GLAUCUS RESEARCH GROUP 格劳克斯研究

*"Let them eat cake"* - *Marie Antoinette (attributed)*



COMPANY: SOUFUN HOLDINGS LIMITED | NYSE: SFUN
INDUSTRY: Online Real Estate

# IT IS SO FUN TO CONCEAL RELATED PARTY TRANSACTIONS (NYSE: SFUN)

On April 4, 2013, we released our initial report on SouFun Holdings Limited ("SouFun" or the "Company"), available here. In this follow-up report, we present smoking-gun evidence which, we believe, shows that SouFun Chairman Vincent Tianquan Mo ("Chairman Mo") orchestrated a series of undisclosed related party transactions to siphon $14 million out of SouFun, and in the process violated US and Hong Kong securities laws. Such concealed related party acquisitions are similar to the nefarious behavior we discovered at China Medical, which collapsed spectacularly after we alerted investors to malfeasance by its management team.

I. **Mo's Money; Your Problem**. In 2012, SouFun purchased 47 hotel rooms in Sanya on Hainan Island for $14 million. SouFun told investors that it bought the property from an "independent third party." The evidence shows that this was not true.

   a. **Concealed Related Party Transactions**. SAIC filings show that SouFun purchased the hotel rooms from a special purpose vehicle ("Sanya Property SPV"), an entity which Chairman Mo and SouFun CEO Richard Jiangong Dai ("Richard Dai") owned and controlled only **three months before the sale of the Sanya property to SouFun**. It appears that there was a deliberate attempt to hide the relationship between Chairman Mo, CEO Richard Dai and the Sanya Property SPV by changing the entity's name only one month before the Sanya property sale.

   b. **SouFun Likely Fronted the Money**. SouFun mysteriously loaned $15 million to a holding company controlled by Deng Wei, a university classmate of Chairman Mo, right before he purchased the Sanya Property SPV from Chairman Mo and Richard Dai. This money was suspiciously repaid only three weeks after SouFun paid $13 million to the Sanya Property SPV in exchange for the hotel rooms. The use of loans from SouFun to Deng Wei made it even more difficult for investors and regulators to decipher that Chairman Mo and Richard Dai were the ultimate beneficiaries of the Sanya property transaction. **See our explanatory video here**.

   c. **Deng Wei's Reward**? We believe that Chairman Mo rewarded Deng Wei for being the front man in the Sanya transaction by giving him a generous independent directorship at Shun Cheong Holdings (HK: 0650) ("Shun Cheong") a Hong Kong-listed company controlled by the Chairman and his wife. We believe that in the process, Chairman Mo violated Hong Kong securities laws by claiming that Deng Wei was an 'independent director', when in reality, he had borrowed money from SouFun and appears to have served as a conduit to siphon the proceeds of the Sanya property purchase to Chairman Mo and Richard Dai.

II. **Missing Charitable Donations**. In 2011, SouFun paid over $2 million to Wall Street Global Training Center ("WSGTC"), a New York not-for-profit under the control of Chairman Mo. The cash was mostly a prepayment for training courses to be held in 2012 for 305 SouFun employees at 72 Wall St. However, publicly available IRS records demonstrate unequivocally that WSGTC received less than $50,000 in 2011. Further, SouFun admitted in its response to our initial report that 72 Wall St. was not fit for use and conversations with the doormen suggest large-scale training courses were never held at the building. In our view, the most likely explanation is that the Chairman misappropriated the funds.

We believe that not only did SouFun make false statements in its SEC filings by characterizing the seller of the Sanya properties as an "independent third party," but that an acquisition from a business secretly owned/controlled by the Chairman and CEO only three months before the buyout (and paid for with cash possibly fronted by the Company) is a textbook securities violation. In our opinion, such premeditated and explicit lies should lead US and HK regulators and the NYSE to immediately **launch a formal inquiry and suspend trading of SouFun's shares pending a full investigation**.

## I. Mo's Money; Your Problem

On March 15, 2012, SouFun purchased 44 hotel rooms at the Sanya Bay La Costa Hotel in Hainan (http://www.sanyalacostahotel.com) for $13 million,[1] ostensibly to serve as a corporate office and for "internal training." In our original report, we expressed skepticism as to why an Internet Company would need 44 hotel rooms at a 5-star resort in one of China's most popular vacation destinations. The price of the acquisition was also highly suspicious: for $13 million, SouFun could have bought (at current prices) 113,322 nights at the hotel.[2]

We believe that we have solved the mystery. The transaction appears designed to allow Chairman Mo and his nephew, CEO Richard Dai, to siphon money out of the Company without disclosing it to shareholders.

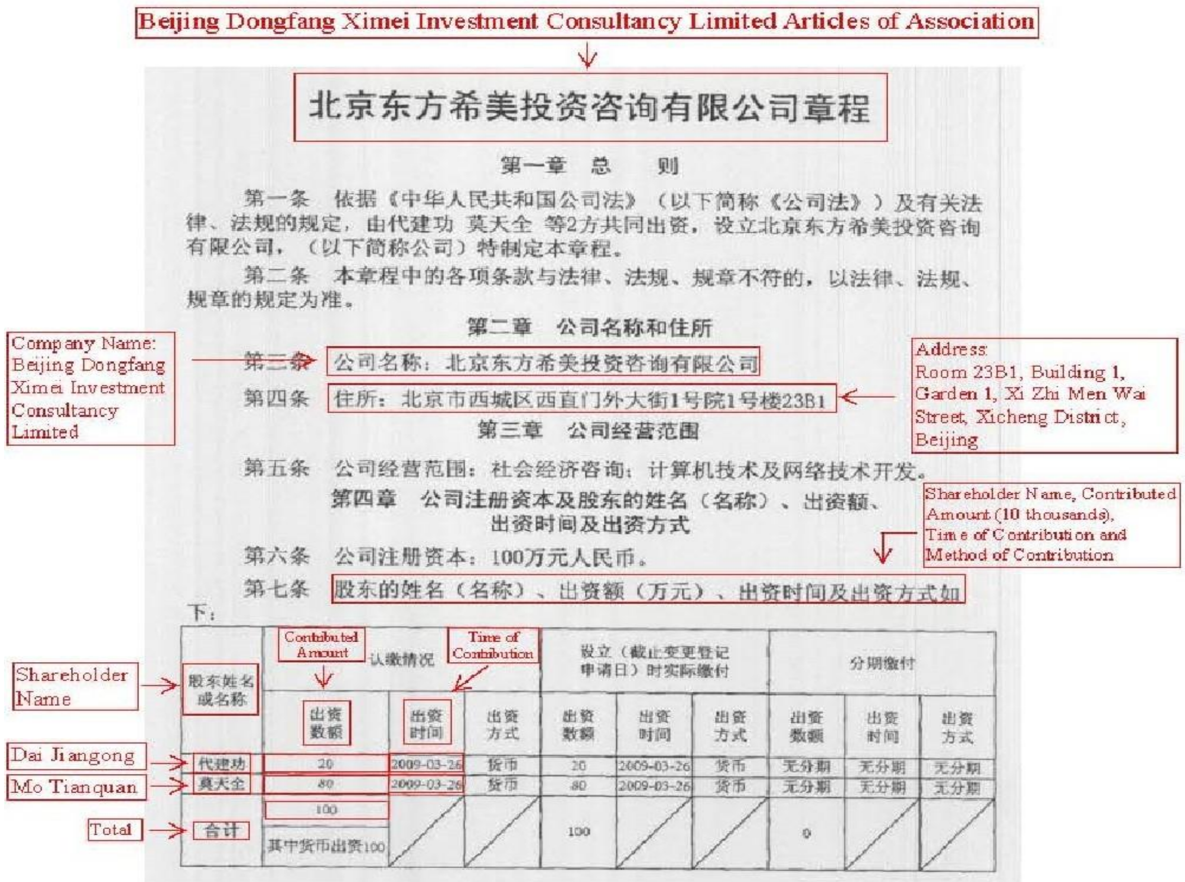
### 1) *Concealed Related Party Transactions*

SouFun's 2011 20-F stated that the Company purchased the Sanya property from **"Beijing Hengxinjiahua Investment Consultancy Limited, an independent third-party"** ("Sanya Property SPV"). This could not be further from the truth.

SAIC files show that SouFun's Chairman Mo established the Sanya Property SPV in 2009, which at the time he called Beijing Dongfangximei Investment Consultancy. We have included an excerpt of the SAIC files below showing that Chairman Mo formed the Sanya Property SPV and served as the entity's controlling shareholder with 80% of its shares. SouFun CEO Richard Dai owned the remaining 20% of its shares.

[1] All amounts in this report are quoted in US dollars unless stated otherwise.

[2] In June 2012, the Company purchased three more hotel rooms for ~$900,000 (aggregate) from the same entity, bringing the total number of rooms purchased from the Sanya Property SPV to 47, for a total consideration of $14 million. See 2012 20-F, page 39.




北京东方希美投资咨询有限公司章程

第一章　总　　则

第一条　依据《中华人民共和国公司法》（以下简称《公司法》）及有关法律、法规的规定，由代建功 莫天全 等2方共同出资，设立北京东方希美投资咨询有限公司，（以下简称公司）特制定本章程。

第二条　本章程中的各项条款与法律、法规、规章不符的，以法律、法规、规章的规定为准。

第二章　公司名称和住所

第三条　公司名称：北京东方希美投资咨询有限公司

第四条　住所：北京市西城区西直门外大街1号院1号楼23B1

第三章　公司经营范围

第五条　公司经营范围：社会经济咨询；计算机技术及网络技术开发。

第四章　公司注册资本及股东的姓名（名称）、出资额、出资时间及出资方式

第六条　公司注册资本：100万元人民币。

第七条　股东的姓名（名称）、出资额（万元）、出资时间及出资方式如下：

| 股东姓名或名称 | 认缴情况 | | | 设立（截止变更登记申请日）时实际缴付 | | | 分期缴付 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 出资数额 | 出资时间 | 出资方式 | 出资数额 | 出资时间 | 出资方式 | 出资数额 | 出资时间 | 出资方式 |
| 代建功 | 20 | 2009-03-26 | 货币 | 20 | 2009-03-26 | 货币 | 无分期 | 无分期 | 无分期 |
| 莫天全 | 80 | 2009-03-26 | 货币 | 80 | 2009-03-26 | 货币 | 无分期 | 无分期 | 无分期 |
| 合计 | 100<br>其中货币出资100 | | | 100 | | | 0 | | |

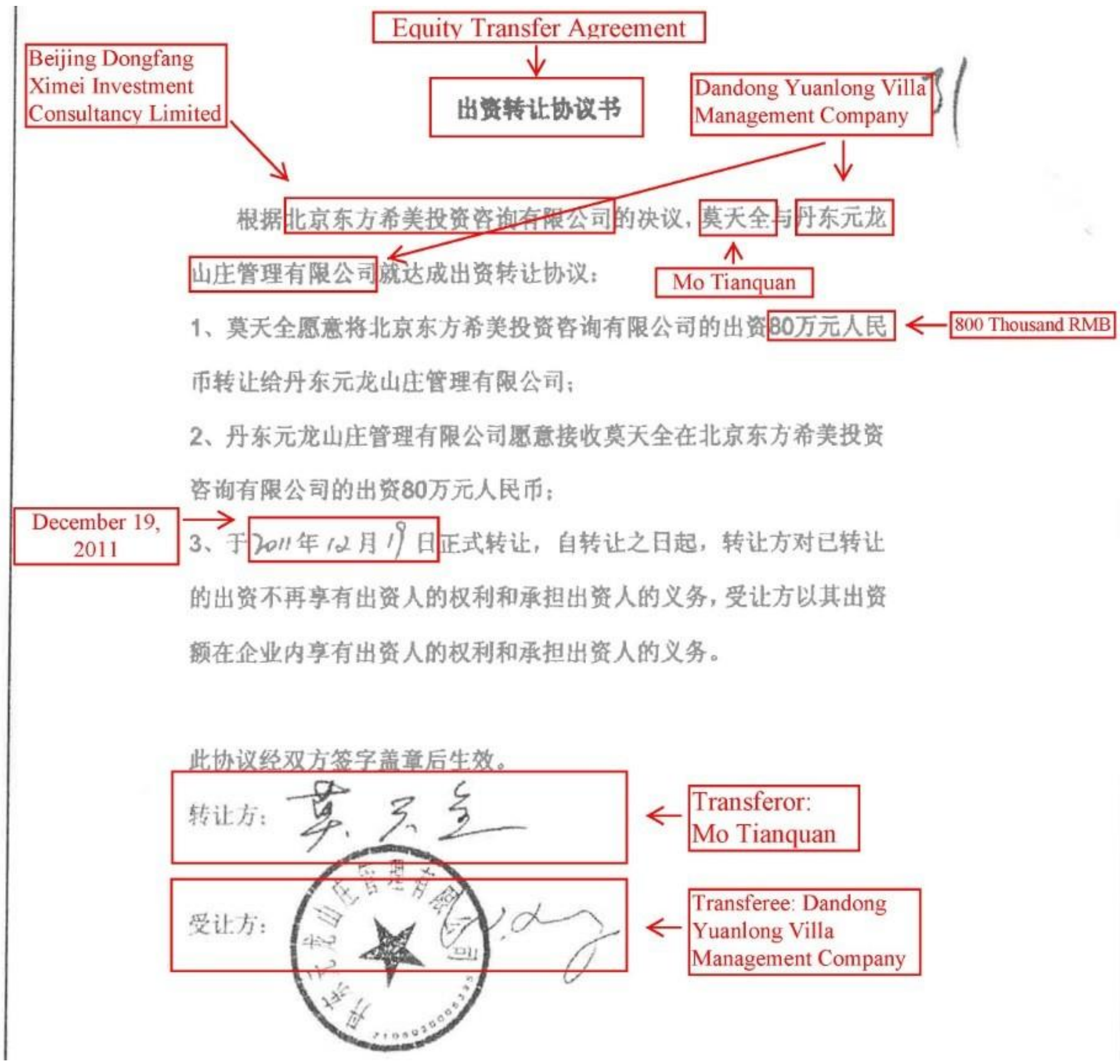
If investors or regulators need any further proof, **<u>a SouFun employee and presumably an administrative assistant to Chairman Mo listed her SouFun email address as the contact address for the Sanya Property SPV</u>**: zhangshuang@soufun.com (see excerpt of SAIC filing below).


内资企业设立(变更、改制)登记(备案)审核表

| | | | |
|---|---|---|---|
| 名　称 | 北京东方希美投资咨询有限公司 | | |
| 住所（地址、营业场所、经营场所） | 北京市 西城 区(县) 西直门外大街1号院1号楼23B1室 | | |
| □中关村科技园区 □金融街 | □北京商务中心区 □北京经济技术开发区 | □奥林匹克中心区 □顺义临空经济区 | |
| 联系方式 | 固定电话 59306691 | 邮政编码 100044 | |
| | 传真电话 59306614 | 联系人移动电话 13911267059 | |
| | 电子邮件地址 zhangshuang@soufun.com | | |
| 法定代表人姓名（负责人、投资人、执行事务合伙人、委派代表） | 莫天全 | 企业类型（经济性质） | 有限公司 |
| 注册资本(注册资本金、资金数额、出资额) | 100 万元 | 实收资本(金) 实际缴付的出资数额 | 100 万元 |
| 下一期缴资情况 | 出资额 万元 | 出资时间 年 月 日 | 出资方式 |

In December 2011, three months before SouFun purchased the Sanya property, SAIC filings show that Chairman Mo and SouFun's CEO Richard Dai transferred all of their shares in the Sanya Property SPV to Dandong Yuanlong Villa Management Company ("Villa Management"), an entity under the control of Deng Wei. According to this article on SouFun's website, Deng Wei is Chairman Mo's friend from their time together at Tsinghua University.

Below is the share transfer agreement, dated December 19, 2011, with Chairman Mo's signature. This excerpt shows the share transfer to Villa Management.




出资转让协议书

根据北京东方希美投资咨询有限公司的决议，莫天全与丹东元龙山庄管理有限公司就达成出资转让协议：

1、莫天全愿意将北京东方希美投资咨询有限公司的出资80万元人民币转让给丹东元龙山庄管理有限公司；

2、丹东元龙山庄管理有限公司愿意接收莫天全在北京东方希美投资咨询有限公司的出资80万元人民币；

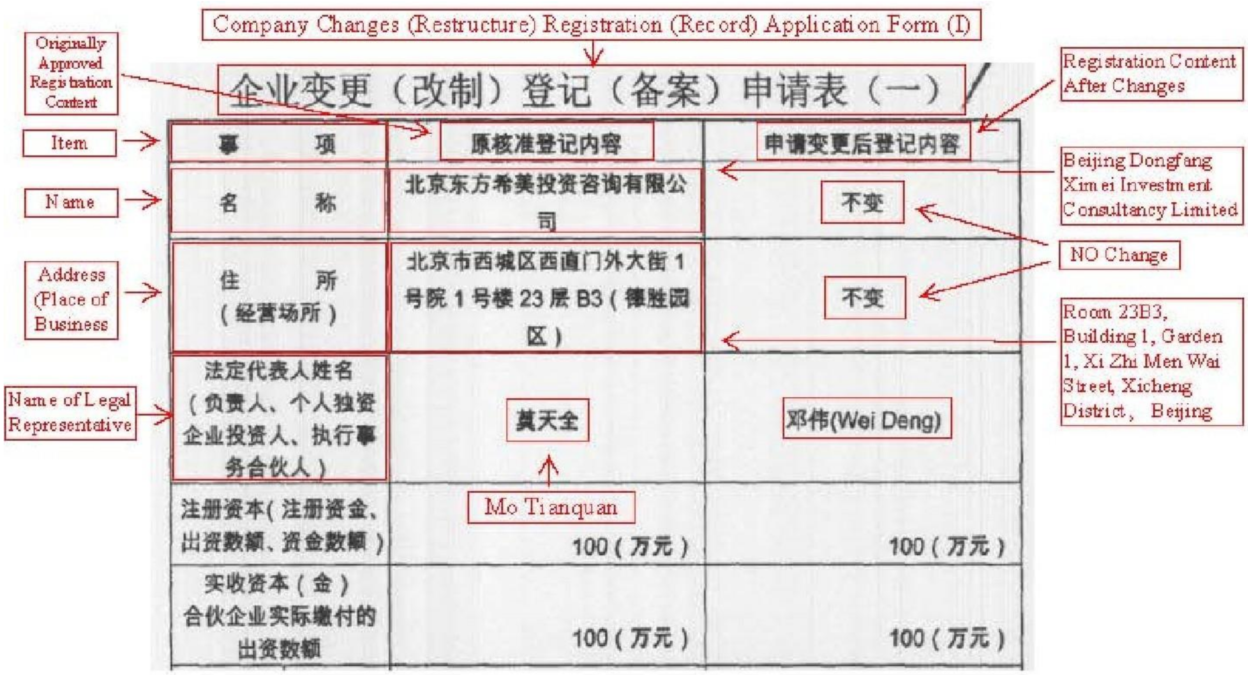
3、于2011年12月19日正式转让，自转让之日起，转让方对已转让的出资不再享有出资人的权利和承担出资人的义务，受让方以其出资额在企业内享有出资人的权利和承担出资人的义务。

此协议经双方签字盖章后生效。

转让方：莫天全

受让方：

SAIC filings show that upon the sale by Chairman Mo and Richard Dai of the Sanya Property SPV to Villa Management, Deng Wei became its registered representative.



企业变更（改制）登记（备案）申请表（一）

| 事项 | 原核准登记内容 | 申请变更后登记内容 |
|---|---|---|
| 名称 | 北京东方希美投资咨询有限公司 | 不变 |
| 住所（经营场所） | 北京市西城区西直门外大街1号院1号楼23层B3（德胜园区） | 不变 |
| 法定代表人姓名（负责人、个人独资企业投资人、执行事务合伙人） | 莫天全 | 邓伟(Wei Deng) |
| 注册资本（注册资金、出资数额、资金数额） | 100（万元） | 100（万元） |
| 实收资本（金）合伙企业实际缴付的出资数额 | 100（万元） | 100（万元） |



In February 2012, **one month after Chairman Mo transferred his shares in the Sanya Property SPV to Deng Wei's Villa Management and one month before SouFun bought the Sanya property**, the Sanya Property SPV changed its name to Beijing Hengxinjiahua:

名称变更通知

北京东方希美投资咨询有限公司：

北京东方希美投资咨询有限公司于2012年2月7日经我局核准，名称变更为北京恒信嘉华投资咨询有限公司。

特此通知

2012年02月07日

We believe that the conspirators changed the name of the Sanya Property SPV from Beijing Dongfang to Beijing Hengxinjiahua one month before the sale to SouFun because SouFun had already mentioned in its 2011 20-F that Beijing Dongfang (spelled Dong Fang in the SEC filings) was a related party under the control of the Chairman.

The fact that the name change occurred only one month before the sale of the Sanya property to SouFun strongly suggests that this was a premeditated deception. Chairman Mo would have surmised, correctly, that SouFun's shareholders would be up in arms if SouFun bought 47 hotel rooms in a vacation resort from an entity recently under his control without any disclosure on the matter. It appears as though Chairman Mo and CEO Richard Dai were just trying to cover their tracks so that no one would recognize the name of the seller when SouFun announced the purchase.

In March 2012, SouFun purchased the Sanya properties from the Sanya Property SPV, telling shareholders that it was buying the hotel rooms from an "**independent third party**" and that it planned to use the properties as "our local office in Hainan as well as for internal training purposes."

Yet SouFun never disclosed to investors that its Chairman and its CEO founded, owned and controlled the Sanya Property SPV, or that both men only transferred their shareholdings to Villa Management, an entity under the control Chairman Mo's university buddy, three months before the Company bought the Sanya property.

We believe that the sole purpose of transferring shares to Villa Management and changing the name of the entity of the Sanya Property SPV was to conceal Chairman Mo and Richard Dai's prior ownership and control of the Sanya properties. Such premeditated and deliberate deceptions are, in our opinion, far more sinister than simply an undisclosed related party transaction.

2) *SouFun May Have Fronted the Money for Villa Management's Purchase*

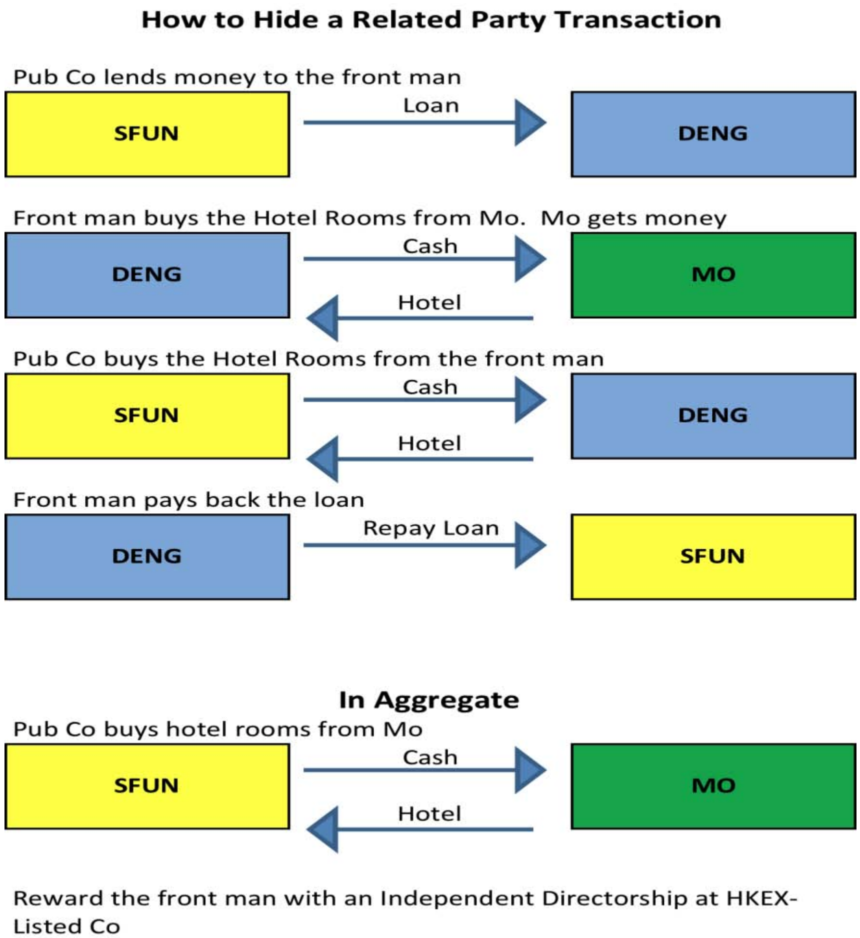
The rabbit hole goes even deeper. SouFun mysteriously loaned $15 million to Villa Management in Q4 2011, right around the time that Villa Management took ownership of the Sanya Property SPV from Chairman Mo and CEO Richard Dai. The loan was repaid three weeks after SouFun bought the Sanya properties from Villa Management.

SouFun's 2011 20-F contains the following statement:

> As of December 31, 2011, loans receivable represent the loans of US$11,109 and **US$15,034** to Beijing Pujin and **Dandong Yuanlong Villa Management Company [("Villa Management")]**, respectively. The loan to [Villa Management] has a term of six months with an interest rate of 10% per annum. [Villa Management] **is an independent third party**. **The loan to** [Villa Management] **was guaranteed by a major shareholder of** [Villa Management]**, and was subsequently collected in full on April 6, 2012.**

Put simply, SouFun appears to have loaned the **amount of the purchase price** to Villa Management in late 2011, allowing Villa Management to pay Chairman Mo and CEO Richard Dai for the Sanya Property SPV in December 2011. Then, three months later, Villa Management used the Sanya Property SPV to sell the Sanya properties to SouFun for $14 million, and its $15 million debt to SouFun was repaid shortly thereafter.

We have included the following flow chart to serve as a visual aid in explaining what we believe were deliberately complicated machinations.




It appears to us that SouFun fronted the money to Deng Wei to allow him to purchase the hotel rooms from Chairman Mo and CEO Richard Dai, further supporting our theses that SouFun's purchase of the Sanya property was not an arm's length transaction and that the SouFun brain trust deliberately concealed its Chairman and CEO's involvement in the transaction. Below is a screenshot of a brief video we created to explain the transaction (click on the screenshot to go to the video).

3) *Deng Wei's Reward?*

The clever investor may ask: **what did Deng Wei get out of the deal**?

On March 23, 2011, eight days after SouFun bought the Sanya property from the Sanya Property SPV, Chairman Mo appointed **Deng Wei to be an independent director of Shun Cheong (HKEX: 0650)**, a public company on the Hong Kong exchange in which Chairman Mo and his wife hold a majority stake. Deng Wei's independent directorship entitled him to an annual salary of HK$100,000.

We believe the evidence supports a simple narrative: Deng Wei's appointment, and his HK$100,000 per year salary, was a 'quid pro quo' for his help in concealing Chairman Mo's ownership in the Sanya properties.

Even more egregious, in the filing to the Hong Kong Stock Exchange and Shun Cheong's shareholders announcing Deng Wei's appointment to the board of directors, Shun Cheong stated that "Mr. Deng does not have **any relationship with any directors, senior management, substantial shareholders or controlling shareholder of the Company** and does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance as at the date of this announcement." We believe this statement was a lie.

Under Rule 3.13 of the HKEX Listing Rules, Deng Wei would not be considered an independent director if he had "a material interest in any principal business activity of or is involved in **any material business dealings** with the listed issuer, its holding company or their respective subsidiaries or **with any connected persons of the listed issuer**…"

Deng Wei clearly was involved in "**material business dealings**" with SouFun's Chairman Mo, a connected person under Hong Kong rules. Deng Wei's Villa Management obtained a loan from SouFun four months prior to his appointment (**a loan which was still outstanding at the time of his appointment as a supposedly independent director)**; Deng Wei bought the Sanya Property SPV from Chairman Mo three months prior to his appointment; and Deng Wei sold the Sanya hotel rooms to SouFun eight days prior to his appointment.

As if to underscore that Deng Wei is not an independent director, his company, Villa Management, sold **three more hotel rooms for ~$900,000 through the Sanya Property SPV to SouFun in June 2012**, which was over two months after he accepted his position as an 'independent' director. This is a clear violation of Hong Kong securities laws.

We suspect that the Hong Kong Stock Exchange will suspend trading of Shun Cheong's shares pending a full inquiry into the matter, which we are confident will reveal that Shun Cheong violated Hong Kong securities laws by holding Deng Wei out as an independent director when he was not, in fact, independent.

## II. Missing Charitable Donations

On April 5, 2013, SouFun issued a press release responding to our initial report yet failed to address our report's most troubling evidence. In 2011, SouFun claimed to have paid over $2 million to Wall Street Global Training Center ("WSGTC"), a New York not-for-profit under the control of Chairman Mo. The payment of $500,000 was ostensibly for training programs conducted at 72 Wall St. in 2011. The payment of $1.6 million was purportedly a **prepayment for** training programs to be conducted in 2012. However, publicly available IRS records show unequivocally that WSGTC received less than $50,000 in 2011. In our view, the likely explanation is that Chairman Mo misappropriated the funds and that the charity never received the money.

SouFun's response deserves to be quoted in full:

> "SouFun purchased 72 Wall Street for its long term strategy of SouFun's internal global training programs collectively called **SouFun Business School**. The facility **needs renovation and is now not in a condition for full operations**. The company has been using it as a temporary office and **occasionally for visiting SouFun employees** and clients (62 visitors in 2011, **241 visitors in 2012**, and planning for 350 visitors in 2013). **It is preliminarily planned to open in full in two years from today**. SouFun's visiting employees and clients for training purposes are mostly arranged by a related party called Wall Street Global Training Center (a not for profit organization in application), of which our Chairman is a director. In the past two plus years, SouFun paid roughly $2 million (which has been disclosed with SEC) to Wall Street Global Training Center for the 300 plus visitors.

### *1) Show Me The Money*

**First, it appears that the money never made it to WSGTC**. It is misleading for the Company to insinuate that the $2 million in payments to WSGTC was spread out over "**the past two plus years**" when SouFun's previous SEC filings show that SouFun paid $2 million to the charity in **December 2011**. The Overseas Training Agreement, signed December 20, 2011 (available here), required SouFun, "**within seven days after signing this agreement**, to pay 80% of the aggregate training fee (US$1,595,000) to Party B's account."

The contract corroborates SouFun's 2011 Annual Report, which states that:

> "Wall Street Global Training Center, Inc., a New York not-for-profit corporation, provided training services to us in 2011. Mr. Mo, Shan Li and Quan Zhou are directors of Wall Street Global Training Center, Inc ... **In 2011, we paid Wall Street Global Training Center, Inc. training service fees of approximately US$0.5 million. In addition, we also prepaid service fees of US$1.6 million for future services**."

We believe that the evidence clearly shows that the payments from SouFun to WSGTC were not spread out over "two plus years." According to SouFun's 2011 Annual Report (and the contract governing the deal between SouFun and WSGTC), they should have been received by WSGTC in **December 2011**. However, publicly available IRS records show unequivocally that WSGTC received less than $50,000 in 2011.[3] Where did the money go?

[3] WSGTC's 2011 Tax Returns cover the period from the formation of the Company in May 2011 until April 2012.

*2) 72 Wall St. To Be Ready in 2015!*

The Company admitted in its press release on April 5, 2013, that the 72 Wall Street facility "needs renovation and is not now in a condition for full operation" and that it "**is preliminarily planned to open in full in two years from today**." 72 Wall Street has presumably been in such condition since the Company bought it in September 2011. Indeed, site visits and interviews with the doormen at 72 Wall Street by our consultants indicated that 20 months after the purchase, the building is still virtually empty and has barely been in use since SouFun purchased it.

If the building is not in use today (and will not be **ready for another two years),** then why did SouFun pay WSGTC $1.6 million for "**295 persons to attend short-term training (7 days for $6,100 each**) and for 10 persons to attend mid-term training (2 months for **$19,500 each**)" in 2012?[4]

In our opinion, it seems highly unlikely that the Company held week-long training sessions for 295 people in 2012, and for 10 people for two months in a dilapidated and empty building that will not be ready to use until 2015 (at the earliest). We suggest that investors and regulators should visit 72 Wall Street on their own and see the condition of the building. We are confident that you will form the same opinions and come to the same conclusions as we did.

*3) Where were the trainees?*

The Company also admitted, in its press release of April 5, 2013, that the 72 Wall St. building only received **241 'visitors' in 2012**. The response did not say that 305 employees attended training sessions at the Company. Merely that 241 **"employees and clients**" visited the building in 2012. During our consultant's site visit, the doorman stated that he had not seen groups of visitors, suggesting that teams of SouFun employees have not attended training sessions in the building.

Ultimately, investors must consider that SouFun paid $2 million to a not-for-profit controlled by Chairman Mo in exchange for 295 one-week training sessions and 10 two-month training sessions, which were all supposed to occur in 2012. Yet the money does not appear on the charity's tax returns, 72 Wall St. is not fit for commercial use, and it appears that nowhere close to the number of people visited the building in 2012 for the Company's statement to be true.

## III. So Fun While it Lasted

In sum, this follow-up report has presented smoking-gun evidence which, we believe, shows that Chairman Mo and his associates (i) made materially false and misleading statements to the SEC and to US investors by concealing the Chairman and the CEO's connection to the Sanya property acquired by the Company; (ii) made materially false and misleading statements to the Hong Kong Stock Exchange and Hong Kong investors in Shun Cheong by claiming that his classmate, who facilitated the apparent scheme to conceal the Chairman's prior ownership of the Sanya properties bought by SouFun, was an independent director of a Hong Kong listed public company; and (iii) made materially false and misleading statements to the IRS about the receipt of $2 million in purportedly charitable donations to WSGTC for training sessions at 72 Wall Street that appear never to have taken place.

We believe that such premeditated and explicit lies, materially false and misleading disclosures, and actions and conduct, which in our opinion, were designed to obfuscate the truth, should lead regulators and the NYSE to immediately **suspend trading of SouFun's shares pending a full investigation** into the information we have presented in our original report and this follow up report.

[4] http://www.sec.gov/Archives/edgar/data/1294404/000119312512490327/d446677dex423.htm

# Disclaimer

*We are short sellers. We are biased. So are long investors. So is SouFun. So are the banks that raised money for the Company. If you are invested (either long or short) in SouFun, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum.*

*You are reading a short-biased opinion piece. Obviously, we will make money if the price of SouFun stock declines. This report and all statements contained herein are the opinion of Glaucus Research Group California, LLC, and are not statements of fact. You can publicly access any piece of evidence cited in this report or that we relied on to write this report. Think critically about our report and do your own homework before making any investment decision. We are prepared to support everything we say, if necessary, in a court of law.*

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