November 14, 2018

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November 14, 2018

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Calling CCRC
Where's Our Money?

- **Bad bid:** We think the recent $16 take-private bid was an attempt to prop up share value. Our interviews in China and the company's own Nasdaq prospectus suggest that Guangzhou Cornerstone, the company that says it will raise the money for the bid, has little capability to come up with the funding required.
- **Low profits:** We think this call center operator is improperly inflating profits by diverting costs into undisclosed related parties. This could drive up optical results while leaving the shareholders' cupboard bare. CCRC reports 26% gross margins to U.S. investors and just 12% to its Chinese regulators. The company also reports lower revenue in China than it does in its SEC filings. Net profit reported in China in 2017 was just one-third of that reported in the U.S.
- **Shockingly bold:** Company managers have established an undisclosed set of companies that transact with CCRC and may tap into shareholder assets. Without disclosing their stake, individual managers own the parent company of CCRC's VIE, giving them effective control. Unsurprisingly, cash flows in only one direction in this company: from U.S. shareholders into the Chinese entities.
- **Making capital disappear:** Capital appears to have been diverted into other companies owned by management. That would allow the undisclosed companies to absorb losses that otherwise would show up in CCRC. CCRC management has even established an offshore subsidiary of the VIE that could potentially pull capital out of the China business into the hands of management.
- **CCRC has lied to Chinese regulators.** In 2016, the company was sanctioned for making false reports to the local

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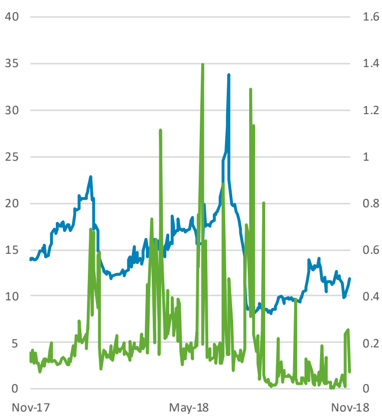
Prepared for Anne Stevenson-Yang of J Capital Research

November 14, 2018

China Customer Relations Centers, Inc. (CCRC US)

Share Price	$ 11.88
Market Cap (mln)	$ 217.8
P/E (TTM)	14x
J Cap's Valuation	**$ 2.87**
Average Volume	58,000 shares
Difference	76%

China Customer Relations Centers, Inc. (CCRC US) last share price in USD (blue, left) and volume (green, right, mln shares)



Source: Bloomberg November 13, 2018

government, probably about the company's financial situation, though the records do not specify what was hidden.

- **Listing just for show.** Chinese tax records indicate that CCRC's shareholder-owned entity is an empty vessel, with no revenue and only a small portion of the cash CCRC reports holding. This is very different from the big U.S.-listed Chinese internet companies; the legitimate ones use their VIEs as pass-throughs. For CCRC, all the revenue sits in a complex, opaque VIE company. We believe shareholders will not see a penny.
- **Low-end underwriting team:** Investors shouldn't be surprised that a company of this nature would choose to list with some of the weakest underwriters and auditors on the street. In our opinion, ViewTrade Securities and MaloneBailey LLP are about as barrel-scraping as they come. ViewTrade is a stock promoter that has brought nine Chinese companies to market since 2015. With very dubious businesses, all but two of these companies are trading far below their IPO prices. As for MaloneBailey, the PCAOB cited this company as auditor of the most Chinese reverse mergers, a record which speaks for itself. And CCRC has its own expert in questionable financial statements. The company's "senior accounting consultant" in charge of financial reporting for CCRC was formerly the CFO of Tianli Agritech (OINK), a Chinese reverse merger widely suspected of fraud.
- **Tall tales:** We found the recent first-half report, showing 90% revenue growth, laughable despite the big bump it achieved for the share price. It's easy to book revenue if the clients don't actually pay.
- **76% over-valued.** We are short CCRC and value the company at $2.87 per share, a 76% discount to the company's current traded value. We assign the company a 15x multiple of 2017 profit reported in China, which is about $3.5 mln, as opposed to profit reported to U.S. investors. We consider the multiple very fair: we do not believe shareholders will ever retrieve the assets this company claims to have.

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Hiding in Plain Sight

If Guangzhou Cornerstone is financing this “go-private” deal, it is very unlikely to happen.

Not going private

We find the “go-private” deal announced earlier this week by CCRC highly implausible. The listed financier for the deal, Guangzhou Cornerstone, which is trying to list on Nasdaq, does not actually hold and manage investor cash and would need 16 months at its current rate of fundraising to finance the deal. The single buyout deal Cornerstone reports attempting, of a Chinese firm trading on Shenzhen’s ChiNext exchange, has languished for more than a year without completing.

Cornerstone is one of a plethora of Chinese companies that have emerged since the 2009 stimulus to sell wealth-management products to Chinese investors with spare cash. Cornerstone pays commissions to retail vendors of financial products like JD Finance, Fanhua Inc., and Hang Teng Wealth, as well as selling on websites like HowBuy. The company was founded only in 2015. Its management team has no experience in international banks and is not well known within the private equity community in China; we asked two current partners and a former partner at three large Chinese PE institutions, and none had heard of them.

Of greatest concern is the fact that Cornerstone does not have the money to finance the deal. According to Cornerstone’s own disclosure, in the four months from July through October this year, Cornerstone was able raise $59 mln. The company raised just $16 mln in the three months ended June 30, 2018. The CCRC deal would require more than $256 mln. Given that Cornerstone must raise money for each contemplated deal, at the current rate, it would need 16 months to raise enough to take CCRC private.

Finally, Cornerstone can access hard currency only through Chinese brokerages that rent their quota allocations for a fee, and the $256 mln nut would represent about 15% of the total quota of the three institutions that lend quota to Cornerstone. We doubt they would be willing to part with that much hard currency, when they have so many partners seeking their quota, even if Cornerstone managed to find retail buyers.

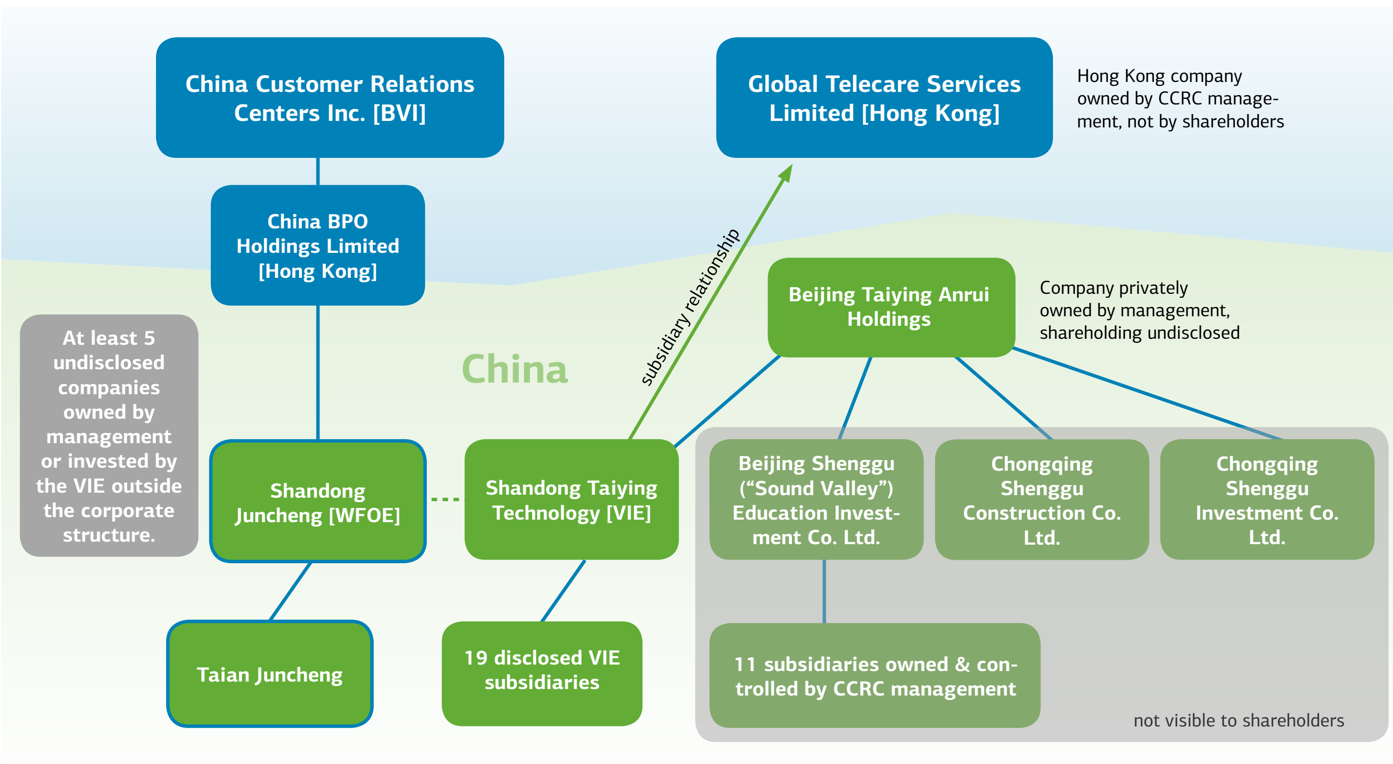
Given our diligence on Guangzhou Cornerstone, and our negative view of CCRC, we think the “go-private bid” very likely represents an attempt to put a floor under the share price.

Now you see it

In our view, there isn’t much to buy in CCRC. This call center services provider has a structure we have never seen before and find quite shocking: its Variable Interest Entity (VIE) agreements are with a subsidiary of a management-owned company, not with the parent. The parent owns companies that are not disclosed in CCRC public filings but that, according our interviews and supported by Chinese tax filings, appear to assume costs for the VIE companies. Sitting on top of the VIE, the parent company can divert VIE resources into its other, non-VIE branch.

CCRC manages a confusing array of undisclosed shadow companies. These could divert costs from CCRC's VIE and could also act as private piggy banks for management. If there are other reasons for these companies, we cannot think what they are.

Chart 1. CCRC Organization



Shareholder capital is injected into Beijing Taiying Anrui, which can then put the capital into subsidiaries that are not part of the VIE.
Source: company SEC filings and State Administration of Industry and Commerce

The convoluted corporate structure masks the low profitability of CCRC's business. Higher apparent profitability would pump up share value. Public investors need to take care not to be there when the "dump" comes along.

We have sought clarification from CCRC investor relations about the allegations in this report, including that China-reported revenues are lower than revenues reported in the United States and seeking clarification on the ownership of the VIE's parent company. CCRC did not respond in the 36 hours prior to publication.

In addition to these hidden companies in the corporate tree, we have identified at least three undisclosed companies privately owned by management that seem to be pulling money out of the company, plus two more undisclosed investments by CCRC's VIE company.[1]

The shadows

CCRC lists 19 subsidiaries of its VIE in its reports to U.S. investors. It does not report 11 sister companies that are owned by CCRC management but not part of the VIE company. Readers of Chinese may access State Administration of Industry and Commerce reports on 29 of the subsidiaries here. This shadow company absorbs costs and capital. It is owned by the same parent as the VIE but is not part of the VIE. But the fact that the VIE and the shadow companies are owned by the same Chinese corporate parent is an important detail, because that makes it easy for CCRC management to access capital from shareholders and divert it into companies only management owns and controls and that shareholders do not even know about. Having the same parent would enable inter-company loans, for example.

The sister companies that CCRC has not reported to shareholders all contain some variation of the name "Sound Valley," sometimes translated into English as "Voice Valley" or "Shenggu." These companies absorb call center costs and rack up losses, Chinese public records and our interviews indicate. The companies cancel out those losses with capital that could come from CCRC shareholders—in total, $23 mln has been committed to the subsidiaries, though much less appears to have been injected to date.

According to employees we interviewed, CCRC sets up Sound Valley shell companies next door to VIE subsidiaries so that the shell companies can use the same premises and same staff. The shell companies, our interviewees said, absorb costs from the disclosed subsidiaries by paying for things like social insurance. For example, one of these shadow companies, Jiangsu Sound Valley Human Resource Management, in 2017 had just three employees and yet was paying social security benefits to 63 people, according to Chinese government records. This shell company, therefore, was absorbing costs of another company, and we expect that would be the CCRC VIE. If so, that would buck up margins in the disclosed companies for the benefit of auditors. Our translation of the income statement submitted to tax authorities by Shandong Taiying, the CCRC VIE company, can be downloaded here. The statements show gross, net, and operating margins significantly lower than those reported to the SEC.

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1 The Chinese-language names of the three undisclosed companies owned by management are 淮安安瑞企业管理公司（有限合伙）, 烟台北方声谷呼叫中心培训学校, 泰安泰盈财富股权投资管理有限公司. The undisclosed VIE investments are 北京灵伴未来科技有限公司 and 北京灵伴即时智能科技有限公司.

Even among famously sketchy Chinese reverse mergers, we have never seen a structure as brazenly diversionary as CCRC's. It obscures cash flows and ownership lines and disadvantages public shareholders.

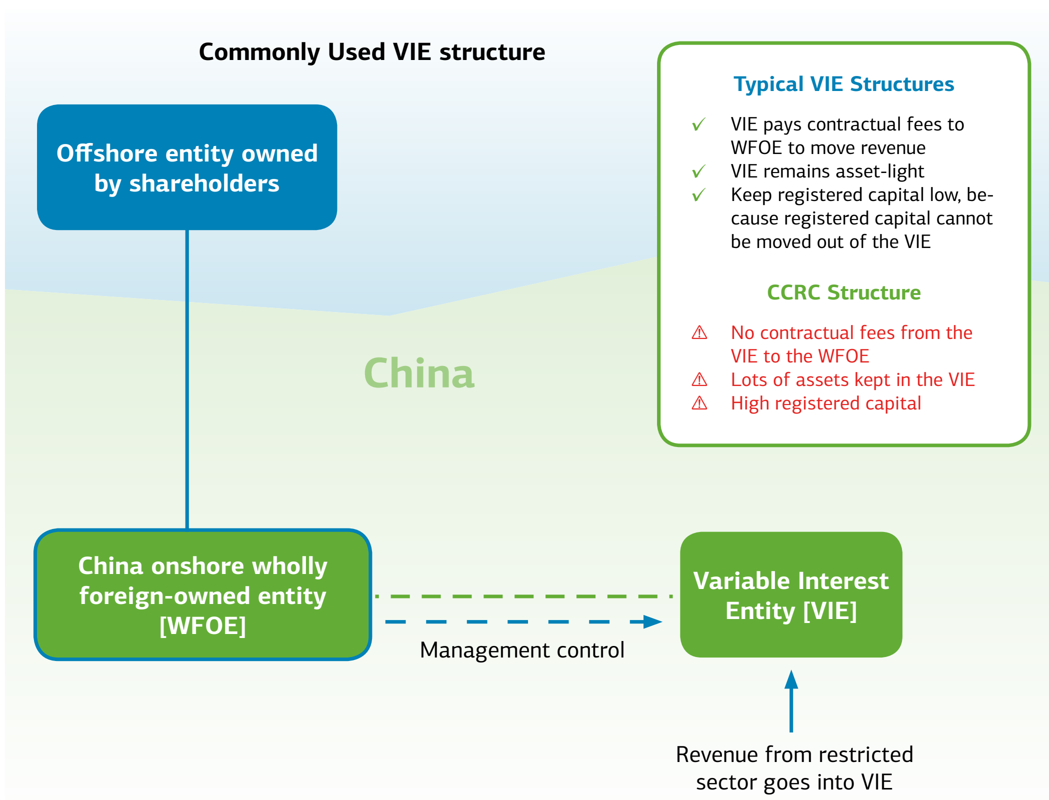
CRCC's corporate structure is so complex it would make Alibaba's Jack Ma blush. We believe the complexity could aid the transfer of capital away from investors. CCRC CEO Gary Wang is owner or director of 33 companies in Mainland China and at least four overseas. We accessed Chinese government records showing company ownership.

CCRC disclosures make it clear that the only company that NASDAQ investors actually own is the wholly foreign-owned enterprise (WFOE) subsidiary called Shandong Juncheng. Unlike the VIE, this company is very simple. It has one subsidiary, called Taian Juncheng, and neither company has any revenue or other activity. We have translated 2016-17 tax statements for the two companies, obtained from an attorney. They may be downloaded here.

Empty hands

CCRC stands out from other listed companies operating in China that use the VIE structure. For most, VIEs are a pass-through for revenue from businesses restricted to foreign ownership. The VIE company typically moves money into wholly owned operating companies as quickly as possible. The means by which listed companies work through the VIE structure is by writing contracts under which the VIE

Chart 2. CCRC vs. Common VIE Structures



nets out costs to minimize taxes then pays the balance of its revenue to the listed company's WFOE. That WFOE, then, can make dividend payments to the overseas parent company.

VIEs generally move their revenue or profit to a WFOE under contracts that oblige them to pay the WFOEs for management services. Baidu, for example, whose VIE is called Baidu Netcom, provides "technical services" to its VIEs: "Baidu Netcom agrees to pay service fees to Baidu Online and Baidu Online has the right to adjust the service fees at its sole discretion without the consent of Baidu Netcom." Netease has a similar agreement under which it provides "technical consulting and related services" to its VIEs.

CCRC's VIE, by contrast, gives nothing to public shareholders; CCRC puts capital into the VIE in terms of registered capital. There are no cash flows back from the VIE to the WFOE, whether as revenue or as profit remittances under VIE contract. We know this because the WFOE accounts obtained from Chinese tax authorities show no revenue or other activity for 2016 or 2017.

Chart 2. CCRC vs. Common VIE Structures

BIDU

- ✓ 15% of company assets
- ✓ 6% of company cash
- ✓ 34% of company revenue
- ✓ Baidu provides "technical services" to its VIEs: "Baidu Netcom agrees to pay service fees to Baidu Online and Baidu Online has the right to adjust the service fees at its sole discretion without the consent of Baidu Netcom."

NTES

- ✓ 14% of company assets
- ✓ Cash undisclosed
- ✓ 75% of company revenue
- ✓ Netease provides the VIEs with "technical consulting and related services" for which the VIEs pay their revenue over to the wholly owned entity.

CCRC

- ⚠ 89% of company assets
- ⚠ 68% of company cash
- ⚠ Revenue undisclosed
- ⚠ No disclosed services agreement that would convey revenue from the VIEs to the WFOE.

Diverting cash

CRCC in many ways resembles the "China Hustle" frauds: the Chinese operating companies appear to have much lower profitability than CCRC claims. For 2017, reports to China's State Administration of Industry and Commerce and tax bureau show profit of just $3.5 mln, compared with $10.9 mln that CCRC reported to investors.

To quantify CCRC revenue and profit, we obtained financial statements for Shandong Taiying, the VIE company, and for the 14 disclosed subsidiaries that have reported revenue. We also reviewed the financial statements of 12 undisclosed companies that belong to the same corporate parent as the VIE company.

The VIE company statements appear to be consolidated. Balance sheet values more or less match those reported to U.S. investors

We have visited four locations where CCRC has established phantom companies right next door to real operating companies. The phantom companies are owned by management and undisclosed to shareholders. They contain no staff and have no premises; they are simply paper companies with registration addresses. These companies are able to siphon revenue by providing "services" to the disclosed companies. We interviewed a source from CCRC in Beijing. The source said:

> "In a few of the important locations for Taiying Technology [the VIE company] within China, such as Shandong, Beijing, Chongqing, and Jiangsu, we have registered two or even more companies at the same location. Among them, Taiying Technology is the principal entity for outsourcing services, and the other companies provide services to it. These services might include issuing tax receipts, hiring, training, and so on."

We verified the comments through four site visits and interviews with government and current and former CCRC staff. We visited CCRC companies in Yantai, Taian, and Zaozhuang in Shandong as well as in Beijing. We spoke with 15 employees in person and six by phone, six government officials in charge of the office parks at the Shandong sites, and a building manager in Beijing. We also conducted extensive documentary review. Here are some examples of shadow transactions:

Zaozhuang, Shandong

In a small tech park in Zaozhuang, Shandong, CCRC established a disclosed VIE subsidiary called Zaozhuang Shenggu E-commerce Co. Ltd. (ZSEC). A government official at the park told us that CCRC employed 800 people at this company. Right next door to that company is another company, owned by CCRC CEO Gary Wang and not part of the VIE. It is called Zaozhuang Shenggu Customer Creation Management and Service Co. Ltd. "Shenggu" is a transliteration of the term that is sometimes translated as Sound Valley.

A local official told us that this shadow company "does not have any actual business," but it does have ¥10 mln in registered capital. That money could have come from CCRC shareholders.

Photo of the CCRC company in Zaozhuang, Shandong. The address of this company is No. 1 Dongshun Road Outsourcing Park. Next door, at No. 2, is an undisclosed shell company with almost the same name owned by CCRC's CEO Gary Wang. Photo by J Capital August 2018

Yantai, Shandong

Yantai is another city in Shandong, which is CCRC's home. At the same address at 9 Jinhua Road in Yantai, CCRC has four operating companies, only two of which are disclosed and part of the VIE.

Above: "North Sound Valley" is an independent entity (government records say it is not a formal company with an equity structure) that is controlled by CEO Gary Wang. It operates out of the same office as the company's VIE. Photos by J Capital August 2018.

An interviewee working at CCRC in the office park told us that the company provides services to CCRC's VIE company but did not know what type of services.

Sign for Yantai North Sound Valley Call Center Training Center, controlled by Gary Wang.
Photos by J Capital August 2018.

Beijing

CCRC operates three companies from the same address in the Grand Pacific (Heqiao) Building in Beijing's Chaoyang business district. One of them, called "Voice Valley Education" (the same Chinese characters as "Sound Valley" and "Shenggu"), is part of the shadow complex owned by the VIE's parent company. It has ¥10 mln ($1.4 mln) in paid-in capital investment and seven subsidiaries. The companies operate at the offices of their parent company, Beijing Taiying Anrui Holding Co. Ltd., which is also the parent of the CCRC VIE.

The set of related companies of which "Voice Valley" is a member are sometimes called Sound Valley and sometimes Shenggu in CCRC's disclosures; the Chinese characters are the same for all three renditions.
Photos by J Capital August 2018.

Merry Christmas! We found CCRC's disclosed office in the same complex. CCRC rents two offices next door to each other. But there was no one in the office to speak with.
Photos by J Capital August 2018.

Other strategies for extracting money from CCRC shareholders could include the following:

- **Related party transactions:** CCRC is a subcontractor to Shandong Luk, a call center company owned by CEO Gary Wang's brother, and, according to the 20-F, forgave Shandong Luk an account receivable of $353,513. It pays commissions to a related party called Beijing Jiate for "referring customers." The principal shareholder of Jiate owns equity in a VIE operating company and used to own a VIE branch in Hebei Province, which is now closed. In 2013, CCRC extended a $1.13 mln interest-free loan to a company in which CFO David Wang is invested. The loan has still not been repaid. The table of loans to related parties runs to 17 individuals and companies and peaked in 2013 at $4.2 mln outstanding. By 2017, outstanding loans to related parties were about $1.4 mln.

- **Undisclosed investments:** CCRC is putting VIE money into undisclosed investments. Two such companies are called Beijing Lingban Future Technology and Beijing Lingban Timely Smart Technology. These tech companies have taken in investment from CCRC's VIE but are undisclosed.

- **Overseas company:** CCRC management disclose that they have set up a

Hong Kong subsidiary of the Chinese VIE company. As an offshore company, there is no earthly reason why this company should not be owned by CCRC shareholders rather than by management. Its existence would allow management to pull money out of China without disclosing it to investors, through inter-company loans and other strategies. One legal means by which that could be done would be through a technical services contract between the offshore company and its VIE parent.

- **Undisclosed related-party companies and possible transactions:** CEO Gary Wang owns an undisclosed company called Yantai Northern Sound Valley Call Center Training School that has no physical address but has ¥500,000 in capital. He is also part owner of a company called Huaian Anrui Corporate Management Co. CEO Gary Wang's brother Wang Hengli owns a company called Zaozhuang Sound Valley that is co-located with a CCRC company but has no operations. We visited the office park where the companies operate and spoke with park management, who confirmed that Zaozhuang Sound Valley is a shell company. Company Vice Chairman and CFO David Wang is legal representative of a company called Taian Taifu Wealth Share Investment Co. in which Taiying, the CCRC VIE, has invested ¥2 mln. We visited this company's registered address and found no company there. Next door, however, is Taiying. It is all too possible that money credited to these co-located companies could have come from CCRC.

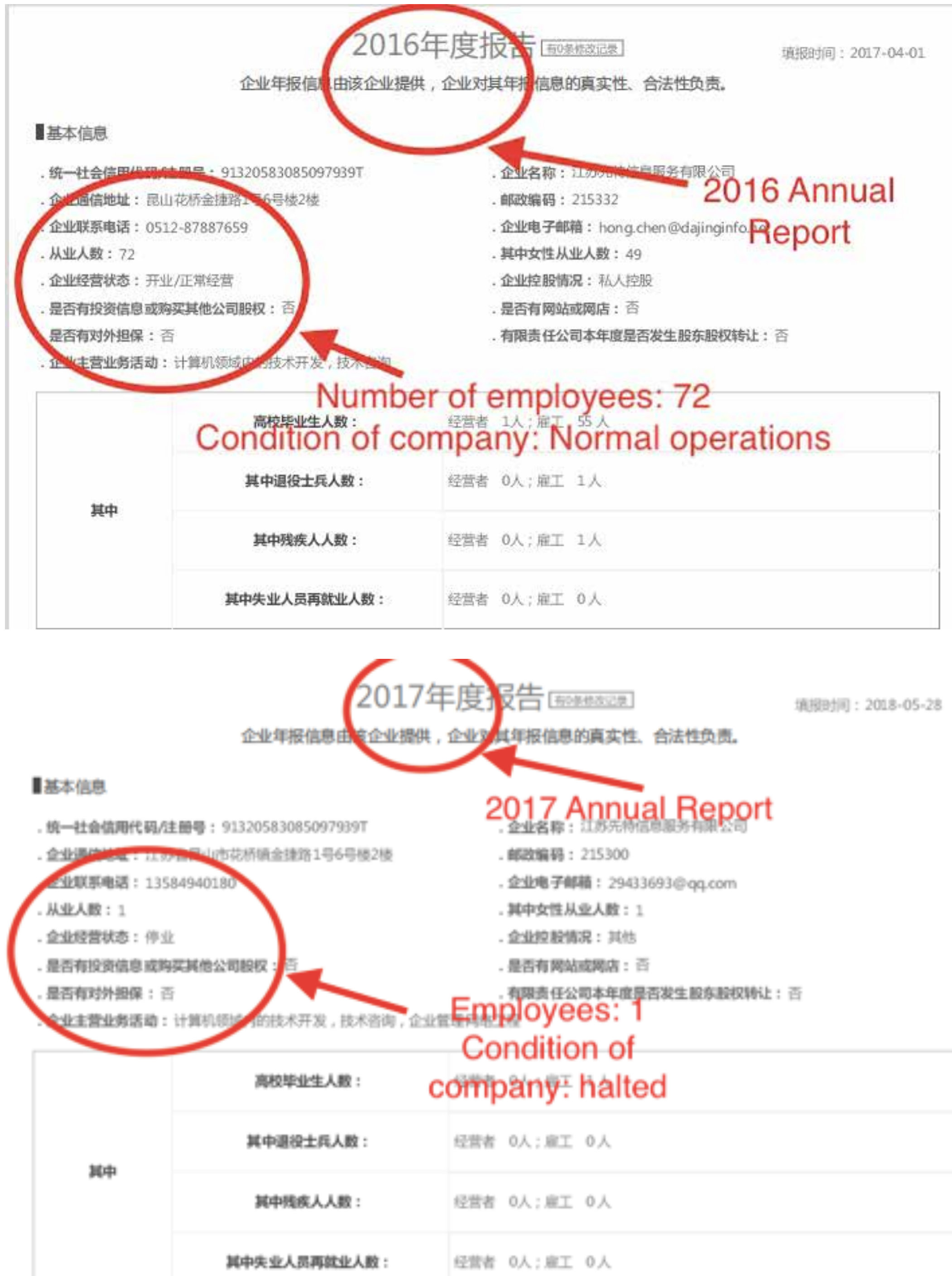
The capital budget

Having a VIE parent company that is not related to CCRC could allow management to deal CCRC capital investment to itself by injecting it into the parent company, which then would portion out the capital to its two subsidiary branches, one a VIE and the other in no way obligated to CCRC.

Beijing Taiying Anrui Holding. This is the VIE parent company, owned by CCRC management. This company owns the set of "Sound Valley" shadow companies.

Beijing Shenggu Education. This is the parent company's principal subsidiary, which owns other subs. Beijing Shanggu has no activity, revenue, website, or mention on China's internet. Total capital investment committed to its subsidiaries is $6.4 mln; documents do not indicate whether the capital has been paid in.

Jiangsu Central Information Service Co., Ltd. was established in 2013 and apparently hollowed out in 2017. The company reports 0 revenue but has $1.5 mn (¥10 mln) in registered capital investment from CCRC. In 2016, the company reported having 72 employees, and in 2017 it had 0 employees. Its financial statements are not available. What happened to the capital?



Registration records for Jiangsu Central Information Service Co. Ltd. sourced from the Chinese Administration of Industry and Commerce

Lingban Technology. Many of the undisclosed affiliates are shell companies with no activity. Our interviews with employees, as well as financial statements of the shell companies, indicate that these shell companies take on expenses for the call centers. The undisclosed companies uniformly show losses. But Lingban, a technology company in which Shandong Taiying is a minority investor, seems to have broad ambitions. The company has six subsidiaries, some of which have their own subsidiaries, and is developing speech and language recognition technologies and artificial intelligence. CCRC is listed on the website as a "strategic partner."

CCRC reports that its VIE has net $6.1 mln in property plant and equipment. But the VIE company's books report net PPE of just $1.4 mln.

We interviewed three chiefs of call center operations for Chinese telcos. They estimated total capital costs for a call center at $120,000 per 500 seats. But they also said that localities give big subsidies to call center operators, who can generally get a facility and utilities free in year 1, with significant discounts in the following four years. So, for CCRC's 11,850 full- and part-time employees, we estimate top-end capital required to be $2.8 mln. The $1.4 mln reported by the VIE is a reasonable number. What happened to the remaining $4.7 mln in PPE?

False statements

CCRC is one of the very few times we have seen the Chinese government sanction a company for "making false statements." The WFOE company, directly owned by CCRC, was entered into a government list of dishonest companies in 2016. In 2017, management applied to have it removed from the list.


5.10 经营异常

列入经营异常原因	列入日期	列入决定机关	移出经营异常原因	移出日期	移出决定机关
公示企业信息隐瞒真实情况、弄虚作假的	2016-11-16	泰安市工商行政管理局	列入经营异常名录3年内且依照《经营异常名录管理办法》第八条规定被列入经营异常名录的企业更正其公示的信息后，申请移出	2017-03-06	泰安市工商行政管理局

Registration record for Shandong Juncheng Information Technology Co. Ltd., one of CCRC's two wholly owned subsidiaries in China.

The business

CCRC has picked a pretty unattractive operating business. China's call center business suffers from an excess of capacity. According to a call center manager we interviewed, China's three telecom State companies own about 120,000 call center seats and contract for another roughly 60,000. Private call-center operators include HL95 (jointly owned by Citic Guoan and Alibaba Health) and CCRC. The telcos keep for themselves the higher-value business and use private companies for the calls that are paid out at ¥1-2 per call.

Given that the telcos have so much capacity, so much cash, and overwhelming market power, they can pick and choose work to farm out to private companies begging at their table. So, it did not surprise us to see that no agreements with China Telecom or China Mobile—which in 2013 represented 88% and now provide 48% of revenue--were filed with the prospectus. After a request from the SEC, CCRC filed an agreement with China Telecom Chongqing. The agreement appears to describe an arrangement whereby CCRC is renting seats belonging to China Telecom.

The company also filed an incomplete agreement with China Mobile that is called the "System and Information Administration and Control Requirement for Beijing Mobile Service Outsourcing Program" (see S-1A filed January 5, 2015). This appears to consist merely of guidelines for call center services but not a contract. Because the telcos have such overwhelming market power, capital, and government support, we doubt that they agree to binding contracts with call center service providers, and the agreements filed by CCRC do not contain terms that bind the telcos to a given term at a given rate. [2]

Underwriters and auditor

When CCRC went to list in the U.S., the company sought help from a set of highly dubious advisors: ViewTrade Securities as underwriter, MaloneBailey LLP, as auditor, and the Kaitong Law Firm.

MaloneBailey was heavily criticized by the PCAOB, which named MaloneBailey the top auditor of Chinese reverse mergers. In the most recent PCAOB inspection report, significant deficiencies were cited. For example, MaloneBailey blessed the accounts of an audit client when it promised to purchase a company that made advances to its customers. It allowed another audit client to assign an unsupported "fair value" to a shell company and issue stock to acquire it.

A lawsuit in Ontario Superior Court over the demise of the Chinese fraud SinoForest alleges that CCRC's Chinese law firm, Guangdong-based Kaitong Law Firm, issued a report that verified false claims by SinoForest. An independent commission in Canada verified that the Kaitong report supporting SinoForest claims was "unverifiable."

Kaitong has also advised problematic Chinese small and micro caps like China

2 See Form S-1/A filed January 5, 2015, Exhibit 10.14

Customer Relations (CCRC), ReTo Eco-Solutions (RETO), TDH Holdings Inc. (PETZ), and Anpulo Food.

As for microcap brokerage Viewtrade Securities, investors are probably best off drawing their own conclusions by reviewing the track record of the companies Viewtrade has raised capital for, companies like China Commercial Credit (GLG), trading at $0.55 after hitting $7.20 shortly after its debut; TDH Holdings, now at $2.80, down from $25.48 in October; Senmiao Technologies (AIHS), also trading well below IPO price and down nearly 50% from its May peak, and many more. A more recent client, Yulong Eco-Materials, recently jettisoned its China manufacturing business and instead bought—a sapphire. FINRA counts 14 regulatory events for ViewTrade.

CCRC itself has assigned as its senior accounting member responsible for preparing financial statements the former CFO of Tianli Agritech (OINK). This company was a reverse-merger that has changed its name and ticker and now trades for a total market cap of $17 mln as ABAC. CCRC provided this affiliation only following filing of the prospectus, in correspondence with the SEC. The exchange is as follows:

> Barbara C. Jacobs, Assistant Director, Division of Corporate Finance, SEC:
>
> We note your response to prior comment 16 that the senior accounting member who is responsible for preparing and supervising the preparation of your financial statements was the CFO of a NASDAQ-traded, China-based company. Please tell us the name of this company and explain further this individual's role in the preparation of this company's financial statements.
>
> Bradley A. Haneberg, Esq. for CCRC:
>
> The Issuer acknowledges this comment and advises the Staff the name of the company was Tianli Agritech. This individual, along with other management at Tianli Agritch was responsible for establishing and maintaining adequate internal control over the financial reporting for the company. The adequate internal control procedures were implemented to provide reasonable assurance regarding the reliability of the company's financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. (SEC correspondence June 1, 2015)

The company had tried, and failed, to IPO earlier, using another unsavory group of advisors. The business attempted to IPO under the name Tai Shan Communications in 2010-2011, a period when a number of Chinese frauds came to market.

The underwriter for that effort was a company called Anderson & Strudwick, a brokerage whose other clients included famously troubled penny stocks such as e-Future Information Technology (EFUT), Sino-Global (SINO), and Tibet Pharmaceuticals (TBET). Anderson & Strudwick was to receive 200,000 warrants from Tai Shan if the IPO went through.

It didn't. In 2011, Anderson & Strudwick was forced into bankruptcy by debts in a class-action lawsuit by investors in the TBET IPO. Anderson had helped TBET raise $16.5 mln from U.S. investors by dramatically overstating sales and understating debt. Tibet Pharma misappropriated the IPO proceeds and, according to reporting at the time, was suspected of having deposited the money into Anderson & Strudwick's brokerage account.

SEC comments

SEC comments and requests for clarification on CCRC's prospectus could fill a book.

First off, they caught out CCRC on unused capacity:

> "You disclose in the second sentence that you have 5,000 seats in your call centers. If you are unable to fully utilize your capacity, you should revise to so indicate in your disclosure here. In this regard, we note that you had 4,400 employees as of December 31, 2013."

Capacity remains underutilized. In 2017, CCRC reported 15,260 seats but 8,545 full-time employees and 3,305 part-timers, so a utilization rate of no more than 78%. Actual utilization should be much lower, since CCRC call centers operate two or three shifts.

The SEC also noted discrepancies in reports about company subsidiaries. When the SEC asked CCRC to file background reports by named consultancies to support market assertions, instead, they removed the names of the consultancies. SEC responded:

> Regarding your revisions in response to prior comment 6, we note that you removed the names of SNL Financial, KPMG, Euromonitor International, CNNIC, and iResearch but retained their data in your disclosure. It is unclear how referring to the source of the data as "private research" allows a prospective investor to assess the validity of such data. Please advise, or revise to name the third-party data providers.

Last February, the SEC notified CCRC that its count of public shareholders had fallen below the threshold required to maintain a publicly traded company. CCRC said it had 45 days to submit a plan to come into compliance and 180 days to rectify the issue. The 180 days were up on August 20 but nothing more has been announced.

Booking phantom revenue?

On October 12, CCRC filed its report for the first half of 2018, showing 90% revenue growth. The share price enjoyed a brief surge. But we were unimpressed. While revenue grew by $11 mln, accounts receivable rose by $9.4 mln. Operating cash flow was negative, and the company spent an additional $1.5 mln on PPE. We will not believe there is a sales improvement until CCRC actually collects the money it says it has contracted for.

The threat of delisting

On February 22, 2018, CCRC reported that it had received a warning from Nasdaq that the company was in danger of being delisted because its share roster had persistently fallen below the minimum required 300 public shareholders. The notice can be downloaded here. CCRC said it had 45 days to remediated and 180 days to rectify the situation. There was been no further notice from the company or the exchange.

Run, don't walk

Whether or not there is a profitable business to be done in running call centers in China—and we doubt there is—we conclude that CCRC will not be giving investors any of the profit. This company has been designed to be a sieve for investor cash.

There's another Chinese idiom, 漏洞百出 (*lou dong bai chu*), meaning "full of holes." It refers to a liar who is trying to present a credible story but keeps slipping up by offering incompatible details. We consider CCRC a *lou dong bai chu* confection, one that will take investors' money and make it disappear.

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