We believe that 58.com (WUBA) is a House of Cards with Little Economic Substance

- Our extensive due diligence, accounting analysis, and review of Chinese SAIC filings suggests to us that WUBA is an accounting house of cards with little economic substance.
- We believe that WUBA has failed to disclose that its biggest acquisition Ganji, acquired for $2.8bn, has seen its revenue plummet by over 95% since the acquisition by WUBA.
- Our web traffic analysis supports our opinion that Ganji is a failing business. Yet, Ganji is still touted as one of WUBA's core assets.
- Assets related to Ganji currently make up $2.1bn or over 50% of WUBA's shareholder equity and we believe should be impaired in light of our findings. We call on the company's auditor PWC Zhongtian and regulators to look into the questions and issues we outline in this report.
- SAIC filings suggest that WUBA has been inflating the financials it reports to the SEC. Revenues in the last three years for the overall company are overstated by a cumulative RMB 4.6 billion.
- We also see a pattern where the best businesses are spun off at deflated prices to insiders, and less successful business segments are kept in the public company and dressed up to make the financials appear better.
- WUBA spun off its peer-to-peer car sales platform Guazi to its former Co-Chairman for effectively no consideration – our analysis suggests to us that WUBA effectively gifted its former Co-Chairman over $ 1.7 billion.
- WUBA spun-off its online finance business to its CEO in an arcane deal that seemed to be aimed at enriching insiders at the cost of public shareholders.
- Our accounting analysis of SEC filings shows that the company employs what we believe to be many accounting shenanigans that seem to be aimed at dressing up SEC financials. WUBA seems to try to avoid consolidating entities whose financials do not look favorable.
- Our fundamental analysis of WUBA shows that the company's core business is facing numerous headwinds, including an unfavorable environment for housing and job market. These issues are only emphasized by the recent health crisis in China.
- While WUBA raises money from US shareholders on the back of what we believe to be fraudulent financials, insiders at the company are getting rich.

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Table of Contents

1. Introduction

58.com Inc. operates various online classifieds platforms and vertical listing platforms in China. The company's main segments are yellow page services, real estate platforms, and job platforms amongst others.

WUBA presents itself as a prime opportunity for US investors to participate in the growth of the Chinese online economy and has raised over $1.6 billion from investors since becoming a US public company in 2013.

The documentary The China Hustle has shed light on many issues US investors face when buying into Chinese operators. The assets are based in mainland China, disclosure is opaque, and there is little to no legal recourse for Chinese insiders that lie to and steal from US public shareholders. The Public Company Accounting Oversight Board ("PCAOB") said the SEC faces obstacles in inspecting the principal auditor's work when in it comes to companies operating in China. This set-up has led to terrible incentives, and we believe enhanced due diligence is warranted when investing in Chinese companies.

Unfortunately, in our view, WUBA does not pass the due diligence test. Filings from China suggest to us that the company has been overstating revenues. WUBA's biggest acquisition has seen almost its entire revenue vanish and we believe that over 50% over the shareholder equity should be impaired in light of our findings. We also see a pattern where the best businesses are spun off at deflated prices to insiders, and less successful business segments are kept in the public company, and we believe dressed up to make the financials appear better.

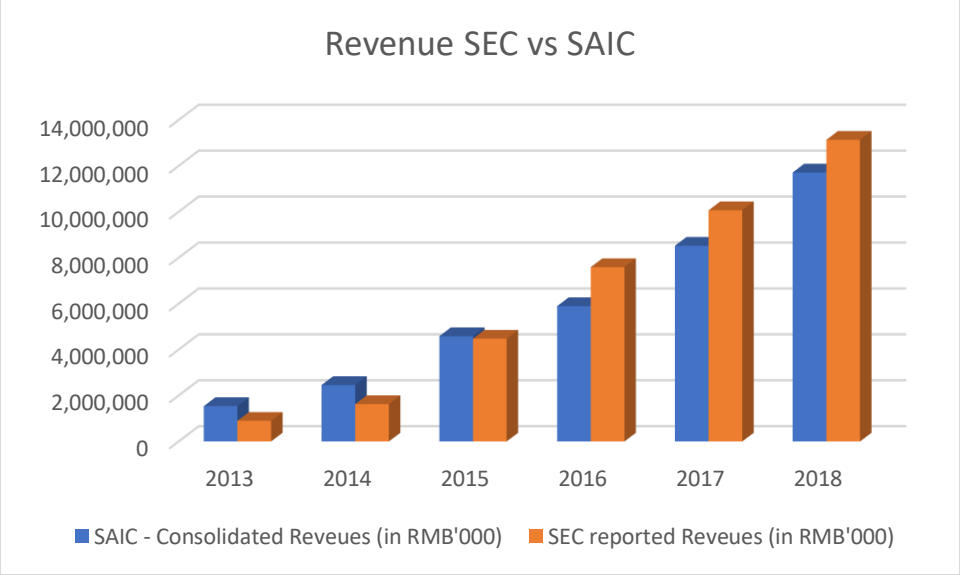
In short: Our analysis leads us to believe that WUBA is a fraud vehicle that primarily exists to enrich insiders and to raise money from US investors on the back of fake financials.

2. Reporting Apparently Inflated Financials

SAIC filings suggest to us that the company has overstated Revenue by a cumulative RMB4.6 billion in the last three years!

Chinese filings of the State Administration for Industry & Commerce (SAIC) have been an important source for investors to cross check and validate financials of Chinese operators. We comprehensively pulled and reviewed the Chinese filings for all of WUBA's substantial Chinese mainland entities.

Unfortunately, SAIC filings reveal that the real performance of WUBA is far less favorable than what has been presented to US investors.



Revenue seems to have been overstated by a cumulative RMB4.6 billion in the last three years.
The SAIC filings also suggest that WUBA in fact understated revenues to the SEC in early periods, which makes overall growth seem more favorable than what we can find in SAIC filings. In the period from 2013 to 2018 the growth suggested by SEC filings is a spectacular 71% yearly annually compared to a much lower 50% shown by SAIC filings. It is also interesting to note that the company seemed to have started to report inflated revenues to the SEC in 2016, right after the Ganji acquisition happened.

While it is deeply worrying to find such divergences in the overall company numbers, we were shocked by what we found when we drilled into WUBA's subsidiaries individually.

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3. Ganji Takeover Looks Like a Sham

3.1 Background on Ganji Acquisition

WUBA became the leader in China's online classifieds sector in 2015 when it acquired both Anjuke and Ganji, two of its largest competitors.

- Anjuke was one of the leading real estate listing platforms in China and is focused mainly on real estate sales, both secondary and primary. This was a smaller acquisition with a total consideration of $254million.
- Ganji was WUBA's major competitor in the O2O (online-to-offline) area before it was acquired for a total consideration of $2.8billion.

We believe WUBA should have already incurred a massive impairment charge to its goodwill due to Ganji's underperformance over the past few years. But before we dive into details, let's take a look at the steps that WUBA took to acquire the whole equity interest in Ganji.

- Step 1: 17 million ADSs equivalent and $412.2 million cash to acquire 31.6% of Ganji in April 2015
- Step 2: 25.5 million ADSs equivalent and $457.6 million cash to acquire 68% of Ganji in August 2015
- Step 3: $14.1 million to acquire 0.4% of Ganji in September 2017

The total consideration for Ganji's 99.6% equity interest acquisition in 2015 was disclosed as $2.8 billion, of which **$2.6 billion was assigned to WUBA's goodwill, according to the company's 2015 20F**. This goodwill makes up roughly 65.8% of WUBA's shareholder equity.

	Amounts US$	Amortization Years
Net assets acquired	12,848	
Amortizable intangible assets:		
Domain names and trademarks	234,700	9.4
Technology	24,300	4.4
Mezzanine classified noncontrolling interest	(14,140)	
Goodwill	2,611,053	
Deferred tax liabilities	(64,750)	
Total	2,804,011	
Total purchase price comprised of		
-Cash consideration	457,640	
-Equity consideration	1,161,657	
-Fair value of previously held equity interests	1,184,714	
Total	2,804,011	

WUBA keeps touting Ganji as one of its core assets in its 20F filing and investor presentation, even though management fails to disclose specifics about Ganji's financial performance.

The table below is based on the disclosed pro forma revenues for 2014 assuming the acquisitions were to be completed on 01/01/2014.

In USD'000	**2014**
Revenues – pro forma	464,669
Reported Annual Revenues by WUBA in 2014	264,978
Calculated revenues from acquisitions – mainly Anjuke and Ganji	199,691
% of acquired companies as total pro forma revenues	43.0%

Source 2014 20F & 2015 20F p.F-30

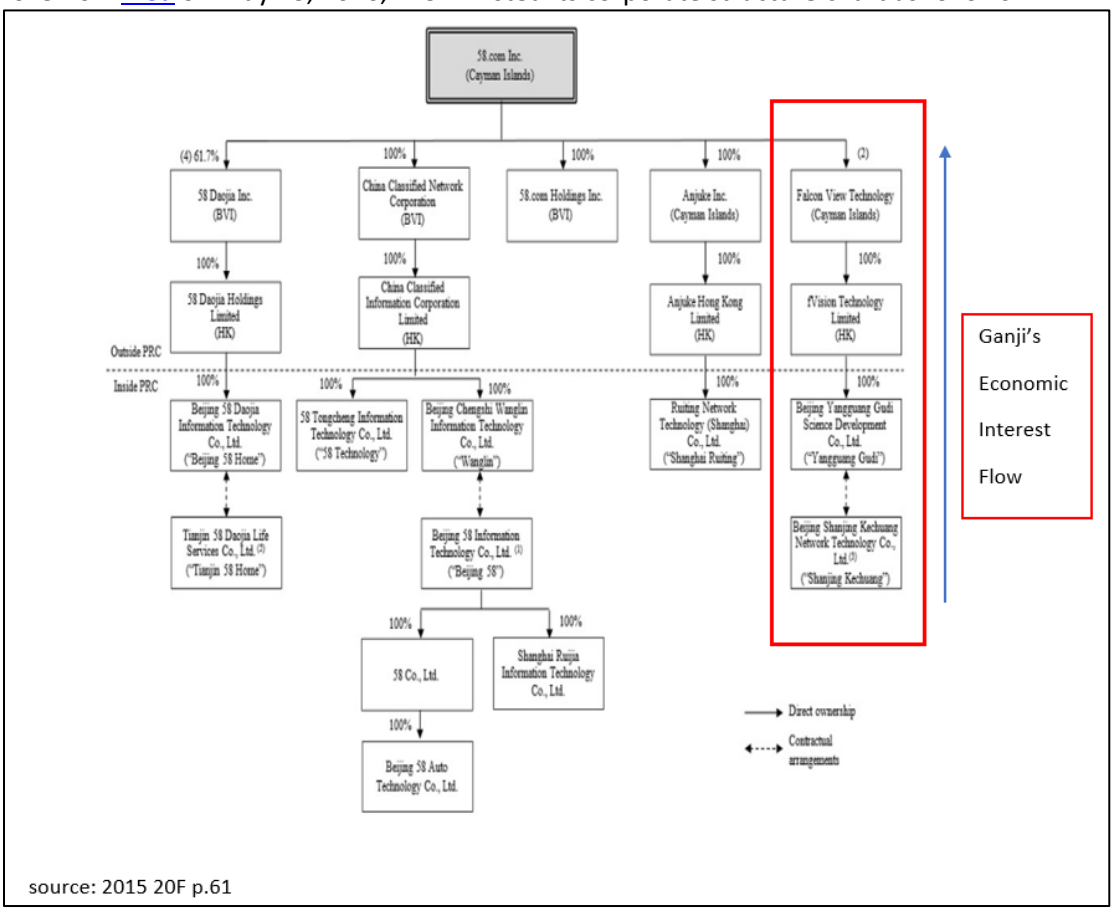
Had the acquisitions been in effect for all of 2014, revenues generated from the acquired companies would have been at least 43% of WUBA's total revenue.

It's also reasonable to assume that Ganji was the larger of the two acquisitions, based on the amount WUBA paid.

- Total consideration paid for Ganji: **$2.8 billion**
- Total consideration paid for Anjuke: $254 million
- Total consideration paid for "Other acquisitions": $54.7 million

3.2 Ganji Fell Apart Shortly After the Acquisition

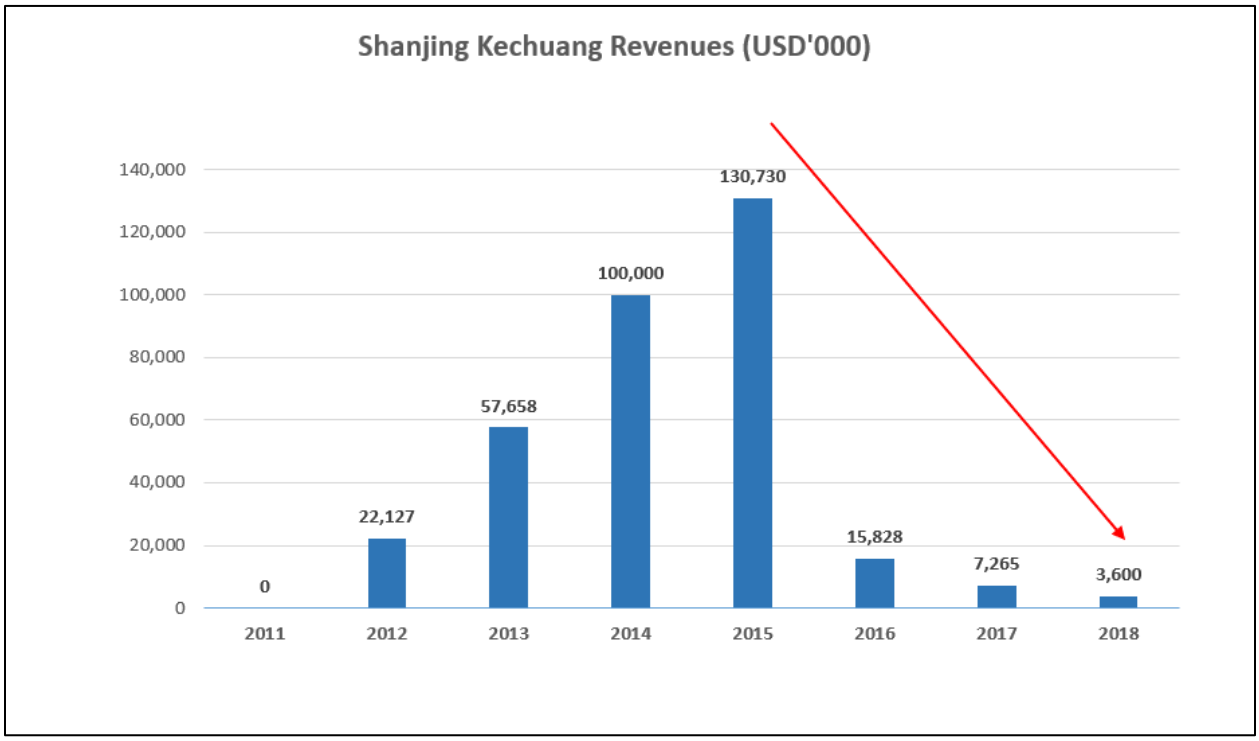
In its 2015 20-F filed on May 13, 2016, WUBA listed its corporate structure chart as follows:



source: 2015 20F p.61

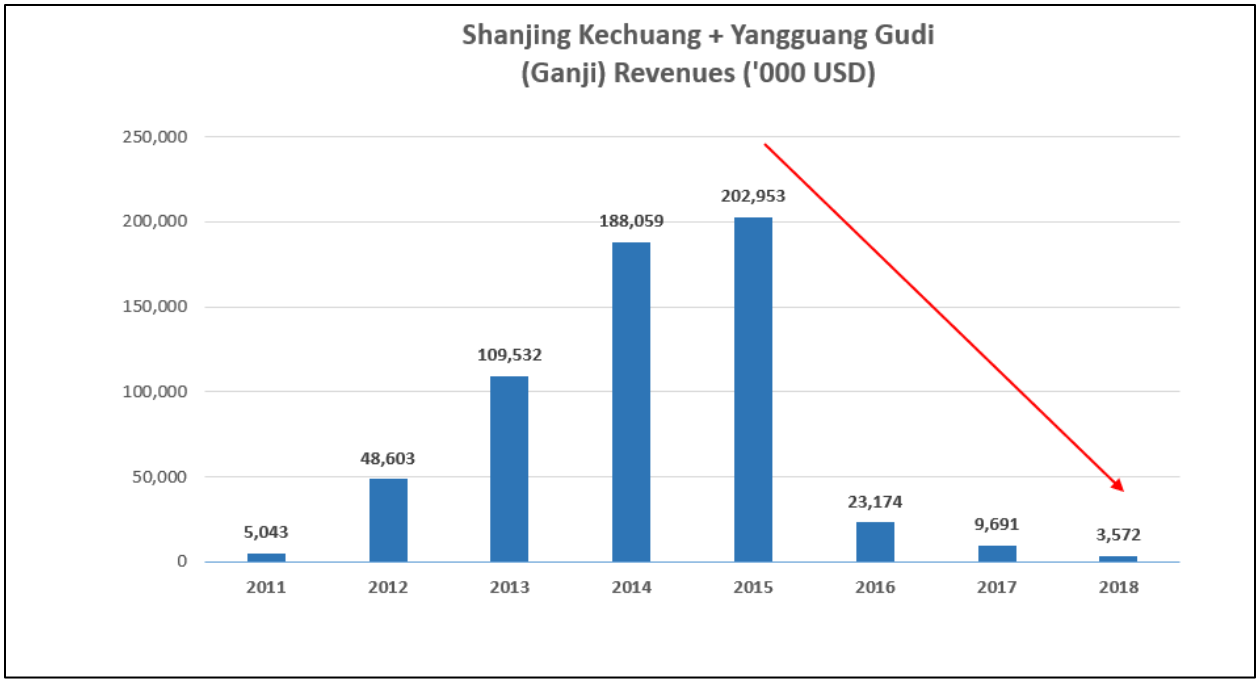
This corporate chart includes all the material consolidated entities of WUBA. The red-boxed parts are Ganji related entities, among which is the company "Beijing Shanjing Kechuang Network Technology Co., Ltd." ("Shanjing Kechuang", Chinese name: 山景科创网络技术(北京)有限公司) the main VIE operating Ganji's business in China.

Because WUBA does not disclose revenues separately for its major subsidiaries, we went to China's SAIC to obtain Shanjing Kechuang's financials for the past few years. According to SAIC information, Shanjing Kechuang's total revenues increased from $0 in 2011 to a peak of $130.7 million in 2015. After 2015, revenue dropped significantly to just $15.8 million in 2016, $7.3 million in 2017 and just $3.6 million in 2018. Astonishingly, **Shanjing Kechuang's revenues in 2018 were only 2.8% of what they were in 2015!** Below is a chart of Shanjing Kechuang's revenue from 2011 to 2018.



Source: SAIC information

In addition, we also obtained SAIC financials of Ganji's WFOE, Beijing Yangguang Gudi Science Development Co., Ltd. ("Yangguang Gudi", Chinese name: 北京阳光谷地科技发展有限公司) from 2011 to 2018. If we add these two entities' financials together, we see the same trend in total revenue as we see with Shanjing Kechuang alone. The total revenues for the two combined entities increased from $4.6 million in 2011 to a peak of $203.0 million in 2015, and then dropped significantly to $23.2 million in 2016, $9.7 million in 2017 and $3.6 million in 2018. **Revenue from the combined entities is only 1.8% of what it was in 2015!** Below is the combined two entities' total revenue from 2011 to 2018.



Source: SAIC information

What we found in SAIC filings was devastating, Ganji seemed to have lost over 95% of its revenue since the acquisition by WUBA.

SAIC filings also show that Ganji generated $203 million revenue in 2015 (combing the revenues from both Ganji's VIE, Shanjing Kechuang, and its WFOE, Yangguang Gudi). This means shareholders paid a ridiculous 14x revenue for this business that would soon fall apart. Had shareholders known that, they may have not taken kindly to the transaction. Especially since the company paid at least 11.3m equivalent ADSs in stock to the founder (making him a 7.95% holder according to the company's 2015 annual report), along an undisclosed amount of cash.

Furthermore, Ganji founder Mark Haoyong Yang had resigned his position as Co-CEO of WUBA in November 2015 shortly after the acquisition and his position as Co-Chairman and Director of Ganji in February 2016. Did the former founder anticipate that the business is about to fall apart?

We understand that WUBA discloses that Ganji stopped selling stand-alone Ganji subscription-based membership services in 2018 or earlier, but that does not explain why all other monetization strategies like advertisement have failed. Our view that Ganji has already secretly declined rapidly unbeknownst to investors is corroborated by our web traffic analysis.

We believe that WUBA is intentionally hiding the fact that Ganji has been rapidly declining. WUBA clearly states in its filings that it tests for impairment.

We're not quite sure how WUBA can argue that Ganji should not be nearly 100% impaired in light of our findings.

We believe that the company's auditor should force it to reevaluate its goodwill valuation immediately and that such a reassessment would likely result in a sizable drop to the company's equity, as its goodwill accounts for 53% of the company's total shareholder equity. In addition, we firmly believe that if the goodwill impairment were to occur, the company would be forced to restate its financial statements since 2016.

3.3 Web Analysis Seems to Confirm that Ganji is in Bad Shape

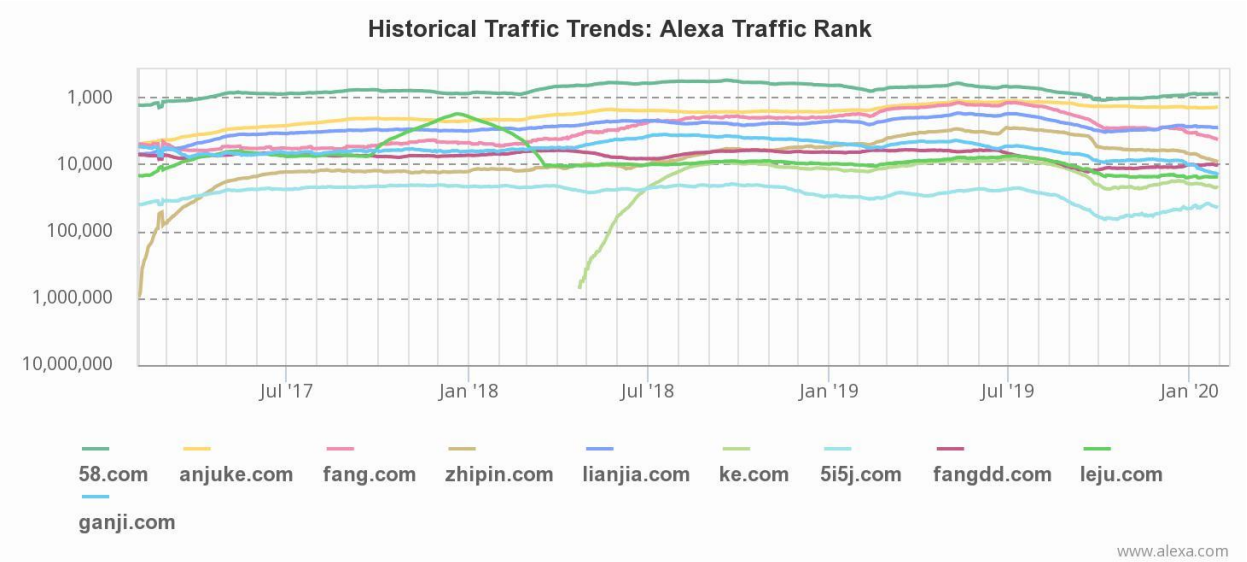
Perhaps the most tell-tale sign of how an internet-based company is truly operating is by assessing its web-traffic volume, quality and its website and brand popularity.

We referred to several prominent web traffic analysis sources to unveil the true operating picture of Ganji and WUBA.

The above graph is shows Baidu's search Index for "Ganji Wang", which is the Chinese name of Ganji's website, from Jan 1, 2013 to Jan 27, 2020. This search index is comprehensive as it also includes mobile searches. It is evident that prior to the 2015-2017 acquisition, Ganji was growing rapidly in terms of search popularity, indication of more web traffic going to its websites. However, shortly following the acquisition, the search index quickly trended down with occasional weak rebounds, to a level which is barely comparable to its peak in 2012.

Management did refer to the Ganji acquisition as a strategic acquisition, so it could have been that Ganji's traffic decline was largely due to it being consolidated into WUBA's own platforms, which would logically lead to an increase in WUBA's web traffic and popularity. Ganji and WUBA, after this strategic acquisition, should at least perform in par with pre-acquisition status in aggregate. Unfortunately, there is an overall downward trend.

When we compare "58 Tong Cheng", WUBA's own website and Ganji side by side, we see that though acquired for $2.8B, Ganji has certainly not been thriving. Before the acquisition happened, Ganji was competing toe to toe with WUBA. However, around the time of the acquisition, popularity of Ganji quickly trended downwards and has consistently decreased at an alarming rate to what appears to be marginal compared to WUBA. Meanwhile, perhaps more disturbingly, WUBA has not shown an increase in popularity, indicating that the acquisition had very little positive synergies, and that WUBA and Ganji's customer base together is actually shrinking. This acquisition neither organically/strategically grew Ganji as an operating subsidiary of WUBA, nor did it increase WUBA's own web traffic. We see this as overwhelming evidence that the goodwill attributed to this acquisition should now be significantly, if not completely, impaired.



Findings from Alexa Traffic Ranks also validate our thesis. Due to limited data, we were only able to focus on the performance of websites since 2017. However, we can clearly see that Ganji.com, indicated by the light blue line in the middle, is ranking close to 10,000 and are lower in line with fang.com, Zhipin.com, ke.com and fangdd.com. Logically, Ganji's valuation should probably be more or less in line with these websites.

Ganji vs Competitors

Website	Company	Ticker	Valuation (USD Bil)	
fang.com	房天下	SFUN	0.24	
zhipin.com	BOSS 直聘	NA	0.50	[1]
ke.com	贝壳网	NA	1.00	[2]
fangdd.com	房多多	DUO	0.97	
5i5j.com	我爱我家	SZ:000560	1.36	
ganji.com	赶集网	NA	2.80	

Average	0.81
Delta	1.99
Delta %	244%

[1] https://cj.sina.com.cn/articles/view/1649036617/624a4d4902000ltig

[2] https://m.gelonghui.com/p/256464

On average the other websites and their corresponding companies that have comparable traffic rankings are valued at 0.81 billion USD. However, Ganji is valued at 2.8 Billion, that is over 240% more!

We also note that management did not talk about Ganji's growth during its earnings call. This is troublesome because we believe management has clarity on how Ganji has performed through 2018.

Moreover, it appears that even on occasions where management did talk about online web traffic, they were inconsistent in their explanations themselves.

In the most recent 20-F, WUBA mentioned that

> *We experience seasonality in our business. Our revenues are typically lower during the holidays in China, particularly during the Chinese New Year, which occurs in the first quarter.*

Later in the technology section, WUBA claims that

> *Our proprietary technology supports very high user traffic during peak traffic periods such as the Chinese New Year, which is the peak season for job and rental home searches.*

Their inconsistency about user traffic reaffirms out doubt that websites are not living up to managements' portrayals.

3.4 Ganji's Founder Cashes Out Quickly

Normally a shareholder who has over 5% of a public company needs to file either a 13G or 13D related to his shareholding status and change, but based on the SEC disclosure of WUBA, a related 13G or 13D was never filed by Ganji's founder. Based on WUBA's 2015 20-F, Ganji's original founder turned into one of WUBA's principle shareholders. Mark Haoyong Yang beneficially owned 22.575 million ordinary shares (equivalent to 11.3 million ADSs), accounting for 7.95% of the total ordinary shares outstanding in WUBA.

Principal Shareholders:		
Tencent Holdings Limited	64,849,494(10)	22.90
Nihao China Corporation	29,418,640(11)	10.39
FMR LLC	18,414,210(12)	6.50
Mark Haoyong Yang	22,575,290(13)	7.95

source: 2015 20F p.102

But a year later, according to WUBA's 2016 20-F, his name had disappeared from the list of principal shareholders in the company.

Principal Shareholders:		
Tencent Holdings Limited	67,272,136(9)	23.15
Nihao China Corporation	29,418,640(10)	10.12
T. Rowe Price Associates, Inc.	20,944,602(11)	7.21
FMR LLC	19,578,332(12)	6.74

source: 2016 20F p.100

His name also didn't show up in the list of principal shareholders for 2017 and 2018:

Principal Shareholders:		
Tencent Holdings Limited	67,285,898(9)	22.83
Nihao China Corporation	29,418,640(10)	9.98
FMR LLC	17,239,808(11)	5.85

source: 2017 20F p.105

Principal Shareholders:		
Tencent Holdings Limited(9)	67,285,898	22.6
Nihao China Corporation(10)	29,418,640	9.9
Genesis Asset Managers, LLP(11)	15,153,054	5.1

source: 2018 20F p.106

It is not unreasonable to assume that Mark Haoyong Yang sold the majority of his WUBA shares after Ganji became a subsidiary of WUBA. If true, it obviously wouldn't be a vote of confidence for Ganji's future. Yang also didn't remain with WUBA for long after the acquisition:

- On August 6, 2015, WUBA appointed Mark Haoyong Yang as a director, Co-Chairman and Co-CEO of the company;
- On November 25, 2015, Mark Haoyong Yang resigned from his position as the Co-CEO of WUBA;
- On February 25, 2016, Mark Haoyong Yang resigned from his positions as Co-Chairman and Director of WUBA's Board of Directors.

It is "nice" to see that WUBA diluted its shareholders to give Ganji's founder an exit right before Ganji's revenue imploded. We are pretty sure that WUBA's shareholders would have preferred that the company's Board would have instead approved a dividend or buyback program.

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3.5 But Who is to Catch It?

We urge the company's auditor, PricewaterhouseCoopers Zhong Tian LLP ("PwC Zhong Tian"), to immediately conduct a thorough review on the Ganji operating unit(s) and determine whether an impairment is necessary at this point.

However, when reviewing the audit fees that WUBA paid to PwC Zhong Tian since 2011, we noticed something that does not make sense. The audit fees decreased from $3.3 million in 2015 to $2.7 million in 2016, and further decreased to $2.4 million in 2017, and slightly increased to $2.6 million in 2018, whereas WUBA's reported revenues increased from $715 million in 2015, to $1.1 billion in 2016, and $1.5 billion in 2017, and $1.9 billion in 2018.

2015 was a year with many acquisitions, so naturally the audit fees for 2015 ought to be higher than usual. But we are overall concerned that audit fees are not growing in line with revenues, and are in fact in a downward trend.

(in USD'000)	2011	2012	2013	2014	2015	2016	2017	2018
Audit Fees	434	508	839	1,409	3,319	2,739	2,449	2,550
Revenues	41,534	87,122	145,747	264,978	714,836	1,094,439	1,540,935	1,914,241

Source: company's 20Fs

It makes common and business sense that as a company's business grows significantly, the resources and man power that the audit firm needs to deploy will increase and thus the audit fees should be more, not less.

Has PwC Zhong Tian conducted a thorough review on WUBA's goodwill since acquiring Ganji in 2015? If so, how could the auditor have stayed silent on this issue? Or has WUBA been telling the auditors a different story on Ganji?

A recent release by the SEC from December 2018 seems to indicate that U.S. authorities and related organizations may revisit audit issues that were settled between the SEC and Big Four accounting firms that have auditing business in China. Firms involved in this settlement included Ernst & Young Hua Ming, KPMG Huazhen, Deloitte Touche Tohmatsu, and PwC Zhong Tian, WUBA's auditor. In the release, the SEC says:

> **"There are 224 U.S-listed companies (with $1.8 trillion in combined market capitalization) where the PCAOB faces obstacles in inspecting the principal auditor's work."**

WUBA is one of the 224 US listed companies where the Public Company Accounting Oversight Board ("PCAOB") said the SEC faces obstacles in inspecting the principal auditor's work.

According to the PCAOB, the engagement partner that was responsible for WUBA's 2016 and 2017 annual reports is Charline Ni.

Form AP	05/29/2017	58.com Inc.	05/01/2017	Ni, Charline
Form AP	05/31/2018	58.com Inc.	04/30/2018	Ni, Charline
Form AP	05/10/2019	58.com Inc.	04/19/2019	Ni, Charline

source: PCAOB website

We strongly urge both PwC Zhong Tian and Charline Ni to carefully inspect the issues raised throughout this report.

3.6 What If WUBA Decides to Impair Goodwill?

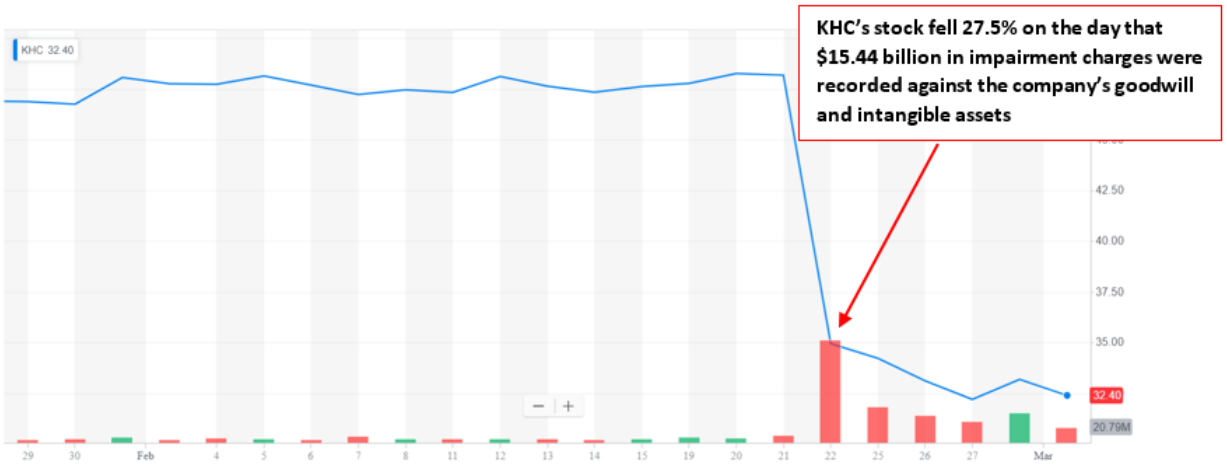
What could the impact be if WUBA does decide to finally impair part of, if not all, of the goodwill related to the 2015 Ganji acquisition?

Starting in 2016, the company has been using RMB as its main reporting currency in its annual reports. Goodwill assigned to WUBA's balance sheet from the acquisition of Ganji had been RMB 15.97 billion in 2016 and 2017. However, without any explanation, the company stated in its 2018 20F that the goodwill arising from Ganji acquisition is now RMB 14.5 billion. And we strongly believe the company owes investors an explanation on this big of a change in the goodwill related to Ganji, given that there were no impairments recognized in 2018. If we use the exchange rate of 6.8632 that was used in the company's 2018 20F, this amounts to $2.11 billion. The company's shareholder equity is $3.98 billion – **meaning that this goodwill makes up 53% of the company's total shareholder equity.**

Kraft Heinz Company (NASDAQ: KHC) took a similar impairment charge on goodwill in 2019, causing its stock to crash.

On February 21, 2019, KHC released its fourth quarter 2018 earnings and reported a $7.1 billion goodwill impairment and an $8.3 billion intangible asset impairment, totaling $15.44 billion.

This $15.44 billion impairment on goodwill and intangible assets was about 23% of the company's total shareholder equity at the time. As a result of this impairment, KHC's stock price fell 27.5% from $48.18 on February 21 to $34.95 on February 22, 2019, losing about US$ 16.14 billion in market cap. KHC's stock price continued to trend lower to $32.40 a share as of March 1, 2019.



The market cap loss of $16.14 billion was *more* than the $15.44 billion impairment charges to its goodwill and intangible assets. As of today, the stock has fallen 35.4% since it took these impairments.
We believe if WUBA were to record impairment charges to its goodwill from the Ganji acquisition, the stock would fall even more as this goodwill accounts for 53% of the company's total shareholder equity. Below, we assume 4 scenarios on WUBA's goodwill impairment and what percentage of overall market cap they would reflect.

	% Ganji Goodwill Impaired			
('000 US$)	**Scenario 1 25%**	**Scenario 2 50%**	**Scenario 3 75%**	**Scenario 4 100%**
Amount to be impaired	528,179	1,056,359	1,584,538	2,112,717
% of current shareholder equity	**13.3%**	**26.5%**	**39.8%**	**53.1%**
% of current market cap	**5.9%**	**11.7%**	**17.6%**	**23.5%**
Market cap	8,992,307			
Estimated Goodwill from Ganji	2,112,717			
Shareholder equity as of Q3 2019	3,980,284			

It is obvious that impairment charges would have a material impact on WUBA's shareholder equity, even if only 25% of the total goodwill was impaired, which would account for 13.3% of the company's shareholder equity. The scenarios get worse from there. Assuming the company was to write down all of the goodwill, as we believe it should, it would shrink the company's shareholder equity by 53.1%.
Additionally, how would an impairment of this size compare to the company's GAAP and non-GAAP net income since it went public in 2013?

(in US$ '000)	**GAAP Net Income**	**non-GAAP Net Income**
2013	9,193	22,422
2014	22,644	28,817
2015	-250,934	-181,937
2016	-112,982	-30,399
2017	196,670	274,709
2018	290,972	396,765
Total	**155,563**	**510,377**
Goodwill from Ganji	**2,112,717**	
Net income as % of Goodwill from Ganji	**7.4%**	**24.2%**

Source: company's 20Fs and earnings releases

Since the company went public, it's total reported GAAP net income from 2013 to 2018 has been $155.6 million. Total non-GAAP net income over the same period has been $510.4 million. **These only account for 7.4% and 24.2% of the goodwill from Ganji acquisition.**

Simply put, it would take the company an astounding amount of time to make up for this impairment with its net income.

For those claiming that this is a non-cash event, we'd argue that the goodwill was paid when the company performed the acquisition at the very *real* expense of shareholders. We believe the lack of impairment is a significant issue and that failing to impair this goodwill constitutes accounting fraud. We urge the company's auditors and regulators to look closer at these issues.

4. Guazi Spin-Off Enriches Insiders

As part of the acquisition of Ganji, WUBA also acquired a company called Guazi. Guazi is an online peer-to-peer used car trading platform.

We find the structure and results of the following transactions very concerning as it seemed to have enriched insiders at the cost of public shareholders.

Shortly after the acquisition of Guazi, Wuba transferred effectively control to WUBA's former co-chairman and Ganji founder, Yang Haoyang for effectively no net consideration. WUBA officially sold a 54% stake to Yang Haoyong for $50m, and then immediately lent $50m to Guazi in an interest free convertible note and received some preferred shares. This resulted in WUBA owning 46% of Guazi immediately after the spin-off to Yang Haoyang. **No money was exchanged, and control as well as a majority stake in Guazi handed to WUBA's former co-chairman.**

The narrative in Wuba's annual reports and investor presentations suggests that WUBA had significant influence over Guazi and that it was a strategically important asset.

Despite the fact that Wuba touted Guazi's importance, WUBA's ownership stake diminished over time as Guazi conducted multiple capital raises and WUBA sold shares.

Shortly following Guazi's spin-off, Guazi went through numerous rounds of financing. By the end of 2018, WUBA held approximately 19.1% equity interests in Guazi. On February 28,2019, WUBA entered into a definitive agreement to further sell their stake in Guazi (now known as Che Hao Duo) for a total purchase price of $713.6 million. Our research indicates that the buyer is Softbank's Vision Fund. Following the

transaction, WUBA will hold approximately 8% equity stake, implying that Guazi (Che Hao Duo) is now valued at $ 6.4 billion.

This reflects two things. One, it appears that Guazi is in fact in constant need of financing as it is not profitable. This is contrary to what Yang promised in one 2017 presentation. Second, comparing to the $50 million "paid" in 2015 Ganji founder and former WUBA Co-Chairman Yang Haoyong made an incredible deal.

Date	Ownership	Selling Price (USD mil)	Implied Valuation (USD mil)
Dec-15	45.60%	50	110
Dec-18	19.10%		
Oct-19	8%	713.6	6429

WUBA is very opaque in its disclosure. The company discloses its exact ownership stake in Guazi in its 20F filings in 2015 and 2018 but fails to do so for any other period. WUBA converted it's note into Guazi shares in 2016 and sold a portion of its shares in 2017. It is hard to calculate dilution from the outside perspective the real dilution initial shareholders have experienced but WUBA's ownership in Guazi was roughly cut in half. Assuming 50% dilution since 2015 we can calculate that Guazi founder Yang Haoyang got roughly a 30X on his initial investment (for which he laid out no cash), which translates to over $1.7billion. Truly an incredible deal for this insider. It doesn't matter how you change the assumptions; this deal keeps looking too good to be true.

5. Sale of Finance Businesses to CEO

WUBA disposed their financial services business in a spin-off in 2017 that we find troubling. WUBA sold its finance service business to WUBA's CEO in exchange for a future profit participation.

According to WUBA's 20F:

> In the second half of 2017, the Group entered into a series of definitive agreements relating to the disposal of the finance business and the related legal entities (the "Finance Business") to a newly established investment holding entity majority-owned by Mr. Jinbo Yao (the "Acquirer Entity"), the chief executive officer and also a principal shareholder of the Company, who in return committed to provide RMB150 million as capital contributions to the Finance Business within nine months subsequent to the disposal, of which RMB 70 million was contributed to the Finance Business in 2017. Pursuant to the definitive agreements, upon the completion of the disposal of the Finance Business, the Group holds neither legal ownership nor effective control of the Finance Business, and received a profit sharing right, with fair value of approximately RMB151 million based on discounted cash flow model, for a portion of the future pre-tax profit of the Finance Business when the Finance Business has a positive pre-tax income on a cumulative basis. As part of the disposal, in addition to the profit sharing right, (i) the Group's original capital contribution for the Finance Business of approximately RMB286 million will be repaid to the Group from the Acquirer Entity in installments, including interest at a rate to be determined based on the market interest rate, over 3 years subsequent to the disposal date; and (ii) repayments from borrowers

for automobile financing receivables that were outstanding as of the disposal date, amounting to RMB132 million, will be repaid to the Group no later than 3 years after the disposal date. The transaction was completed in October 2017."

The first thing we find troubling is the fact that the spun-off finance business apparently has never lived up to the initial agreement. Instead of paying down the initial contributions of RMB 132 million, the finance business' accounts payable to WUBA continue to grow. The other aspect that is noteworthy is the fact that WUBA has laid out additional moneys for the finance business while not owning any equity stake in the company.

As of December 31, 2017 and 2018, amounts due from/to related parties are summarized as below:

	As of December 31,	
	2017	2018
	RMB	RMB
Amounts due from related parties, current		
Tencent	152,706	167,963
Finance Business	58,164	82,725
Others	8,769	7,866
Total	219,639	258,554
Amounts due from related parties, non-current		
Finance Business	510,908	491,656
Total	510,908	491,656
Amounts due to related parties, current		
Tencent	38,264	45,854
Others	12,320	10,758
Total	50,584	56,612

source: 2018 20F p.F-50

WUBA gave its finance business to its CEO for nothing but a profit-sharing agreement while continuing to bankroll it.

What a wonderful example for the old mantra "Heads I (Jinbao Yao) win, tails you (WUBA shareholders) lose.

It was reported in July 2018 that 58 Finance completed a financing of RMB 400 million, although the article did not specify who the investors were and at what valuation the transaction took place at. Again, at this time 58.com (WUBA) had no ownership interest in the business anymore. It is not hard to estimate the potential gain that WUBA's Chairman and CEO Jinbo Yao may have on paper. Hypothetically assuming this RMB 400 million accounts for a 20% equity interest, then the whole 58 Finance transaction would value the company at RMB 2 billion. Now that Jinbo Yao holds a 50.3% equity interest in 天津五八金服有限公司(Tianjin 58 Jinfu Co., Ltd), which we believe is the main holding company for 58 Finance business, his equity would be worth more than RMB 1 billion. Due to limited disclosure, it's difficult to put exact numbers on this transaction, and readers are reminded that this is just an example based on an estimate.

As of today, the company's finance related business has not been mentioned in conference calls or earnings releases as being material in terms of revenue and/or profit. However, based on our calculations Yao reaped a huge profit.

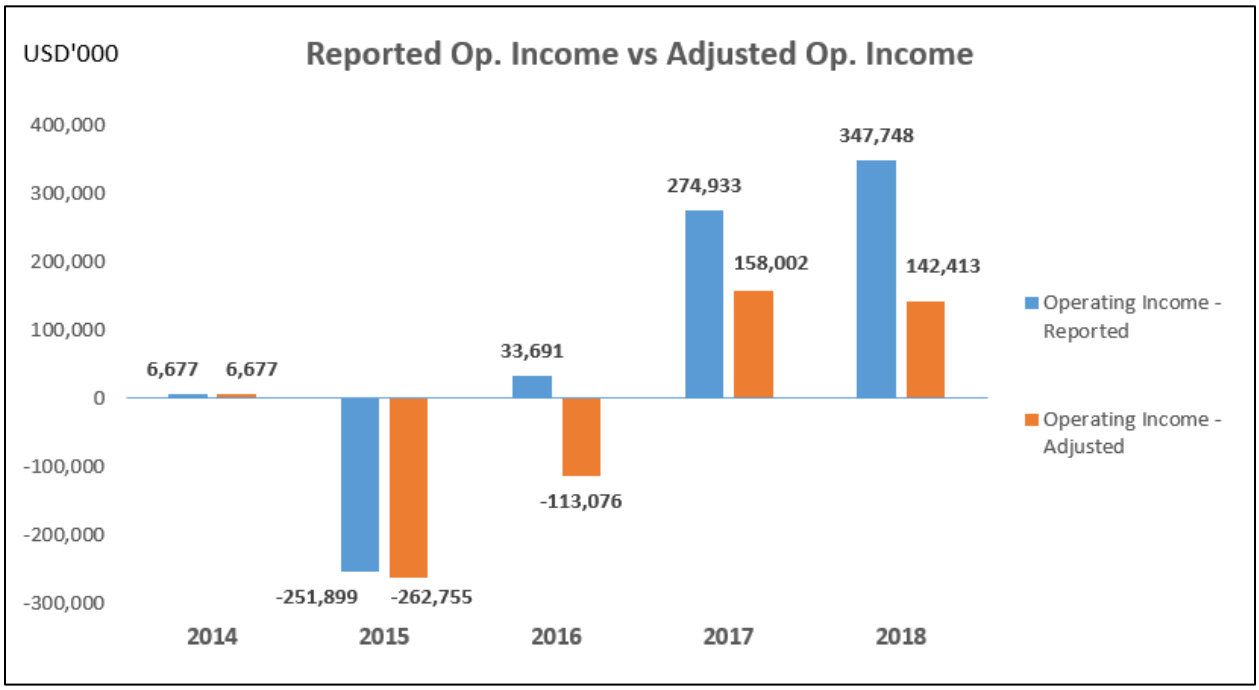
Investors should demand that WUBA discloses detailed terms of this deal and how it will be beneficial to shareholders, not just insiders.

6. Accounting Shenanigans Left and Right

We believe WUBA is employing multiple accounting shenanigans to manipulate financial results for the US public markets. There are several accounting practices the company employs that we find highly unusual. Auditors, regulators, and investors should question why WUBA is employing such accounting.

6.1 WUBA Deconsolidated its Main Asset

58 Home is an online transaction platform for service provider, providing everyday services like cleaning, moving, home repair. After being founded and built as a subsidiary of WUBA, 58 HOME issued $300m in preferred shares in November 2015. Because of certain control provisions in these new preferred shares WUBA claims it does not exercise control over 58 Home, despite owning 88% economic interest. Therefore, WUBA does not consolidate 58 Home's financials, but employs the equity method to only record net income/losses from this subsidiary. By employing the equity method instead of consolidation WUBA inflated operating profit in 2016 and 2017, but it should have had no impact on net profit in those years. However, since beginning 2018 the accumulated losses at 58 Home have started to exceed the carrying amount of WUBA's investment; therefore, WUBA recognized only a tiny portion of its share in 58 Home's losses, which inflated net and operating income dramatically.



Source: company 20Fs

The deconsolidation of 58 Home seems to be artificially engineered to window dress financials. We also doubt that the idea that WUBA is not effectively exercising control over the company.

In fact, we strongly believe, based on the management personnel of the disclosed VIEs and VIE subsidiaries by 58 Home, that WUBA has been exercising control over 58 Home, and thus 58 Home's financials should be consolidated into WUBA's financials.

Below are the disclosed VIEs and VIE subsidiaries by 58 Home in 2018 20F/A:

- **Tianjin 58 Daojia Life Services Co., Ltd. (天津五八到家生活服务有限公司)**
  - Legal representative, general manager, executive director: Jinbo Yao (WUBA's Chairman and CEO)
  - Supervisor：Xiangfei Jia (贾向飞) (WUBA's Vice President, according to his LinkedIn profile)
- **58 Daojia Co., Ltd.** （五八到家有限公司）
  - Legal representative, general manager, executive director:：Jizhong Cao (曹继忠) (WUBA's former SEO Operation Director, according to this article in 2015)
  - supervisor：Yi Guo (郭义) (WUBA's former Vice President in 2015, according to this article)
- **Tianjin 58 Daojia Freight Service Limited Company** （天津五八到家货运服务有限公司）
  - Legal representative, general manager, executive director：Xiaohua Chen (陈小华) (WUBA's Chief Strategic Officer, and at the same time, CEO of 58 Home)
  - Supervisor：Xiangfei Jia (贾向飞) (WUBA's Vice President, according to his LinkedIn profile)
  - 100% owned subsidiary：**Zhenjiang 58 Daojia Supply Chain Management Limited Company** （镇江五八到家供应链管理服务有限公司）
    - Legal representative, Executive Director：Xiangfei Jia (贾向飞) (WUBA's Vice President, according to his LinkedIn profile)
    - Supervisor：Wei Song (宋微)
    - 100% owned subsidiary：**Shanghai GoGo Information Technology Limited Company** （高高信息科技（上海）有限公司）
      - Legal representative, Executive Director, General Manager：Xiangfei Jia (贾向飞) (WUBA's Vice President, according to his LinkedIn profile)
      - supervisor：Wei Song (宋微)

Based on management personnel information we found for 58 Home's disclosed VIEs and VIE subsidiaries, it is reasonable to conclude that WUBA's management is directly exercising control over 58 Home and thus 58 Home's financials should not be de-consolidated.

6.2 Deconsolidating Guazi

As we discussed above, WUBA spun-off and deconsolidated Guazi after it was acquired. Peer-to-peer used car platform Guazi was acquired as part of the Ganji acquisition in 2015. In December 2015 WUBA spun-off Guazi to WUBA's former co-chairman Yang Haoyong. Immediately after the transaction WUBA retained a 46% stake in Guazi. WUBA was officially not exercising control over Guazi and could account for this subsidiary under the equity method. It is not clear if WUBA crossed the 50% control hurdle after converting the note in a subsequent equity raise in March 2016. It is noteworthy that WUBA discloses its Guazi percentage stake in its 20F statements in 2015 (at 46%) and 2018 (at 19%), but fails to do so for the periods in between. Color us skeptical.

We noted before that the Guazi transaction seemed to have been engineered to benefit insiders. But the transaction seems also to be engineered to push WUBA's ownership in Guazi under 50% so the equity method can be used. Guazi conducted many equity financings, and likely produced big losses in the meantime. By using the equity method WUBA inflated at the least its operating profits.

6.3 Changing How to Count Members

We noticed that starting in Q1 2019, WUBA changed its disclosure of the number of paying members. Using the numbers disclosed in Q1 to Q3 2019 and matching the corresponding paying member numbers in 2018, we can see that the paying member numbers from Q1 2018 to Q3 2018 under the new disclosure are 3.16 million, 3.52 million, and 3.50 million, respectively, as compared to the previously disclosed 2.67 million, 2.93 million and 2.97 million in the same periods.

Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
1817.8	1974.0	2067.2	2069.7	2211.9	2464.3	2611.2	2653.5	2665.0	2932.0	2968.5	2770.3			
								3162.8	3522.5	3495.2		3400	3600	3600

note: number of paying members in table above is in unit of '000

This is definition that WUBA gave in and before Q4 2018:

> "The Company defines subscription-based paying membership accounts as registered accounts through which users have purchased the Company's subscription-based membership services and whose membership subscriptions are active at any point during a given period. Some paying merchant members purchase membership services from more than one Company platform which contributes separately to the revenues of each platform."

Below is the new definition WUBA gave since Q1 2019

> "Paying business users refer to users who are identified as business users with unique identity

information such as business licenses or personal identification information and who used the Company's subscription-based membership services or purchased at least one type of online marketing services in a given period. One paying business user can open up several paying user accounts on one or multiple online platforms. The number and the percentage calculation don't include paying business users on Ganji, which the Company stopped selling stand-alone Ganji subscription-based membership services in 2018 or earlier in all of its content categories."

Both of the definitions themselves look reasonable. Changing the way such an important number is measured makes it hard for investors to understand the real trend in the business. We note that the new way of calculating paying members seems to increase the count.

6.4 Mysterious Goodwill Amount Change

Before 2016, WUBA reported financials mainly in USD, and since 2016, the main reporting currency has changed to RMB. The table below summarizes the Goodwill account change from 2014 to 2015 in USD, based on the 2015 20F.

	US$'000				
Balance as of December 31, 2014	0			Estimated Goodwill additions	% of total Goodwill addition
Additions	**2,857,761**		Ganji	2,611,053	91.4%
Deconsolidation and disposal of subsidiaries	(235,621)		Anjuke	218,126	
Foreign currency translation adjustments	(160,947)		Other acquisitions	28,582	
Balance as of December 31, 2015	2,461,193		Total	**2,857,761**	

After 2015, the company used RMB as its main reporting currency in its annual reports. The table below summaries goodwill account since 2014 using RMB, based on 20Fs in 2016, 2017 and 2018.

	RMB'000	Ganji Goodwill[1]
Balance as of December 31, 2014	0	
Additions	17,491,786	**15,981,735**
Deconsolidation and disposal of subsidiaries	(1,509,786)	
Balance as of December 31, 2015	**15,982,000**	
Deconsolidation and disposal of subsidiaries	(78,323)	
Balance as of December 31, 2016	**15,903,677**	**15,974,683**
Deconsolidation and disposal of subsidiaries	(39,022)	
Balance as of December 31, 2017	**15,864,655**	**15,974,683**
Addition	9,565	
Balance as of December 31, 2018	**15,874,220**	**14,500,000**

note 1: 2015 Ganji goodwill addition is based on the % contribution disclosed in 2015 20F; numbers in 2016, 2017, and 2018 are disclosed in annual reports in 2016, 2017 and 2018, respectively.

There was not mentioning of goodwill write-down in 2018 20F for the goodwill arising from Ganji's acquisition in 2015, however, WUBA reported almost an RMB 1.5 billion decrease of Ganji's goodwill from RMB 16.0 billion in 2017 to RMB 14.5 billion in 2018. There are three questions we would like the company to explain to investors:

1. Why did the company record decreased goodwill yet there is no explanation for it?
2. Why is this decrease in goodwill not reflect in WUBA's financial statements, i.e. income statement and cash flow statement?
3. How did this goodwill change pass the audit?

6.5 Lots of Capital Raises, Little Cash Flow

Free cash flow is a key indicator of whether a company can generate real value for its shareholders. When calculating free cash flow, sometimes investors do not include expenses that seemingly are not part of capex. For a company that conducts many acquisitions, investors should include acquisition-related expenses into capex in order to get a better sense on whether the underlying business actually generated cash flow. Since WUBA has conducted several acquisitions to become a leader in its space, we treat expenses for these acquisitions as part of the company's capex. We have calculated the company's free cash flow from 2013 to 2017 (2018's cash flow statement is currently unavailable) using this method.

(in US$ '000)	**2013**	**2014**	**2015**	**2,016**	**2017**	**2018**	**Total**
Cash from Operations	66,304	98,585	30,649	272,143	412,800	553,616	
Capex - excluding acquisitions expenses	4,177	32,476	195,262	30,721	18,561	26,763	
Capex - including acquisitions expenses	4,177	32,320	860,787	270,082	33,094	28,190	
FCF - excluding acquisitions expenses	**62,127**	**66,109**	**164,613**	**241,422**	**394,239**	**526,853**	**1,126,137**
FCF - including acquisitions expenses	**62,127**	**66,265**	**830,138**	**2,061**	**379,706**	**525,426**	**205,447**
Capital raised	214,954	809,060	378,536	0	210,211	**0**	**1,612,761**

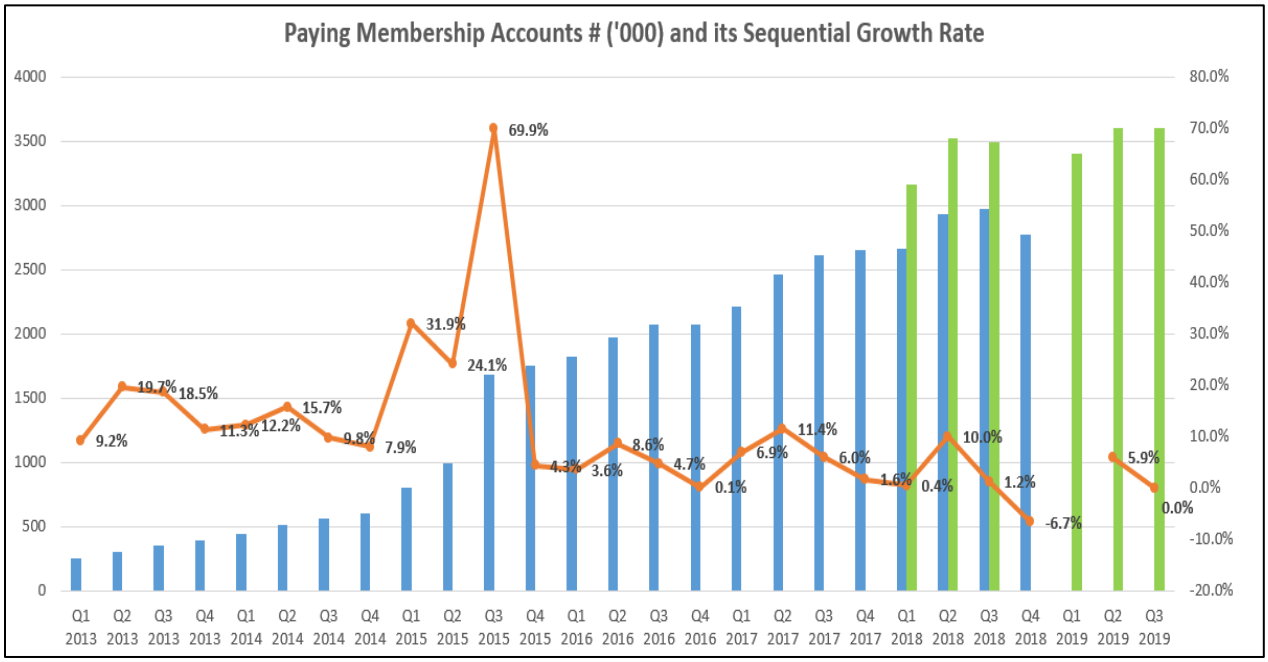
Source: US$ were translated from RMB using exchange rates referred in each 20Fs.

It is evident that if investors include acquisition related expenses when calculating the company's free cash flow, the sum of free cash flow generated from 2013 to 2018 would be $205 million, as compared to $1.1 billion if those acquisition related expenses were excluded from capex. The company has raised a total of $1.6 billion through its IPO and private placements, a sum far greater than the free cash flow it has generated over the same course of time.

7. WUBA's Business Fundamentals are Deteriorating

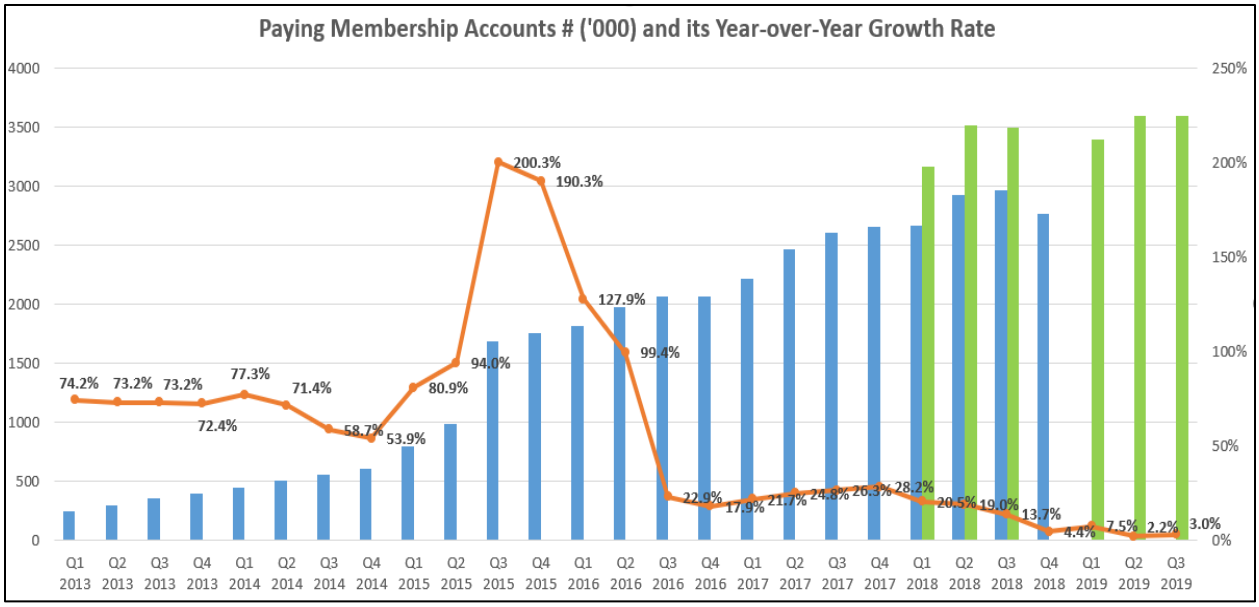
7.1 WUBA's Business May Have Reached Its Peak

Although the company reported that its number of paying users was 3.6 million as of Q3 2019, which was 3.0% up year-over-year, the growth was actually flat quarter-over-quarter. As we can see in the table below, in Q4 2018 when the company was disclosing paying members number using previous measurement, the membership count was already 6.7% down quarter-over-quarter. However, even after the company changed its disclosure of paying members, the member count only came in flat quarter-over-quarter in Q3 2019. The company does not disclose gross margins of its membership business, but it would be reasonable to assume that it is probably the highest gross margin segment compared to WUBA's other business segments.



source: Annual reports and quarterly earnings releases
note: The company changed its paying member count starting in Q1 2019. The green columns are reported and derived paying member count based on Q1 2019 release and quarters afterwards

The YOY growth rate is decelerating quickly and could possibly reach negative territory in the coming future.



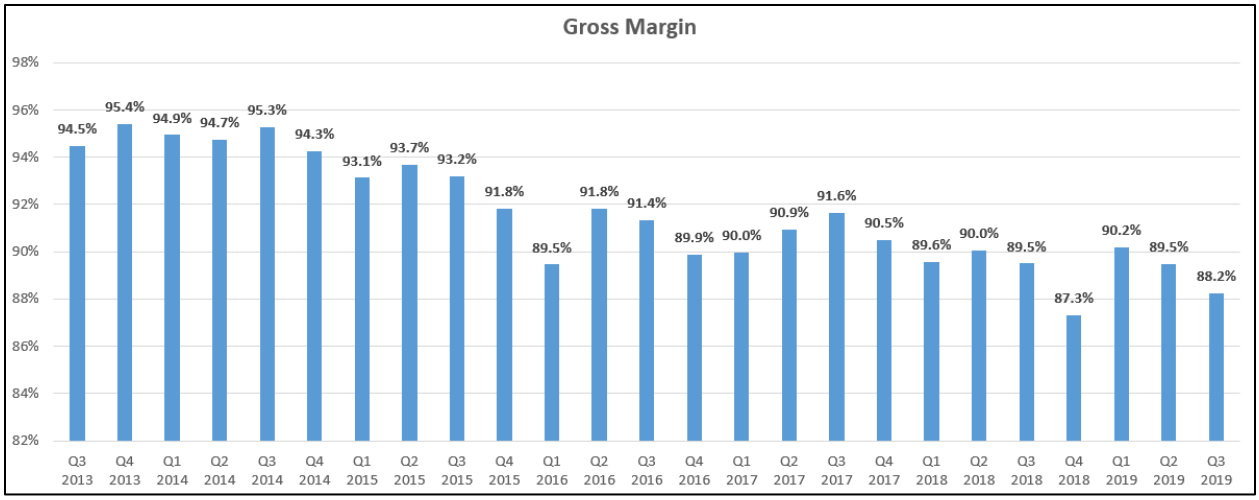
source: Annual reports and quarterly earnings releases
note: The company changed its paying member count disclosure starting in Q1 2019. The green columns are reported and derived paying member count based on Q1 2019 release and quarters afterwards

Why this is important? The company's subscription-based paying membership business accounted for 31.1% of the company's total revenues for Q4 2018, and accounted for 33.5% of its total revenue for the 2018. Investors can think of this subscription-based paying membership business as the main SaaS segment of the company, which is expected to generate stable revenues streams with high gross margin. According to the company's 2018 20F:

> "On average, approximately 64.6% of our quarterly subscription-based paying membership accounts purchased our online marketing services in 2018 as compared to 60.2% in 2017."

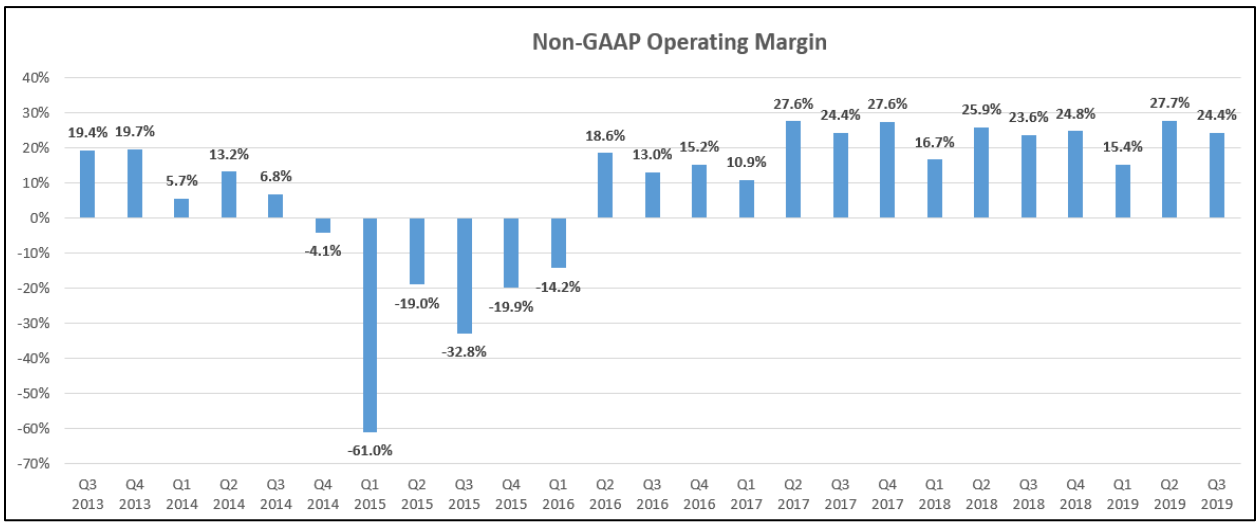
Because about 64.6% of subscription-based paying members purchased the company's online marketing services in 2018, the number of paying members could also impact another business segment, Online Marketing Services, which accounted for 63.0% of the company's total revenue in both Q4 2018 and full year 2018.

Secondly, the company's gross margin declined sequentially in Q3 2019, reaching its second lowest level since the company started reporting earnings in Q3 2013.



Source: company's 20Fs and quarterly earnings releases

In addition to the company's declining gross margins, its reported non-GAAP operating margin seems to have reached its peak of 27.7% in Q2 2019. We illustrated in section 6 of this report why we believe the company's reported operating margins are inflated.



Source: company's 20Fs and quarterly earnings releases

It is obvious that the company's operating margin decreased dramatically in Q1 2015, before improving over the next several quarters. According to the company's earnings release, the reason for the drop in Q1 2015 was a dramatic increase in sales and marketing expenses. The company stated in their release that:

> "Sales and marketing expenses in the first quarter of 2015 were US$114.2 million, an increase of 255.9% from US$32.1 million during the same quarter in 2014. Within sales and marketing expenses, advertising expenses accounted for US$61.9 million and US$12.6 million during the first quarter of 2015 and 2014, respectively. The increase in advertising expenses was primarily due to expenses associated with the marketing of the Company's mobile platforms and 58 Home services as well as the acquisition of PC traffic. Other sales and marketing expenses increased 168.3% from the same period last year to US$52.3 million. The increase in other sales and

marketing expenses was primarily driven by increased salaries, benefits and commissions as a result of higher compensation levels and increased headcount of sales and marketing personnel."

We continue to remain cautious about the sudden dramatic increase in expenses right around the time of the Ganji acquisition. It appears to us that the company may have pre-recognized certain expenses prior to the acquisition to inflate margins in subsequent periods.

7.2 The Housing Industry in China is Grinding to a Halt

Housing remains WUBA's largest segment in terms of dollar amount, according to the company's Q4 2018 earnings conference call. Currently, the housing market in China is nothing short of a disaster.
According to data released by CRIC, the biggest real estate information services provider based on Baidu-baike's introduction, equity home sales for the top 100 real estate developers in China for the month of January 2020 totaled RMB 426.2 billion, down 16.2% year-over-year, as compared to RMB 508.9 billion in sales for the month of January 2019.

表：2020 年 1 月百强房企销售业绩及同比变动（亿元）

销售金额	2020 年 1 月	单月同比
操盘口径	5097.5	-12.0%
全口径	5771.3	-12.7%
权益口径	4262.2	-16.2%

数据来源：CRIC

Source: CSRC

Equity home sales thresholds for the top 10, 20, 30, 50 and 100 real estate developers in China for the month of January 2020 were all down significantly compared to 2018, with the top 50 down in aggregate by 27.5%. (Equity home sales threshold reflects the amount of sales needed to be in the top 100. A decrease in such numbers reflects worsening conditions for real estate sales)

图：2020 年 1 月百强房企销售操盘金额入榜门槛及同比变动（亿元）

Source: CSRC

On the company's Q4 2018 earnings conference call, management also stated that the company's housing business has been impacted by the slow transaction volume of the market, combined with strict government policies:

"Housing is in dollar term wise the biggest revenue category and we have Incredible who have very big market share in the market already. However, the housing policy environment has been

pretty negatives for the last couple years already and the transaction levels in the market remain low. Even though we are a clear market leader in this, we also get impacted by the slow transaction volume and very strict policies."

In China, the housing market has been so volatile that it has even forced some well-known names in the industry into liquidation. For example, according to this report, Ai Wu Ji Wu, a company that offers a platform for people to buy and sell their houses and charges a 0.5% commission fee, has been forced into liquidation, despite being backed by hundreds of millions of dollars from well-known investment firms, like Temasek Holdings and Hillhouse Capital.

7.3 The Jobs Industry in China is Also in Decline

Every year after the Chinese Lunar New Year's Spring Festival holiday, the jobs market in China starts to pick up as many people return from their hometowns to start finding jobs in bigger/coastal cities. At the same time, employers usually start posting recruitment information based on their new year's business plan. However, in 2019, it appears that the jobs market is experiencing slower momentum than previous years, according to WUBA's management in its Q4 2018 earnings conference call:

> "……And then jobs also I want to emphasize because it's also pretty significant. In the past it's been very fast-growing segment, **but in the recent months we are starting to see the impact of a - of a slowing down economy as well. Typically after Chinese New Year business resume so every year we see this momentum and this year it seems slower than prior years with respect to how fast business users come back and how aggressive they are in hiring people.**
>
> And sometimes on the news you see companies being more cautious on the number of employees they have and some companies even reduce their headcount. **So this I think inevitably at least temporary impact our growth as well.** "

In WUBA's Q3 2019 earnings conference call, this was once again validated:

> " Within our job category, employers continue to be **very cautious** when it comes to hire with more and more talking -- **wait-and-see approach**…"

Another U.S. listed Chinese company that is focused on providing integrated human resource services in China, 51job, Inc. (NASDAQ: JOBS), echoed WUBA's management in saying that the jobs market in China has been slower than previous years:

> **Alicia Yap [Analyst from Citigroup]**
>
> Thank you, Kathleen. If I may, can I just follow up with Rick's comments about the macro situations? **We've also been hearing from some industry people about after the Chinese New Year, it seems like the hiring, kind of like, indication seems a little bit weaker than previous year. And so - and then also, I think a lot of workers decided not to return to the coastal cities and then remained in the hometown.**
>
> So I think, Rick, given jobs in the industry for over the past 20 years, how would you ascribe this situation this year versus what you have seen over the past different, kind of like, the macro situation?

> And for, let's say, the workers that are remaining in the hometown, will these present more opportunity to us or is that more - potentially more naturally based to the recruitment side? So any color will be helpful. Thank you.
>
> **Rick Yan [JOBS' CEO]**
>
> Yeah, I think I will say that, **as we said in our comments, I think the market is - we're seeing a slower growth**, but we're still seeing demand. We haven't heard a lot of employers saying that they're not recruiting or laying off staff now.
>
> So - **but people are a little bit taking a wait-and-see attitude to their recruitment plan. So unlike 2018, right after Chinese New Year, people are rushing to hire people. I think, this year, I think people are taking a slower approach to their recruitment plans.**
>
> … **But in general, hiring is getting more and more difficult as the demographics in China** is shifting to a more - a less supply of labor versus the economic growth of the economy.
>
> **So I think hiring will continue to be difficult**, and I think established companies will continue to actively recruit. As we said, we think that the SMEs will probably have a more - have more volatility in their hiring activities.

And in 51job, Inc.'s (JOBS) Q1 2019 conference call, further validates that the job market is really not doing well in 2019:

> "Amidst economic uncertainty in China, we saw a slower start to 2019 as employers show greater caution in their recruitment plans in the new year. "
>
> "We observed a lackluster post-Chinese New Year recruitment season, which saw a considerable swing in the supply and demand pendulum as the number of active applicants materially outpaced the increase in new job vacancies. While our platforms saw record levels of resume submissions by job seekers, employers exhibited a lot of hesitancy and were slower to post new positions."
>
> "…In general, we feel that the market has shifted to a wait-and-see mentality as employers are anxiously searching for any clarity or direction as to where things are heading. Many are also dragging out and lengthening the recruitment process which has hindered the velocity of natural turnover in the jobs marketplace."

More recently in Q3 2019 conference call, 51jobs, Inc. once again pointed out the difficulties of the job market:

> "Market conditions have been very challenging this year as ongoing economic concerns and U.S.-China trade tensions have significantly influenced the spending and recruitment plans of employers."

7.4 Negative Media Coverage, Poor User Experience

The negative trends in both housing and jobs could very easily turn into a longer-term problem for the company. WUBA is also tasked with taking care of issues like fake listings and job posting scams on its platform. There have been numerous media reports pointing out scams in both job placements and in housing on WUBA's platform over the last few years.
User experience is crucial for internet-based companies to maintain their market share and compete with other players in the industry. While macro trends in both industries could cause short term pain, a poor user experience from these types of scams can result in tarnishing a company's brand for the long-term.

In June 2018, a well-known media company in China called "The Paper" reported that there are many job posting scams on WUBA's recruitment platforms, including 58.com and Ganji.com:

> 澎湃新闻（www.thepaper.cn）从中国裁判文书网搜索到近年 60 起通过 58 同城、赶集网发布虚假招聘信息的诈骗案例中，248 名被告人通过发布虚假招聘信息诈骗，超过 5500 名被害人受骗，诈骗金额近亿元，甚至有人落入卖淫窝点、诈骗集团。
> 诈骗金额最高的一份判例中，受害者 2000 余人，被骗中介费共计 6270 万元。事实上，根据裁判文书统计到的只是其中的一部分，实际的被骗人数和诈骗金额难以精确统计。
> *Paraphrased Translation:*
> By searching the China Judgements Online, The Paper found 60 fraud cases which occurred through posting fake recruitment information on 58.com and Ganji.com. There are 248 defendants that committed fraud through posting fake recruitment information, and the number of victims exceeds 5,500, with total amount of approximately RMB 100 million. There are some victims that even fell into the prostitution network and fraud syndicate.
> In the judgement with highest fraud amount, the number of victims is about 2,000, and the commission fees defrauded [by the fraudsters] totaled RMB 62.7 million. As a matter of fact, the information that the China Judgements Online has gathered is only part of what happened in reality, and the actual number of victims and amount of money defrauded is hard to estimate.

During the course of its research, The Paper discovered 60 fraud cases related to fake recruitment postings on both of WUBA's platforms. The number of victims from these cases exceeded 5,500 for a combined total of about RMB 100 million in damages. Some victims even wound up falling into prostitution networks or fraud syndicates as a result of these scams.

There are also articles online that expose scams related to WUBA's recruitment platforms, such as this one.

WUBA later responded to The Paper's report with an official statement, saying it would cooperate with authorities.

In regards to housing listings, The Paper reported in September 2018 that companies including 58.com, Anjuke, Ganji.com, and Fang.com (58.com, Anjuke, and Ganji.com all belong to WUBA) were warned by the Beijing Municipal Commission of Housing and Urban-Rural Development that there were still listings on their site that didn't provide business licenses and agents' information cards. This article stated that WUBA has been lenient on the "fake housing listings" because the company simply wants more online traffic.

The company would likely counter by saying that the questionable posts, as a fraction of the whole, are small in number. However, negative press and continued mentions of the platform being unreliable may eventually take a significant toll on user's trust in the site, limiting the number of new users who are likely to choose the site in the future.

A news article from NetEase News also indicated that WUBA has been allowing prostitution network through Wechat programs. More alarmingly are perhaps how these prostitution networks actually acquired their WUBA listings in the first place. According to the article, there are sellers of "WUBA certified corporate accounts" for prices ranging from 20 to 60 yuan. It is not certain whether WUBA at the time knowingly allowed such accounts to exist to promote traffic and profitability.

Another report claims that WUBA actually participated in bad press promotion. The report states that WUBA has been knowingly and deliberately lying in real estate postings to make them more appealing to the clients.

WUBA previously had issues where personal information was leaked to third parties. One reporter actually conducted underground due diligence and had his personal information leaked on the spot. Please see this TV recording for further details.

7.5 The Coronavirus

The outbreak of the Corona Virus has been a widely reported event. The number of reported infections and death cases is increasing daily. It has been widely speculated that the official numbers are tainted, and that the reality on the ground looks far worse than portrayed in international media. Fact is that we have never seen such widespread quarantine measures. The situation is truly terrifying and unfortunate.

The virus outbreak has caused economic activity in China to stall, especially in the job and housing markets WUBA relies on. This combined with the Chinese New Year holidays when economic activity is generally low sets WUBA up for a horrible beginning of 2020.

8. Conclusion

In conclusion, our analysis leads us to believe that WUBA is a fraud vehicle that primarily exists to enrich insiders and to raise money from US investors on the back of fake financials.

WUBA faces significant challenges ahead. Besides the industry-wide headwinds we have uncovered a range of issues that we believe the company and its auditors should address. The company seems to overstate overall revenues. The company's biggest acquisition in its history has unbeknownst to investors completely fallen apart. The seemingly most successful businesses were spun-off to insiders for basically no consideration.

We uncovered what we believe are plenty of accounting shenanigans that seemed to be aimed at dressing up the public financials. Investors should demand answers on these issues.

We urge the company's auditors to look carefully at WUBA's accounting treatments in order to justify whether or not the company is acting nefariously in not impairing its goodwill. We believe that once the inevitable does occur, WUBA's equity will ultimately face a sharp turn lower.

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