

The story of Yangtze River Port and Logistics Shell Games

- ▶ **Sign of the times:** Fraudulent companies have frequently taken advantage of reverse mergers, business scope redefinitions, and promotional announcements to raise money from U.S. retail investors. But the last year has seen some such companies swell their value to billions of dollars without any actual development in their business or even realistic prospects.
- ▶ **Track the fads:** YRIV is in many ways a barometer of irrational exuberance. Its share price has bobbed up and down with its clever promotion of investor enticements like the “Belt and Road Initiative” and “Blockchain.” In the manner of tilting Olympic ice racers, the company attaches to the draft of extremely hot equity fads.
- ▶ **A life boat in a tidal wave of debt:** The reason YRIV is listed is the same as that for its predecessor company, a developer from Hebei Province: the company took on too much debt when China’s property markets were surging, and now it is desperately searching for ways to recover cash, and more than stay alive, make a bundle themselves before disappearing from regulator radar. This suggests yet another way in which China’s debt problems inevitably slop over into other markets.

■ Anne Stevenson-Yang

on Nasdaq as YRIV. Purporting to operate a large logistics facility at an inland shipping hub in China, the company actually owns a completely failed office park and a lot of angry customers who bought shops in the boarded-up mixed-use facility on the promise that it would fill up with other shops and shoppers. It did not, like so many projects around the mainland whose developers begged, borrowed, and connived to ride the China property boom.

And yet this company managed to achieve a valuation of USD 4 bln on Nasdaq not long ago and is working hard to bring the valuation back. YRIV did not do this by featuring its failed property development. This mighty Yangtze stock promotion generates excitement, and stock appreciation, by attaching itself to the latest investment fads: the Chinese infrastructure stimulus, the Belt and Road Initiative, and now Blockchain. And yet the company boils down to a bunch of guys in Wuhan who took a punt on real estate, lost badly, and now face crushing debt. Although we feel sorry for the Wuhan investors, we have to wonder why U.S. regulators have enabled U.S. investors to help them pay for their bad investment decisions.

It is an obvious and well-established feature of public markets that investors have different perspectives on the growth potential and risks for companies operating in different sectors, and historic manias, be they

There are few frauds more cut and dried than Yangtze River Port & Logistics Co. Ltd., traded

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obsessed with railroads, steelmakers, or Internet companies, have always featured the appearance of companies that had no actual capability in the promoted sectors but dressed themselves to take advantage of investor enthusiasm. We have seen weak entities of every description re-garb themselves as cryptocurrency and Blockchain players, and thereby trigger a feverish revitalization of investor interest.

Simply put, it has become all too easy for companies like YRIV to change their colors without changing their basic nature. And the rewards for doing so are substantial.

Trading places

YRIV listed via a reverse merger on Nasdaq in 2016, the next Chinese company to take a whirl in this particular shell company. The previous one was a highly indebted real estate developer named Kirin International from a small city in the grim, industrial province of Hebei called Xingtai. The company seems to have been formed especially for ventures like these: the original listcos was called Cigarette, a smokeless cigarette company that never had any real operations and had been formed by stock promoters the SEC later charged with fraud.. That is not surprising: there are brokers in Shanghai that work with U.S.-based brokers to acquire shells like and migrate to a big board via an OTC listing. Shortly after Cigarette launched itself in U.S. OTC markets in 2011, the Hebei developer acquired the company and changed its name to Kirin. The property and logistics company from Wuhan started taking over in 2015. It's possible that Kirin and Yangtze Port knew one another from the outset: the chairman of YRIV is from Xingtai, and a key YRIV shareholder is a property developer.

In any case, by the time Yangtze River Logistics stepped in, Kirin International had gotten all it could out of the public company, with email promotions

from Stock Publisher, Penny Stock Crew, and Stock Freak pumping the stock. Once it seemed that Kirin was not going to be driving any more price appreciation, it sold the shell to the Wuhan gang in return for skin in the new venture (specifically, a USD 150 mln note convertible to shares in YRIV). Then shares really started rising.

In the first wave, Kirin International saw 800% price appreciation in January 2015 based on the idea that China would build a "mega city" across southern Hebei Province that would elevate the price of Kirin's properties. In 2016, just after taking over Kirin's shell, Yangtze Port started issuing press releases

The efforts to raise money from US investors to make up for bad investments in real estate display one way in which the Chinese debt tsunami is already hitting U.S. shores.

about the importance of the Wuhan port area to the Belt and Road Initiative (BRI), pushing the stock to around USD 5, when it had been trading for pennies. Then the overall market fever drove the shares up, up, until late December, when, just as abruptly, the price started to fall.

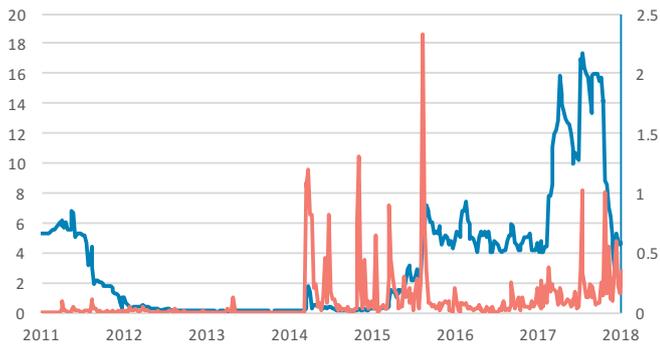
So, on February 13, YRIV filed a notice announcing that one of its subsidiaries was using Blockchain to manage port logistics. That was good for a 50% appreciation, from the USD 3 range to USD 5.38--even though we have not been able to identify any port logistic operations that YRIV provides at all, and the local government says that it does not permit private companies to handle port logistics. Yangtze River Development, which had traded as YERR, adopted a new ticker, YRIV, and announced that its Yangtze River Blockchain Logistics Limited subsidiary had been accepted into the U.S. Blockchain in Transport Alliance. We inquired with the Alliance and learned that, to join, firms merely need to pay a fee on a sliding scale based on revenue, of which YRIV has none.

The ability to drive up the stock price rests critically on controlling most of the shares, so that the volume of trading is low and a small investment can create

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an optically high share price. Here is the historical stock chart:

Chart 1. YRIV Historical Price (USD, pink) and Volume (shares, blue)



Source: Bloomberg

Desperate

Yangtze Port Logistics is ostensibly raising money to build a logistics port in Wuhan. This was originally “Wuhan Newport,” which is applying for approval as a free trade zone and now, given that the local government has nixed that project, has migrated downstream to a different port area. The company is supposed to derive its principal income from service fees from a 1.9 mln sq m Logistics Center, for the use of its warehouses, ship berths, an information platform, cargo handling and shipment loading. Completion



The office building at the entrance to the Huazhong park. | Photo by J Capital, December 2017

is targeted for 2021. Phase 1 is reportedly 40% complete.



Sales office for the project. | Photo by J Capital, December 2017

But the company appears to have no business. Whether government officials in the port area, real estate agents, or employees of competitors, no one in the Yangluo port area of Wuhan can identify facilities owned by any of the entities named in the YRIV reports. In fact, the Yangtze River is China's only navigable river and is a critical connection between the Shanghai port and Pacific Ocean to the mainland interior all the way to the city of Chongqing in Sichuan. Transport has always been tightly controlled by the municipal entities along the route, most especially by the centrally located cluster of Wuhan, Hankou, and Wuchang. No private operator ever had a chance.

The immediate problem for YRIV seems to be its failed “logistics park,” called Huazhong Steel Logistics Park, which is really an office development that lies about two miles from the Newport area. The park is completely deserted, unless you count a dozing watchman in front. Buildings were locked from outside when we visited. Parking lots and entrance areas were overgrown, and all building surfaces were caked with grease and dust.

Back in 2011-12, YRIV pre-sold 443 commercial of-

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Shops along the front of the commercial building. | Photo by J Capital, December 2017



So much for the logistics park. | Photo by J Capital, December 2017

ices in the park, but it never completed the offices and has been obliged to refund the deposits with interest of 6%. The problem is, the company does not have the money to pay the refunds, and the buyers have been reported to protest from time to time. This sort of thing does not play well with city officials, who above all else get graded for maintaining social stability.

The shops sold for about RMB 500,000 for a first-floor prime space and RMB 350,000 upstairs. [Press coverage](#) says that Huazhong still owes RMB 150 mln in refunds, which more or less accords with the YRIV reports.



Photo by J Capital, December 2017

The port facilities, for which YRIV is trying to raise money, were based on the idea that “Belt and Road Initiative” (BRI) trade would be so voluminous that demand would drive up the price of logistics services. That has not happened. Local officials, having built new facilities, cannot get transshipment business and are trying to persuade importers of fresh fruit and meat to use the port.

There is first of all the untidy fact that Wuhan is deeply inland, cannot easily or cheaply sail through the tight grip of the Shanghai International Port Authority. And BRI is largely about exports.

Given that neither real estate development nor trade via the BRI is unfolding quite as the company hoped, Yangtze River tried when it took over the YRIV shell to get a loan based on having this new collateral. In October 2016, YRIV announced a USD 1 bln loan from a group called Armada Enterprises and its affiliate, Wight International Construction. Unfortunately, a quick Google search would have shown the YRIV team that Armada was never going to come up with USD 1 bln; it is owned by an eccentric and known fraudster named George Wight. Wight did not provide the capital, and the Armada shares were canceled on March 1, 2017. Barron’s published a [hilarious piece](#) on the company in November 2016, and Forbes [followed suit](#) in June 2017, pointing out

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that Yangtze River is headquartered in an apartment on John Street in lower Manhattan above a store that sells discounted deodorant, Pop-Tarts, and flip flops.

Owing to unpleasant people

In a way, you have to feel sorry for YRIV. It is only getting deeper and deeper into debt. Back when it was developing the office park, the company got capital from a Wuhan property developer called Renhe Group that itself is in distress now. Renhe has an office on the 19th floor of a shabby office building in downtown Wuhan. One floor down is the Wuhan headquarters of Yangtze River Logistics.



18th floor looking toward the office. | Photo by J Capital, December 2017

Renhe says that it is insolvent but owns a parcel of land in the Gujiacun area of Wuhan and is raising capital to develop the land.

YRIV may be taking money from a loan shark in Guangdong in order to meet basic daily needs. According to postings in online forums, a company called [Cinese Group](#) provided USD 200 mln to YERR. Cinese Group is a finance company based in Dongguan, Guangdong, China's capital of high-interest lending, once dubbed by the international business media as the frontline of China's "wild west" economy.

Meanwhile, in a classic example of the mafia hiding in a church, the company has filed a [complaint](#) with

FINRA, claiming that it has been subject to "illegal short-selling and market price manipulation."

As with the U.S. headquarters above a bodega, the Wuhan headquarters is a depressing place. The elevator stops short of the floor, requiring the visitor to take an 8-inch step up into the dark hallway. Walls are caked with grease, perhaps from cooking oil, since migrant workers are using the building as a dorm. One floor up, at the Renhe Group World Headquarters, workers nap on bunks or squat on the floor to eat bowls of noodles while their laundry dries on lines strung across the room. When we visited, the few people who had heard of Yangtze River Port Logistics were visibly apprehensive; they said that "people from Hong Kong" came every couple of weeks to check on the company. It may well be that, every time the YRIV share price in New York ticks down by a couple of virtual digits, one of the company principals loses one of their 10 real ones.

In the colorful tropics of global equity markets

With sympathy to the many investors around the world who have lost money in the ups and inevitable downs of companies like Yangtze River Port and Logistics, we have to respect the ingenuity in gaming public markets shown by Chinese entrepreneurs who are only one scant generation away from an era in China when capitalism was seen as demonic, and they did not even know what an equity market was. YRIV is at best a B+ player in this arena, and they followed a playbook developed and exploited by dozens of Chinese listcos before them. So, it is important to ask when regulators will get some control over these serial frauds, and investors will return to some interest in ascertaining whether there is any actual commercial value in companies they are funding.

Now the increased globalization of financial flows and the dynamism--or madness--of investor interest in equities that claim to be playing in the cryptocurrency and Blockchain space and the curious phenomenon of companies repeatedly changing

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their claimed business scope without any supporting evidence of competence or success have reached unprecedented levels. Not only are the enigmatic prospects of a sector like Blockchain itself an alluring factor for investors, but the ability of companies like YRIV is impressive to tie slickly into investor zeal for Blockchain and then gear it up with a story about China's Belt and Road Initiative, the vibrant Yangtze Valley growth juggernaut, and other powerful forces unleashed by the China Dream in order to lure in tides of capital.

Investors apparently do not have time to stop and ask if the listed company is even operating at all, much less offering real promise as a Blockchain and China Dream behemoth. For starters, even the most sophisticated U.S. regulators have not figured out how to deal with entrepreneurs and their listcos who have easy reach into U.S. markets but are out of reach when grossly fraudulent behaviors become manifest. After the fact, regulators in the U.S. or anywhere have little in their tool boxes to deal with deceptions far off in the middle of mainland China that were not only smokeless from the outset but totally lacking in any real fire.

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