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Global New Mat – Loss-maker Inflates Output 4X

April 8, 2024

The Basics		Emerson Analytics Forecast	
Ticker:	6616.HK	<i>Delisting</i>	
Recent Price:	HK\$3.53		
Market Cap:	HK\$4.4bn		

This producer of pearlescent pigment products has long reported high operating and financial ratios relative to its peers: (i) revenue CAGR at 30.3% against 8.7% for Fujian Kuncai during the 2018-22 period; (ii) EBIT margin 16.1 percentage points higher than that of its peer in 2022; (iii) abnormally high inventory turnover. Its reported revenue for 2019 and 2020 was 41% higher than that published in a semi-official trade almanac. Such exaggeration continued in 2021 and 2022.

Global New Mat has not created an intricate financial fraud – it just simply and crudely bumped up its production volume:

- ✓ During our on-site investigations, two ex-staff members put the company's output of all pearlescent pigment products at 200-300 tons a month. The upper limit of the range was only 20% of the company's 2022 claim;
- ✓ Synthetic mica-based products accounted for 44.5% of total revenue from all pearlescent pigment products. Based on the plant's detailed economic and technical indicators and our calculations, the company only produced 75 tons of synthetic mica-based products a month, merely 14% of claim;

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- ✓ Its existing production capacity is more than enough, thus prompting the company to delay any expansion that the IPO proceeds are supposed to fund. Our investigators saw that the commissioning of its new projects is seriously behind schedule.

It is hard to believe that Global New Mat's sales to its major "customers" really exist:

- ✓ Chesir Pearl, Global New Mat's principal operating entity, reported Silia Innovation SAS as its biggest customer in 2016. This French customer is actually 98% held by a Global New Mat's employee and shares the same address as Global New Mat's subsidiary Chesir Europe S.A.S;
- ✓ The second biggest customer had never had any employee since its incorporation and a company controlled by Global New Mat's chairman guaranteed this customer's debts to other parties.

On the surface, Global New Mat's financial position was healthy. But the company has been raising funds with high interest rates convertibles (IRR of 9% in the 2022 issue of Rmb300m, and a simple 9% coupon in the 2023 issue of US\$80m). Its low effective deposit interest rates suggest that a large part of its cash and bank balances simply didn't exist.

Guangxi government's principal investment company has backed out of a joint venture with Global New Mat and is selling down its stakes in the listed entity – a clear signal that its local intelligence network has sounded the alarm. As a result, Global New Mat is now trumpeting a new Rmb10bn project further afield in Zhejiang province, and has coned an SOE in Zhejiang to invest Rmb1bn in the project.

Assuming that Global New Mat has reported its average selling prices and gross margins correctly, the lower-than-reported sales volume means it is actually losing money. For a company that has fabricated profit out of thin air for a number of years, a historical P/E of 21.8x is insane when Hang Seng Index is trading at 9.6x P/E.

We have passed on the full results of our Global New Mat investigation to the Hong Kong Securities and Futures Commission and expect the Stock Exchange of Hong Kong to delist this worthless company soon.

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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.

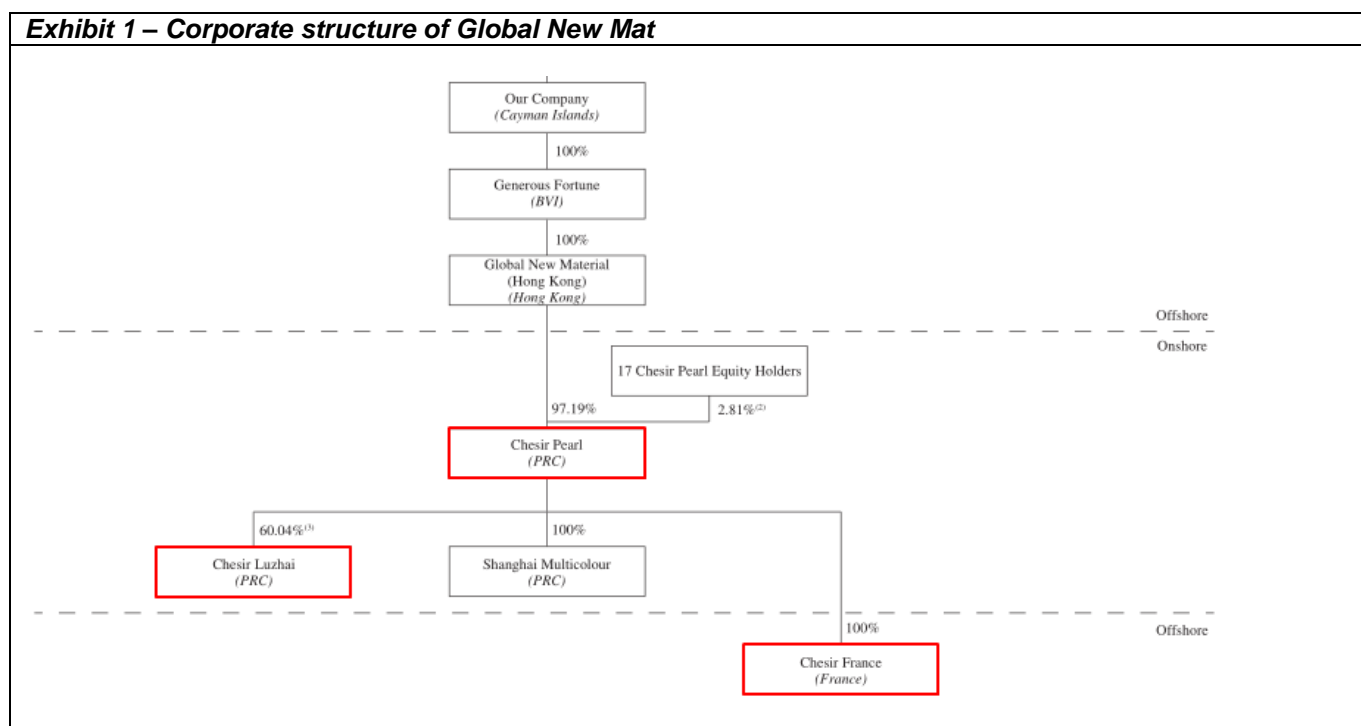
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Chapter 1 EBIT Margins Far Superior to Those of Peers

Global New Material International Holdings Limited (6616.HK, Global New Mat) produces and sells pearlescent pigment products, which can be added to all kinds of things to enhance their colors – from paint to ink and textile products to lip sticks. Its principal place of business is in Luzhai County, Liuzhou City, Guangxi Autonomous Region. The company was listed in Hong Kong in July 2021 at an initial public offering (IPO) price of HK\$3.25/share. Its single largest shareholder with a 34.0% stake is Ertian Su (蘇爾田), who is also the company's chairman, CEO and executive director.

Global New Mat's corporate structure is shown below in Exhibit 1. Its 97.19% held subsidiary Guangxi Chesir Pearl Material Co., Ltd. (832080.NQ, Chesir Pearl, 廣西七色珠光材料股份有限公司) was listed in March 2015 on the NEEQ (National Equities Exchange and Quotations), but was delisted in September 2019. Chesir France in the chart refers to Chesir Europe S.A.S, a subsidiary incorporated in France. Our report will also discuss Luzhai Chesir Pearl Mica Material Co., Ltd (Chesir Luzhai, 鹿寨七色珠光雲母材料有限公司).



Source: IPO prospectus, p.142

From its IPO, Global New Mat has presented itself as a high margin, high growth business. However, our research and investigation have shown that this company has engaged in serious accounting frauds, exaggerating its revenue by about three times. In the words of a former engineer, Ex-staff A, "The company's actual performance is considerably different from its disclosures".

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Global New Mat announced its 2023 annual results March 28, with attributable profit falling 19% yoy to Rmb182m. This is within our expectation, because it now needs a lower profit to reduce the gap between the realities and what it has been misrepresenting to shareholders. There is otherwise nothing really noteworthy in the 2023 results.

1.1 Super-high Revenue Growth and Unusual Scale

Exhibit 1 above shows that Global New Mat's consolidated revenue should equal exactly as that of Chesir Pearl, its 97.19%-controlled principal operating subsidiary. Exhibit 2 below is excerpted from Global New Mat's 2022 annual report. In the upper part, we can see Global New Mat's 2021-22 revenue data, and in the lower part we can see Chesir Pearl's 2021-22 revenue data, and they are exactly the same. Thus, we do not distinguish between Chesir Pearl (which has continued to operate the business after its delisting from the Chinese over-the-counter market) and Global New Mat (which was created as Chesir Pearl's holding company to facilitate the group's Hong Kong listing) when discussing the group's revenue.

Exhibit 2 – Global New Mat's revenue exactly equals that of Chesir Pearl

GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED 2022 Annual Report			
CONSOLIDATED STATEMENT OF PROFIT OR LOSS			
For the year ended 31 December 2022			
	Note	2022 RMB'000	2021 RMB'000
Revenue	7	916,820	669,727
Cost of goods sold		(455,151)	(329,661)
Sales related tax and auxiliary charges		(6,334)	(5,443)

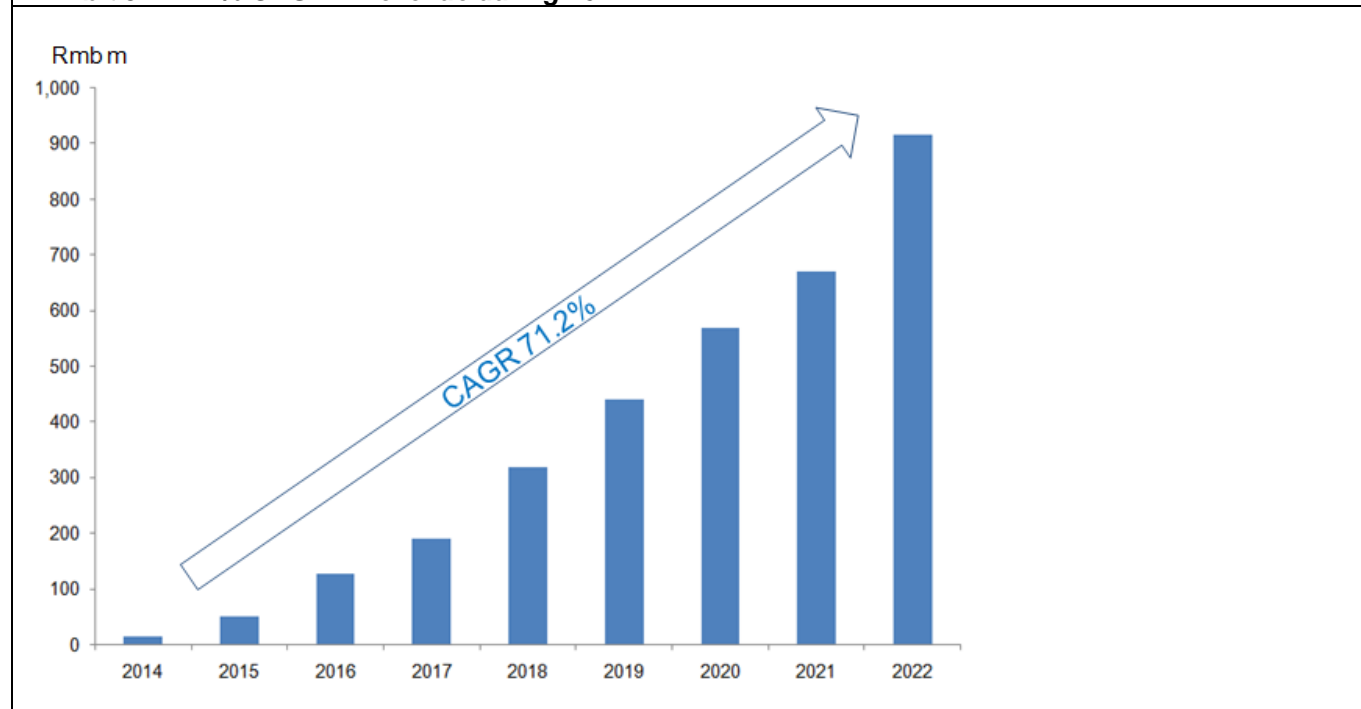
Name	Chesir Pearl		
Principal place of business/country of incorporation	The PRC/The PRC		
	2022	2021	
% of ownership interests/voting rights held by NCI	2.81%/2.81%	2.81%/2.81%	
	2022 RMB'000	2021 RMB'000	
Revenue	916,820	669,727	
Profit	226,073	170,513	
Total comprehensive income	226,073	170,513	
Profit allocated to NCI	12,722	7,090	

Source: Global New Mat 2022 annual report

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Over the years, Global New Mat has consistently claimed a superior revenue growth trend to investors. In 2014, it achieved revenue of merely Rmb12m, and by 2022 it reported a staggering Rmb917m, 74x bigger! During 2014-22, Global New Mat achieved a shocking compound annual growth rate (CAGR) of 71.2% in its revenue.

Exhibit 3 – 71.2% CAGR in revenue during 2014-22



Sources: Chesir Pearl, Global New Mat and Emerson Analytics

There are two other companies that engage in the production and sale of pearlescent pigment products in China. They are Fujian Kuncai Material Technology Co., Ltd. (603826.SH, Fujian Kuncai, 福建坤彩材料科技股份有限公司) and Hebei Oxen New Materials Co., Ltd. (831993.NQ, Hebei Oxen, 河北歐克新型材料股份有限公司). Hebei Oxen was delisted from NEEQ in August 2022 and we have not been able to obtain its 2022 financial data.

Exhibit 4 below shows the revenue of these three companies during 2018-22. We can see that Global New Mat was able to achieve a far higher revenue CAGR than its peers in this period, at 30.3% against 8.7% for Fujian Kuncai and -7.9% for Hebei Oxen (during 2018-21). In 2022, it became the biggest of the three, with a revenue that was 11.9% higher than that of Fujian Kuncai.

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Exhibit 4 – Global New Mat has grown its revenue much faster than peers

Year ended Dec 31 (Rmb m)	2018	2019	2020	2021	2022	CAGR
Global New Mat	318	441	569	670	917	30.3%
Fujian Kuncai	587	617	749	893	819	8.7%
Hebei Oxen	170	168	140	133	n.a.	-7.9%

Sources: Global New Mat, Fujian Kuncai, Hebei Oxen and Emerson Analytics

Fujian Kuncai is widely regarded by the industry as a leader, so how can Global New Mat's revenue exceed that of the industry leader? Another former Global New Mat engineer, Ex-staff B, has told us that Global New Mat's production volume is about the same as that of Hebei Oxen. It could not possibly achieve 5x Hebei Oxen's revenue in 2021.

1.2 Margins Far Higher than Those of Peers

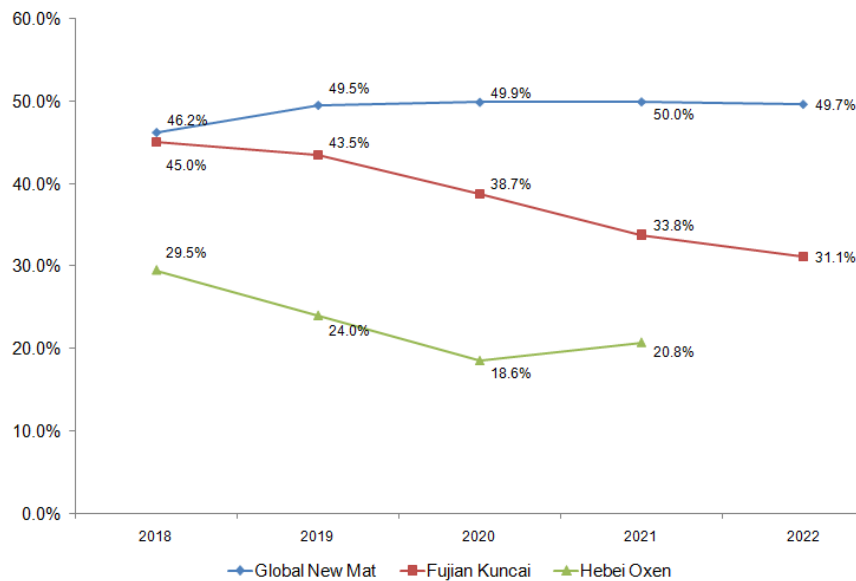
Exhibit 5 below shows the gross margins of the three companies during 2018-22. We can see that Global New Mat was able to maintain a consistent 50% margin during the period, whereas the other two reported more volatile margins that were essentially trending down. As a result, Global New Mat's gross margins have become much higher than those of its peers.

In 2020, before its Hong Kong IPO, Global New Mat's 49.9% gross margin was 11.2 percentage points higher than that of Fujian Kuncai and 31.3 percentage points higher than that of Hebei Oxen. By 2022, Global New Mat's gap over Fujian Kuncai expanded to 18.6 percentage points.

Ex-staff A told us that, "compared with Fujian Kuncai, Global New Mat produced more silvery-white series which fetched lower margins". How could Global New Mat achieve gross margins far higher than those of Fujian Kuncai?

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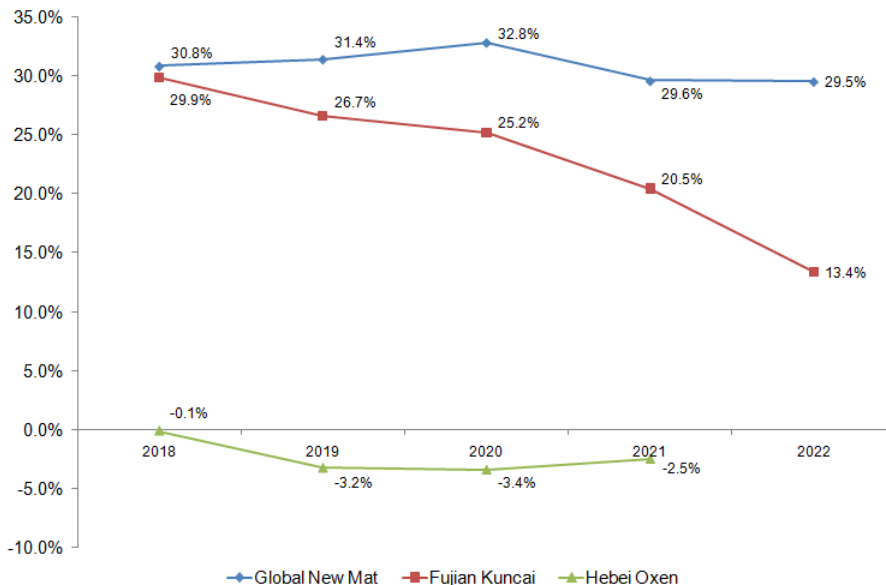
Exhibit 5 – Gross margin comparison



Sources: Global New Mat, Fujian Kuncai, Hebei Oxen and Emerson Analytics

The EBIT margins of these three companies during 2018-22 also exhibited a similar trend as that of their gross margins, as shown below in Exhibit 6.

Exhibit 6 – EBIT margin comparison



Sources: Global New Mat, Fujian Kuncai, Hebei Oxen and Emerson Analytics

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Global New Mat and Fujian Kuncai have similar gross and EBIT margins in 2018 from the two charts above. The observers are likely to conclude that the 2018 data for Global New Mat should be reasonably accurate and during the 2019-22 period the company had been able to maintain its margins while Fujian Kuncai had seen its competitiveness eroding.

In reality, the industry experts that we have contacted regard Fujian Kuncai as the industry leader, and no one has ever mentioned any challenger displacing the industry leader. Rather, we have unearthed evidence that Chesir Pearl began to fake its accounts as early as in 2016. Please see [Chapter 3 Phantom Major Customers and Delayed Projects](#) for details.

1.3 Inventory Turnover Way Faster than Those of Peers

For companies doctoring their books, other financial indicators in addition to profit margins as mentioned above will also exhibit abnormal patterns. For example, if the profit and loss accounts are being exaggerated, and if the inventory amount on the balance sheet is accurate, then the company's inventory turnover may be too high to be true.

Exhibit 7 below shows the inventory turnover of Global New Mat, Fujian Kuncai and Hebei Oxen over the last four years. One can see that Fujian Kuncai and Hebei Oxen have reported inventory turnover rates that are broadly in line with each other, whereas Global New Mat managed to achieve inventory turnover rates approximately two to three times faster.

Exhibit 7 – Inventory turnover comparison				
Year ended Dec 31	2019	2020	2021	2022
Global New Mat	2.9	3.7	3.8	4.2
Fujian Kuncai	1.0	1.1	1.2	0.9
Hebei Oxen	1.6	1.4	1.4	n.a.

Sources: Global New Mat, Fujian Kuncai, Hebei Oxen and Emerson Analytics

1.4 Reported Revenue Far Exceeds Data in Trade Almanac

Federation of Industry and Commerce of Guangxi, a government-supervised trade association, regularly publishes the annual revenue of the top 100 privately-owned manufacturers (for simplicity's sake hereinafter referred to as the Guangxi Top 100 list). Comparing Chesir Pearl's reported revenue with those disclosed in the Guangxi Top 100 list, we can see that the company has over the last few years reported much higher numbers to its shareholders than it has done to semi-official agency.

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Exhibit 8 below shows the excerpt of Guangxi Top 100 list. It shows Chesir Pearl as having achieved revenue of Rmb313m for 2019, but the company's financial statements reported Rmb441m for that year, about 41% higher. One can't help but ask how did the professional advisors such as Essence Corporate Finance (Hong Kong) Limited the sole sponsor, RSM Hong Kong the auditors and Deacons the legal advisers conduct their due diligence for the IPO?

Exhibit 8 – Excerpt of Guangxi Top 100 list, 2019

广西壮族自治区工商联发布了2020广西民营企业100强、2020广西民营企业制造业100强、2020广西民营企业纳税100强等5份名单。榜单根据广西境内民营企业2019年的营业收入总额为标准进行排序。 最终广西盛隆冶金有限公司以360.33亿元的营收以2019 revenue of Guangxi's private enterprises

2020广西民营企业制造业100强名单

序号	企业名称	所在地	所属行业	营业收入(万元) Revenue (Rmb 0000)
1	广西盛隆冶金有限公司	防城港市	黑色金属冶炼和压延工业	3603360
2	广西南丹南方金属有限公司	河池市	有色金属冶炼和压延工业	2326317
96	柳州福瑞特汽车零部件有限公司	柳州市	汽车制造业	32278
97	广西贵港市鑫虹泰木业有限公司	贵港市	木材加工和木、竹、藤、棕、草制品业	31976
98	广西七色光材料股份有限公司 Guangxi Chesir Pearl Material Co., Ltd.	柳州市	化学原料和化学制品制造业	31268
99	广西钦州力能机械有限公司	钦州市	专用设备制造业	30274
100	广西澳美铝业	百色市	有色金属冶炼和压延加工业	30000

Source: <https://www.maiqoo.com/news/560202.html>

In Exhibit 9 below, we list the revenue numbers as reported by Chesir Pearl/Global New Mat for the 2018-22 period against the Guangxi Top 100 list. Since 2020, Chesir Pearl has failed to make it into the Guangxi Top 100 list. For 2020, the last entry in the Guangxi Top 100 list shows a revenue of Rmb404m. This means Chesir Pearl's revenue should be less than Rmb404m, but the company dared report a number at least 41% larger to its shareholders. Such exaggeration continued in 2021 and 2022.

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Exhibit 9 – Chesir Pearl's reported revenue compared with Guangxi Top 100 list

Year ended Dec 31 (Rmb m)	2018	2019	2020	2021	2022
Revenue reported to shareholders	318	441	569	670	917
Guangxi Top 100 list	323 ¹	313	<404 ²	<521 ³	<768 ⁴
Difference	-1%	41%	>41%	>29%	>19%

Sources: Global New Mat and Emerson Analytics

We need to emphasize one point here: the fact that Chesir Pearl's 2018 revenue as reported to its shareholders is largely in line with that disclosed in the Guangxi Top 100 list does not imply that the company's 2018 financial statements are true and fair. The company has long been fabricating its accounts, and we will show in the following pages that its actual financial position has been much worse than that implied by the Guangxi Top 100 list.

¹ <https://www.maigoo.com/news/526106.html>

² <https://www.maigoo.com/news/601393.html>

³ <https://www.maigoo.com/news/642132.html>

⁴ <https://www.maigoo.com/news/yjgNNjE0.html>

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Chapter 2 Pearlescent Pigment Products Output Exaggerated Four Times

Exhibit 10 below shows Global New Mat's revenue breakdown for the period 2018-22. The overwhelming majority of the company's revenue has come from pearlescent pigment products, which contributed 92.8% of revenue in 2022 and as much as 99.7% in 2021. We will therefore focus on pearlescent pigment products.

Exhibit 10 – Revenue breakdown					
Year ended Dec 31 (Rmb m)	2018	2019	2020	2021	2022
Pearlescent pigment products	315	434	566	668	851
Functional mica filler	3	6	3	2	64
New energy material					2
Total	318	441	569	670	917
Pearlescent pigment products %	99.0%	98.5%	99.4%	99.7%	92.8%

Sources: Global New Mat and Emerson Analytics

Based on our analysis and investigations, Global New Mat's actual sales volume of all pearlescent pigment products was about 20% of its disclosed amount. Among its various products, sales volume of synthetic mica-based pearlescent pigment products was seriously overstated, with actual output at about merely 14% of claim.

2.1 Core Production Processes of Pearlescent Pigment Products

Global New Mat's pearlescent pigment products primarily use natural mica, synthetic mica, glass flakes and silica as substrates, which are coated with a single or multiple layers of metal oxides. Exhibit 11 below details the output and sales of pearlescent pigment products based on these four substrates.

A common characteristic of companies that fake their financial statements is that they tend to disclose fewer and fewer operational data over the years, sometimes starting right after their IPO. Global New Mat has gone down the same path, ceasing the disclosure of its sales volume breakdown from 2021, the year of its IPO.

In Exhibit 11 below, the numbers in red are our estimates. If we assume that the four product categories exhibit similar price trends, then we can calculate their respective selling prices during 2021 and 2022. Subsequently we can arrive at their respective sales volume. For 2022, the sales volume thus calculated totaled 17,528 tons, only 2.4% less than the total reported by the company.

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From Exhibit 11, we can see that during 2018-20, the sales volume of Global New Mat's pearlescent pigment products was largely in line with the company's output. We will therefore treat its sales volume and production volume as the same going forward.

In 2022 sales from glass flakes-based and silicon oxide-based products together accounted for only 6% of the company's total. During our on-site investigation, people who are familiar with Global New Mat's operations rarely mentioned these two products to us.

Exhibit 11 – Global New Mat's pearlescent pigment product operations

	2018	2019	2020	2021	2022
Revenue (Rmb m)	315	434	566	668	851
- Natural mica-based	245	296	319	348	413
- Synthetic mica-based	68	125	197	272	379
- Glass flakes-based	1	14	47	45	52
- Silicon oxide-based		0	3	3	7
Sales volume (tons)	8,451	11,097	14,165	16,680	17,958
- Natural mica-based	7,218	8,822	10,057	10,946	10,979
- Synthetic mica-based	1,229	2,232	3,944	5,424	6,389
- Glass flakes-based	4	42	159	152	148
- Silicon oxide-based		0	6	6	13
ASP (Rmb k/ton)	37.3	39.1	39.9	40.0	47.4
- Natural mica-based	34.0	33.5	31.7	31.8	37.6
- Synthetic mica-based	55.6	55.9	50.0	50.1	59.3
- Glass flakes-based	312.5	327.0	294.7	295.3	349.5
- Silicon oxide-based		750.0	486.3	487.3	576.7
ASP growth (%)		5.0%	2.1%	0.2%	18.3%
Production volume (tons)	8,809	11,348	13,503		
Sales volume % production volume	95.9%	97.8%	104.9%		

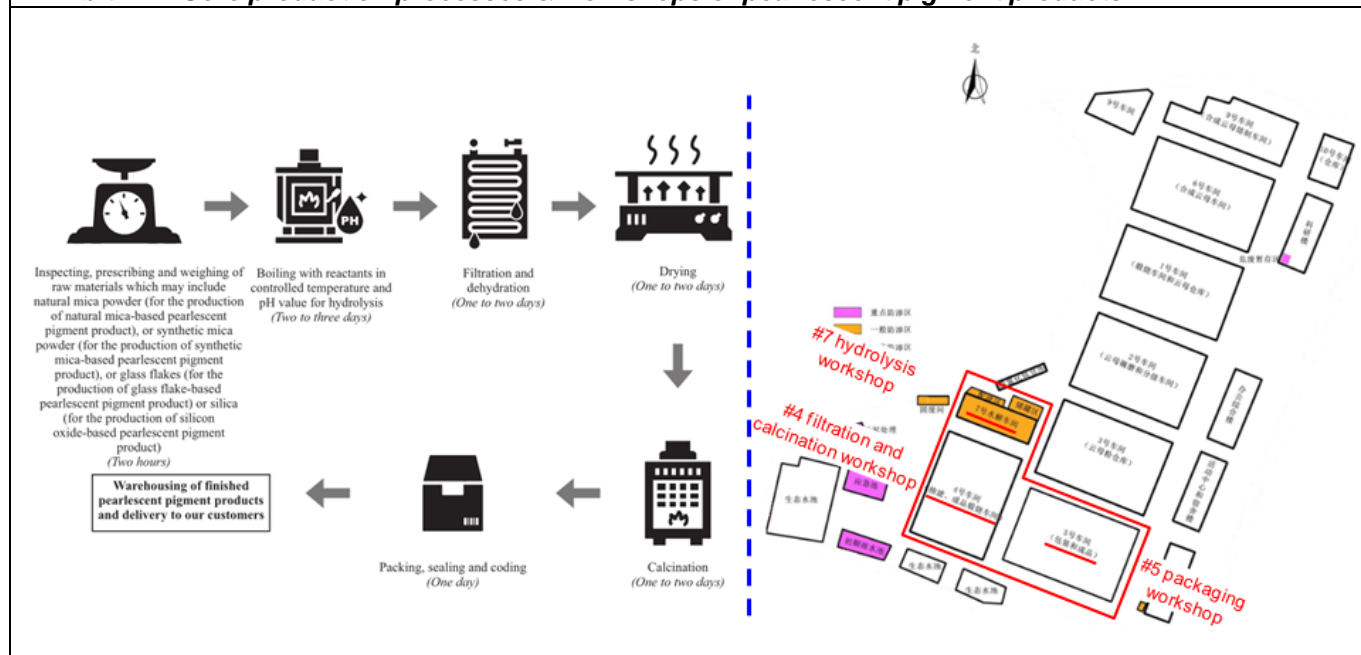
Sources: Global New Mat and Emerson Analytics

The core production processes of pearlescent pigment products are shown in the left-hand side of Exhibit 12. Whether one starts with natural mica powder, synthetic mica powder, glass flakes or silica, eventually all production will go through the hydrolysis, filtration and calcination, and packaging processes to get to the final products. The right-hand side of Exhibit 12 shows the only production facility that Global New Mat currently uses, its Phase 1 Production Plant. These processes are carried out in #7 hydrolysis workshop, #4 filtration and calcination workshop and #5 packaging workshop, marked in red in the

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diagram. It was not difficult to obtain from the staff on the spot the company's production volume of all pearlescent pigment products.

Exhibit 12 – Core production processes & workshops of pearlescent pigment products



Sources: IPO prospectus, p.198 (left hand side), [environmental assessment report published in January 2019](#), p.56 (right hand side) and Emerson Analytics

2.2 Output of All Pearlescent Pigment Products Exaggerated Four Times

During the second half of 2023, Emerson Analytics conducted on-site investigations at Global New Mat and interviewed several former employees of the company. Two ex-staff members told us that Global New Mat's output of pearlescent pigment products amounted to 200-300 tons a month, even though they were discussing different time periods of the company's operations.

Exhibit 13 below is the English transcript of our conversation with Ex-staff B. The data referred to in the conversation concern Global New Mat's performance in 2020, the last full year of results contained in the company's IPO prospectus. To protect the safety of our interviewees, we will not publicly release the recordings of our conversations with them. However, we do share these audio clips, plus the relevant data such as their contact details and time of recording, with the Hong Kong regulators, Securities and Futures Commission (SFC).

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Exhibit 13 – Ex-staff B says 2020 output of pearlescent pigment products at 200-300 tons/month

Emerson investigator:	When you were working there, how much pearlescent pigment products was Chesir Pearl producing a month?
Ex-staff B:	You mean production capacity?
Emerson investigator:	Actual output.
Ex-staff B:	For output, when I was working there, about 200-300 tons.
Emerson investigator:	Is it 200-300 tons for natural mica-based products?
Ex-staff B:	Altogether.
Emerson investigator:	So natural mica-based and synthetic mica-based products altogether?
Ex-staff B:	Yes, altogether.

Source: Emerson Analytics

Ex-staff A told us that Global New Mat was producing some 200-300 tons a month of pearlescent pigment products in the second half of 2023.

Exhibit 14 – Ex-staff A says output of pearlescent pigment products at 200-300 tons/month

Emerson investigator:	How much synthetic mica-based products is Chesir Pearl producing now, a year or a month?
Ex-staff A:	Not much, my colleagues who are still working there have told me they are just doing 200-300 tons a month.
Emerson investigator:	This is just the synthetic mica-based products?
Ex-staff A:	No, it's all pearlescent pigment products, and they are mostly the low-end silvery white series.

Source: Emerson Analytics

In 2020 and 2023, Global New Mat managed an average 200-300 tons a month. One can reasonably deduce that in 2021 and 2022 the company's production volume was also holding within a stable range of 200-300 tons a month. Global New Mat sold a total of 17,958 tons of pearlescent pigment products in 2022. This means an average of 1,497 tons a month, a far cry from the 200-300 tons. Even on the high side of 300 tons a month, that's only 20% of the company's claim.

2.3 Real Output of Synthetic Mica-based Products 14% of Claim

In 2022, synthetic mica-based products accounted for 44.5% of total revenue from all pearlescent pigment products. In this section, we will discuss the real output of such products.

According to Ex-staff B, Global New Mat produced about 60 tons of synthetic mica-based products a month in 2020. The English transcript of our conversation is shown below in Exhibit 15.

Global New Mat – Loss-maker Inflates Output 4X

Exhibit 15 – Synthetic mica-based products output was 60 tons/month in 2020

Emerson investigator:	When you were working there, how much synthetic mica powder could the company produce a month?
Ex-staff B:	About 200 tons a month. They were synthetic mica crystals. From these crystals, after crushing, grinding and milling, and finally separation, you get synthetic mica powder.
Emerson investigator:	So, how much synthetic mica-based products can you eventually get from the crystals?
Ex-staff B:	Roughly 30% or so.
Emerson investigator:	That means the company was producing about 60 tons of synthetic mica-based products a month?
Ex-staff B:	Yes, that's right.

Source: Emerson Analytics

Let's have a thorough discussion on synthetic mica-based products output based on the detailed economic and technical indicators.

Exhibit 16 – Economic and technical indicators of synthetic mica-based products

<i>(i)</i>	
Emerson investigator:	When Chesir Pearl produced synthetic mica crystals, how many melting processes did it do to get 200 tons of crystals a month? How many tons could its furnace hold?
Ex-staff B:	The furnace held less than 20 tons.
Emerson investigator:	Let's say it's 20 tons, so that comes to 10 melting processes?
Ex-staff B:	Actually it didn't do 10 melting processes. Fewer than that.
<i>(ii)</i>	
Emerson investigator:	Chesir Pearl produced 200 tons of synthetic mica crystals but got 30% of that in the form of synthetic mica powder, what about the other 70%?
Ex-staff B:	The rest can be reprocessed again. After the first grinding and milling, you get 30% in powder. The rest can be reprocessed.
Emerson investigator:	So, the rest goes through another round of grinding and milling?
Ex-staff B:	Yes.
Emerson investigator:	You do multiple rounds of grinding and milling?
Ex-staff B:	Yes, after several rounds of processing you can get to 50-60% of yield in synthetic mica powder. About 60%.
<i>(iii)</i>	
Emerson investigator:	How much of Chesir Pearl's synthetic mica powder was for external sales?
Ex-staff B:	When I was there, may be more than 50% was for external sales, the rest would be used in-house for making synthetic mica-based products.
<i>(iv)</i>	
Ex-staff B:	When synthetic mica powder is wet, it contains some 30% of moisture. But then one ton of wet synthetic mica powder can be hydrolyzed into one ton of hydrolytic compounds, roughly.
Emerson investigator:	Basically 1:1 then?
Ex-staff B:	Yes, because the layers of metal oxides in the hydrolytic compounds replaces the weight of water.
<i>(v)</i>	
Ex-staff B:	In the subsequent filtration and calcination process, the yield of synthetic mica-based products from hydrolytic compounds is about 90%.

Source: Emerson Analytics

Global New Mat – Loss-maker Inflates Output 4X

(i) The electric melting furnace used by Chesir Pearl is of the 20-ton class, and is filled up to 96% of designed capacity according to the company's environmental assessment report⁵. Fewer than 10 melting processes a month

Ignoring the 96% capacity limit, and assuming nine melting processes a month, then the monthly synthetic mica crystals output is theoretically 20 x 9 tons.

(ii) After several rounds of grinding and milling, the separation of synthetic mica powder from synthetic mica crystals is 50-60%

Assuming a 60% separation rate, to the company's advantage, the actual output of synthetic mica powder is therefore 20 x 9 x 60% tons.

(iii) External sales of synthetic mica powder exceed 50% of output

Ex-staff B's comment of 50%+ external sales is in line with Global New Mat's disclosure (see Exhibit 17 below). Again, using an assumption of 50% external sales, then it had 20 x 9 x 60% x (1 - 50%) tons synthetic mica powder a month for its own production.

Exhibit 17 – Synthetic mica powder produced by the current facility is mainly for external sale

现有工程有 1 条产能 5000t/a 的合成云母生产线，生产的合成云母产品可作为珠光效应材料生产线原料，也可作为生产原料外售，根据市场需求进行调整，**现有工程生产的合成云母以外售为主。**

Synthetic mica powder produced by current project is mainly for sale.

Source: [Environmental assessment report published in March 2021](#), p.42

(iv) Wet synthetic mica powder contains 30%+ of moisture. A ton of wet synthetic mica powder can be hydrolyzed into one ton of hydrolytic compounds

Chesir Pearl's production facility was built with a moisture rate of 35%⁶ for its wet synthetic mica powder. Therefore, the company produced 20 x 9 x 60% x (1 - 50%) / (1 - 35%) tons of wet synthetic mica powder.

Titanium tetrachloride is a major chemical raw material used for the metal oxide coating in the production of pearlescent pigment products. Titanium tetrachloride and other metal oxide coatings which are put into production during the hydrolysis process more or less offset the moisture in the wet synthetic mica powder. The hydrolytic compounds still weighed 20 x 9 x 60% x (1 - 50%) / (1 - 35%) tons.

⁵ [Environmental assessment report published in June 2022](#), p.11

⁶ [Environmental assessment report published in June 2022](#), p.9

Global New Mat – Loss-maker Inflates Output 4X

(v) The yield of synthetic mica-based products from hydrolytic compounds is 90%

Therefore, the final output of synthetic mica-based products was $20 \times 9 \times 60\% \times (1 - 50\%) / (1 - 35\%) \times 90\% = 75$ tons/month.

Whether it is based on Ex-staff B's comment of 60 tons a month, or based on detailed calculations of 75 tons a month, the output of synthetic mica-based products in 2020 was way below the 329 tons claimed in the company's IPO prospectus.

We know from the previous section that the company's output volume of all pearlescent pigment products had held stable during 2020-2022. It is, therefore, reasonable to assume that production of synthetic mica-based products had also held stable during the same period. Our calculated volume of 75 tons per month would amount to merely 14% of 2022 data that claimed by the company.

2.4 Calculations of Actual Revenue from Pearlescent Pigment Products

Our detailed analysis above shows that Global New Mat has long fabricated its sales volume of pearlescent pigment products, whether the synthetic mica-based or all four types combined. Based on 300 tons a month at the top end of the range, an assumption beneficial to the company, then we can estimate that Global New Mat only sold 3,600 tons of pearlescent pigment products in 2022.

As can be seen from Exhibit 11 above, the overall average selling price (ASP) of the company's pearlescent pigment products for 2022 amounted to Rmb47.4k per ton. Assuming that Global New Mat actually achieved this ASP, we can deduce that its actual revenue for the year was Rmb171m, a whopping 80% below that disclosed in its annual report.

Exhibit 18 – Calculation of 2022 actual revenue from pearlescent pigment products

Year ended Dec 31	Reported	Actual	Chg (%)
Sales volume (tons)	17,958	3,600	-80.0%
x ASP (Rmb k/ton)	47.4	47.4	0.0%
/ 1,000	/ 1,000	/ 1,000	
= Revenue (m)	851	171	-80.0%

Sources: Global New Mat and Emerson Analytics

The production volume exaggeration at Global New Mat is quite similar to what happened at [Southern Energy Holdings Group Limited \(Southern Energy, 1573.HK, now delisted\)](#), only much worse. Southern Energy's actual output was just 1/3 of that claimed by the company. Global New Mat, on the other hand, goes as far as reporting something four times more than its actual output.

Global New Mat – Loss-maker Inflates Output 4X

Chapter 3 Phantom Major Customers and Delayed Projects

In Chapter 2 above, we have seen that Global New Mat has massively exaggerated its revenue from pearlescent pigment products. This suggests that some of its major customers do not exist. The fact that its actual output of pearlescent pigment products was only 20% of the disclosed amount also means that its capacity utilization is very low, thus prompting the company to delay any expansion that the IPO proceeds are supposed to fund. We will discuss these two issues here.

3.1 Biggest Customer in 2016 Controlled by Staff

Global New Mat's IPO prospectus disclosed the company's sales to its top five clients during 2018-20 without revealing their names, referring them to merely as Customer A, Customer B, etc. Fortunately, Chesir Pearl had disclosed its top five customers' names for 2014-16 when it was listed on NEEQ. From 2017, or about two years after its NEEQ listing, Chesir Pearl stopped disclosing the identities of its top customers.

Exhibit 19 below shows the top five customers of Chesir Pearl in 2016. We can see that Silia Innovation SAS and Liuzhou Sanbang Trading Co., Ltd. (Sanbang Trading, 柳州市三邦商贸有限公司) were respectively the biggest and second biggest customer of Chesir Pearl, accounting in aggregate for 29.4% of the company's 2016 revenue.

Exhibit 19 – Chesir Pearl top five customers, 2016

序号	客户名称	销售金额	年度销售占比	是否存在关联关系
1	SILIA INNOVATION SAS	19,025,333.20	14.85%	否
2	柳州市三邦商贸有限公司	18,654,306.58	14.56%	否
	Liuzhou Sanbang Trading Co., Ltd.	7,300,693.03	5.70%	否

14

广西七色珠光材料股份有限公司

2016 年年度报告

4	山东圣彩精细化工有限公司	6,113,343.59	4.77%	否
5	中山市盛硕商贸有限公司	5,392,992.95	4.21%	否
合计		56,486,669.35	44.09%	-

Source: [Chesir Pearl 2016 annual report](#)

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Publicly available information shows that Silia Innovation SAS is a company registered in France, with a SIREN (Système d'identification du répertoire des entreprises) number of 809 999 527.

Exhibit 20 – Silia Innovation basic information

SILIA
(SILIA INNOVATION)
 809 999 527 • Active

Adresse : 209 RUE JEAN BART 31670 LABEGE
 Activité : Recherche-développement en autres sciences physiques et naturelles
 Effectif : Entre 3 et 5 salariés (donnée 2020)
 Création : 20/01/2015
 Dirigeant : Christian Gronoff

Suivre cette entreprise
 Voir les statuts

Source: <https://www.pappers.fr/entreprise/silia-809999527>

Public filings by Silia Innovation show that the company has been 98% held by Xiaodong Xavier He since its establishment in 2015. Coincidentally, Chesir Pearl's 2016 annual report lists a certain Dr. Xiaodong He as head of its wholly-owned subsidiary Chesir Europe S.A.S. Perhaps, this is not a coincidence?

Exhibit 21 – Xiaodong He holds 98% of Silia Innovation and was head of Chesir Europe

- **Monsieur Xiaodong Xavier HE**
à concurrence de quatre vingt dix huit parts, ci 98 parts
numérotées de 1 à 98,
- **Monsieur Christian GRONOFF**
à concurrence de deux parts, ci 2 parts
numérotées de 99 à 100

Total égal au nombre de parts composant le capital social : 100 parts

效应材料专家湖北工业大学硕士生导师付建生教授和中国合成云母技术带头人杨伦全先生；同时七色欧洲公司负责人何晓东博士是国际著名化妆品配方专家，是原法国科学院配位化学研究中心首席科学家。



Doctor Xiaodong He, head of Chesir Europe S.A.S

Sources: Silia Innovation public filing 2016, p.13 (upper half of exhibit) ; Chesir Pearl 2016 annual report, p15 (lower half of exhibit)

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In 2016, both Silia Innovation and Chesir Europe reported their registered address at the same location, 209 rue Jean Bart Agora 1 Hall B, 31670 Labège. Filings by Chesir Europe in September 2023 and by Silia Innovation in October 2023 show that they were both still at that place. It is hard to believe that Global New Mat's sales to this "number one client" really exist.

Exhibit 22 – Silia Innovation and Chesir Europe share the same address

	Dénomination :	SILIA
	Adresse :	209 rue Jean Bart Agora 1 Hall B 31670 Labège - FRANCE-
	n° de gestion :	2015B00767
	n° d'identification :	809 999 527
	n° de dépôt :	A2016/011547
	Date du dépôt :	08/07/2016
<hr style="border-top: 1px dashed blue;"/>		
	Dénomination :	CHESIR EUROPE S.A.S
	Adresse :	209 rue Jean Bart Agora 1 Hall B 31670 Labège - FRANCE-
	n° de gestion :	2016B04727
	n° d'identification :	Numéro de SIREN en cours d'attribution
	n° de dépôt :	A2016/019637
	Date du dépôt :	05/12/2016

Sources: Silia Innovation public filing 2016 (upper half of exhibit) ; Chesir Europe public filing 2016 (lower half of exhibit)

3.2 Chairman's Company Guaranteed for Second Largest Customer

Sanbang Trading was established in November 2014 in Luzhai County, home of Chesir Pearl/Global New Mat. In the next year, it became the third biggest customer of Chesir Pearl, and in 2016 advanced to being the second largest. Sanbang Trading's annual reports filed with Guangxi Administration for Market Regulation reveal that it had never had any employee since its incorporation. It is very likely that the mission of Sanbang Trading was to "contribute" revenue to Chesir Pearl.

Liuzhou Shengteng Financing Guarantee Co., Ltd. (Shengteng Guarantee, 柳州市升騰融資性擔保有限公司, renamed in January 2022 to 柳州市升騰商貿有限公司) was established in 2011 by Su, the controlling shareholder of Global New Mat. Su took a 51% stake in Shengteng Guarantee at the start-up stage, and increased that to 80% in July 2022. He has always been Shengteng's legal representative from day one.

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As can be seen from Exhibit 23 below, Shengteng Guarantee acted as guarantor for a number of loans taken out by Sanbang Trading. It is obvious that the company's sales to Sanbang couldn't be true.

Exhibit 23 – Shengteng Guarantee guaranteed for Sanbang Trading

序号	登记日期	登记编号	抵押权人	所有权或使用归属权	被担保债权类型	被担保债权数额	债务人履行债务的期限	登记机关	操作
1	2017-09-21	鹿工商抵登字 [2017] A14号	柳州市升腾融资性担保有限公司	柳州市三邦商贸有限公司	借款	299万人民币元	2017-09-21 至 2018-09-20	鹿寨县市场监督管理局	详情
2	2015-08-28	鹿工商抵登字 [2015] A12号	柳州市升腾融资性担保有限公司	柳州市三邦商贸有限公司	借款	300万人民币元	2015-08-27 至 2016-08-27	鹿寨县市场监督管理局	详情
<div> <div>Liuzhou Shengteng Financing Guarantee Co., Ltd.</div> <div>Liuzhou Sanbang Trading Co., Ltd.</div> <div>Loan</div> </div>									
序号	登记日期	登记编号	抵押权人	所有权或使用归属权	被担保债权类型	被担保债权数额	债务人履行债务的期限	登记机关	操作
1	2016-09-22	鹿工商抵登字 [2016] A10号	柳州市升腾融资性担保有限公司	柳州市三邦商贸有限公司	借款	299万人民币元		鹿寨县市场监督管理局	详情
<div> <div>Liuzhou Shengteng Financing Guarantee Co., Ltd.</div> <div>Liuzhou Sanbang Trading Co., Ltd.</div> <div>Loan</div> </div>									

Sources: www.tianyancha.com, Emerson Analytics

3.3 New Projects Behind Schedule

The HK\$970.2m net proceeds from the 2021 Hong Kong IPO are supposed to be used mainly for the construction of the Phase 2 Production Plant (\$539.5m) and of the Luzhai Synthetic Mica Plant (\$330.8m) in Luzhai County. They account for 89.7% of the use of proceeds. The Phase 2 Production Plant has a designed capacity of 30k tons a year for pearlescent pigment products, while the Luzhai Synthetic Mica Plant will have a designed capacity of 30k tons for synthetic mica flakes.

Global New Mat says in p.162 of the IPO prospectus that the Phase 2 Production Plant will be built in four stages, successively adding production capacity of 6k tons, 8k tons, 10k tons and 6k tons a year upon commissioning. According to the expected timetable in the prospectus, the first stage of the plant should begin trial production in 3Q21.

As disclosed in Global New Mat's 2022 annual report dated April 27, 2023, the first stage of Phase 2 Production Plant had been completed and had commenced trial production. However, when Emerson Analytics visited the plant in the second half of last year, we saw only a few construction workers but no operational staff. Exhibit 24 below shows all three plant entrances. An employee confirmed to our investigators that Phase 2 Production Plant was "just a construction site, no production yet".

Global New Mat – Loss-maker Inflates Output 4X

Exhibit 24 – No operational staff at Phase 2 Production Plant, no trial production



Source: Emerson Analytics

The Luzhai Synthetic Mica Plant is faring even worse. In p.164 of the IPO prospectus, the plant is said to be built in four stages, again adding capacity of 6k tons, 8k tons, 10k tons and 6k tons a year successively. According to the expected timetable, the 10k facility for the third stage should be installing equipment by the end of 3Q23.

As at the end of 2022, the \$330.8m earmarked for the plant had not been used at all. According to Global New Mat's 2022 annual report, "the group did not use any of such amount for the purpose primarily due to certain structures built on the land by a corporation could not be relocated as scheduled. The relocation arrangement was completed in December 2022 and the construction has been resumed".

The Luzhai plant is located on the southeastern side of National Highway G322 and the southwestern side of Mountain Guniang, as indicated by the red dotted lines in Exhibit 25 below. More than six months after "the construction has been resumed", Emerson Analytics could not detect any sign of construction at the site.

Global New Mat – Loss-maker Inflates Output 4X

Exhibit 25 – Location of the Luzhai Synthetic Mica Plant



Sources: Google map and Emerson Analytics

Yet the 2023 full year results announced March 28 dared say that "completion of relocation of certain structures built on the land by a corporation did not progress as contemplated". Come on, who are they kidding?

The serious delay in the two new plants means existing production capacity is more than enough, and is a supporting evidence that Global New Mat's actual output is way below that claimed by the company.

Global New Mat – Loss-maker Inflates Output 4X

Chapter 4 Financials and Valuation

With hugely exaggerated production volume and revenue, what's Global New Mat's real bottom line like? How about its other financial indicators and valuation? We'll dig deep into these areas here.

4.1 Real EBIT in 2022 a Loss of Rmb67m Rather than a Profit of Rmb271m

Global New Mat generated Rmb64m from sales of functional mica filler in 2022. This amounted to 7% of total revenue and represented an amazing growth of 3,086% yoy. Although we are highly suspicious of the astonishing growth rate of this business, let's be generous and allow that it's true.

In section 2.4 above we have shown that the company's pearlescent pigment products only generated Rmb171m of revenue in 2022. The real total revenue for the year was therefore Rmb237m, 74.2% less than that disclosed.

For 2022, the company claimed a gross margin of 49.7%, far superior to the 31.1% for its main rival Fujian Kuncai. Using Global New Mat's gross margin of 49.7%, to the company's advantage, we arrive at a gross profit of Rmb118m for 2022. Further, assume that the reported amounts of selling expenses, administrative expenses and R&D (research and development) expenditures were correct, we arrive at a negative EBIT of Rmb67m. All the calculations are shown in Exhibit 26 below.

Exhibit 26 – Calculations of true profit 2022

Year ended Dec 31 (Rmb m)	Reported	Reality	Chg (%)	Notes
Revenue	917	237	-74.2%	
Pearlescent pigment products	851	171	-80.0%	See Exhibit 18
Functional mica filler	64	64		Assumed correct
New energy material	2	2		Assumed correct
Cost of sales	-461	-119		
Gross profit	455	118	-74.2%	
Gross margin	49.7%	49.7%		Assumed correct
Selling expenses	-57	-57		Assumed correct
Administrative expenses	-56	-56		Assumed correct
R&D expenditures	-72	-72		Assumed correct
EBIT	271	-67	-124.8%	
EBIT margin	29.5%	-28.4%	-196.2%	

Sources: Global New Mat and Emerson Analytics

Global New Mat – Loss-maker Inflates Output 4X

Readers may recall that Global New Mat has reported much faster inventory turnover than those of its competitors. Assuming that the inventories disclosed in its 2022 financial statements are true (Rmb102m at the end of 2021 and Rmb120m at the end of 2022), then the cost of sales of Rmb119m would imply an inventory turnover of 1.1x rather than the super-fast 4.2x. That would have made Global New Mat's inventory turnover in line with Fujian Kuncai's 0.9x for 2022.

4.2 Suspicious Cash and High-yield Convertibles

Given prevailing three-month deposit rate of 1.1% and savings deposit rate of 0.35%, if one had placed half of one's money in savings accounts and another half in three-month deposits, one would have achieved an average deposit rate of 0.73%.

Exhibit 27 below presents the implied deposit rates generated by Global New Mat's cash and bank balances in 2021-23. In 2022, the company achieved 0.96% effective deposit interest rate, suggesting that most of the IPO proceeds collected in July 2021 had remained intact and that the company's executives performed well in cash management to gain a return better than 0.73%. The poor performance in 2021 and 2023 suggest that a large part of its cash and bank balance simply didn't exist, so that the executives' cash management skills were of no use.

Exhibit 27 – Unusually low bank deposit rates

Year ended Dec 31 (Rmb m)	2020	2021H	2021	2022H	2022	2023H	2023
Interest income			3		15		9
Cash	748	741	1,605	1,644	1,883	2,144	3,206
Average Cash			756		1,611 [^]		1,983 [#]
Effective deposit interest rate			0.43%		0.96%		0.45%

Sources: Global New Mat and Emerson Analytics

^{*} Excludes IPO net proceeds of Rmb826m

[^] Excludes Rmb300m of convertible bonds issued December 30, 2022

[#] Excludes US\$40m of convertible bonds and Rmb1bn of minority shareholder's contribution at the end of 2023

Since its 2021 IPO, Global New Mat has undertaken several fund-raising and acquisition exercises, as follows:

- ✓ Subsequent to its Hong Kong IPO in mid-2021, Global New Mat reported cash of Rmb1,605m and interest bearing debts of Rmb158m, with gross debt to asset ratio of 10%, as at the end of 2021. On the surface, the company's financial position was healthy.
- ✓ In December 2022, the company announced the issuance of Rmb500m of convertible bonds maturing in four years with a 3.5% coupon and a strike price of HK\$7.6 (a premium of 93% over the average closing price for the last five consecutive trading days), subject to a make-up payment to provide a 9%

Global New Mat – Loss-maker Inflates Output 4X

internal rate of return (IRR) in the event of non-conversion. The first tranche of Rmb300m was issued to a Hong Kong-registered company controlled by the Shenzhen Finance Bureau (深圳市財政局) at the end of 2022. The remaining tranche, after being extended twice, was eventually canceled in July 2023. In any case, as at the end of 2022, the company had net cash of Rmb1,379m, a very "healthy" situation;

- ✓ In August 2023, Global New Mat acquired a 42.5% stake in CQV Co. Ltd. (KOSDAQ: 101240) of Korea for a total of HK\$531.6m, to be satisfied as to HK\$154.8m in cash and the balance in 47.1m consideration shares with issue price of HK\$8 (a premium of 68% over the average closing price for the last five days), of which 18.2m shares were for the acquisition of all treasury shares held by CQV itself. The acquisition is unlikely to have any significant impact on Global New Mat's financial "health";
- ✓ On November 5, 2023, Global New Mat announced the proposed issuance of US\$80m convertible notes maturing in two years with a 9% coupon payable semi-annually and a HK\$7.6 strike price (a premium of 100% over the average closing price for the last five days). The issue is supposed to consist of two tranches, the first being up to US\$50m of Initial Bonds to be issued to Arte Special Situation Fund L.P., and the second being up to US\$30m of Option Bonds to some yet-to-be identified buyers. Up to now only US\$40m of Initial Bonds had been issued.

Why has Global New Mat been raising funds with such high interest rates (IRR of 9% in the 2022 issue of Rmb300m convertibles, and a simple 9% coupon in the 2023 issue of US\$80m convertibles)? Does it really have all the cash that it claims?

4.3 The "Victim" List

(1) Guangxi SOE Exits Subsidiary and Sells Down Global New Mat

Guangxi Investment Group Co., Ltd. (Guangxi Investment Group, 廣西投資集團有限公司) is the principal investment company wholly owned by the Guangxi Autonomous Region government. It has quite extension relationship with Global New Mat:

- ✓ The Luzhai Synthetic Mica Plant, discussed earlier in section [3.3 New Projects Behind Schedule](#), is undertaken by Chesir Luzhai⁷. At the end of 2022, Chesir Luzhai had registered capital of Rmb104.9m, held as to 60.04% by Chesir Pearl and 39.96% by Guangxi Industrial Investment Co., Ltd. (Guangxi Industrial Investment, 廣西工業投資發展有限責任公司), a subsidiary of Guangxi Investment Group;
- ✓ Its publicly-listed subsidiary Guangxi Energy Co., Ltd. (Guangxi Energy, 廣西能源股份有限公司, 600310.SH, previously named Guidong Electric Power Co., Ltd.) owned 108m shares or 9.1% in Global New Mat as at the end of 2022;

⁷http://www.liuzhou.gov.cn/zwgk/zcwj/bmwj/202301/t20230112_3208036.shtml

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- ✓ Its 49.5% held GX Land & Sea Connectivity Holding Ltd (GX Land & Sea, registered in the British Virgin Islands), held a further 71.5m shares or 6% in Global New Mat as at the end of 2022.

According to filings made by Chesir Luzhai, Guangxi Industrial Investment had sold all its interest in Chesir Luzhai to its partner, Chesir Pearl, in November 2023. According to HKEX news, Guangxi Energy and GX Land & Sea had disposed of 1.07m and 17.25m, respectively, Global New Mat shares since its IPO. As a result of the share sales, GX Land & Sea had reduced its stake in Global New Mat to below 5% by February 15, 2023, when the last such disclosure was made. It is consequently no longer obliged to report its shareholding under Hong Kong's disclosure rules, so it is questionable if it still holds any shares in the company.

Our analysis above shows that Global New Mat has not created an intricate financial fraud – it just simply and crudely exaggerated its production volume by four times. As the provincial government's major state-owned enterprise (SOE), Guangxi Investment Group is almost certain to be aware of Global New Mat's actual situation. Its exit from Chesir Luzhai and sell down of Global New Mat shares are clear indications that it has begun to manage the risk.

(2) Zhejiang SOE Enters the Game

Shortly after Guangxi Industrial Investment sold its 39.96% Chesir Luzhai stake to Chesir Pearl, the latter transferred a total of 32.83% interest to five limited partnerships and one natural person. Four of these limited partnerships are registered in Zhejiang province and one in Guangdong.

In early November 2023, Global New Mat was reportedly planning a Rmb10bn Asia-Pacific headquarters and an R&D/production base for surface performance materials in Tonglu County, Hangzhou City, Zhejiang Province. This project is said to occupy a site of 533.3k square meters or 131.8 acres, with about 500k sm being industrial land and the rest commercial⁸.

On November 20, 2023, Global New Mat announced that Tonglu New City Development Investment Co., Ltd. (Tonglu New City Development, 桐廬新城發展投資有限公司) would inject Rmb1bn into Chesir Luzhai for a 20% stake in the enlarged capital. Tonglu New City Development is controlled by Tonglu County State-owned Asset Management Committee (桐廬縣國有資產管理委員會).

The actual output of Global New Mat's pearlescent pigment products is only 20% of that claimed by the company. Its Phase 1 Production Plant is operating at a very low utilization rate, and the commissioning of the Phase 2 Production Plant and the Luzhai Synthetic Mica Plant is severely being delayed. Clearly, the project in Zhejiang is not going to create any real value for the company or the local government in the foreseeable future.

In our view, Global New Mat's gigantic plan in Zhejiang is merely an attempt to con another investor far away from home, because its actual situation in Guangxi is already known to the provincial investment company. The government and its SOE more than a thousand miles away, however, don't really know what's going on with Global New Mat.

⁸ http://www.tonglu.gov.cn/art/2023/11/9/art_1229271189_59019732.html

Global New Mat – Loss-maker Inflates Output 4X

(3) The "Victim" List

Small to medium investors are the natural victims of fraudulent financial schemes cooked up by listed companies. CQV and its original controllers have been victimized by accepting Global New Mat shares at a whopping HK\$8 a share when the stock mostly languished in the HK\$3.5-5 range during 2023. Tonglu County is the latest victim with its Rmb1bn investment in Chesir Luzhai. The two convertibles buyers, Arte Special Situation and Shenzhen Finance Bureau, are also victims. The Guangxi SOE, armed with local knowledge and acted on it, is likely to avoid getting hurt.

The perpetrators of financial frauds are of course the beneficiaries, though perhaps only for a short time. Since its Hong Kong listing, Global New Mat's chairman Su has sold off a net 4.43m shares, probably pocketing some HK\$20.6m based on the average stock price over the last few years.

4.4 Valuation

The Global New Mat stock closed at \$3.53 on April 5, 2024, implying a historical P/E of 21.8x. For a company that has fabricated profit out of thin air for a number of years, this is absolutely insane, especially when Hang Seng Index is trading at 9.6x P/E.

Given the serious financial fraud committed by Global New Mat, which we have shown was actually loss-making for years, we believe the company will eventually be delisted from the Hong Kong market, just like many of the companies whose financial integrity we have challenged. We expect the Hong Kong SFC to take all necessary regulatory actions on the back of this report and other evidence that we have provided them with.