

Tiange – Who are the Distributors?

August 29, 2017

The Basics	
Ticker:	1980.HK
Recent Price:	HK\$5.29
Market Cap:	HK\$6.9bn

Emerson Analytics Forecast
<i>Delisting</i>

Tiange published a so-called "clarification" announcement August 27 and resumed trading. The announcement not only fails to respond directly to the concrete evidence in our August 16 report that it has been fabricating its operational and financial data since it was preparing its listing. Worse, it distorts our statements and confuses the issues, hoping to muddle through. We remain convinced that the only appropriate regulatory action for Tiange is Delisting.

➤ First, with regard to the payment model, Tiange says in the "clarification" announcement:

Misunderstanding of the payment model of the Company disclosed in the Prospectus. The payment model since the listing is the same as that disclosed in the Prospectus, that is, (i) the users' direct purchase of our virtual currencies were paid to the Company directly through third party payment platforms and after deduction of service fees; and...The allegation in the Report for the users' direct payment to the account of the Company is precisely a description of the payment model (i) described above, which has been disclosed in the Prospectus.

COMMENTS: In our August 16 report we provide the records for two different payment processes:

- First payment process: end-user's payment THROUGH a sales agent goes directly to a Tiange subsidiary's bank account.

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- **Second payment process: payment made BY A SALES AGENT for the purchase of virtual currency goes directly into a Tiange executive's personal bank account.**

Clearly, the first payment process, THROUGH A SALES AGENT, is a totally different thing from "users' direct purchase of virtual currencies". Further, according to the IPO Prospectus, Tiange does not have employment relationship with the sales agents. It is clear that in both the first and the second payment process, all payments bypass the distributors, who therefore cannot contribute any revenue to Tiange.

One can say that the second payment process is the most crucial accusation of Tiange's fraudulent practices in our August 16 report, and the "clarification" simply evades the whole issue. We are most surprised that the Stock Exchange of Hong Kong simply accepted such a piece of rubbish.

It is common knowledge that we are a vocal critic of HKEX for its readiness to accept any absurd excuse put up by the fraudsters. It is clearly getting worse: a fraudster simply ignores the most crucial issue and HKEX acquiesced.

- On the question of using 6.cn as Tiange's comparable company, Tiange says in the "clarification":

Unprofessionally use of "6.cn" as the Company's comparable company. Shanghai iResearch confirmed that, in 2013 6.cn focused on webpage products, while 9158 and Sina Show focused on its client softwares. The client softwares need to be separately downloaded and installed, while the webpage products are easy to visit and require no registration process, hence easier to achieve the rapid growth in terms of the number of users.

COMMENTS: Has the Tiange management forgotten that users can ALSO access their main live video streaming communities through the web, without installing any client software? If 6.cn's webpages can easily attract users, shouldn't Tiange's webpages easily attract as many users?

Exhibit 1 – Tiange's main live streaming communities all support web browsing

Name of Community	Streaming Model	Devices Supported	Maximum Streams
9158 Video Community . . .	Many-to-many	Web PC, iOS, Android	10
Sina Show	Many-to-many	Web PC, iOS, Android	10
Duoduo Games	Many-to-many	PC	10
Happy88.com.	Many-to-many	PC, iOS, Android	10
99cu.com.	Many-to-many	PC, iOS, Android	10
Tiao58.com	Many-to-many	PC, Android	10
Paopao8.cn	Many-to-many	PC, iOS, Android	10
Tanguo100.com	Many-to-many	PC	10
Sina Showcase.	One-to-many	Web Android	1

Source: IPO prospectus, p.162

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- With regard to the number of concurrent users, Tiange says in its "clarification":

*Unfamiliar with the business development trend of the Company... However, the number of concurrent users stated in the Report **does not include the number of concurrent users for the mobile live steaming (sic) platforms** of the Company.*

COMMENTS: We note in our August 16 report very clearly that the user count shown in client software **includes all end-users**. Because Tiange's mobile live streaming is fully integrated with its client software live streaming.

- Tiange's client softwares include different types of users – the web users, the client software users and the mobile users – who are separately identified with different icons (Exhibit 2).
- The number of mobile live streaming users is shown in the client software. As can be seen in Exhibit 2 below, even when there is no PC host, the client software still displays the number of users watching the live streaming of the mobile hosts.

Exhibit 2 – Client Software shows all hosts and all users



Source: Emerson Analytics

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- With regard to the calculation of bandwidth costs, Tiange says in the "clarification":

Improper calculation of bandwidth costs (sic) and using wrong assumptions...In the Report, it has mistakenly assumed that there exists linear relation between the peak concurrent users and MAUs, and does not consider the cost reduction of network data centers in recent years and the technology advantages of the Company in video and audio compression. In addition, we have made comparison of bandwidth costs and number of MAUs with comparable companies in the industry based on the public available information, which shows that our bandwidth costs is not unreasonable.

COMMENTS: Isn't it common sense that bandwidth costs are calculated according to the number of peak concurrent users rather than MAUs? Tencent Holdings Limited (Tencent, 0700.HK) and Alibaba Group Holding Limited (Alibaba, BABA.N) both price their bandwidth service accordingly. Are they making a mistake?

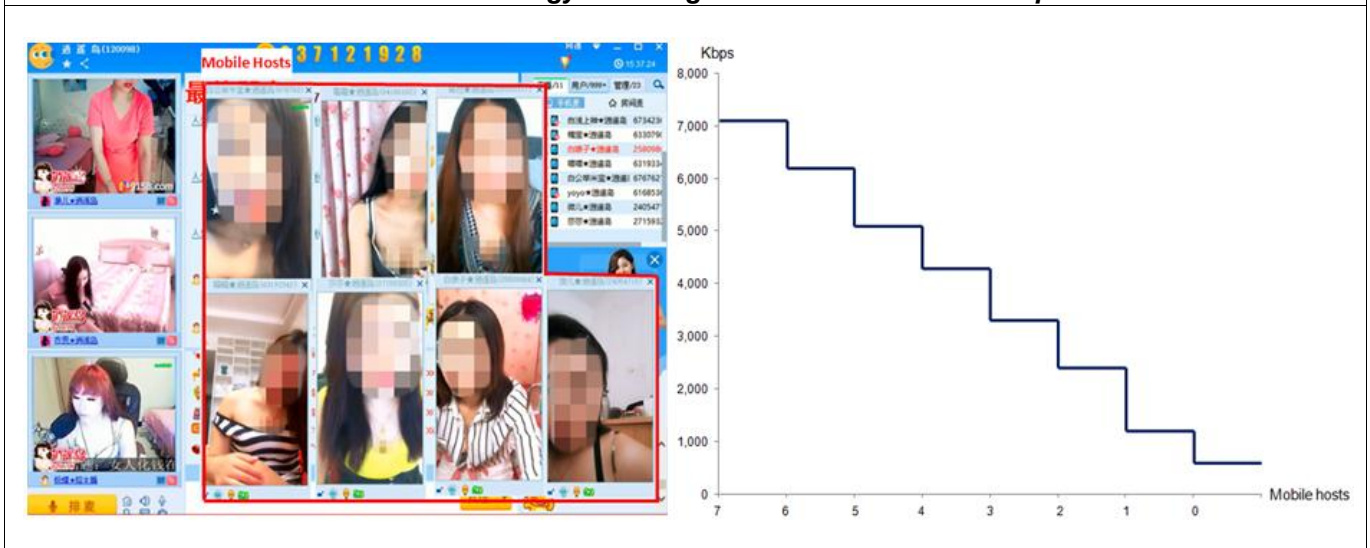
We certainly know that the number of peak concurrent users and MAUs do not exhibit a strict linear relationship, but they are closely related. Tiange reported total MAUs of 19,235k for 2016, up from 10,819k in 2013. It is reasonable to assume that the company's peak concurrent users also increased proportionally.

We certainly knew that bandwidth unit cost in Mainland China was in a downtrend during 2016. We also knew that Tiange reported a 14% year-on-year decrease in its bandwidth and server custody fees. Our estimate of Tiange's bandwidth cost was based on the latest bandwidth unit price and the number of peak concurrent users. Does it have anything to do with "the cost reduction of network data centers"?

As far as the so-called "technology advantages of the Company in video and audio compression", let's look at the situation in Exhibit 3 below. In this case, there were three PC hosts and seven mobile hosts, demanding as much as 7,100Kbps of bandwidth. If Tiange were really deploying its so-called advanced compression technology, the bandwidth would not have been so high. And when we turned off those floating mobile host windows one by one, the bandwidth also declined step by step, as shown in Exhibit 3 below. How did Tiange's compression technology manifest itself?

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Exhibit 3 – A clear evidence that technology advantages in video and audio compression are mere BS



Source: Emerson Analytics

➤ With regard to the non-existent distributors, Tiange says in its "clarification":

Unreasonable use of untrue information...three of the six distributors claimed to be distributors of the Company in the Report (including Walrus Network Technology (Hangzhou) Co., Ltd., the largest distributor claimed in the Report) are not distributors of the Company.

We carefully combed the Internet and talked to industry participants over several months and managed to identify six Tiange distributors (four of whom had been dissolved) and revealed their basic information in our August 16 report. We were expecting Tiange to disclose more information about its distributors. Unfortunately, all through these years from the time of its IPO till now, Tiange wouldn't even disclose its distributors' names. Why is Tiange so secretive about its distributors?

We are shocked that Tiange denies Walrus Network is its distributor. Even the hyperlinks of Walrus' website <http://www.walrushz.com> and of Walrus' hiring advertisement on www.chinahr.com that we present in our August 16 report no longer work, much as we had expected.

Still, as can be seen in Exhibit 4 below, Walrus Network provided operational services to 9158 Video Community, Sina Showcase, Tiao58.com and Duoduo Games. In the first screen capture, the group overview says it has set up a 9158 business unit, and in screen capture 3 it notes that its milestones include becoming Duoduo Games' sole operator and then Sina Showcase's sole operator.

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Exhibit 4 – Walrus Network operates 9158 Community, Sina Showcase, Tiao58.com and Duoduo Games

<p>1</p> <p>集团概述 GROUP PROFILE</p> <p>9158 Business Unit</p> <p>9158事业部</p> <p>服务、战略投资等为主营业务。公司总部设在杭州，分设1717</p>	<p>2</p> <p>2014年7月9号，海象集团成功帮助天鸽互动有限公司(股票代码：1980)港元的发行价上涨13.4%。上市后，天鸽互动总股本达到12.17亿股；按开盘欢聚时代(YY)登陆纳斯达克之后，又一个成功上市的视频互动社区。天鸽互动本市场的又一典型样本，且再次验证了优酷土豆、爱奇艺之外的视频行业第二“祖”之称的“9158”和2010年并入天鸽互动的“新浪SHOW”等多个社交视频社区，即新浪秀场。</p> <p>9158's sole operator</p> <p>作为9158唯一的娱乐服务运营商，海象集团在天鸽互动上市的里程中，新的</p>
<p>3</p> <p>乐服务平台在线注册用户突破2000万 公司规模发展至300人</p> <p>2012年</p> <p>Sina Showcase's sole operator</p> <p>获得新浪旗 新浪秀场官方独家娱乐运营权</p> <p>2011年</p> <p>Duoduo Games' sole operator</p> <p>海象网络科技 独家运营的第一个游戏平台 第一款多游戏进入市场 公司员工团队超过100人</p> <p>2008年</p>	<p>4</p> <p>2005年5月，旗下还拥有杭州轩秀网络科技游戏公司，杭州轩尼网络科技网娱乐代运营公司，为各大互联网公司提供专业的代运营服务，是领航业界方案供应商，服务于新浪9158、搜狐9158 Community, Sina Showcase，我们才能成功”的服务理念，已经成功为新浪9158，新浪微秀，搜狐，多供代运营服务，我们一直领航业界，因为客户的认可赋予我们生存的地，因为专业，所以专注。海象自创建发展至今已达到500余人的公司规司、网络代理团队，运营管理团队，客服服务团队等行业精英。我们是一家造力的年轻团队！我是中国唯一的互联网娱乐代运营公司！我们的工作时间</p>

Sources: <http://www.walrushz.com/groupIntroduction/groupIntroduction.htm>
<http://www.walrushz.com/index/newsInformation.htm?channelId=18>
<http://www.walrushz.com/groupIntroduction/growthandMilestones.htm>
<http://www.chinahr.com/job/19881460226948.html>

In April 2016, a former staff member of Walrus Network told an Emerson investigator that Walrus Network was the sole distributor for 9158 Video Community and Sina Showcase. An English translation of the transcript of the relevant conversation follows in Audio Evidence 1 below:

Audio Evidence 1 – Ex-staff says Walrus Network is sole distributor of 9158 Community and Sina Showcase

Emerson Investigator: 9158, Sina Showcase should have their own sales agents?
 Walrus Network Ex-staff: No, it's all done by us.
 Emerson Investigator: Everything is done by Walrus?
 Walrus Network Ex-staff: Yes.
 Emerson Investigator: That means you are the sole distributor?
 Walrus Network Ex-staff: Correct.

Source: Emerson Analytics

All of the above clearly points to Walrus Network as Tiange's most important distributor. If, as Tiange claims, Walrus is not a distributor, then **who are these distributors?** Are they totally untraceable?

Based on our estimates, Tiange's biggest distributor should have more than Rmb327m in revenue working for Tiange last year, while the other four distributors should average some Rmb88m of revenue each. If these distributors are really in business, they will leave numerous footprints about hiring live streaming

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hosts and sales agents. These companies should be reasonably big such that many of their employees are coming and going all the time, leaving their CVs and employment histories on the Internet. Mysteriously, these distributors (and their staff, hosts and sales agents) are just nowhere to be seen.

This reminds us of the case of Sound Global Ltd. (0967.HK), which claims to have a subsidiary Beijing Epure International Water Co. Ltd. This mysterious and untraceable company was said to have generated Rmb1bn of revenue for Sound Global. In the end, Sound Global is proven to be a big lie. Are Tiange's distributors equally mysterious and untraceable?

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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.

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