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格勞克斯研究

"Let them eat cake"

- Marie Antoinette (attributed)

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

ANOTHER UNDISCLOSED RELATED PARTY TRANSACTION (NYSE: SFUN)

On April 16, 2013, we released a follow up report on SouFun Holdings Limited ("SouFun" or the "Company"), available [here](#). In this, our third report, we present new evidence of yet another undisclosed related party transaction between SouFun and Chairman Vincent Tianquan Mo ("Chairman Mo"), this time involving Shun Cheong Holdings Limited ("Shun Cheong" (HK: 0650), the Hong Kong listed company majority owned by Chairman Mo and his wife.

- I. The Missing Link. According to Shun Cheong's public [filings](#), Beijing Pukai Shijie Investment Consultancy Company ("MoCo"), an entity 80% beneficially owned by Chairman Mo, provided consulting services to SouFun in 2011. SouFun failed to disclose this related party transaction to investors, which we believe is a violation of SEC rules.
 - a. Consultancy Services to 72 Wall St. According to the public filing which is dated December 14, 2011, MoCo "provided consultancy service to the existing owner during the acquisition of 72 Wall Street. SouFun completed the purchase of 72 Wall Street by October 2011, just months before these consultancy services were disclosed to the shareholders of Shun Cheong. While the amount that SouFun paid MoCo for 'consulting services' is not disclosed, no one works for free so it is not a stretch to presume that SouFun paid MoCo for participating in the project. There is no mention of MoCo or the consulting services it supposedly provided to the Company in SouFun's 2011-20 making this in our opinion, an undisclosed related party transaction.
 - b. Training Center, Mansion, or Hotel? In SouFun's December 2010 SEC filing announcing the purchase of 72 Wall Street, it is [clearly stated](#) to shareholders that SouFun's intention is to use the property for training purposes. In fact, in SEC filings since December 2010, the Company reiterates that the property is to be used for training. However, according to the Shun Cheong [filing](#) in December 2011, MoCo "evaluated the possible options for subsequent redevelopment or conversion of 72 Wall Street Mansion, into training center or hotels." The filing goes on to state that the concrete plan for said conversion has not yet been finalized and is subject to further evaluation [SouFun]." SouFun tells its investors that it bought 72 Wall Street for training. Shun Cheong, Chairman Mo's other company, tells investors that SouFun was deciding whether to leave 72 Wall Street as a training facility or convert it to a hotel. Both cannot be true.
 - c. The Big Picture. In our initial report, we expressed skepticism as to why a capital Internet business had recently accumulated nearly \$200 million in high priced real estate across the globe, supposedly to serve as 'training' facilities. We have the common thread: the Sanya property (\$14 million), the newly purchased Shanghai Bao'An complex (\$127 million) and 72 Wall St (\$61 million) are either already hotels, or in the case of 72 Wall Street, have been recently evaluated for conversion into a hotel.

According to the Shun Cheong filing, MoCo is "mainly engaged in hotel investments, investing management, consultancy, securities investments and business services. MoCo is also connected via JV to one of the Chairman's hotel management [entities](#). Chairman Mo's hotel business makes us suspicious of SouFun's acquisitions of hotel properties. Is SouFun buying hotel properties and properties which it could convert into hotels for the benefit of MoCo? Has the Company paid MoCo for hotel management or consultancy services in connection with the acquisitions of the Sanya property or Shanghai Bao'An complex?

- II. What Happens in Sanya Should Not Stay in Sanya In our [April 16th](#) follow-up report, we presented smoking gun evidence which, we believe, showed that Chairman Mo orchestrated a series of undisclosed related party transactions totaling \$14 million out of the Company LQ FRQQHF WLRQ ZLWK 6RX) XQ¶V D Sanya VLV Q BQL Q IWKRW S Q RUFHJ KONG SEC OFFICERS 86 SouFun's response was evasive and contradictory.
- Glaucus Was Right SouFun admitted that Chairman Mo and CEO Richard Dai were the previous owners of the Sanya Property SPV from which SouFun purchased the Sanya Property, but pleaded to the market that O >V XFK JHVD QED F WL disclosed :H IRXQG WKLW FXULRXV certainly not disclosed to investors GDMR 60211111 and CEO VROG WKH VSHFLDO SXUSR VH YHKLFOH ZKLFK RZQHG WKH 6DQ\D S (DNG HUW\ Wei) three months before the transaction.
 - SEC Correspondence Revealed This week SouFun admitted that in our response to SEC staff comments on our 2011 2012 in November 2012 ZH SURYLGHG WKH « FODULIFD WLRQ RI RXU +DLQDQ 6DQ\D SURS disclosed to the market that the SEC inquired about Sanya properties. Simply put, neither Glaucus nor, to our knowledge, any other public investor was ever aware before last week (4/16/2013) of any such correspondence with the SEC. We believe that in the interest of transparency, SouFun should disclose any and all inquiries or correspondence from the SEC.
 - Liquidity Crisis Seems Unlikely. SouFun claims that it loaned \$15 million to Deng Wei to enable him to buy the Sanya Properties, immediately after which, Deng Wei experienced "liquidity issues and as a result was unable to pay the Company's loan." We find nothing credible about this explanation. Deng Wei is the president of Century Bridge Capital so it is safe to assume that he is financially sophisticated, making it unlikely that he was dumb enough to borrow \$15 million to buy a property only to later edge of insolvency three months later. Moreover, if he was such a credit risk, why would SouFun lend him \$15 million only to see him default in less than 3 months?

Ultimately, investors can choose between two competing explanations with respect to the Sanya Transaction

- 6RX) XQ¶V H[SODQD WLRQ LV WKDW LW MXVW KDSSHQHG WR ORDQ just PLOO happened to buy a holding Company from Chairman Mo and CEO Richard Dai. That university buddy then just happened to use that same holding company to buy hotel rooms, Chairman Mo's specialty. And, as luck would have it, immediately thereafter all coincidental transactions, the university buddy runs out of cash, and, what do you know, the BEST OPTION was to sell that same property to none other than to SouFun at, of course, a below market price which just happened to be valued at almost the exact amount of the original loan.
- , VQ¶W WKH PRUH (and the idea that SEC did not see the Plan all along was for SouFun to front Deng Wei the money to buy the Sanya properties from Chairman Mo and CEO Richard Dai and then to have SouFun buy the properties from Deng Wei, effectively allowing SouFun to purchase the hotel rooms from the Chairman and CEO without disclosing to shareholders their in the transaction?

, I \RX EX\ WKH & RPS Please contact us because we face some ocean front property in Arizona to sell you. , I \RX EX\ WKDW throw the Golden Gate Bridge in for free.

- III. Release SEC Correspondence We reiterate our call on SouFun to make public any and all previously undisclosed SEC correspondence and questions from the SEC. If the Company has done nothing wrong, this should not be a problem. Investors, long-term investors, know.

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