

February 8, 2018

Anne Stevenson-Yang
anne@jcapitalresearch.com

+852 5223 8703

J Capital Refutes MARK's Response to Our Report

On February 7, Remark Holdings (MARK) issued a press release in response to our report of February 6. We respond to each of the points below:

KanKan's credit checks

MARK's release:

J Capital: MARK claims to be a major player in credit checks, but some of the biggest private lenders have never heard of the KanKan credit platform and say they wouldn't use it if they had.

This is false. After lengthy testing of our credit product, Remark has been selected as a partner by large banking institutions, such as Bank of China, China CITIC Bank International and numerous other major lenders as we mentioned in our previous public releases. As of Q4 2017, Remark had completed an additional six FinTech contracts using KanKan credit data.

We telephoned five commercial lending officers at Bank of China and Citic who approve loans for individuals. None had heard of KanKan. All said they used their internal credit approval systems and the system available from the central bank plus free, publicly available data. Four of the loan officers said emphatically that they do not use KanKan. The fifth said (our translation): "Our platform uses only [our own bank's] system. But I have no idea where the data comes from. We have so many systems. I've never heard of KanKan but even if we used it I wouldn't be able to tell you."

Partnerships with Alibaba and Tencent

MARK's release:

J. Capital: There is no evidence of promised partnerships with Alibaba, Tencent, and other Chinese majors.

February 8, 2018

This is false. Remark announced a series of partnership agreements with Alibaba Cloud and Tencent Cloud in Q4 2016 as the releases were published both on MARK's websites and, Alibaba and Tencent websites respectively, and Remark continues to successfully execute those partnership agreements with Alibaba and Tencent. Furthermore, Remark increased its relationship with Alibaba through an announced partnership with the company's mobile unit in 2017.

It is hard to prove a negative. We continue to find no evidence of partnership but evidence only that Remark purchases services from Alibaba and Tencent. We searched for press releases from Alibaba and Tencent about partnerships with Remark or KanKan. We did find that Tencent on December 30, 2016 [announced](#) that it had “partnered” with Remark to provide the company with cloud services and technical support worldwide. We did not find any announcement from Alibaba. We did find that Aliyun, Alibaba’s cloud company, [announced](#) that the “Remark Media” facial recognition tool became available in its online store on December 27, 2016. The Aliyun cloud website [recommends](#) the facial recognition tool, which can be downloaded for RMB 5.

MARK’s release:

J. Capital: MARK claims to have developed language-recognition software, web filtration, Big Data analysis of virtually all China's consumer records, and 3D face recognition, all on a historical total of USD 2.8 mln in R&D costs— roughly the price of a nice two-bedroom apartment on Park Avenue. They claim to manage a database with 2 petabytes of data and yet show no hosting costs.

In 2017 alone, Remark spent nearly \$1 million just to host KanKan data in the cloud. KanKan provides private cloud services for customers, as well as public cloud services on Alibaba Cloud. Remark currently has approximately 2,000 to 2,500 server instances on Alibaba Cloud, Tencent Cloud, Digital Ocean Cloud, Linode Cloud and Amazon Web Services AWS for data storage, archiving, indexing, data analysis and data services.

- ▶ We were surprised to hear that KanKan provides private cloud services. We telephoned the Chengdu company called Remark that advertises KanKan. The person who answered the phone said the company did not provide cloud services.
In an earlier call to the Chengdu company, a salesperson told us that the company provides facial recognition technology. Customers may download the software or use the software that is hosted by KanKan. In that sense, KanKan “provides hosting services”—to itself.
- ▶ Since we do not know what a “server instance” is, we cannot comment on

February 8, 2018

the company's statement that it has 2,000-2,500 server instances. Perhaps MARK means "hosting arrangements."

- ▶ MARK clearly admits that it has not spent any money on research and development. With 15 AI products already claimed and 15 more on the way, this is simply ridiculous. Needless to say, Remark has not made anyone's list of AI developers. Fortune recently [published](#) its list of the top 100 firms developing artificial intelligence applications. No KanKan.

VIEs

MARK's release:

J. Capital: What's more, MARK owns none of the vaunted KanKan technology that is driving share appreciation. The platform resides in companies owned by individuals – these companies are not MARK's VIEs – and there are no discoverable patent applications, contrary to the company's claims.

These claims are seriously misleading. Remark developed and controls the KanKan technology through a control structure common among businesses operating in China. Remark has established variable interest entity (VIE) partnerships with companies in Chengdu and Hangzhou. Alibaba, Baidu and others have similar VIE partnerships. Financials for Remark's VIE companies are consolidated with Remark's financials, which are audited by third-party auditors. Remark is the process of filing patents in both China and the U.S.

Remark's evasive response contains an implicit admission that it does not own KanKan. Note that the company **does not say** that KanKan is developed by a VIE controlled by MARK. It calls it "a control structure common among businesses operating in China." Then Remark goes on to say it has a VIE. But that VIE does not control KanKan.

Here are the facts of Remark's Chinese structure, which investors will not learn from the company itself:

- ▶ Early 2015 Kankan began operations in Chengdu, China. (Source: Company Annual Report 2015)
- ▶ Remark's first disclosure of an ownership structure for Kankan came in a list of Remark Holding Subsidiaries in a [9 November 2016 8k Filing](#):
 - **KanKan Limited (British Virgin Islands)**
 - **KanKan HK Limited (Hong Kong)**
 - CD Remark Technology Ltd.
 - Hangzhou ShuFeng Technology Ltd.
 - **China SNS Group Limited**
 - Fanstang (Shanghai) Entertainment Information Consulting Co. Ltd.

February 8, 2018

- ▶ The company discloses CD Remark Technology Ltd. in its 2016 annual report as a subsidiary but not as a VIE.
- ▶ Note that the company disclosed Bonet (Beijing) Technology Limited Liability Company as a VIE as early as 2010 and stated clearly that it was consolidated. The Company disclosed CD Remark Technology Ltd as a VIE only after J Capital released its report. No third-party auditor has stated that CD Remark Technology Ltd. is a VIE and is consolidated.
- ▶ KanKan's business operations category is not restricted for foreign capital and therefore there is no need for a VIE. Note the company already had a VIE, Bonet, that could be used, should any of KanKan's business be restricted.
- ▶ Hangzhou ShuFeng Technology Ltd. is not disclosed at all in the company's 2016 annual report. It is not reported as a subsidiary, a VIE, or a consolidated entity. No third-party auditor has issued any statement about this company.
- ▶ Bonai Beijing Technology Ltd, an undisclosed company owned by CTO Jason Wei, owns one of the key URLs for the KanKan, www.kankanapp.com.cn
- ▶ MARK likes to compare itself to Alibaba and Baidu, but no one else does. Alibaba, Baidu, and other Chinese technology companies listed in the U.S. use VIEs for business operations that are in categories that restrict foreign capital. They also make exhaustive disclosures in each annual report to make that clear to investors in detail. MARK does not.

Name	Country	Owner	Legal Person/ Directors	Established	Link
Kankan Limited	British Virgin Islands	Remark Holdings	Unkown	15/04/2015	Registration
Kankan HK Limited	Hong Kong	Kankan Limited (BVI)	Tao Kaishing (Remark CEO)	22/04/2015	Annual Filing
CD Remark Technology Co Ltd	Chengdu , China	Jason Wei (Remark CTO) and Xiao Li (Remark Employee)	Jason Wei, legal Person, Tao Kaishing, Supervisor	25/01/2016	Registration
成都睿码科技有限责任公司		魏宏峰, 肖利	魏宏峰		Website
Hangzhou Shufeng Technology	Hengzhou, China	Jason Wei	Jason Wei, Legal Person, Tao Kaishing, Supervisor	15/02/2016	Registration
杭州数峰科技有限公司		魏宏峰	魏宏峰, 肖利		Website
Kankan Limited	Hong Kong	Sino Asean Fudiciaries (HK) Limited	Tao Kaishing, Jason Wei (Wei Hongfeng)	7/11/2016	Registration

February 8, 2018

Name	Country	Owner	Legal Person/ Directors	Established	Link
Bonai Beijing Technology	Beijing, China	Jason Wei and Xiao Li	Jason Wei	19/07/2007	Registration
博耐（北京）科技有限责任 公司		魏宏峰，肖利	魏宏峰		

Patents

- ▶ The Company admits in rebutting our report “Remark is the process of filing patents in both China and the U.S.” No trademarks or patents have been filled to date in the United States or in China for KanKan. Remark has no legal ownership of KanKan operating entities or technology.
- ▶ [Tao Kai-Shing deregistered Kankan Hk Limited](#), the Hong Kong entity that is disclosed as owning or controlling KanKan in China, on December 8, 2017, shortly after he established a new company called Kankan Limited in Hong Kong. He and CTO Jason Li are listed as directors of that company. Remark Holdings is not visible as a shareholder.

MARK’s release:

J. Capital: In case the shares do not appreciate, MARK’s CEO and CFO have made loans to MARK through an investment vehicle they control called Digipac LLC. The USD 10.8 mln in loans paid 8.67% after year 1. We initially questioned the wisdom of lending money to a company wthat(sic) appears unable to generate any EBITDA or FCF, but, reading further, we believe this was nothing but an attempt to grab more options. In 2016, USD 2.5 mln in unpaid principal and interest was converted into MARK shares at less than USD 2 per share (see page F-31 of the 2016 AR).

A blatant math mistake makes this statement inaccurate. J Capital cites the 2016 10K as its source for this statement, but neglected to add the additional \$3.5 million Senior Secured Convertible Promissory Note to the \$2.5 million Senior Secured Convertible Promissory Note.

Thanks to MARK for clarifying that the CEO and CTO have gained even more benefit from their positions than we originally stated.

J Capital: At the time of acquisition, Vegas.com reported total bookings of USD 250 mln but no revenue. It still has not reported revenue.

False. Had the analyst read the company’s most-recent “2018 FINANCIAL GUIDANCE & OUTLOOK” contained in the January 23, 2018, Current Investor Presenta-

February 8, 2018

tation, she would have seen that the company expects Vegas.com net revenue of between \$65-\$75 million with EBITDA margins of 10-13%. The company's most-recent 10Q filing shows actual nine-month revenue for the company's Travel and Entertainment Segment of \$43 million, which refutes the analyst's assertion that Vegas.com "has not reported revenue." Vegas.com is an established, successful 20-year-old business acquired in 2015 with a long history as the premiere online booking service for all of the travel and entertainment opportunities related to Las Vegas and the immediately-surrounding areas.

We appreciate the clarification on the composition of the company's Travel and Entertainment segment.

J Capital's Poor Track Record

The J Capital analyst has a lengthy and documented track record of bearish pronouncements about the Chinese economy and companies, including Alibaba, many of which have been proven wrong. She questioned Alibaba's finances as far back as 2014, for instance, and later recommended shorting the stock. Alibaba stock has almost tripled since. In 2015, she set a price target on JD.com of \$23.36. The stock now trades at almost twice as much, even accounting for recent market turbulence.

Digital news outlet Quartz called her firm "a bearish-on-China research firm," and Barron's has said on multiple occasions that Stevenson-Yang is a bear on China.

Indeed, we are bearish on China, and indeed, we advise that Alibaba is a stock to sell, though not to short. We will refrain from pointing out how often fraudulent stocks achieve intense share appreciation. We will simply point out that any comparisons between the tiny, reverse-merger, also-ran Remark Holdings and the internet behemoth Alibaba are simply absurd.

In contrast, Roth Capital Partners analyst Darren Aftahi issued a report about Remark Holdings (MARK) on January 31 headlined: "Potential Making of an AI Jugernaut," where the analyst wrote, "Numerous key contract wins point to KanKan's potential both near and long-term," and "KanKan has access to significant data which differentiates its platform in our view," among the analyst's other comments.

Many sell-side firms make their money from underwriting, deals, trading, and other types of involvement with listed firms in which it benefits them to promote the firms. We cannot speak to the quality of Roth Capital Partners' work, but our work is conducted on an objective and third-party basis.

Unlike most analysts, Anne Stevenson-Yang possesses no credentials as a Chartered Financial Analyst, much less an accountant. She claims in her official biog-

February 8, 2018

raphy to have started or co-founded several businesses, but there are no records of the dispositions of those alleged companies. The individual listed on J Capital's website as the "Compliance Officer" also offers no credentials or prior experience in that position. Like Stevenson-Yang, his prior experience appears to be in the media.

That is true, and investors should make their own decisions. Financial skills are very important to stock analysis. So are business skills, research skills, and an understanding of how the world works. Stock analysis is an interdisciplinary field, much like business itself, and requires a number of complementary skills. As for Remark Holdings, it is traded not on the strength of its financial statements, which have shown losses for the history of the company, but on management's promise of new business. Shareholders therefore must concern themselves not with existing financials but with the reality behind those new businesses, and Remark has failed to demonstrate that there is any.

In fact, a disclaimer in J Capital's so-called report would largely disqualify the firm and its principals as analysts in the United States: "You should assume that as of the publication date of our reports and research, J Capital Research USA LLC may benefit from short positions a client has in all stocks (and/or options, swaps, and other derivatives related to the stock) and bonds covered herein, and therefore stands to realize significant gains in the event that the price of either declines.

J Capital is regulated as an investment advisor in good standing by the U.S. SEC.

Ms. Stevenson-Yang is welcome on her next visit to the United States to make an appointment in our offices and ask questions and conduct some actual due diligence. However since that is not her style, the company will no longer respond to the unsubstantiated claims of a stock trader masquerading as an analyst.

We appreciate the invitation to meet but would have found it much more useful to receive communication BEFORE we published our report. Here is the email we sent to Remark IR the week before publication:

Dear Remark IR,

Glad to meet you by remote. I am with a small independent research boutique called J Capital. We cover mostly Chinese stocks long and short. Attached is one of our reports.

I am considering opening up coverage on Remark Holdings, and I'm very interested in the KanKan offering. I wonder if I could run a few questions by you. I'm happy to telephone if that's easier. Here are the questions:

February 8, 2018

- 1) Can you offer any color on the 2018 revenue projections for KanKan, like how much of the ~\$30 million will come from selling credit records?
- 2) You haven't spoken about Vegas.com or Banks.com in the calls much lately. Do you offer any breakout on revenue growth and profit targets for those properties?
- 3) On Sharecare, can you share the valuation in the last round?
- 4) There's a funny entry in the Shanghai corporate records for Fanstang saying that HSW invested in 2013. I'm guessing that's a typo--can you confirm when you invested in Fanstang/China Branding Group? I'll attach the record in case you don't have it.
- 5) Can you provide any detail on your partnerships with Alibaba and Tencent?
- 6) Final thing! Could you direct me to your patent applications for Kankan? Not sure whether to look in China or the US or under what name and I'm sure there's fascinating detail in there about the technology.

Many thanks. Please let me know if I should telephone. I can be reached at [XXX-XXX-XXXX].

Anne Stevenson-Yang

More Ownership Questions

We should clarify point 4 in the email above. When doing our due diligence on MARK, we checked its corporate registration documents. In doing so, we accessed public registration records for MARK's Shanghai company, Fanstang. Fanstang was formed after MARK acquired China Branding Group in 2016 and took over the website.

Yet the registration documents we purchased from the commercial vendor Qixin have an entry showing that HSW, a MARK subsidiary, actually acquired the company in 2013. We believe there is a strong possibility that record is in error; we have not corroborated the information elsewhere. But we asked Remark IR to confirm that the record was an error and MARK has failed to provide that confirmation.

Here is the portion of the Fanstang registration documents purporting to show an HSW Inc. investment of HKD 1 mln on February 16, 2013.

February 8, 2018

二、股东及出资信息

序号	股东	认缴出资额 (万元)	币种	出资比例	认缴出资日期
1	HSW (HK) INC. LIMITED	100.000000	人民币元	100.00%	2013-02-16

Source: Qixin

As for KanKan’s presentation at the World Internet Conference, there is no mention of Kai-Shing Tao on the [agenda](#), and no one answered when we telephoned to inquire. Chinese press reports indicate that Kai-Shing Tao did make a presentation about KanKan in the “matchmaking session” of the conference. It is common for companies to pay for speaking positions at conferences in China.

Disclaimer

This publication is prepared by J Capital Research USA LLC (“J Capital”), a US registered company. J Capital is regulated as an investment advisor in good standing by the U.S. SEC. This publication is distributed solely to authorized recipients and clients of J Capital for their general use in accordance with the terms and conditions of a Services Agreement and the J Capital Authorized User Content Agreement available [here](#). Unauthorized copying or distribution is prohibited. If you are reading this publication without having entered into a Services Agreement with J Capital, or having received written authorization to do so, you hereby agree to be bound by the J Capital Non-Authorized User Content Agreement that can be viewed [here](#). J Capital does not do business with companies covered in its publications, and nothing in this publication should be construed as a solicitation to buy or sell any security or product. In preparing this document, J Capital did not take into account the investment objectives, financial situation and particular needs of the reader. This publication is intended by J Capital only to be used by investment professionals. Before making an investment decision, the reader needs to consider, with or without the assistance of an adviser, whether the contents are appropriate in light of their particular investment needs, objectives and financial circumstances. J Capital accepts no liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this publication and/or further communication in relation to this document.