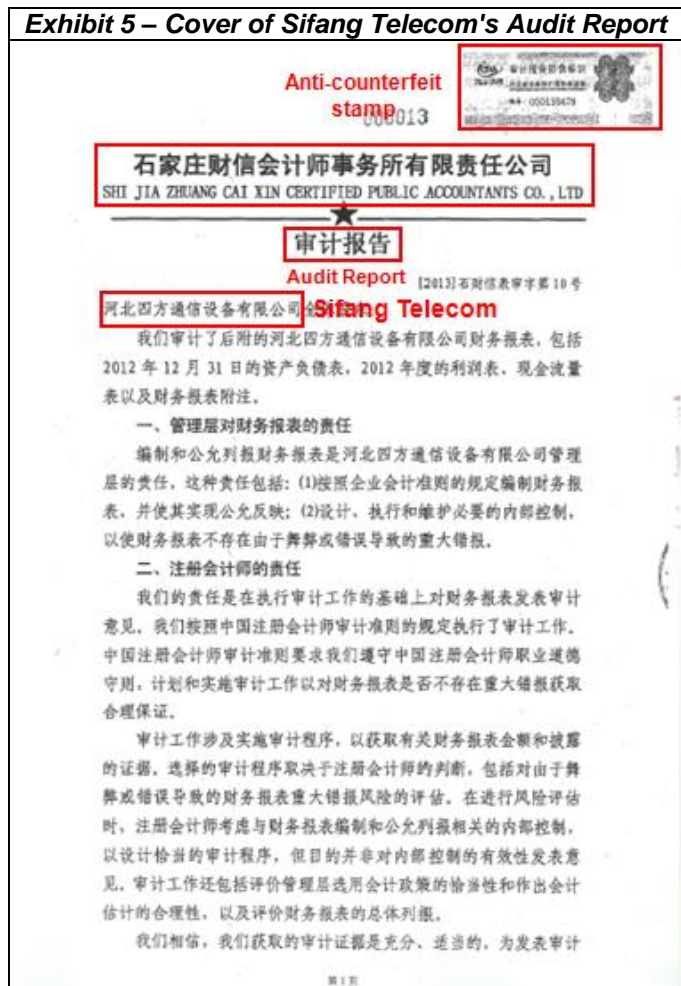
Exhibit 4 – Sifang Telecom was Audited by Shijiazhuang Cai Xin During the Track Record Period

The statutory financial statements for the years ended December 31, 2008, 2009 and 2010 were audited by Shijiazhuang Cai Xin Certified Public Accountants Co., Ltd. (石家莊財信會計師事務所有限責任公司), certified public accountants registered in the PRC.

Source: China Fiber IPO prospectus, I-2

All of Sifang Telecom's annual SAIC filings for the years 2008-2012 included an audit report by Shijiazhuang Cai Xin.

Exhibit 5 – Cover of Sifang Telecom's Audit Report



Source: Sifang Telecom 2012 SAIC Filing

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Below, we use Sifang Telecom's 2012 SAIC filing to illustrate how China Fiber fabricates its financial numbers. Exhibit 6 is Sifang Telecom's 2012 P&L.

Exhibit 6 – P&L in Sifang Telecom 2012 SAIC Filing

000017

Sifang Telecom **损益表** **Statement of P&L**

单位: **河北四方通信设备有限公司** **2012年12月** **Dec. 2012**

项 目	行次	本月数	本年累计数	Year to Date
一、主营业务收入 Sales	1	47,429,702.68	375,150,849.97	
减: 主营业务成本	3	35,610,862.04	284,345,144.10	
主营业务税金及附加	5	108,385.59	838,203.61	
二、主营业务利润 Gross profit	7	11,710,455.05	89,967,502.26	
加: 其他业务利润 (亏损以“-”号填列)	9	180,000.00	841,162.55	
减: 营业费用	11	327,737.45	2,508,213.56	
管理费用	13	3,733,377.88	36,989,662.03	
财务费用	15	1,914,918.04	27,652,946.16	
三、营业利润 (亏损以“-”号填列)	17	5,914,421.68	23,657,843.06	
加: 投资收益 (损失以“-”号填列)	19	-	-	
补贴收入	21	-	-	
营业外收入	23	-	-	
减: 营业外支出	25	-	10,040.00	
四、利润总额 (亏损总额以“-”号填列)	27	5,914,421.68	23,647,803.06	
减: 所得税	29	2,414,140.35	3,547,170.46	
五、净利润 Net Profit (净亏损以“-”号填列)	30	3,500,281.33	20,100,632.60	
补充资料:				
项目		本年累计数	上年实际数	
1.出售、处理部门或被投资单位所得	40			
2.自然灾害发生的损失	42			
3.会计政策变更增加(或减少)净额	44			
4.会计估计变更增加(或减少)净额	46			
5.债务重组损失	48			
6.其他	50			

Source: Sifang Telecom 2012 SAIC Filing

As shown above, Sifang Telecom reported Rmb375m of revenue for the year 2012, but China Fiber reported Rmb1,494m of revenue for the same year to its shareholders. So, where did the extra Rmb1,119m come from?

We summarize the 2012 P&L of China Fiber and Sifang Telecom in Exhibit 7 below. We can see that Sifang Telecom's revenue was 74.9% less than that reported by China Fiber, while its net profit was 92.6% below that of China Fiber.

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Exhibit 7 – China Fiber Vs. Sifang Telecom, 2012 P&L Key Indicators

Year end Dec 31 (Rmb m)	China Fiber claims	Sifang Telecom's SAIC filing	Difference (%)
Revenue	1,494	375	-74.9%
Gross profit	426	90	-78.9%
Gross margin	28.5%	24.0%	-4.6%
Net profit	272	20	-92.6%
Net margin	18.2%	5.4%	-12.9%

Sources: China Fiber 2012 annual report, Sifang Telecom 2012 SAIC Filing

In [Appendix I](#), we present Sifang Telecom's 2012 SAIC filing in its entirety. For privacy reason, we have omitted certain information such as the identity of those filing the report.

We have passed on Sifang Telecom's complete SAIC filings for the years 2008-2012 to the SFC of Hong Kong.

1.3. Revenue Inflated 3.5-4.8x from 2009 to 2012

The situation in earlier years was similar to that of 2012. In [Appendix II](#) we present the financial statements from Sifang Telecom's 2008-2012 SAIC filings.

Exhibit 8 below compares the revenue reported by China Fiber to its shareholders against that filed by Sifang Telecom with SAIC during 2008-2012. We can see that China Fiber consistently exaggerated its revenue, by nearly 5x in 2009 and about 4x in 2012. However, later in this report, we will prove that even Sifang Telecom's SAIC filings are exaggerated. This means that China Fiber's revenue inflation was in reality as high as 9.5x in 2009 and about 5.6x in 2012.

Exhibit 8 – Revenue: Sifang Telecom Vs. China Fiber

Year end Dec 31 (Rmb m)	2008	2009	2010	2011	2012
China Fiber revenue	334	646	838	1,257	1,494
Sifang Telecom revenue	302	133	238	320	375
Multiple	1.1x	4.8x	3.5x	3.9x	4.0x

Sources: China Fiber IPO prospectus and annual reports, Sifang Telecom SAIC Filings

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Part 2. What Exports?

According to China Fiber, exports have always been a significant part of its business. Not only does it claim that it derives revenue from exports during the years, exports are said to be priced at much higher levels, therefore giving the group better margins.

Products grouped under HS code 85367000 include optical fiber, optical fiber bundles and fiber optic patch cords. According to China Customs data, China exported a total of Rmb1.87bn of such products in 2014. Based on China Fiber's disclosures, the company exported a total of Rmb1.42bn during 2008-2014, accounting for 14.7% of all such HS code 85367000 exports during the period. This is summarized below in Exhibit 9.

Year end Dec 31 (Rmb m)	2008	2009	2010	2011	2012	2013	2014	Total
Revenue	334	646	838	1,257	1,494	1,776	2,209	8,559
- Domestic	108	540	642	1,036	1,294	1,550	1,963	7,133
- Exports	227	105	196	221	201	226	246	1,421
- Exports Ratio	67.7%	16.3%	23.4%	17.6%	13.4%	12.7%	11.1%	16.6%
Total PRC Exports	839	855	1,226	1,386	1,578	1,930	1,868	9,683
- China Fiber's market share	27.0%	12.3%	16.0%	16.0%	12.7%	11.7%	13.2%	14.7%

Sources: China Fiber IPO prospectus and annual reports, China Customs

However, all our information suggests that China Fiber's export business is virtually non-existent!

2.1. China Fiber's Export Business Model

According to China Fiber's IPO prospectus, the company obtained its overseas contracts on its own and that its international customers were distributors that sold China Fiber's products to telecommunications network contractors in their respective markets. This implies that China Fiber conducted its own export business without relying on the major Chinese telecoms network contractors such as Huawei, nor would it rely on other Chinese distributors.

<p><u>We won our first major overseas contract in 2006. Our major international customers are distributors that sell our products to telecommunications network contractors. We have sold our products to five distributors located in Ireland, New Zealand and Canada that mainly engaged in distribution of telecommunications products. Such distributors then distributed our products to overseas end-customers. We make sales outside China through these distributors, in order to reduce the risk of receiving delayed payments from overseas end-customers. These five</u></p>

Source: China Fiber IPO prospectus, p.110

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China Fiber has subsidiaries registered in Hong Kong for handling its export business. Initially, exports were handled by Pacific Gain Technologies Limited ("Pacific Gain"). In 2011 China Fiber set up Waywise Corporation Limited ("Waywise") that also handled exports for China Fiber. In 2012, Pacific Gain became dormant, leaving Waywise as the only Hong Kong subsidiary in operation.

In Sifang Telecom's 2012 SAIC filing (Exhibit 11 below), we can see that the company reported total exports of US\$17m.

Exhibit 11 – Sifang Telecom 2012 Exports at US\$17m

五、本年度生产经营情况表 000005			
销售(营业)收入	375150849.97元	其中: 服务营业收入	0.00元
国内销售额	12327056.74元	其中: 服务营业额	0.00元
纳税总额	267346164.49元	其中: 关税	0.00元
利润总额	23647803.06元	净利润	20100632.60元
资产总额	1352416871.70元	其中: 长期投资	0.00元
负债总额	763575067.59元	其中: 长期负债	277857128.00元
进 出 口 情 况	国别(地区)	出口额(万美元)	Exports(US\$0,000)
	Hongkong 香港	1720.00	0.00
	合计	1720.00	0.00
验资(审计)机构名称		Shijiazhuang Cai Xin CPA Co., Ltd. 石家庄财信会计师事务所有限责任公司	
企业经营状态	筹建	投产开业	√
投产开业日期	2006-10-20		
亏损及非正常生产原因	无		

Source: Sifang Telecom 2012 SAIC Filing

In the SAIC filings, Sifang Telecom discloses the trade receivables due from its sister companies (see Exhibit 12 below). There is no doubt Sifang Telecom's exports are handled by its Hong Kong siblings.

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Exhibit 12 – Sifang Telecom's Trade Receivables Due from its Hong Kong Siblings

Year end Dec 31 (Rmb m)	2008	2009	2010	2011
Pacific Gain	1	10	16	N.A.
Waywise	N.A.	N.A.	N.A.	95

Sources: Sifang Telecom SAIC Filings

Clearly, as far as Mainland business is concerned, Sifang Telecom handles its own exports by selling to China Fiber's Hong Kong subsidiaries. Sifang Telecom will therefore show up in China Customs' list of exporters for HS code 85367000.

2.2. Sifang Telecom No Show in China Customs Data

The curious thing is, Sifang Telecom has no presence in China Customs data!

How do we know?

We have access to China Customs' record of exports of fiber optic products for 2008 through 2014. These records detail the date of trade, type of trade (export or import), HS code, product name, value, quantity, unit price, unit of quantity, country of origin/destination, port of custom clearance, mode of trade (such as general trade, processing trade, bonded trade, bonded re-exports, etc), mode of transport, transit country, enterprise code, enterprise name, type of enterprise, delivery location and contact details.

We have ploughed through the database but could not find any export information relating to Sifang Telecom, despite China Fiber's claim of Rmb1,421m in exports from 2008 to 2014.

The following table in Exhibit 13 lists the top 10 exporters for HS code 85367000 in 2014. Based on China Fiber's claim of Rmb245.6m of fiber optic patch cords exports in 2014, Sifang Telecom should rank as the country's leading exporter.

However, China Customs data show that Sifang Telecom had no exports in 2014.

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Exhibit 13 – Leading Chinese Exporters of Fiber Optic Products in 2014

Company Name	Export value (Rmb m)	Market share (%)
泰連電子(無錫)有限公司	240.4	13.0%
富晉精密工業(晉城)有限公司	125.2	6.8%
波若威光纖通訊(中山)有限公司	63.0	3.4%
愛普迪光通訊科技(深圳)有限公司	58.8	3.2%
億光電子(中山)有限公司	52.7	2.9%
住友電工光器件(無錫)有限公司	51.7	2.8%
泰科電子(上海)有限公司	43.1	2.3%
新確精密科技(深圳)有限公司	41.5	2.2%
武漢烽火國際技術有限責任公司	38.4	2.1%
英通達安費諾光纖技術(深圳)有限公司	36.7	2.0%

Source: China Customs

In [Appendix III](#), we present 2014 China Customs data with full details of China's exports of optical fiber, optical fiber bundles and fiber optic patch cords under HS code 85367000.

A complete set of this database from 2008 to 2014, containing detailed information on 52,704 transactions, is being furnished to the SFC of Hong Kong.

2.3. Sifang Telecom Staff Confirm No Exports

We have talked to Sifang Telecom's two former employees (Ex-staff A and Ex-staff B) and two current staff (Staff C and Staff D) about the company. Ex-staff A and Ex-staff B confirmed to us that Sifang Telecom had never had any export business. The following is the transcripts of the conversations.

Audio Evidence 1 – Sifang Telecom Ex-staff A Says No Exports

Emerson investigator: So does Sifang Telecom have exports?
 Ex-staff A: What rubbish? The foreigners are more advanced than us, and they demand things with higher degrees of precision.
 Emerson investigator: So you are only selling domestically at Rmb5-6 a piece?
 Ex-staff A: Yes, that's right.

Source: Emerson Analytics

Audio Evidence 2 – Sifang Telecom Ex-staff B Says No Exports

Emerson investigator: Do you at Sifang Telecoms have exports?
 Ex-staff B: Basically it's all domestic.
 Emerson investigator: Basically all domestic?
 Ex-staff B: Yes.

Source: Emerson Analytics

China Fiber Optic – Shocking Lies

Our conversations with the Sifang Telecom staff were taped secretly. To protect the safety of the interviewees, we will not make public any audio recording in which they reveal evidence of China Fiber's lies or exaggerations. We are, however, sharing such audio recordings as well as the interviewees' names, positions, contact telephone numbers and dates of meeting with the SFC of Hong Kong. A total of eight audio clips have been provided to SFC in relation to this report.

China Fiber Optic – Shocking Lies

Part 3. Impossibly High Unit Prices

The integrity of China Fiber's disclosures and financial statements has been challenged by the media before. The focus was mainly on the impossibly high unit prices. Here, we will demonstrate conclusively the absurdity of China Fiber's high unit prices.

3.1. China Fiber's Unit Price Disclosures

In Exhibit 14 below, we list the so-called domestic and "overseas" ASPs of patch cords that China Fiber claimed to have achieved.

Year end Dec 31	2008	2009	2010	2011	2012	2013	2014
Revenue (Rmb m)	283	615	785	1,234	1,477	1,275	1,621
- Domestic	56	510	589	1,012	1,276	1,049	1,375
- Overseas	227	105	196	221	201	226	246
Sales volume (m sets)	1.73	9.61	10.76	17.93	19.20	22.62	N.A.
- Domestic	1.18	9.33	10.23	17.26	18.46	21.42	N.A.
- Overseas	0.55	0.28	0.53	0.67	0.74	1.20	N.A.
ASP (Rmb/set)	163.2	64.0	73.0	68.8	76.9	56.3	N.A.
- Domestic	47.6	54.6	57.6	58.6	69.1	49.0	N.A.
- Overseas	410.6	375.6	369.7	332.9	271.1	188.1	N.A.

Sources: China Fiber IPO prospectus and annual reports

As shown in Part 2 above, China Fiber doesn't really have any exports to speak of. Thus, we will only discuss China Fiber's domestic ASPs here. China Fiber claims ASPs of Rmb50-70 per set in domestic sales.

China Fiber's domestic sales revenue, volume and ASPs can be further analyzed according to bundle patch cords and non-bundle patch cords (see Exhibit 15 below). These two categories were first presented by China Fiber in its clarification announcement dated March 22, 2013, after the company was challenged by a Hong Kong magazine for exaggerating its ASPs. According to the clarification announcement, non-bundle patch cords are those usually with one to two connectors on each end of the patch cords while bundle patch cords are those with 6, 8 or 12 connectors on each end of the patch cords².

² <http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0324/LTN20130324053.pdf>, p.4

China Fiber Optic – Shocking Lies

Exhibit 15 – ASPs of Patch Cords: Bundle Vs. Non-bundle

Year end Dec 31	2012	2013	2014
Domestic patch cords revenue (Rmb m)	1,276	1,049	N.A.
- Bundle patch cords	569	258*	N.A.
- Non-bundle patch cords	707	791	N.A.
Domestic patch cords volume (m sets)	18.5	21.4	N.A.
- Bundle patch cords	4.2	1.9	N.A.
- Non-bundle patch cords	14.2	19.5	N.A.
ASP (Rmb/set)	69.1	49.0	N.A.
- Bundle patch cords	134.4	134.0	N.A.
- Non-bundle patch cords	49.7	40.6	N.A.

Sources: China Fiber annual reports

* Calculations based on the disclosure in p.11 of China Fiber's 2013 annual report that bundle patch cords accounted for 24.6% of total domestic sales of patch cords

Note that after the 2014 interim report, China Fiber ceased to disclose any volume or ASP data. In our experience, cutting back on disclosure is always a bad sign.

3.2. What are Patch Cords?

Before we analyze China Fiber's fiber optic patch cord ASPs, we need to explain clearly the relevant industry jargons.

FC/SC: ferrule connector and subscriber connector, are the two main types of fiber optic patch cords. FC patch cords are the most popular type of fiber optic patch cords in the Chinese market³. All else being equal, an FC patch cord is more expensive than an SC patch cord.

Jumper ("跳線"): a soft optical cable with one connector at each end of the cable. Unless otherwise stated, a fiber optic patch cord refers to a jumper. Non-bundle patch cords with two connectors on each end of the patch cords are very rare. In the clarification announcement, the "non-bundle patch cords with one to two connectors on each end of the patch cords" essentially is a reference to jumpers.

Pig-tail ("尾纖"): a soft optical cable with one connector at only one end of the cable.

Twelve core fiber pig-tail ("12 芯束狀尾纖"): a bundle patch cord comprising 12 pig-tails.

³ <http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0616/LTN20110616005.pdf>, p.61

China Fiber Optic – Shocking Lies

In our conversations with Sifang Telecom's staff, we were advised that the "bundle patch cords with 12 connectors on each end" referred to in the clarification announcement were in fact 12-core fiber pig-tails.

Our observation of the marketplace also shows that other than the jumpers, 12-core fiber pig tails are the most common patch cord products. Go to www.1688.com to search for "12芯束状尾纤 FC" and one can see many vendors selling them.

Exhibit 16 – Twelve Core Fiber Pig-tail on the Market

Price (¥)	Description	Vendor	Location
40.00	天天低价供应6芯8芯12芯SC/fc/lc单模束状尾纤, 电信品质	慈溪腾信电子科技有限公司	浙江慈溪市
32.00	供应12芯FC单模 束状尾纤 电信级单模尾纤质量保证	深圳市鸣人伟业电子科...	深圳市龙岗区
33.00	FC12芯束状尾纤, FC束状尾纤, 12芯UPC束状尾纤, PC束状尾纤	慈溪市博达通信设备厂...	宁波产业带
45.00	12芯尾纤, 束状尾纤, 12芯FC束状尾纤	慈溪市华舟通信设备厂	浙江慈溪市
42.00	批发12芯单模束状尾纤(FC、SC、ST接头; PC、APC端面光纤连	北京紫金光讯科技有限...	北京市海淀区
35.00	供应 FC 12芯束状尾纤 LC/SC/ST/FC 光纤单模	慈溪市逸林翔宇通信设...	浙江慈溪市
45.00	FC/UPC 12芯 多模束状尾纤1.5米 厂家直销 符合弱点系统集	浙江龙游光谷通信技术...	浙江龙游县
55.00	12芯束状尾纤 12芯束状光纤尾纤 12芯束状连接器 FC/APC	深圳市嘉亿通科技有限...	深圳
36.00	厂家12芯束状尾纤(新),FC12芯束状尾纤	慈溪市锐速通信设备厂	浙江慈溪市
45.00	厂家低价直销FC 12芯束状尾纤MM多模	深圳市锐光通信有限...	深圳

Source: http://s.1688.com/selloffer/offer_search.htm?keywords=12%D0%BE%CA%F8%D7%B4%CE%B2%CF%CBfc&button_click=top&earseDirect=false&n=y, retrieved on June 10, 2015

In our discussions below, we use "fiber optic patch cords" as a general reference to all the different types of such products supplied by China Fiber. For specific products, we'll identify them more precisely as jumpers, pig-tails or 12-core fiber pig-tails.

3.3. The Convenient Excuse of "Customization"

According to its 2013 clarification, China Fiber was able to achieve high ASPs by focusing on "customization" of fiber optic patch cords.

China Fiber Optic – Shocking Lies

Some readers may recall our analysis just over a year ago of the so-called "specialty" thenardite produced by China Lumena (0067.HK), now undergoing bankruptcy proceedings. In that case, thenardite is a commodity that is basically 99% pure, and China Lumena simply does not produce any high-priced "specialty" thenardite⁴.

The so-called "customization" claimed by China Fiber works in the same way as China Lumena's "specialty" thenardite. Fiber optic patch cords are standard parts used by the optical fiber industry and have no need for "customization". It's just an attempt to cover up China Fiber's fabrication of revenue and profit.

We have talked to Sifang Telecom's staff on how jumpers are priced. The English transcripts of Audio Evidence 3 and 4 are presented below.

Audio Evidence 3 – Sifang Telecom Ex-staff A Says How Jumpers Are Priced

Emerson investigator:	The jumpers produced by Sifang Telecom, how much are they priced at?
Ex-staff A:	A jumper is priced at about Rmb5-6.
Emerson investigator:	Rmb5-6 a set?
Ex-staff A:	Yes. It sells to China Mobile, Unicom, China Telecom, the cable TV carriers, supplying these companies.
Emerson investigator:	Between the connectors is a piece of fiber optic cable. For Rmb5-6 a set, how long is the fiber optic cable in the middle?
Ex-staff A:	Ok, let me tell you, one meter of fiber optic cable is about Rmb0.1, Rmb0.2 or Rmb0.3.
Emerson investigator:	So cheap?
Ex-staff A:	You see, a jumper has two connectors, right? Each connector is about Rmb2-3.
Emerson investigator:	Oh.
Ex-staff A:	How is a jumper priced? It's based on the length of the fiber cable, plus the two connectors. There you have it.
Emerson investigator:	So, how much are you at Sifang Telecom selling your jumpers?
Ex-staff A:	A three meter cable is about Rmb0.5. That makes more than Rmb4.0 a jumper.

Source: Emerson Analytics

Audio Evidence 4 – Sifang Telecom Ex-staff B Says How Jumpers Are Priced

Emerson investigator:	So how much are you selling your jumpers?
Ex-staff B:	A set of FC jumper is just several Rmb.
Emerson investigator:	Several Rmb?
Ex-staff B:	For a set of jumper, one connector costs more than Rmb1.0. With two connectors, that makes it more than Rmb2.0. Adding a fiber cable to it, basically we can sell at about Rmb4-5 each.
Emerson investigator:	Is there a standard length for the cable? How many meters?
Ex-staff B:	Yes, there are standards. Some are one meter long, some 1.5 meters, some two meters, and some are even three meters long.
Emerson investigator:	And on average?
Ex-staff B:	Fiber cables are sold by the meters, say about Rmb0.1 for a meter of fiber cable.

Source: Emerson Analytics

⁴ http://emersonanalytics.cloud/downloads/Lumena-HK_0067-Delisting.pdf, p.12

China Fiber Optic – Shocking Lies

China Fiber claims in the clarification announcement that the pricing of patch cords "is generally determined and vastly varied by the type of fiber, the type and length of soft optical cables, the type and specifications of connectors, the number of connectors, the volume and product quality being required and other additional specific requirements".

Let us now compare this with what Sifang Telecom staff has told us:

- **type of fiber** – never mentioned by any Sifang Telecom staff, thus unclear what China Fiber really meant
- **type and length of soft optical cables** – according to Sifang Telecom staff, fiber cables are very cheap and that the bulk of raw material cost is the cost of the connector
- **type and specifications of connectors** – generally speaking, Sifang Telecom staff were referring to FC jumpers. FC fiber optic patch cords are China Fiber's principal fiber optic patch cord product⁵. As we have explained earlier, FC patch cords are more expensive than SC patch cords, all else being equal
- **number of connectors** – jumpers have only two connectors, one at each end of the fiber cable
- **volume and product quality** – Audio Evidence 5 and 7 below show that large orders will enjoy discounts, but Sifang Telecom staff have made no mention of product quality
- **other additional specific requirements** – not mentioned by Sifang Telecom staff

We can see from the conversation above that the ASP of jumpers is merely about Rmb5.0 in recent weeks, while China Fiber claimed that it achieved ASP of Rmb49.7 per set in 2012 (see Exhibit 15 above). Can this 10x price gap really be explained by China Fiber's purported "customization" in "product quality" and "other additional specific requirements" that Sifang Telecom staff have never mentioned? They didn't mention them because there was simply no quality difference or "additional specific requirements".

3.4. Sales Contract Proves Jumper Prices Far Less Than Those Claimed by China Fiber

Our conversation with a current Sifang Telecom employee also showed that prices of jumpers were far below those claimed by China Fiber. A transcript of the conversation is presented below.

Audio Evidence 5 – Sifang Telecom Staff C Says Jumper ASP about Rmb6.0 in 2012

Emerson investigator:	For jumpers including VAT and excluding VAT, how much difference are their prices?
Staff C:	Jumpers can be as high as Rmb7.5. Without VAT, that will be Rmb0.5 less.
Emerson investigator:	One set?
Staff C:	Yes, one set.
Emerson investigator:	So one set is Rmb7.5.
Staff C:	Yes, including VAT.
Emerson investigator:	Rmb7.5 including VAT, Rmb7.0 without VAT?

⁵ <http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0616/LTN20110616005.pdf>, p.2

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Staff C: Right.
 Emerson investigator: Later on, if sales volume increases, how much can the price fall? Say, if the order is more than 10 thousand sets?
 Staff C: There's room for Rmb0.2-0.3.
 Emerson investigator: Several years ago, prices were cheaper than they are now, right?
 Staff C: Yes, cheaper. About Rmb1.0 cheaper.
 Emerson investigator: In 2012?
 Staff C: Yes, 2012, around that time. In 2012 prices were definitely cheaper than they are now.
 Emerson Investigator: Cheaper by Rmb1.0?
 Staff C: Yes, cheaper by Rmb1.0.

Source: Emerson Analytics

We have access to a sales contract (Exhibit 17 and 18) signed with Sifang Telecom during the first half of 2015, together with the corresponding invoice (Exhibit 19). They both show that the selling prices were way below the numbers claimed by China Fiber. To protect the safety of the source of information, we have blurred the parts in the documents that may reveal the identity of the buyer. The copies that we supply to the SFC of Hong Kong are untouched.

Exhibit 17 – Cover of Sales Contract with Sifang Telecom

Standard contract for product purchase
标准材料采购合同
 合同编号: [REDACTED]

购货方: (以下简称甲方) [REDACTED]
 供货单位: (以下简称乙方) **河北四方通信设备有限公司 Sifang Telecom**
 签订日期: [REDACTED] 签订地点: [REDACTED]

为了增强甲乙双方责任感, 加强经济核算, 提高经济效益, 确保双方实现各自的经济目的, 经甲乙双方充分协商, 特订立本合同, 以便共同遵守。

第一条 标的名称、品牌、规格、数量、单价及交付时间 unit price

货物名称	规格型号	数量	单价	总价
Jumper Pig-tail	光纤跳线	FC/UP-FC/UP-SM-2.0-3M	7.4	
	尾纤	FC/UP-SM-2.0-1.5M	4.4	

第二条 产品的质量标准, 按下列第(1)项执行:
 (1) 按国家标准执行;
 (2) 无国家标准而有部颁标准的, 按部颁标准执行;
 (3) 无国家和部颁标准的, 按企业标准执行;
 (4) 没有上述标准的, 或虽有上述标准, 但需方有特殊要求的, 按甲乙双方在合同中商定的技术条件、样品或补充的技术要求执行。

第三条 产品的包装标准和包装物的供应与回收, 按乙方包装标准, 需保证产品到达甲方后完好。

第四条 产品的交货单位、交货方法、运输方式、到货地点
 1. 产品的交货单位: 河北四方通信设备有限公司。
 2. 交货方法, 按下列第(1)项执行:
 (1) 乙方送货
 (2) 乙方代运
 (3) 甲方自提自运。
 3. 运输方式: 乙方送货。
 4. 到货地点和接货单位(或接货人): 送货地点由甲方指定。

第五条 产品的交(提)货期限, 按照甲方要求交货。

Source: Emerson Analytics

China Fiber Optic – Shocking Lies

Exhibit 18 – Sifang Telecom Sales Contract Signature Page


商不成时，提交石家庄仲裁委员会仲裁。

本合同自盖章签定之日起生效，合同执行期内，甲乙双方均不得随意变更或解除合同。合同如有未尽事宜，须经双方共同协商，做出补充规定，补充规定与本合同具有同等效力。本合同正本一式二份，甲乙双方各执一份。

购货方：[Redacted] 供货单位：河北四方通信设备有限公司 Sifang Telecom

购货人签字： 供货方签字：[Redacted]

签字日期： 签字日期：[Redacted]



Source: Emerson Analytics

Exhibit 19 – Sifang Telecom Invoice

VAT Invoice in Hebei
河北增值税普通发票


No 0001 13000001

开票日期：[Redacted]

货物或应税劳务名称	规格型号	单位	数量	unit price	金额	税率	税额
光纤跳线 Jumper	FC/UPC-FC/UPC-2.0-3M	套		6.3247863248		17%	
尾纤 Pig-tail	FC/UPC-2.0-1.5M	套		3.7806857607		17%	
合计							
价税合计(大写)							
价税合计(小写)							

销货单位名称：河北四方通信设备有限公司
纳税人识别号：130182700743809
地址、电话：石家庄经济技术开发区阿里山大街16号 85378999
开户行及账号：中国银行石家庄市裕华支行 100147738543

收款人： 复核： 开票人：夏兴浩



Sifang Telecom

Source: Emerson Analytics

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As can be seen, Sifang Telecom is selling jumpers and pig-tails in this contract, at a unit price of Rmb6.32 ($=7.4/(1+17\%)$) per set for the former and of Rmb3.76 ($=4.4/(1+17\%)$) per set for the latter.

China Fiber has claimed ASP of Rmb49.7 per set for jumpers for 2012 (see Exhibit 15). That's 7.9x of the recent transaction price shown in the sales contract above.

We believe the actual ASP for non-bundle patch cords in 2012 was lower than Rmb6.32 per set for the following two reasons:

- The contract amount was relatively small. According to the Sifang Telecom staff, large orders in tens of thousands sets can get discounts of Rmb0.2-0.3 per set; and
- The same Sifang Telecom Staff C also told our investigator that the price of a set of jumper was now about Rmb1.0 higher than that in 2012 due to cost increases in recent years.

In our estimates of China Fiber's actual revenue, we will assume an ASP of Rmb6.4 for a set of non-bundle patch cord, the most favorable assumption for China Fiber.

3.5. 12-core fiber pig-tail Priced Way Below China Fiber's Claims

In this section we analyze in depth prices of Sifang Telecom's bundle patch cords, using those of 12-core fiber pig-tail as benchmark:

- Bundle patch cords may consist of 6, 8 or 12 connectors, though the latter is more common; and
- Prices of 12-core fiber pig-tail are naturally higher than those of fewer connectors. However, even these are being sold at levels way below those claimed by China Fiber.

Exhibit 16 above shows a screen capture of the search result, with 10 manufacturers quoting prices at a low of Rmb32 to a high of Rmb55. The average price for 12-core fiber pig-tail was Rmb40.8 per set.

China Fiber has claimed ASP of Rmb134 per set for bundle patch cords, about 3.3x the current market average of Rmb40.8 per set.

We have talked to two current staff of Sifang Telecom. They quoted prices of Rmb38 and Rmb42 a set (without VAT) for 12-core fiber pig-tails, respectively, in line with the current market average. Audio Evidence 6 and 7 are recordings of our conversations with them.

Audio Evidence 6 – Sifang Telecom Staff C Quotes Rmb38 for 12-core Fiber Pig-tail

Staff C:	Twelve-core fiber pig-tail?
Emerson investigator:	Yes, 12-core fiber pig-tail.
Staff C:	Some are distribution channel prices, some are retail prices. Old customers will

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Emerson investigator: certainly get discounts.
Staff C: What sort of prices are we talking about?
Staff C: Normally, the retail price exceeds Rmb40.
Emerson investigator: What is the price if I don't need an invoice?
Staff C: If you don't need an invoice, an FC 12-core fiber pig-tail can be as low as Rmb38 each.
Emerson investigator: 38?
Staff C: Yes.
Emerson investigator: What about SCs?
Staff C: SCs are Rmb2 cheaper.
Emerson investigator: Rmb2 cheaper, Rmb36?
Staff C: Yes. Basically, this is the price for our old customers.
Emerson investigator: If I need an invoice, how many percentage points above this price will it be?
Staff C: About 10 percentage points.
Emerson investigator: 10 percentage points on Rmb38 will take it to about Rmb42.
Staff C: Equivalent to Rmb4 more.

Source: Emerson Analytics

Audio Evidence 7 – Sifang Telecom Staff D Quotes Rmb42 for 12-core Fiber Pig-tail

Emerson investigator: What's the price of your fiber connectors? A 12-core fiber pig-tail.
Staff D: A 12-core fiber pig-tail should be about Rmb43-44.
Emerson investigator: Is your price invoiced or not invoiced?
Staff D: Invoiced. Rmb44 with invoice.
Emerson investigator: Your invoiced price of Rmb44 includes VAT, right?
Staff D: Yes.
Emerson investigator: Without an invoice?
Staff D: Not much difference without an invoice, Rmb42.
Emerson investigator: If the volume is big, like more than 10,000 sets, what's the price difference?
Staff D: If it's more than 10,000 sets, it can be more than Rmb1 cheaper.

Source: Emerson Analytics

As we estimate China Fiber's actual revenue, we will use Rmb42 per set for the price of bundle patch cords. Again, this is the most favorable assumption for China Fiber.

To conclude, the very high ASPs claimed by China Fiber are simply a lie and it is really selling at prices similar to those charged by competitors. Clearly, China Fiber's revenues are hugely inflated.

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Part 4. Financials and Valuation

When we began to prepare this report, we planned to analyze China Fiber's real profitability and its actual financial position, and then attempt a valuation on the company based on its actual profit and asset conditions, as we had done with our previous reports.

As we found out more about China Fiber's flagrant acts of fraud, we felt increasingly that there was no need to look into such details. We believe anyone who has carefully read the first three parts of this report will agree with us.

Thus, in the financial analysis section, we will focus on China Fiber's revenue. During 2008-2014, it had cumulative revenue of Rmb8.55bn. So, who were its clients?

4.1. China Fiber's Telecom Carrier Clients

China Fiber reports that its major clients are telecom carriers (accounting for 81% of total 2012 revenue) who tend to drag their payments. The table below shows that the group's trade receivables turnover has been steadily falling: Sifang Telecom reported 4.4x of receivable turnover in 2010, which fell to 1.9x in 2012, with China Fiber reporting a mere 1.2x receivable turnover in 2014.

Year end Dec 31 (Rmb m)	2008	2009	2010	2011	2012	2013	2014
China Fiber							
Revenue	334	646	838	1,257	1,494	1,776	2,209
Trade receivables	92	386	564	751	843	1,382	2,197
Trade receivables turnover	N.A.	2.7x	1.8x	1.9x	1.9x	1.6x	1.2x
Sifang Telecom							
Revenue	302	133	238	320	375	N.A.	N.A.
Trade receivables	53	44	65	168	223	N.A.	N.A.
Trade receivables turnover	N.A.	2.8x	4.4x	2.8x	1.9x	N.A.	N.A.
Itemized trade receivables	45	44	31	123	62	N.A.	N.A.
Proportion of itemized receivables	86%	100%	48%	73%	28%	N.A.	N.A.

Sources: China Fiber IPO prospectus and annual reports, Sifang Telecom SAIC Filings

Sifang Telecom's SAIC filings disclose certain details of the bigger items in its trade receivables. Although incomplete, the itemized trade receivables have been added up in the above table, and their combined proportion in the total amount of trade receivables calculated. The most detailed disclosures

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were made in 2009, 2008 and 2011, when 100%, 86% and 73% of the year's trade receivables were itemized. The list of clients with receivables outstanding to Sifang Telecom in 2009 was so detailed that even amounts under Rmb1.0 were included. For convenience's sake, we look at 2008 to illustrate Sifang Telecom's financial conditions.

The itemized trade receivables tell us who the clients of Sifang Telecom were. In Exhibit 21 below, we can see that there were nineteen clients with substantial receivables outstanding in 2008, six of whom were telecom carriers.

Exhibit 21 – Sifang Telecom Trade Receivables Disclosure, 2008

Trade receivables	
(2) 应收账款按主要客户列示:	
单位名称	年末余额
中国电信集团北方电信有限公司河北省分公司	China Telecom Corp Ltd Hebei branch
部队	804,653.00
部队	1,991,952.00
部队	1,665,031.00
部队	1,978,480.00
中国电信股份有限公司湘潭分公司	China Telecom Corp Ltd Xiangtan branch
长沙广达广播电视宽带网络有限公司	1,659,880.00
湖南中信通信有限公司	2,575,680.15
沈阳冀缘隆商贸有限公司	615,612.00
中国移动通信集团广东有限公司阳江分公司	China Mobile Group Guangdong Co Ltd Yangjiang branch
中国移动通信集团贵州有限公司黔东南分公司	China Mobile Group Guizhou Co Ltd Southeast branch
中国移动通信集团贵州有限公司遵义分公司	China Mobile Group Guizhou Co Ltd Zunyi branch
中国移动通信集团贵州有限公司	China Mobile Group Guizhou Co Ltd
长春正德通讯设备有限公司	1,539,650.00
苏州中基和业电子科技有限公司	2,593,645.00
BIOLONG LIMITED.	3,993,308.24
SUNRIVER TRADING LTD.	5,298,260.02
HOPEKING LIMITED.	13,120,446.36
PACIFIC GAIN TECHNOLOGIES LIMITED	1,191,995.00
合计	45486401.47

Source: Sifang Telecom 2008 SAIC Filing

Let us then look at all China Fiber's major telecoms clients during 2008-2012 (Exhibit 22).

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Exhibit 22 – China Fiber's Major Telecoms Clients

2008	2009	2010	2011	2012
China Telecom Corp Ltd Xiangtan branch (2.0)	China Mobile Group Guizhou Co Ltd (3.9)	China Telecom Corp Ltd Hebei branch (2.8)	China Telecom Corp Ltd Hebei branch (6.1)	China Telecom Corp Ltd Hebei branch (14.0)
China Mobile Group Guizhou Co Ltd (1.9)	China Telecom Corp Ltd Xiangtan branch (2.0)		China Telecom Corp Ltd Langfang branch (3.2)	China Telecom Corp Ltd Cangzhou branch (9.0)
China Mobile Group Guangdong Co Ltd Yangjiang branch (0.9)	China Mobile Group Guangdong Co Ltd Yangjiang branch (1.9)			China Telecom Corp Ltd Langfang branch (8.2)
China Mobile Group Guizhou Co Ltd Zunyi branch (0.8)	China Mobile Group Guizhou Co Ltd Southeast branch (1.7)			China Telecom Corp Ltd Zhangjiakou branch (7.8)
China Mobile Group Guizhou Co Ltd Southeast branch (0.6)	China Telecom Corp Ltd Hebei branch (0.4)			China Telecom Corp Ltd Handan branch (7.8)
China Telecom Corp Ltd Hebei branch (0.2)	China Mobile Group Guizhou Co Ltd Zunyi branch (0.3)			China Telecom Corp Ltd Hengshui branch (7.0)
				China Telecom Corp Ltd Xingtai branch (4.8)
				China Telecom Corp Ltd Shijiazhuang branch (3.1)

Sources: Sifang Telecom SAIC Filings

Notes: Ranked according to outstanding amount in descending order. Numbers in bracket represent outstanding trade receivables in Rmb m

Entities in red are located in Hebei province

We can see from the above that China Fiber actually had very few telecom carrier clients. Over the years, the trend has been one of shrinkage – shrinking from two carriers (China Mobile and China Telecom) to just one (China Telecom), and from several provinces (Hunan, Guizhou, Guangdong, and Hebei) to merely its home province (Hebei). How can such a small number of client bases support Rmb8.55bn of revenue over seven years?

The fact that China Fiber's major clients are based in Hebei province has also been confirmed by Sifang Telecom's Staff C, as shown in Audio Evidence 8.

Audio Evidence 8 – Sifang Telecom Staff C Says Out-of-province Sales Limited

Emerson investigator: Your headquarters are in Hebei, so you must do a lot of business there?
 Staff C: Basically, we have someone in charge in every city in Hebei.
 Emerson investigator: That's very detailed management.
 Staff C: Clients such as China Telecom, China Unicom, China Mobile.
 Emerson investigator: I'm sure you have very strong relationship with them.
 Staff C: It is ok in Hebei, but not out of province.

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Emerson investigator: How much does Hebei account for your business?
 Staff C: About half.

Source: Emerson Analytics

How can telecom carriers in Hebei province account for Rmb4.27bn or half of China Fiber's total revenue during 2008-2014?

4.2. Volume and ASP Suggest 2012 Revenue of Rmb287m

The following table shows our calculations of China Fiber's 2012 revenue. It is worth noting that we have adopted assumptions that are most favorable to China Fiber, and even then our estimate is only 19.2% of the revenue that China Fiber has reported.

Exhibit 23 – Volume and ASP Yield Rmb287m of Revenue for 2012

Year end Dec 31 (Rmb m)	China Fiber claim	Our estimate	Remarks
Domestic patch cords volume (m sets)	18.5	18.5	
- Bundle patch cords	4.2	4.2	Assume volume data accurate
- Non-bundle patch cords	14.2	14.2	Assume volume data accurate
ASP (Rmb/set)	69.1	14.6	
- Bundle patch cords	134.4	42.0	See section 3.5 above
- Non-bundle patch cords	49.7	6.4	See section 3.4 above
Domestic patch cords revenue	1,276	269	
- Bundle patch cords	569	178	
- Non-bundle patch cords	707	91	
Overseas patch cords revenue	201	0	See Part 2 above
Patch cords revenue	1,477	269	
Connection and other products	18	18	Assume other revenue accurate
Total Revenue	1,494	287	

Sources: China Fiber 2012 annual report, Emerson Analytics estimates

4.3. SAIC Filings Suggest 2012 Revenue of Rmb267m

We have seen in Exhibit 8 earlier that China Fiber's reported revenue for 2012 was about 4x the number reported by Sifang Telecom to SAIC for the same year. In Part 2, we have shown conclusively that Sifang Telecom had no exports at all.

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Exhibit 24 – China Fiber's Revenue Exaggeration

Year end Dec 31 (Rmb m)	2008	2009	2010	2011	2012
China Fiber reported revenue	334	646	838	1,257	1,494
Sifang Telecom SAIC revenue	302	133	238	320	375
- Non-existent export revenue*	220	65	115	120	109
= Sifang Telecom actual revenue	81	68	122	201	267
Multiple	4.1x	9.5x	6.8x	6.3x	5.6x

Sources: China Fiber annual reports, Sifang Telecom SAIC Filings, Emerson Analytics estimates

* Based on Sifang Telecom SAIC data, which are lower than the export data reported by China Fiber

Taking out the non-existent export revenue, we can see that Sifang Telecom's real revenue in 2012 was Rmb267m, merely 17.8% of that reported by China Fiber to its shareholders.

Because of the difficulty in obtaining data for last two years, this report often uses 2012 data as an example in its analysis. Since 2012, China Fiber's main businesses and revenue mix have shown little change from those in earlier years. We believe China Fiber's financial fraud has remained as insane as ever.

The above two methods arrive at revenue estimates of Rmb287m and Rmb267m for China Fiber in 2012. In the first method, we make the most favorable assumptions for China Fiber in terms of volume and ASP. But are they really as high as the company claims? In the second method, is there any basis to believe in the so-called audit report prepared by Shijiazhuang Cai Xin, given that Sifang Telecom doesn't actually have any exports.

In its 2012 annual report, China Fiber says that "the Group's annual designed production reached 18 million sets of fiber optic patch cords... A total of 19,196,102 sets of fiber optic patch cords were sold during the year"⁶. This implies about 100% capacity utilization.

In its IPO prospectus, China Fiber says that "the calculation of our designed annual production capacity is based on the assumption that our production facilities operate **three 8-hour shifts** (*emphasis added*) per day and 22 days per month"⁷.

Last May to June, we monitored the activities of Sifang Telecom's production facilities in Shijiazhuang for three weeks, and found that the company was operating only one shift every day. There were almost no lights at the production facilities at night, and the whole place was certainly very quiet.

Does that mean China Fiber's actual output is only one third of its claimed amount? We will stop our investigation here, because we are convinced that the auditor Ernst and Young needs something to do.

⁶<http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0424/LTN20130424856.pdf>, p.10

⁷<http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0616/LTN20110616005.pdf>, p.108

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4.4. Valuation

There is no doubt China Fiber's financial statements are seriously fraudulent at some 6-10x revenue fabrication, to the extent that there is simply no need for a valuation analysis. For a long-running case of criminal deception, the only appropriate regulatory action is Delisting.