KerrisdaleCapital

November 2011

ChinaCast Education (CAST)

Based on the evidence in this report, we believe that ChinaCast Education Corporation ("CAST" or the "Company") is falsifying its financial statements. We believe that the Company's revenue and profit are materially overstated in its SEC filings.

ChinaCast has long occupied a special place within the U.S.-listed Chinese smallcap universe. As fraud after fraud has been exposed within this sector, CAST has been upheld as the baby thrown out with the bathwater, the one shining beacon within a sea of scams.

As such, we decided to conduct deep-level diligence on CAST, to determine whether the perceptions match reality. Our findings have led us to conclude that CAST is beset by a long list of red flags. Based on our evidence, we believe CAST has materially misrepresented itself in its SEC financial statements. We have shared our findings with senior partners at Deloitte Touche Tohmatsu, and urge them to consider our evidence when conducting their audit for ChinaCast for the fiscal year 2011. We have also shared our report with the Securities and Exchange Commission and the NASDAQ stock exchange.

We have divided this report into three parts.

Part One addresses the local Chinese filings filed by the main operating subsidiary of the Company's E-Learning Group ("ELG") segment. Photocopies of the SAIC annual inspection reports filed by this subsidiary show an ELG segment that generated revenue of less than half of what the Company reported in SEC filings. We provide copies of these Chinese filings, as well as English translations. We also provide signed attestations by CAST executives that these SAIC filings are true and accurate, and we believe these filings constitute evidence that CAST is defrauding regulators and investors.

Part Two discusses evidence that funds were misappropriated during two of CAST's college acquisitions. Chinese filings show that the prices reportedly paid by CAST were materially higher than prices received by the original sellers of the colleges. Part Three examines other red flags we found when conducting diligence on CAST, including multiple unnecessary equity capital raises, a prior bank transfer falsification, and the involvement of a central CAST executive in a questionable reverse-merger company in 2002.

We urge Deloitte, NASDAQ and the Securities and Exchange Commission to review our report. In our opinion, CAST is providing false financial information to one set of regulators, given that SEC and SAIC financial statements diverge by a material disparity. We believe it is the American regulators and investing public that are being defrauded.

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Summary of Red Flags

1. SAIC Filings report that the ELG business is substantially smaller than what is claimed by CAST in SEC Filings

We acquired the SAIC financial statements for ChinaCast Li Xiang Co., Ltd. ("CCLX") and ChinaCast Technology (Shanghai) Ltd. ("CCT Shanghai"), which are the main operating subsidiaries that comprise the ELG segment. ELG accounted for 66% of the Company's gross profit in 2010 and for 100% of the Company's gross profit prior to CAST's first brick-and-mortar college acquisition in 2008.

According to SAIC filings, the subsidiary accounting for the ELG segment generated revenue of less than half of that reported in SEC filings from 2007 to 2009. In our report, we include photocopies of the annual inspection reports, as well as signed attestations by the subsidiaries' legal representatives attesting that the information in the SAIC filings is valid and accurate.

2. SAIC filings provide evidence that shareholder funds were misappropriated during the Company's acquisition of a business college in 2008

The Company announced in SEC filings that it acquired a business college in 2008 for RMB 480 million. Yet Chinese filings show that CAST paid only RMB 165 million for the asset. We question what happened to the remaining RMB 315 million, and whether it was essentially stolen by insiders.

On April 11, 2008, the Company acquired an 80% stake in the Foreign Trade & Business College of Chongqing Normal University ("FTBC Acquisition"). The Company reported in SEC filings that it paid RMB 480 million for the acquisition. However, SAIC filings show that CAST's wholly owned subsidiary Yupei Training Information Technology Co., Ltd. paid only RMB 165 million for the asset. When research firm OLP Global demonstrated this in a report, the Company responded that the remaining amounts were paid by CCT Shanghai. However, the 2008 SAIC filings for CCT Shanghai demonstrate that no funds were paid by CCT Shanghai for the FTBC Acquisition, and that cash paid for acquisitions from CCT Shanghai was negligible in 2008. When OLP explained this in a subsequent report, CAST did not reply.

We came to the same conclusion as OLP after independently acquiring and reviewing the relevant source documents.

3. Filings with Chinese securities regulators and the SAIC provide evidence that funds were misappropriated during the acquisition of another college in 2009

CAST appears to have overpaid for its 2009 acquisition of Lijiang College by at least RMB 113 million, based on information from SAIC filings as well as documents filed with Chinese securities regulators that are easily accessible on the internet. We question whether the RMB 113 million was misappropriated during the acquisition.

For the acquisition of Lijiang College of Guangxi Normal University in October 2009, ChinaCast disclosed in SEC filings that it would pay a total consideration of RMB 365 million, of which RMB 295 million was paid in 2009 and the remaining contingent consideration would be paid in 2010.

But Shanghai Xijiu Information Technology Co. Ltd. ("Xijiu"), the entity from which CAST purchased Lijiang, had only paid RMB 182 million to acquire Lijiang several weeks earlier, according to Chinese filings. Furthermore, Xijiu was set up by a former CAST employee and its 100% owner at the time of the acquisition was a farmer from Fujian province who did not graduate high school. It strikes us as unlikely that an under-educated farmer was the ultimate recipient of the proceeds from the acquisition of Lijiang College. The question emerges whether this acquisition was used to misappropriate funds during the acquisition of Lijiang College.

What happened to the RMB 113 million difference between the price paid by CAST in 2009 and the price paid by Xijiu for Lijiang College? Who exactly is this farmer who happened to gain control of a British Virgin Islands-based entity that purchased a college in China and then flipped it for a quick RMB 113 million profit to ChinaCast, plus additional consideration in 2010? Did the RMB 113 million end up in his bank account, or in someone else's? Why has CAST not publicly answered these questions with specific, transparent explanations?

4. Unnecessary Capital Raises

ChinaCast has raised capital from investors numerous times, and also amended its warrants in a way that effectively functioned as a capital raise. In each case, the Company had ample cash on its balance sheet prior to the capital raise, and in our opinion, there was no reasonable justification for raising capital. In multiple situations, capital was effectively raised at low valuations, diluting shareholders in what we believe would be an irrational manner if the Company's SEC financial statements were accurate.

5. Red Flags Associated with Historical Years

Our examination of CAST's SAIC filings and the backgrounds of key personnel revealed several additional red flags that we believe are worth mentioning, given the other evidence for fraud we cite elsewhere in the report.

First, ChinaCast Co. Ltd. was previously censured by the Chinese government for falsifying bank documents. Prior to the Company's IPO, management of ChinaCast Co. Ltd. was found to have fabricated bank transfer documents in order to deceive regulatory officials and pass certain capital verification requirements. A notice regarding the document falsification was filed with Chinese regulators.

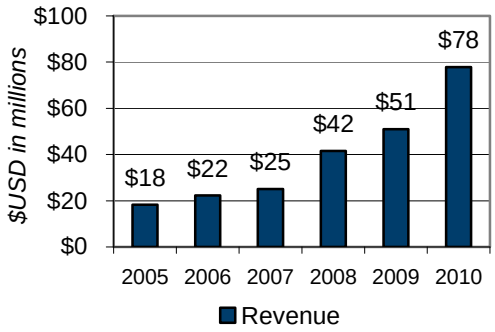
Second, a central CAST executive was previously the CEO of a U.S.-listed Chinese reverse merger bulletin board company in 2002-2003. That company announced the acquisition of certain Chinese media assets but never closed the full transaction, and its stock now trades at a negligible value.

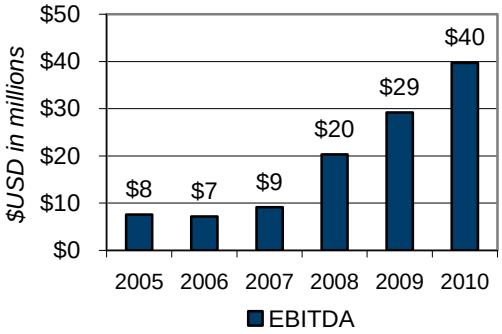
Company Overview

ChinaCast is a U.S.-listed Chinese provider of online education and training services, as well as the owner of three physical for-profit Chinese colleges. The Company first went public in Singapore and was subsequently acquired in December 2006 by Great Wall Acquisition Corporation, a special purpose acquisition company. It was upgraded from the Over-the-Counter Bulletin Board to the NASDAQ stock exchange in October 2007.

Prior to 2008, the Company primarily provided e-learning education services via its nationwide satellite broadband network. In 2008, the Company purchased its first of three for-profit physical colleges. Today, the Company's operations are split into two segments: the E-Learning Group ("ELG"), which operates the online education business, and the Traditional University Group ("TUG"), which is comprised of the Company's three physical for-profit colleges. The ELG segment contributed 66% of 2010 gross profit, while the TUG segment contributed 34%.

Below is the Company's historical revenue and EBITDA according to SEC filings.





Given the material discrepancy between the Company's SEC and SAIC filings for the ELG segment, we are highly skeptical that the financial figures reported to the SEC are accurate.

Part 1: SAIC Filings Reveal Falsified Financials

SAIC Filings Show That the ELG Business is Substantially Smaller than that Reported in SEC Filings

The next thirteen pages of this report are focused on the SAIC filings for ChinaCast's ELG segment. One of the unique aspects of ChinaCast is that the Company's main ELG operating subsidiaries are based out of Shanghai and therefore file their SAIC filings with the Shanghai branch of the State Administration for Industry and Commerce ("SAIC" or "AIC"). The Shanghai AIC branch is one of the more open and accessible AIC branch offices based on our experience dealing with SAIC filings, and provides photocopies of the original filings to the public. Many other AIC branches, particularly rural offices, have only provided us data in electronic form, or do not allow filings to be photocopied. The Shanghai office, on the other hand, not only provides photocopies, but has also provided substantially more information to our local agents than certain other AIC branches. This additional information has included company bylaws, auditor

statements, lease contracts, board meeting minutes, changes in shareholders, capital infusions / withdrawals, etc.

Given the quality of documents provided by the Shanghai AIC branch, we can demonstrate in a clear, compelling manner that ChinaCast's main ELG subsidiaries have reported financial figures to the Chinese government that are substantially lower than what the Company reports to the SEC. CAST's SAIC filings show revenue for the ELG segment that is less than one-half of what has historically been reported to the SEC.

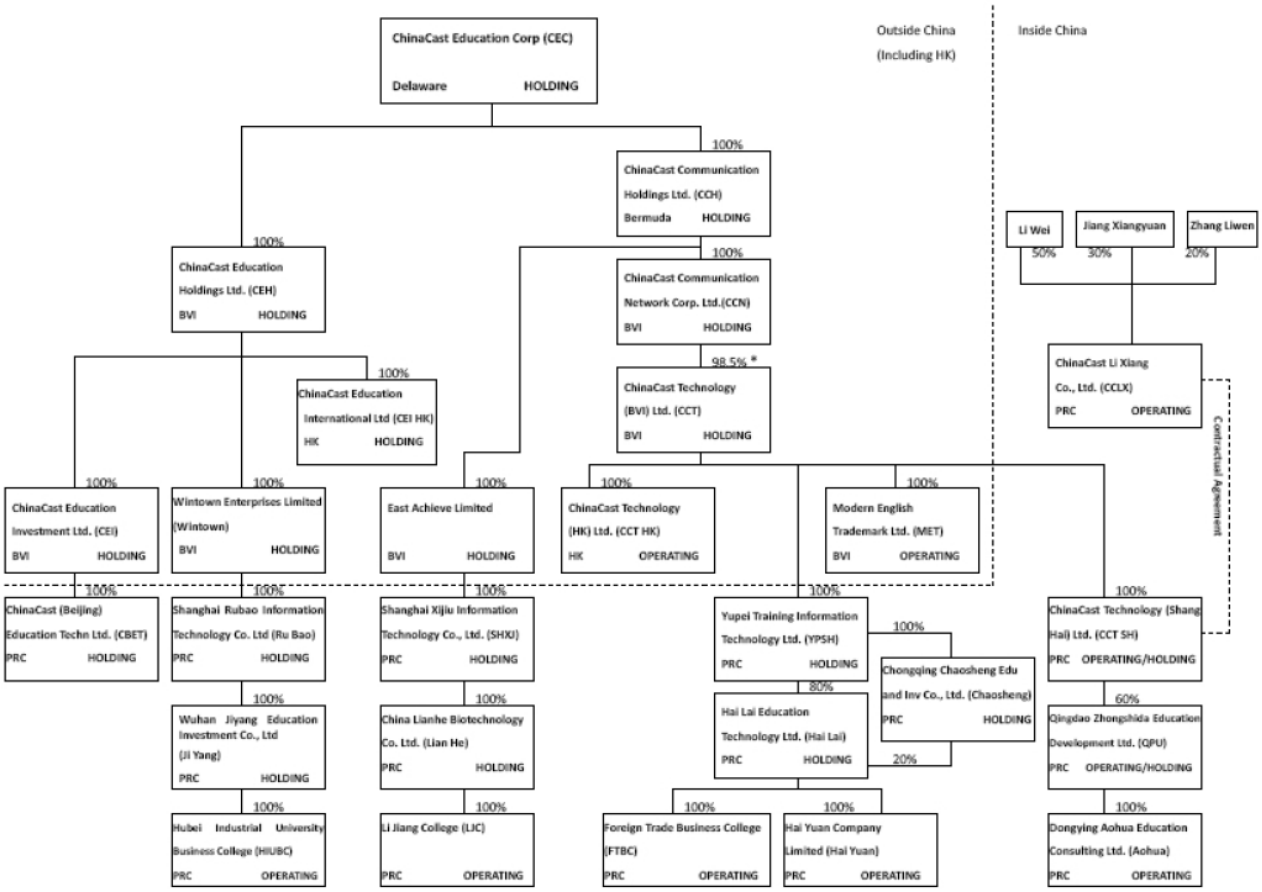
We believe that our evidence demonstrates that CAST is defrauding one set of governments. CAST appears to be either providing false financial statements to the United States, in order to inflate the value of its stock price and raise capital from foreign investors, or providing false information to the Chinese government. In either scenario, CAST management would be committing fraud.

We have long believed that when we see large discrepancies between SEC and SAIC filings, the accurate numbers are being reported to the Chinese government, while the inaccurate numbers are being reported to the U.S. government. We think there are potentially significant repercussions to Chinese executives who are defrauding their own government, and substantially less consequences for Chinese executives defrauding the U.S. government.

ChinaCast Legal Organizational Structure

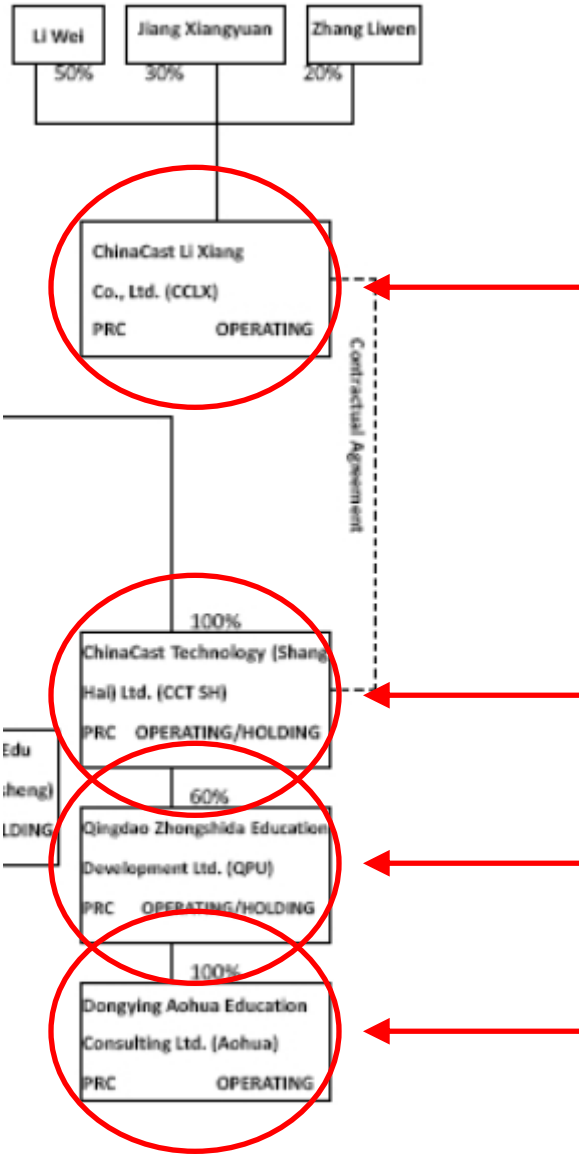
First, let's isolate the ChinaCast subsidiaries that generate ELG's revenue and profit. Below is a legal organizational structure for ChinaCast from the 2010 10K.

The corporate structure of CEC as of December 31, 2010, together with its contractual relationship with CCLX, is as follows.



Most of the subsidiaries in the above chart are related to the TUG segment, which is the segment comprised of ChinaCast's brick-and-mortar colleges. The ELG subsidiaries are the ones on the right side of the organizational chart. On the next page, we isolate the ELG subsidiaries.

Below are the subsidiaries that are related to the ELG segment, isolated from the company-wide organizational chart above.



"CCLX" is the main ELG operating subsidiary. The legal entity is owned by Chinese residents Li Wei, Jiang Xiangyuan and Zhang Liwen. Per its contract with CCT Shanghai, CCLX can be charged a monthly service fee equal to its total revenue less operating expenses reasonably incurred in the course of conducting business. This fee is payable to CCT Shanghai, owned by CAST.

"CCT Shanghai" is a Wholly Foreign Owned Enterprise (WFOE) that does not have any operations outside of its contracts with CCLX. It is entitled to charge CCLX monthly service fees equal to the total revenue earned by CCLX less operating expenses reasonably incurred in the course of conducting the business.

"QPU" was established on March 23, 2010, has been the subject of minimal discussion by management and we consider it not material to CAST's financial results.

"DAEC" was acquired on December 24, 2010 for a total cash consideration of RMB2m. We consider it not material to CAST's financial results.

We acquired the SAIC filings for each of these subsidiaries for the years that were available. We also acquired the SAIC filings for ChinaCast Co. Ltd. ("CCL"), whose "Beijing Branch" contributed management service fee revenue to CAST prior to 2010. We leave the discussion about CCL and its Beijing Branch until the end of this section, because it is not especially relevant to our discussion of how the SAIC financial statements for ELG show a materially smaller business than the one described in SEC filings.

The main operating subsidiary of the Company's ELG segment is CCLX. The subsidiaries QPU and DAEC were set up in 2010 and based on the minimal disclosures about them by the Company and the low price paid to acquire DAEC, we are confident that we can ignore them for the purposes of our analysis. For what it is worth, we have acquired the SAIC filings for QPU and DAEC, and they show negligible operations for the two subsidiaries.

Let's next provide evidence that CCLX is the main operating entity for the ELG segment, using information provided in CAST's SEC filings. ChinaCast alludes to CCLX being the main contributor to the ELG segment throughout its 10Ks, such as in the following disclosures from the 2010 10K:

> *"Our revenue from e-Learning services comes primarily from service fees that are paid by customers or students and calculated as a percentage of the tuition revenue of CCLX."* (page 15, 10K 2010)
>
> *"CEC provides its services and products to end users in the PRC through ChinaCast Li Xiang Co., Ltd. (CCLX) under the terms of a technical services agreement… Under the terms of the Technical Services Agreement, CCLX is obliged to pay ChinaCast, through its subsidiaries, a monthly service fee for the services rendered by CEC. The service fee is an amount equivalent to the total revenue earned by CCLX, less operating expenses reasonably incurred in the course of conducting the business for which CEC and its subsidiaries provide technical services."* (page 67, 10K 2010)

Note in the above disclosure that "CEC" is ChinaCast Education Corporation, which is the Delaware-based public trading entity that shareholders own.

Another way to recognize that CCLX holds the primary operations for the ELG segment is by recognizing that all other subsidiaries do not. Shanghai Rubao Information Technology Co., Ltd. ("Rubao"), Shanghai Xijiu Information Technology Co., Ltd. ("Xijiu) and Yupei Training Information Technology Ltd. ("Yupei") and their subsidiaries are all related to brick-and-mortar universities that contribute to the TUG segment, not ELG. ChinaCast (Beijing) Education Technology Limited ("CBET") was set up only in 2010. As previously discussed, QPU and DAEC are not material to the financial results of the Company. That leaves us with three PRC-based operating subsidiaries that could account for the ELG segment business: CCT Shanghai, CCL and CCLX.

With CCT Shanghai, the Company discloses that the subsidiary has no material operations outside of its contract with CCLX. On page 11 of the 2010 10K, CAST explains that "CCT Shanghai does not perform any activities or have any operations outside the scope of these arrangements," where the term "arrangements" refers to its contracts with CCLX and CCL.

With CCL, ChinaCast clearly discloses that operations of CCL (or, more specifically, the Beijing Branch of CCL, which is referred to as CCLBJ) are not consolidated into CAST's financial statements. Per this disclosure from the 2009 10K, CAST writes "CCL is not consolidated into CEC's financial statements as CEC is not the primary beneficiary of CCL." Rather, CCL's income contribution to ChinaCast is embedded in a single line item on the income statement titled "Management Services Revenue" and this Management Services Revenue item is not consolidated into the ELG segment financial information. We discuss CCL more extensively later in this report.

Once we remove CCT Shanghai and CCL as potential material operating subsidiaries for the ELG segment, the only contributing PRC subsidiary is CCLX.

CCLX SAIC Filings

Next, we will provide and analyze the SAIC financial statements for CCLX. We have acquired SAIC filings and documents for CCLX, which we provide below. The documents include business license issuance notifications, notices of company name registrations, company bylaws, records of shareholder meetings, regulatory infractions, leases, and records of changes in registered capital and shareholders.

CCLX SAIC Filings (Chinese)
CCLX SAIC Filings (English Translation)

Of particular relevance to us are the 2008 and 2009 Annual Inspection Reports. Companies in China undergo annual inspections by their local branches of the Administration for Industry and Commerce. Included within these annual inspection reports are financial statements, as well as attestations by the companies' legal representatives that the contents of the Annual Inspection Reports are accurate and valid.

Below are links to photocopies of the 2008 and 2009 CCLX annual inspection reports, as well as English translations.

CCLX Annual Inspection Report – 2008 (Chinese)
CCLX Annual Inspection Report – 2008 (English Translation)

CCLX Annual Inspection Report – 2009 (Chinese)
CCLX Annual Inspection Report – 2009 (English Translation)

In these documents, we see full balance sheets and income statements for fiscal years 2007, 2008 and 2009.

Below is a table summarizing the revenue and profit reported by CCLX in 2007, 2008 and 2009 (we use average annual exchange rates):

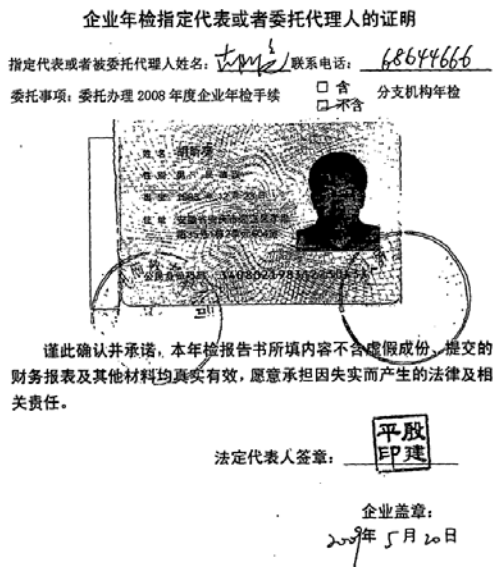
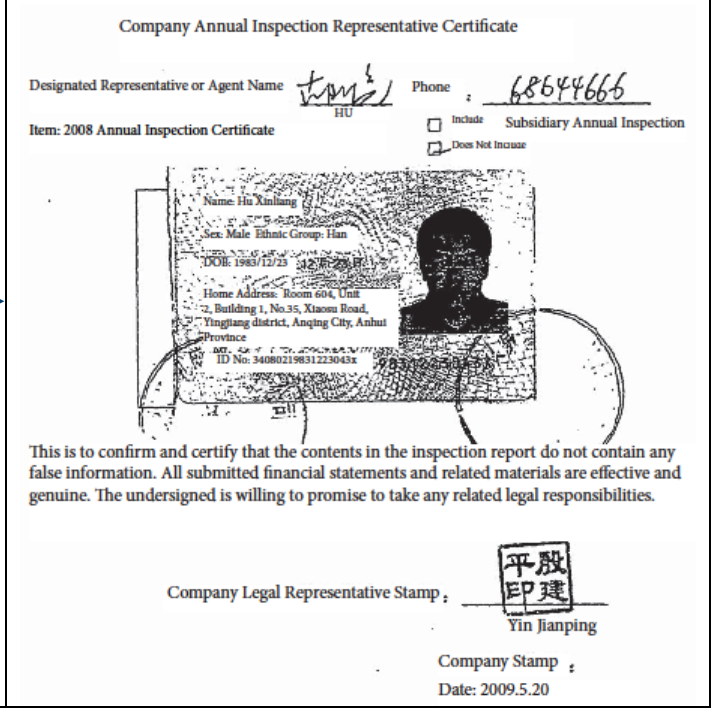
CCLX Financial Summary from SAIC Filings

(USD$ in millions)	**2007**	**2008**	**2009**
Revenue	$10.0	$13.6	$5.5
Income From Operations	$4.9	$9.2	$4.6
Net Income	$4.9	$8.8	$4.4

As we can see here, CCLX reported USD $10m, $14m and $6m of revenue in each of 2007, 2008 and 2009 in its SAIC filings to the Shanghai branch of the Administration for Industry and Commerce. In contrast, ChinaCast reported $25m, $29m and $29m for its ELG segment according to its SEC filings for 2007, 2008 and 2009, respectively.

We can see that CCLX operates a profitable operation, according to SAIC filings, and posts revenue that is materially higher than other Chinese companies we have previously alleged to be fraudulent, such as China Education Alliance (CEU) and Advanced Battery Technologies (ABAT). Nevertheless, according to SAIC filings, ChinaCast's ELG revenue is less than half of what it claims in SEC filings. According to 2009 SAIC financial statements, the CCLX annual revenue reported in China was less than one-fifth of the SEC revenue reported by ELG.

CCLX's annual inspection reports include attestations by its legal representative that the information included in the annual inspection report is accurate and valid. Below we paste the relevant section from the 2008 annual inspection report, as well as an English translation:

Photocopy from Chinese Filing		English Translation
 企业年检指定代表或者委托代理人的证明 指定代表或者被委托代理人姓名：胡新亮 联系电话：68644666 委托事项：委托办理 2008 年度企业年检手续 ☐ 含 ☑ 不含 分支机构年检 谨此确认并承诺，本年检报告书所填内容不含虚假成份，提交的财务报表及其他材料均真实有效，愿意承担因失实而产生的法律及相关责任。 法定代表人签章： 企业盖章： 2009年5月20日	→	 Company Annual Inspection Representative Certificate Designated Representative or Agent Name HU Phone : 68644666 Item: 2008 Annual Inspection Certificate ☐ Include ☑ Does Not Include Subsidiary Annual Inspection Name: Hu Xinliang Sex: Male Ethnic Group: Han DOB: 1983/12/23 Home Address: Room 604, Unit 2, Building 1, No.35, Xiaosu Road, Yingjiang district, Anqing City, Anhui Province ID No: 340802198312230 43x This is to confirm and certify that the contents in the inspection report do not contain any false information. All submitted financial statements and related materials are effective and genuine. The undersigned is willing to promise to take any related legal responsibilities. Company Legal Representative Stamp : Yin Jianping Company Stamp : Date: 2009.5.20

On the left, we have pasted the original Chinese photocopy of the attestation, while on the right we have provided an English translation of the primary document. Note that in the signature line, we see the name of Yin Jianping, who is currently the Vice Chairman of ChinaCast and has been previously described as "responsible for [ChinaCast's] overall management, operations and strategic direction" (see here). Yin was the legal representative of CCLX prior to 2010.

CCT Shanghai SAIC Filings

In our discussion on ChinaCast's legal organizational structure, we provided evidence to support our belief that CCLX accounts for the vast majority, if not virtually all, of the Company's ELG segment operations. But to quell any criticism that we have not accounted for the operations of CCT Shanghai in the ELG segment financial information, we have also acquired SAIC filings for CCT Shanghai.

Below are links to photocopies of the 2008 and 2009 CCT Shanghai annual inspection reports, as well as English translations.

CCT Shanghai Annual Inspection Report – 2008 (Chinese)
CCT Shanghai Annual Inspection Report – 2008 (English Translation)

CCT Shanghai Annual Inspection Report – 2009 (Chinese)
CCT Shanghai Annual Inspection Report – 2009 (English Translation)

In these documents, we see full balance sheets and income statements for 2007, 2008 and 2009.

Below is a table summarizing the revenue and profit reported by CCT Shanghai in 2007, 2008 and 2009 (we use average annual exchange rates):

CCT Shanghai Financial Summary from SAIC Filings			
(USD$ in millions)	**2007**	**2008**	**2009**
Revenue	$3.4	$2.0	$1.9
Income From Operations	$0.1	$0.1	$0.0
Net Income	$0.1	$0.1	$0.0

As we can see, the revenue and profit generated at CCT Shanghai from 2007 to 2009 is relatively small.

Similar to CCLX, we also find attestations in the annual inspection reports acknowledging that the information provided in the CCT Shanghai AIC filings is accurate and valid. Below is the relevant section:

Photocopy from Chinese Filing	English Translation
企业年检指定代表或者委托代理人的证明 指定代表或者被委托代理人姓名：程颖 联系电话：68644666 委托事项：委托办理2008年度企业年检手续 □含 □不含 分支机构年检 谨此确认并承诺，本年检报告书所填内容不含虚假成份、提交的财务报表及其他材料均真实有效，愿意承担因失实而产生的法律及相关责任。 法定代表人签章： 企业盖章： 09年6月23日	Company Annual Inspection Representative Certificate Designated Representative or Agent Name: 程颖 Chen Ying Phone: 68644666 Item: 2008 Annual Inspection Certificate ☐ Include ☐ Do not Include Subsidiary Annual Inspection Name: Chen Ying Sex: Female Ethnic Group: Han DOB: 1969 October 14 Home Address: Shanghai, Pudong New District, Building #20, Unit #5, Room #505 Date of Issue: 1995 Date of Expiration: 2015 ID No: This is to confirm and certify that the contents in the inspection report do not contain any false information. All submitted financial statements and related materials are effective and genuine. The undersigned is willing to promise to take any related legal responsibilities. Company Legal Representative Stamp: Chen Ying Company Stamp 09年6月23日 2009 June 23

Confirmation that We Have the Correct SAIC Filings

It would be useful to explain why we are confident that we have the correct SAIC filings for CCLX and CCT Shanghai. To most easily communicate this, we'll look at an exhibit included in ChinaCast's Form S-4A filed on August 14, 2006 with the SEC. In this S-4A, ChinaCast includes a variety of exhibits that show the signatures of key members of CAST's management teams, as well as the seals of certain of the Company's subsidiaries. The seals provided include those of CCLX and CCT Shanghai. At the end of "Exhibit 10.3: Technical Services Agreement By and Among Chinacast Technology (Shanghai) Limited, The CCLX Shareholders and ChinaCast Li Xiang Co., Ltd.," we find a signature page that includes the seals of CCT Shanghai and CCLX.

Below is the page with the CCT Shanghai and CCLX seals:

IN WITNESS WHEREOF, the Parties and the CCLX Shareholders hereto have caused this Agreement to be executed and delivered as of the date first written above.

CHINACAST TECHNOLOGY (SHANGHAI) LIMITED

By: /s/ Chan Tze Ngan
Name: Chan Tze Ngan
Title: Director

CHINACAST LI XIANG CO LTD

By: /s/ Yin Jian Ping
Name: Yin Jian Ping
Title: Director

CHINACAST CO., LTD.

By: /s/ Yin Jian Ping
Name: Yin Jian Ping
Title: Director

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Here, we can see the Chinese characters that comprise the legal names of CCT Shanghai and CCLX, as well as Chinacast Co., Ltd. ("CCL"). The Chinese characters in the CCLX and CCT Shanghai SAIC filings that we provided earlier match the characters in the seals shown in ChinaCast's SEC filings for the CCLX and CCT Shanghai subsidiaries.

For added clarity, we summarize the Chinese characters below:

Company Seal	Subsidiary Name Referenced in SEC Filings	Chinese Characters	Literal English Translation of Chinese Characters
	CCLX (ChinaCast Li Xiang Co. Ltd.)	上海双威理想通讯网络有限公司(1)	Shanghai Shuangwei Ideal Communication Networks, Co. Ltd.
	CCT Shanghai (ChinaCast Technology (Shanghai) Ltd.)	双巍信息技术(上海)有限公司	Shuangwei Information Technology (Shanghai) Co., Ltd.
	CCL (ChinaCast Company Limited)	上海双威通讯网络有限公司(2)	Shanghai Shuangwei Communication Networks, Co., Ltd.

(1) In August 2009, CCLX changed its legal name from "上海双威理想通讯网络有限公司" to "上海双巍通讯网络有限公司," as can be seen in these forms from SAIC filings. This name change is not material to our analysis.

(2) In August 2010, CCL changed its legal name from "上海双威通讯网络有限公司" to "上海双威实业集团有限公司," as can be seen in these forms from SAIC filings. This name change is not material to our analysis.

Final Points on SAIC Filings

We will mention two final points before examining other red flags exhibited by ChinaCast.

First, we will add additional commentary regarding CCL.

Prior to 2010, the publicly traded ChinaCast was affiliated with CCL, which was a legal entity that contributed revenue and profit to the Company via an E-learning business: the Beijing Branch of ChinaCast Company, Ltd. ("CCLBJ"). However, CCLBJ was never consolidated into CAST's operations and its contribution to ChinaCast's consolidated financial statements was merely in the form of a "Management Service Fee" that was paid to ChinaCast. See below (emphasis added):

"CCH's principal subsidiary, ChinaCast Technology (BVI) Limited ("CCT"), was founded in 1999 to provide funding for its satellite broadband Internet services through the satellite operating entities ChinaCast Company Ltd — Beijing Branch ("CCLBJ") and ChinaCast Li Xiang Co. Ltd. ("CCLX"). We account for our relationship with CCLX as an interest in a variable interest entity

that is consolidated in our financial statements. ***We receive a management service fee from CCLBJ. CCLBJ is not consolidated in our financial statements.*** *" (page 2, 10K 2009)*

CCLBJ's financial contribution to CAST's financial statements come only in the form of a "Management Service Fee" line item, as can be seen below:

CHINACAST EDUCATION CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPERHENSIVE INCOME
(In thousands, except share-related data)

	For the years ended December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	US$
Revenues:				
Service	144,669	253,702	337,940	49,697
Equipment	38,827	28,912	8,607	1,266
	183,496	282,614	346,547	50,963
Cost of revenues				
Service	(40,124)	(97,730)	(139,046)	(20,448)
Equipment	(39,678)	(29,122)	(8,455)	(1,243)
	(79,802)	(126,852)	(147,501)	(21,691)
Gross profit	103,694	155,762	199,046	29,272
Operating (expenses) income:				
Selling and marketing expenses (including share-based compensation of RMB170, RMB1,626 and RMB1,640 for 2007, 2008 and 2009, respectively)	(3,477)	(5,770)	(4,649)	(684)
General and administrative expenses (including share-based compensation of RMB360, RMB14,225 and RMB14,566 for 2007, 2008 and 2009, respectively)	(52,890)	(67,704)	(69,641)	(10,241)
Foreign exchange loss	(4,179)	(1,162)	(87)	(13)
Management service fee	18,035	6,463	5,128	754
Other operating income	-	56	210	31
Total operating expenses, net	(42,511)	(68,117)	(69,039)	(10,153)
Income from operations	61,183	87,645	130,007	19,119

Contribution from CCLBJ →

Note that despite the fact that neither CCL nor its Beijing Branch are consolidated within CAST's financial statements, we nevertheless acquired the SAIC financial statements for CCL. Below are the relevant documents:

CCL SAIC Filings and Annual Inspection Reports (Chinese)
CCL SAIC Filings and Annual Inspection Reports (English Translation)

CCL reported less than $2 million of revenue to the SAIC in each of 2007, 2008 and 2009, based on its 2008 and 2009 annual inspection reports.

Second, ChinaCast could be theoretically generating revenue and profit from non-PRC subsidiaries, such as ChinaCast Technology (HK) Limited ("CCT HK"), which is based out of Hong Kong. However, we do not believe this is the case and have not seen any evidence of this. CAST's customers are based in China and its operations are based in China. It would be uncommon for a non-Chinese subsidiary to be generating material revenue and incurring material costs when the Company's customers are China-based and its operational facilities are based out of China. We also don't see any reason to have a Hong Kong or British Virgin Islands subsidiary to be accounting for a material part of the profit and loss for CAST, and management has never alluded to any reason why a foreign subsidiary would be responsible for a meaningful portion of the sales and costs for the Company.

As an additional point, in Footnote 1 of the Company's Notes to Consolidated Financial Statements in its 2010 annual report, CAST provides a brief note about the "Principal activity"

for each of its subsidiaries and VIEs. The principal activity for all non-PRC subsidiaries is "Investment holdings," with the exception of ChinaCast Technology (BVI) Limited ("CCT BVI") and ChinaCast Technology (HK) Limited ("CCT HK"). CCT BVI's principal activity is "Acts as a technology enabler in the satellite communication" and CCT HK's principal activity is "Acts as a liaison office for the Company's operation". In contrast, the principal activities of the Company's PRC operational subsidiaries all refer to the "provision of" services and products. This acts as further evidence that the Company's principal revenue-generating subsidiaries are domiciled in China.

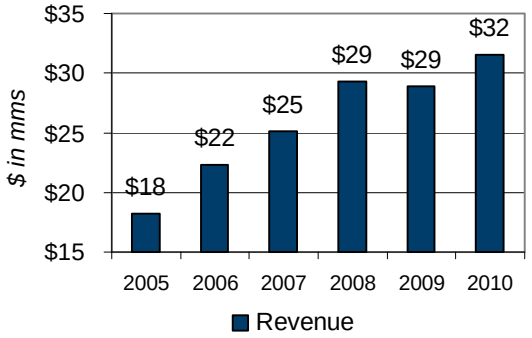
Finally, given that CCT Shanghai and CCLX, even if combined together, account for approximately half of the SEC-reported revenue for the ELG segment in 2007 and 2008, and a quarter of SEC-reported revenue for the ELG segment in 2009, we find it highly unlikely that the remaining half and three-quarters of revenue was accruing at CCT HK or CCT BVI.

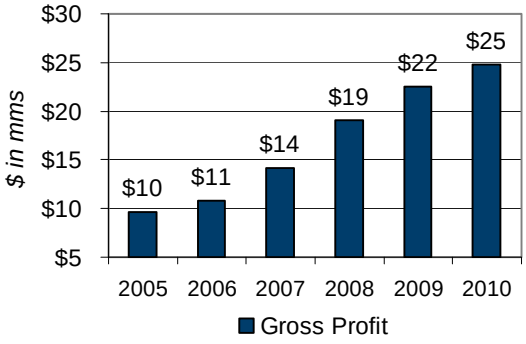
Do ELG's Financials Appear "Too Good to be True"?

Based on the SAIC filings, we do not believe that ChinaCast is accurately representing its ELG segment in its SEC financial statements. According to SAIC filings, the ELG segment appears to be substantially smaller than what is indicated by SEC filings.

When faced with mismatching SAIC financial statements, we next examine whether the reported financials to the SEC appear "too good to be true". Typically, when companies are fabricating their financial statements, they don't make up dismal numbers. Rather, revenue and profit growth, as well as margins and return on capital, are often atypically high.

In the bar charts below, we examine ELG revenue and gross profit since inception.





While revenue has flattened in recent years, gross profit in the ELG segment has continued to grow. Gross profit has grown at a compound annual growth rate of 16% since 2005.

When compared to some of the outlandish operational claims made by other U.S.-listed Chinese companies that we have alleged to be frauds, ChinaCast's numbers are not quite as egregious. Yet in our opinion the numbers are still atypically strong. The Company's return on invested capital in the year prior to its first TUG acquisition was north of 50%; in the year before that, the Company ostensibly had so much cash on its balance sheet and so few other assets that its ROIC metric implied that the company had generated such strong historical profitability that it had already recouped all its invested capital. To look at it another way, based on capex

figures from 2004 through 2007, the ELG business is not capital intensive, and therefore the Company has achieved revenue and profit growth in E-Learning without much capital investment. As to the argument that we should view investments in the ELG segment as coming through the SG&A line item as opposed to capital expenditures, we'll note that while SG&A appears to be meaningful for the ELG segment, the Company was nevertheless generating EBITDA margins of 25% to 35% prior to its first TUG acquisition. In summary, CAST's ELG business featured unusually high returns on capital regardless of how we approached the issue of capital investment.

Altogether, in light of our concrete evidence that the Company's Chinese filings show an ELG business that is materially smaller than SEC filings, the Company's high profit growth and return on capital according to SEC filings is not surprising.

We ask investors to consider the following questions. Is ChinaCast's ELG business truly likely to be a 50%+ ROIC business? Is the provision of satellite technology to universities for the purpose of transmitting distance learning programming really an atypically robust business with profound competitive advantages (frankly, we question whether there is much demand for satellite technology for distance learning education to begin with, as opposed to broadband ethernet, but that's a different issue altogether)? Or is CAST's actual underlying ELG business likely subject to the same forces of capitalism that prevent most other companies from being able to generate unusually high amounts of profit relative to the amounts of capital they've devoted to their businesses?

Part 2: Misappropriated Funds During College Acquisitions

Beginning in 2008, ChinaCast launched an expansion into brick-and-mortar colleges and universities in an effort to broaden its asset base within the growing Chinese education sector.

On April 11, 2008 and September 17, 2009, the Company acquired The Foreign Trade and Business College of Chongqing Normal University. On October 5, 2009, CAST acquired Lijiang College of Guangxi Normal University. On August 23, 2010, CAST acquired Hubei Industrial University Business College (HIUBC). These three brick-and-mortar universities comprise the Traditional University Group ("TUG") segment of ChinaCast.

Numerous red flags were highlighted about these acquisitions in a series of six research reports published by OLP Global LLC. As of our report's publication date, these six reports can be found on the internet by typing the words "OLP global chinacast mailchimp" into Google.

We were impressed by the depth of diligence conducted by OLP and recommend all parties interested in ChinaCast acquire and read these reports.

The dates and titles of the report were as follows:

Date	Title
Feb 16, 2011	ChinaCast Education Corporation (CAST) – Show Me the Money! Questions to Management Regarding Acquisition #1
Feb 18, 2011	ChinaCast Education Corporation (CAST) – Again, Show Me the Money! More Questions to Management Regarding Acquisition #1
Feb 28, 2011	ChinaCast Education Corporation (CAST) – Red Flags in Acquisition #2

	and Recent 8Ks
March 7, 2011	ChinaCast Education Corporation (CAST) – Our New Finding Directly Refutes CAST's SEC Filings
March 16, 2011	ChinaCast Education Corporation (CAST) – Red Flags in Acquisition #3
March 17, 2011	ChinaCast Education (CAST) – 10K Reveals Material Weaknesses

The Company responded to several of the red flags raised in the OLP reports.

Their responses can be seen in the following SEC filings:

CAST Form 8-K from February 16, 2011
CAST Form 8-K from February 17, 2011
CAST Form 8-K from February 22, 2011
CAST Form 8-K from March 2, 2011

Below we summarize certain arguments made by OLP in its research reports, as well as summarize the Company's responses. We also discuss our views on the issues.

Our conclusion is that the abundance of serious red flags with the Company's university acquisitions gives us further reason to question management's intentions. In our mind, the OLP allegations were damning. They provided evidence that the prices paid by CAST for certain colleges were materially higher than the prices that these colleges were sold for. They demonstrated that the legal entities that acted as intermediaries between CAST and the sellers were set up and organized by former CAST insiders. They provide evidence that the official recipients of CAST's funds were a farmer with only junior high school educations and a small business operator who was unlikely to own such highly valued assets as for-profit colleges.

We would particularly draw attention to the Company's second acquisition, where it appears that there is a wide discrepancy between the amount CAST claimed to have paid for the acquisition and what the business's original sellers received. The relevant public documents, including both SAIC filings as well as public documents filed with China's securities regulators, show compelling evidence that certain middlemen pocketed tens of millions of dollars during the acquisition. It remains a question whether these middlemen were affiliated with CAST, or with the seller. Yet given that the second acquisition was structured in a very similar fashion to the Company's other college purchases, and given the other red flags we found with CAST, we are concerned that improprieties may have been committed by individuals affiliated with the CAST management team.

Allegations Regarding Foreign Trade and Business College of Chongqing Normal University

On April 11, 2008, the Company acquired an 80% stake in the Foreign Trade & Business College of Chongqing Normal University ("FTBC" and the "FTBC Acquisition"). It did this through having its wholly owned subsidiary Yupei Training Information Technology Co., Ltd. ("Yupei") acquire 80% of Hai Lai Education Technology Limited ("Hai Lai"), which owned 100% of FTBC. The Company reported in SEC filings that it paid RMB 480 million to acquire the 80% stake in Hai Lai. Based on SAIC filings, however, Yupei only paid RMB 165 million to acquire its 80% stake in Hai Lai. OLP Global initially demonstrated this in its research note on February 16,

2011. OLP questioned the whereabouts of the remaining RMB 315 million that CAST claimed to have paid for the FTBC acquisition.

To support its argument, OLP provided SAIC filings for Yupei Training Information Technology Co., Ltd., the Chinacast-owned entity that purchased Hai Lai. Yupei's 2008 SAIC filings show only a RMB 165 million cash outflow in 2008, and furthermore specify in its footnotes that its investment cost in Hai Lai was only worth RMB 165 million.

Click here for the full copy of the Yupei 2008 SAIC filing. We independently acquired this filing. Below is a copy of Yupei's 2008 cash flow statement, which shows that the outflow subtotal for Cash Flow from Investing was RMB 165 million.

上海市二00八年度外商投资企业会计报表

现金流量表 Cash Flow Statement for the Year Ended December 31, 2008

编制单位：语培信息科技（上海）有限公司　　2008年度　　金额单位：元

Current Period　Prior Period　Current Period　Prior Period　Amount of RMB

项目	行次	本年金额	上年金额	项目	行次	本年金额	上年金额
一、经营活动产生的现金流量：	1	—	—	取得子公司及其他营业单位支付的现金净额	21	165,000,000	
销售商品、提供劳务收到的现金	2			支付的其他与投资活动有关的现金	22		
收到的税费返还	3			投资活动现金流出小计	23	165,000,000.00	369,900.00
收到的其他与经营活动有关的现金	4	18,101,796.00	6,774,861.27	投资活动产生的现金流量净额	24	-165,000,000.00	-369,900.00
经营活动现金流入小计	5	18,101,796.00	6,774,861.27	三、筹资活动产生的现金流量：	25	—	—
购买商品、接收劳务支付的现金	6			吸收投资所收到的现金	26	92,351,450.81	76,397,999.99
支付给职工以及为职工支付的现金	7			其中：子公司吸收少数股东投资收到的现金	27		
支付的各项税费	8			取得借款所收到的现金	28		
支付的其他与经营活动有关的现金	9	27,391,873.95	2,072,357.29	收到的其他与筹资活动有关的现金	29		
经营活动产生的现金流出小计	10	27,391,873.95	2,072,357.29	筹资活动现金流入小计	30	92,351,450.81	76,397,999.99
经营活动产生的现金流量净额	11	-9,290,077.95	4,702,503.98	偿还债务所支付的现金	31		
二、投资活动产生的现金流量：	12	—	—	分配股利、利润或偿付利息所支付的现金	32		
收回投资所收到的现金	13			其中：子公司支付给少数股东的股利、利润	33		
取得投资收益所收到的现金	14			支付的其他与筹资活动有关的现金	34		
处置固定资产、无形资产和其他长期资产所收回	15			筹资活动现金流出小计	35	—	—
处置子公司及其他经营单位收回的现金净额	16			筹资活动产生的现金流量净额	36	92,351,450.81	76,397,999.99
收到的其他与投资活动有关的现金	17			四、汇率变动对现金及现金等价物的影响	37	-272.34	1,607,889.39
投资活动现金流入小计	18	-	-	五、现金及现金等价物净增加额	38	-81,938,899.48	82,338,493.36
购建固定资产、无形资产和其他长期资产	19		369,900.00	加：期初现金及现金等价物余额	39	82,338,493.36	
投资支付的现金	20	165,000,000.00		六、期末现金及现金等价物余额	40	399,593.88	82,338,493.36

Net Cash Flow in Investing Activities

Cash Outflow Subtotal in Investing Activities

Shanghai Hong Zheng Certified Public Accountants (Auditor Seal)

Below is a copy of Yupei's balance sheet, which shows that long-term investments were less than RMB 200 million as of the end of 2008.

上海市二00八年度外商投资企业会计报表

Balance Sheet for the Year Ended December 31. 2008

资产负债表

编制单位：雅培信息科技（上海）有限公司　　2008年12月31日　　会外年金01表　金额单位：元

项目	行次	年末金额	期初金额	项目	行次	年末金额	期初金额
流动资产：	1	—	—	流动负债：	47	—	—
货币资金	2	399,999.88	82,338,403.36	短期借款	48		
△交易性金融资产	3			△交易性金融负债	49		
应收票据	4			#应付票证	50		
应收票据	5			应付票据	51		
应收账款	6			应付账款	52		
预付款项	7			预收款项	53		
应收股利	8			应付职工薪酬	54		
应收利息	9			其中：应付工资	55		
其他应收款	10	2,713,451.46	4,207.10	应付福利费	56		
				其中：职工奖励及福利基金	57		
存货	11			应交税费	58	1,212.00	
其中：原材料	12			其中：应交税金	59	1,200.00	
库存商品（产成品）	13			应付利息	60		
一年内到期的非流动资产	14			应付股利	61		
其他流动资产	15			其他应付款	62	12,076.40	8,010,076.40
流动资产合计	16	3,113,045.34	82,342,790.46	一年内到期的非流动负债	63		
非流动资产：	17	—	—	其他流动负债	64		
△可供出售金融资产	18			流动负债合计	65	13,288.40	8,010,076.40
△持有至到期投资	19			非流动负债：	66	—	—
#长期应收款				长期借款	67		
△长期应收款				应付债券	68		
长期股权投资	22	196,392,745.69		长期应付款	69		
#股权分置流通权	23			专项应付款	70		
△投资性房地产	24			预计负债	71		
固定资产原价	25	369,900.00	369,900.00	△递延所得税负债	72		
减：累计折旧	26	36,065.38	2,774.26	#递延税款贷项	73		
固定资产净值	27	333,834.62	367,125.74	其他非流动负债	74		
减：固定资产减值准备	28			其中：特准储备基金	75		
固定资产净额	29	333,834.62	367,125.74	非流动负债合计	76		
在建工程	30			负债合计	77	13,288.40	8,010,076.40
工程物资	31			所有者权益（或股东权益）：	78	—	—
固定资产清理	32			实收资本（股本）	79	168,749,450.80	76,397,999.99
△生产性生物资产	33			国家资本	80		
△油气资产	34			集体资本	81		
无形资产	35			法人资本	82		
其中：土地使用权	36			其中：国有法人资本	83		
△开发支出	37			集体法人资本	84		
△商誉	38			个人资本	85		
**合并价差	39			外商资本	86	168,749,450.80	76,397,999.99
长期待摊费用（递延资产）	40	306,942.41	1,698,160.19	减：已归还投资	87		
△递延所得税资产	41			实收资本（或股本）净额	88		
#递延税款借项	42			资本公积	89		
其他非流动资产（其他长期资产）	43			减：库存股	90		
其中：特准储备物资	44			盈余公积	91		
非流动资产合计	45	197,033,522.72	2,065,285.93	其中：法定盈余公积	92		
				任意盈余公积	93		
				储备基金	94		
				企业发展基金	95		
				利润归还投资	96		
				△一般风险准备	97		
				**未确认投资损失（以"-"号填列）	98		
				未分配利润	99	31,383,828.86	
				其中：现金股利	100		
				*外币报表折算差额	101		
				归属于母公司所有者权益合计	102		
				*少数股东权益	103		
				所有者权益合计	104	200,133,279.66	76,397,999.99
				*减：资产损失	105		
				所有者权益合计（剔除资产损失后的金额）	106		
资产总计	46	200,146,568.06	84,408,076.39	负债和所有者权益总计	107	200,146,568.06	84,408,076.39

注：表中带*项目为合并会计报表专用；表中加△仿宋体项目为执行新会计准则企业专用，其他企业不填；表中加#楷体项目为执行企业会计制度等企业专用，执行新会计准则企业不填。

Yupei Information Technology (Shanghai) Co. Ltd. (company seal)

Shanghai Hong Zheng Certified Public Accountants (Auditor Seal)

Beginning of Period

End of Period

Amount of RMB

Long-term equity investment

196,392,745.69

Below is the excerpt from the footnotes section of the 2008 financial statements that shows that Yupei's investment in Hai Lai only cost it RMB 165 million. On the left is the original Chinese photocopy, and on the right is an English translation.

3. 长期股权投资：期末余额 196,392,745.69 元

长期股权投资明细

被投资单位名称	占被投资公司注册资本比例
重庆海莱科教发展有限公司	80%
其中：重庆海莱科教发展有限公司-投资成本	64,147,113.61
重庆海莱科教发展有限公司-损益调整	31,392,745.69
重庆海莱科教发展有限公司-股权投资差额	100,852,886.39
小计	196,392,745.69

3. End of Period Balance: RMB 196,392,745.69

Long Term Equity Investment

Name of Invested Entity		% in Invested Entity's Registered Capital
Chongqing Hai Lai Education Technology Development Co. Ltd.		80%
Of which:	Hai Lai – Investment Cost	64,147,113.61
Hai Lai – Profit and Loss Adjustment		31,392,748.69
Hai Lai – Equity Investment Difference		100,852,886.39
Subtotal		196,392,745.69

To attain the investment cost, one should add the items "Hai Lai – Investment Cost" and "Hai Lai – Equity Investment Difference".

Company Responses and Counter-Responses

In an 8K filed on February 17, 2011 (click here), the Company responded by saying that the remaining RMB 315 million paid for Hai Lai was paid by CCT Shanghai. They wrote:

> *"The total consideration of RMB 480 million to acquire 80% of Hai Lai was paid out not only by Yupei Training Information Technology Co., Ltd. ('Yupei'), which paid RMB 165 million, but also by ChinaCast Technology (Shanghai) Limited, which paid the remaining balance of RMB 315 million, in a separate transaction."*

However, we have examined the 2008 SAIC filings for CCT Shanghai and see no cash outflow of RMB 315 million. The only line item in cash flow from investing activities relates to a RMB 7,000 payment for capex, and there are no large cash outflows elsewhere in the cash flow statement that could be interpreted to indicate a purchase of an equity stake of another company. We have made the 2008 SAIC filings for CCT Shanghai available earlier in this report, and they can be found by clicking here (click here for English translation). OLP came to a similar conclusion, and published the same findings in a followup March 7 report.

They wrote:

> *"If CAST management were telling the truth in [the] 8K dated February 17, 2011, we would have found RMB 310.85 million (RMB 475.85 – RMB 165 million) paid out from CCT SH. Our findings show that CCT SH's cash outflow from investing activities was only RMB 7,000 (seven thousand). **The bottom line is that, contrary to management's claim, there was no payment of RMB 315 million paid out from CCT SH in 2008**. Our latest findings further convince us that 80% of Hai Lai was acquired for only RMB 165 million, ~1/3 of the price CAST claimed to have paid."*

The Company never responded to OLP's follow-up report.

Below is the 2008 cash flow statement from CCT Shanghai.

ChinaCast Technology (Shanghai) Co. Ltd. (corporate seal)

Shanghai Foreign Invested Enterprise Financial Statements for the Year 2008

上海市二00八年度外商投资企业会计报表

Cash Flow Statement

现金流量表

Current Period

Prior Period

December 31, 2008

2008年度

Prior Period

Current Period

会外年企03表

编制单位：[illegible]技术（上海）有限公司

金额单位：元

	行次	本年金额	上年金额	项目	行次	本年金额	上年金额
一、经营活动产生的现金流量：	1	—	—	取得子公司及其他营业单位支付的现金净额	21		
销售商品、提供劳务收到的现金	2	15, 389, 291. 56	29, 074, 147. 32	支付的其他与投资活动有关的现金	22		
收到的税费返还	3			投资活动现金流出小计	23	7, 000. 00	6, 990. 00
收到的其他与经营活动有关的现金	4	146, 362, 480. 97	259, 565, 902. 61	投资活动产生的现金流量净额	24	-7, 000. 00	-6, 990. 00
经营活动现金流入小计	5	161, 751, 772. 53	288, 640, 049. 93	三、筹资活动产生的现金流量：	25	—	—
购买商品、接收劳务支付的现金	6	7, 340, 764. 99	17, 092, 906. 07	吸收投资所收到的现金	26		
支付给职工以及为职工支付的现金	7	2, 798, 472. 16	4, 507, 159. 79	其中：子公司吸收少数股东投资收到的现金	27		
支付的各项税费	8	923, 848. 58	1, 253, 618. 11	取得借款所收到的现金	28		171, 000, 000. 00
支付的其他与经营活动有关的现金	9	106, 797, 638. 30	163, 659, 274. 67	收到的其他与筹资活动有关的现金	29		
经营活动产生的现金流出小计	10	117, 860, 724. 03	186, 512, 958. 64	筹资活动现金流入小计	30	-	171, 000, 000. 00
经营活动产生的现金流量净额	11	43, 891, 048. 50	102, 127, 091. 29	偿还借务所支付的现金	31	171, 000, 000. 00	147, 366, 000. 00
二、投资活动产生的现金流量：	12	—	—	分配股利、利润或偿付利息所支付的现金	32	9, 051, 563. 70	6, 301, 168. 68
收回投资所收到的现金	13			其中：子公司支付给少数股东的股利、利润	33		
取得投资收益所收到的现金	14			支付的其他与筹资活动有关的现金	34		
处置固定资产、无形资产和其他长期资产所收回	15			筹资活动现金流出小计	35	180, 051, 563. 70	153, 667, 168. 68
处置子公司及其他经营单位收回的现金净额	16			筹资活动产生的现金流量净额	36	-180, 051, 563. 70	17, 332, 831. 32
收到的其他与投资活动有关的现金	17			四、汇率变动对现金及现金等价物的影响	37	2, 060, 846. 17	1, 261, 639. 06
投资活动现金流入小计	18	-	-	五、现金及现金等价物净增加额	38	-134, 106, 669. 03	120, 714, 571. 66
购建固定资产、无形资产和其他长期资产所	19	7, 000. 00	6, 990. 00	加：期初现金及现金等价物余额	39	485, 116, 793. 01	364, 402, 221. 35
投资支付的现金	20			六、期末现金及现金等价物余额	40	351, 010, 123. 98	485, 116, 793. 01

Cash Flow from Operations

Net Cash Flow from Investing Activities

Net Cash Flow from Investing Activities

Cash Used for Debt Repayment

Shanghai Hong Zheng Certified Public Accountants (Auditor Seal)

上海正会计师事务所有限公司

Our Conclusion

Our examination of the issue, as well as review of the original allegations and the Company's response, leads us to support OLP on this issue. Our concern is quite simple. The Company claimed to pay RMB 480 million for an acquisition. Chinese filings show that CAST paid only RMB 165 million for the asset. The Company provided a response to the allegations, which were convincingly discredited by OLP. Since OLP's last response, the Company has not clarified the issue.

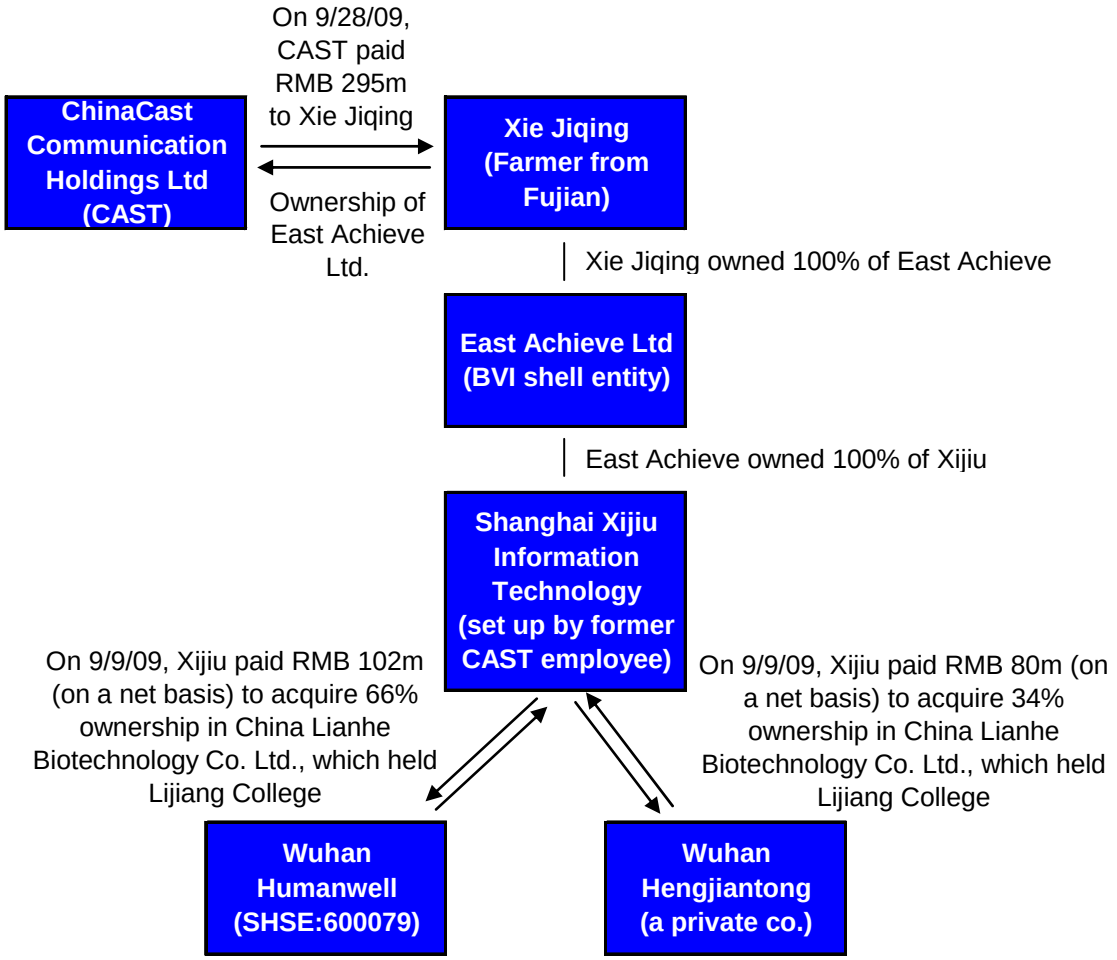
As a result, we, like OLP, question whether funds were misappropriated during the acquisition of the Foreign Trade and Business College of Chongqing Normal University in 2008.

Allegations Regarding Lijiang College

CAST appears to have overpaid for Lijiang College by at least RMB 113 million, based on information from SAIC filings as well as documents filed with Chinese securities regulators that are easily accessible on the internet. We question whether the RMB 113 million was misappropriated during the acquisition.

For the acquisition of Lijiang College of Guangxi Normal University in October 2009, ChinaCast has disclosed in SEC filings that it would pay a total consideration of up to RMB 365 million, of which RMB 295 million was paid in 2009 and the remaining consideration was paid in 2010. But Shanghai Xijiu Information Technology Co. Ltd. ("Xijiu"), the entity from which CAST purchased Lijiang, had only paid RMB 182 million to acquire Lijiang several weeks earlier. Furthermore, Xijiu was set up by a former CAST employee and its 100% owner at the time of the acquisition was a farmer from Fujian province who did not graduate from senior high school. It strikes us as unlikely that an under-educated farmer was the ultimate recipient of the proceeds from the acquisition of Lijiang College. The question emerges whether this acquisition was used to misappropriate funds during the acquisition of Lijiang College.

To best understand the transaction, it is instructive to provide a schematic diagram.



This is a simplified diagram that illustrates OLP's argument that CAST conspicuously overpaid for the acquisition of Lijiang College. As we can see, CAST paid RMB 295 million to Xie Jiqing, who was the owner of the BVI entity East Achieve Ltd., which itself was the owner of Xijiu. Xijiu was the entity that purchased Lijiang College from Wuhan Humanwell and Wuhan Hengjiantong.

We hired investigators to conduct a background check on Mr. Xie Jiqing. Based on our investigator's examination, Xie Jiqing is a farmer from Fujian province with no college education. Below is information on Xie.

BACKGROUND OF XIE JIQING		
Name	Xie Jiqing (谢基庆)	
PRC ID no.	352201197611291638	
Gender	Male	
Date of birth	November 29, 1976	
Race	Han	
Ancestral home (籍贯)	Ningde City, Fujian Province	
Place of birth	Ningde City, Fujian Province	
Residential address	No.16, Nan Lane, East Wangkeng Village Rd., Zhangwan Town, Jiaocheng District, Ningde City, Fujian Province 福建省宁德市蕉城区漳湾镇王坑村东路南弄16号	
Education	Junior high school	
Marital status	Married	
Military service	None	
Height	176cm	
Profession	Farmer	
Place of work	Group 9, Wangkeng Village, Zhangwan Town 漳湾镇王坑村9组	

It is unclear how Xie came into the position of attaining the ownership of a BVI entity that indirectly owned and controlled Lijiang College. OLP also separately concluded that Xie is a farmer with no high school education, and this information on his background was not disputed by CAST.

We will next note that Xijiu was set up by a former CAST-affiliated employee, Song Hongtao, in 2005. Among other things, Song was a former director of CCL. The individual who filed Xijiu's annual inspection reports both before and after the Lijiang College acquisition was Hu Xiaolei, who OLP alleges was a current employee of CAST at the time. We were not able to confirm this on our own, but note that CAST has not denied that Hu Xiaolei was a current CAST employee at the time of the Lijiang College acquisition.

Next, there is a substantial paper trail documenting the amount that Xijiu paid to acquire the entity that controls Lijiang College. The sellers of the entity that controlled Lijiang College were Wuhan Humanwell Hi-Tech Industry Co., Ltd. ("Humanwell"), a publicly listed company on the Shanghai Stock Exchange with the ticker 600079, and Wuhan Hengjiantong, a private company. Wuhan Humanwell owned 66% of the entity that controlled Lijiang College while Wuhan Hengjiantong owned 34% of the entity that controlled Lijiang College.

Note that the entity that controlled Lijiang College was called China Lianhe Biotechnology Co., Ltd. ("Lianhe").

In the case of Wuhan Humanwell, we have multiple sources of evidence that show that Xijiu paid RMB 102 million to acquire the 66% stake. The transaction was done in a 2-step process. First, Xijiu bought Lianhe from Humanwell for RMB 155.1 million. Then Xijiu sold an equity stake in Tianfeng Securities Co Ltd., which China Lianhe had owned in addition to the college, back to Humanwell for RMB 53.4 million. Therefore, the net amount that Xijiu paid to Humanwell for Humanwell's 66% stake in Lijiang College was RMB 102 million.

The first piece of documentation showing this RMB 102 million transaction is the Notice of Significant Transactions filed with the Shanghai Stock Exchange by Wuhan Humanwell on September 11, 2009. That full document can be found here, and the English translation can be found here. In this document, Wuhan Humanwell clearly outlines the terms of the transaction with Xijiu. The document can be found independently on the internet by visiting the website of the Shanghai Stock Exchange at www.sse.com.cn. We have pasted the first page below.

证券代码：600079　证券简称：人福科技　编号：临2009-038号

武汉人福高科技产业股份有限公司重大交易公告

特别提示

本公司及董事会全体成员保证公告内容的真实、准确和完整，对公告的虚假记载、误导性陈述或者重大遗漏负连带责任。

Company [refers to Wuhan Humanwell Hi-Tech] will transfer all of its equity holdings of China Lianhe Biotechnology Co Ltd ("Lianhe") to Shanghai Xijiu Information Technology Co Ltd ("Shanghai Xijiu"). The subject of this transaction is 66% of equity holdings of Lianhe, which has been preliminarily valued at RMB 155.10 million.

Upon the completion of transfer of the equity holdings of Lianhe, Wuhan Humanwell Hi-Tech will acquire all equity holdings of Tianfeng Securities Co Ltd ("Tianfeng") held by Lianhe. The subject of this transaction is 11.1% of equity holdings in Tianfeng, which has been preliminarily valued at RMB 53.35 million.

重要内容提示

●**交易简要内容：**本公司将持有的中国联合生物技术有限公司（以下简称"联合生物"）的全部股权转让给上海西就信息技术有限公司（以下简称"上海西就"）。交易标的为联合生物66%的股权，转让价格初步确定为人民币15,510万元。

在联合生物股权转让完成的基础上，本公司收购联合生物持有的天风证券经纪有限责任公司（以下简称"天风证券"）的全部股权。交易标的为天风证券11.1%的股权，转让价格初步确定为5,335万元。

●**以上交易未构成关联交易。**

●**以上股权转让已经公司第六届董事会第二十一次会议审议通过并提请召开临时股东大会审议；以上股权转让涉及天风证券11.1%的股权转让，根据中国证券监督管理委员会的有关规定，尚需报国务院证券监督管理机构批准。**

●**本次交易不存在重大法律障碍。**

●**其它需要提醒投资者重点关注的事项：**以上股权转让尚需经交易各方董事会或者股东（大）会审议通过后方可施行。联合生物股权转让交易生效后，本公司将不再持有联合生物的股权；联合生物债权人对上述交易未发表不同意见；天风证券股权转让协议为联合生物股权转让的附加协议，如果联合生物股权转让未完成，则取消天风证券股权转让交易。

一、转让联合生物股权

（一）交易概述

1、2009年9月11日，本公司与上海西就签署《股权转让合同》，以现金15,510万元出售本公司持有的联合生物全部66%的股权。

2、公司第六届董事会第二十一次会议于2009年9月11日审议并全票通过

1

On its first page, the Notice of Significant Transactions writes:

Brief Introduction of the Transaction: The Company agrees to transfer 100% of its equity interest in China Lianhe Biotech Co., Ltd ("Lianhe") to Shanghai Xijiu Information Technology Co., Ltd ("Xijiu"). The subject of transaction is a 66% equity interest in Lianhe, and the transaction price is initially set at RMB 155.1 million.

Upon the completion of Lianhe equity ownership transaction, Wuhan Humanwell will acquire all the equity interest of Tianfeng Securities Co., Ltd ("Tianfeng") held by Lianhe. The subject of transaction is 11.1% equity interest in Tianfeng and the transaction price is initially set at RMB 53.35 million.

Later, on the third page, the document specifies that *"The major asset of Lianhe is its investment in Lijiang College of Guangxi Normal University ("LJC") and Tianfeng Securities Co., Ltd ("Tianfeng")."*

We want to emphasize the fact that this document was filed by a publicly-listed Chinese company to the Chinese securities regulators. The document is available electronically to any member of the public by simply visiting the Shanghai Stock Exchange website. The document shows that Humanwell effectively sold its 66% stake in Lijiang College for RMB 102 million. In contrast, CAST purchased its 100% stake in Lijiang College for RMB 295 million in 2009, plus additional consideration in 2010.

The second document showing this RMB 102 million transaction is the Equity Ownership Sales and Transfer Agreement between Xijiu and Wuhan Humanwell that was filed by Xijiu to the Shanghai AIC office. Below we have pasted the two pages of the Equity Ownership Sales and Transfer Agreement between Xijiu and Wuhan Humanwell.

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股权转让合同

Equity Ownership Sales & Transfer Agreement

编号：20090630 简 1

Party A (Transferor): Wuhan Humanwell Technology Holdings Co. Ltd. (Seller)

甲方（转让方）：武汉人福高科技产业股份有限公司

乙方（受让方）：上海西就信息技术有限公司

Party B (Transferee): Shanghai Xijiu Information Technology Co. Ltd. (Buyer)

鉴于：在签订本股权转让合同前，甲方已按照《中华人民共和国公司法》等法律法规和中国联合生物技术有限公司（以下简称“中国联合生物公司”）章程的规定，就转让事宜向其他股东履行了书面告知义务，且符合向股东以外转让股权的条件。甲、乙双方根据《中华人民共和国公司法》等法律、法规的规定，本着平等互利、诚实信用的原则，经友好协商，签订本股权转让合同，以资双方共同遵守。

Party A is transferring its 66% equity ownership in China Lianhe Biotech Co. Ltd. (Lianhe) to Party B (capital contribution RMB 87.12 million, 66% ownership)

第一条 股权的转让

1、甲方将其在中国联合生物技术有限公司（以下简称“中国联合生物公司”）的 66%的股权（出资额为人民币 8712 万元，出资比例为 66.0000%）转让给乙方；

2、乙方同意接受上述转让的股权；

3、甲、乙双方确定的转让价格为人民币 15510 万元；

The sales and transfer price determined by Party A and Party B is RMB 155.10 million

4、甲方保证向乙方转让的股权不存在第三人的请求权，没有设置任何质押，未涉及任何争议及诉讼；

5、本次股权转让完成后，乙方即成为中国联合生物公司的股东，享受相应的股东权利并承担义务，甲方不再享有相应的股东权利和承担义务；

6、甲方应对中国联合生物公司及乙方办理相关审批、变更登记等法律手续提供必要的协作与配合。

第二条 转让价款的支付

此次股权转让价款全部以人民币支付，由乙方按照甲方与乙方达成的其他相关法律文件的约定支付至甲方指定的银行账户。

第三条 违约责任

1、本合同正式签订后，任何一方不履行或不完全履行本合同约定义务的，即构成违约，违约方应当负责赔偿其违约行为给守约方造成的损失。

2、任何一方违约时，守约方有权要求违约方继续履行本合同。

第四条　适用法律及争议解决

1、本合同适用中华人民共和国法律。

2、凡因履行本合同所发生的或与本合同有关的一切争议，双方应当通过友好协商解决；如协商不成，则提请本合同签订地人民法院裁决。

第五条　合同生效及其他

1、本合同经甲、乙双方签字盖章后生效。

2、本合同没有约定的事项，受甲、乙双方签署的其他与本次股权转让相关的法律文件的约束。

3、本合同生效之日即为股权转让之日，中国联合生物公司据此更改股东名册，换发出资证明书，并向登记机关申请相关变更登记。

4、本合同一式四份，甲、乙双方各执一份，中国联合生物公司存档一份，送工商登记机关申请变更登记一份。

甲方：（盖章）
授权代表：

September 9, 2009
Wuhan Humanwell Technology Co. Ltd.
Authorized Representative: WANG Xuehai

乙方：（盖章）
授权代表：宋洪涛

September 9, 2009
Shanghai Xijiu Information Technology Co. Ltd.
Authorized Representative: SONG Hongtao

签订地点：武汉市洪山区

Next, let's provide the documentation that shows how much Xijiu paid for Wuhan Hengjiantong. Similar to the previous case, Xijiu filed the Equity Ownership Sales and Transfer Agreement between Xijiu and Wuhan Hengjiantong with the Shanghai AIC.

The Agreement below clearly says that Xijiu purchased Wuhan Hengjiantong's 34% stake in Lianhe for RMB 79.9 million.

股权转让合同

Equity Ownership Sales & Transfer Agreement

编号：20090630 简 2

Party A (Transferor): Wuhan Hengjiantong Technology Co. Ltd. (Seller)

甲方（转让方）：武汉恒健通科技有限责任公司

乙方（受让方）：上海西就信息技术有限公司

Party B (Transferee): Shanghai Xijiu Information Technology Co. Ltd. (Buyer)

鉴于：在签订本股权转让合同前，甲方已按照《中华人民共和国公司法》等法律法规和中国联合生物技术有限公司（以下简称“中国联合生物公司”）章程的规定，就转让事宜向其他股东履行了书面告知义务，且符合向股东以外转让股权的条件。现甲、乙双方根据《中华人民共和国公司法》等法律、法规和公司章程的规定，经友好协商，本着平等互利、诚实信用的原则，签订本股权转让协议，以资双方共同遵守。

Party A is transferring its 34% equity ownership in China Lianhe Biotech Co. Ltd. (Lianhe) to Party B (capital contribution RMB 44.88 million, 34% ownership)

第一条 股权的转让

1、甲方将其在中国联合生物技术有限公司（以下简称“中国联合生物公司”）的 34%的股权（出资额为人民币 4488 万元，出资比例为 34.0000%）转让给乙方；

2、乙方同意接受上述转让的股权；

3、甲、乙双方确定的转让价格为人民币 7990 万元；

The sales and transfer price determined by Party A and Party B is RMB 79.90 million

4、甲方保证向乙方转让的股权不存在第三人的请求权，没有设置任何质押，未涉及任何争议及诉讼；

5、本次股权转让完成后，乙方即成为中国联合生物公司的股东，享受相应的股东权利并承担义务，甲方不再享有相应的股东权利和承担义务；

6、甲方应对中国联合生物公司及乙方办理相关审批、变更登记等法律手续提供必要的协作与配合。

第二条 转让价款的支付

此次股权转让价款全部以人民币支付，由乙方按照甲方与乙方达成的其他相关法律文件的约定支付至甲方指定的银行账户。

第三条 违约责任

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1、本合同正式签订后，任何一方不履行或不完全履行本合同约定义务的，即构成违约，违约方应当负责赔偿其违约行为给守约方造成的损失。

2、任何一方违约时，守约方有权要求违约方继续履行本合同。

第四条　适用法律及争议解决

1、本合同适用中华人民共和国法律。

2、凡因履行本合同所发生的或与本合同有关的一切争议，双方应当通过友好协商解决；如协商不成，则提请本合同签订地人民法院裁决。

第五条　合同生效及其他

1、本合同经甲、乙双方签字盖章后生效。

2、本合同没有约定的事项，受甲、乙双方签署的其他与本次股权转让相关的法律文件的约束。

3、本合同生效之日即为股权转让之日，中国联合生物公司据此更改股东名册，换发出资证明书，并向登记机关申请相关变更登记。

4、本合同一式四份，甲、乙双方各执一份，中国联合生物公司存档一份，送工商登记机关申请变更登记一份。

甲方：（盖章）
授权代表：

September 9, 2009
Wuhan Hengjiantong Technology Co. Ltd.
Authorized Representative: LU Qiang

乙方：（盖章）
授权代表：宋鸿涛

September 9, 2009
Shanghai Xijiu Information Technology Co. Ltd.
Authorized Representative: SONG Hongtao

签订地点：武汉市洪山区

Based on these documents, we can see that Xijiu paid RMB 79.9 million to Wuhan Hengjiantong for a 34% stake in the holding entity of Lijiang College and a net amount of RMB

101.75 million to Wuhan Humanwell for a 66% stake in the holding entity of Lijiang College. Altogether, Xijiu paid RMB 181.65 million.

Yet ChinaCast paid RMB 295 million to Xie Jiqing, the farmer from Fujian who owned Xijiu, in order to acquire Lijiang College for CAST's public shareholders. Let's not forget that Xijiu is an entity set up by a former CAST employee.

What happened to the RMB 113 million difference between the price paid by CAST and the price paid by Xijiu for Lijiang College? Who exactly is this farmer who happened to gain control of a British Virgin Islands-based entity that purchased a college in China and then flipped it for a quick RMB 113 million profit to ChinaCast? Did the RMB 113 million end up in his bank account, or in someone else's?

The Securities and Exchange Commission has a right to know.

The Company's Response

When OLP made public these findings on February 28, the Company responded in an 8K issued on March 2, 2011 that is available here. They conspicuously did not address the specific allegations of OLP in a direct and straightforward manner. Rather they said that CAST employees did not benefit personally from the Company's three university acquisitions and discussed the importance of ensuring that the acquired colleges were acquired via a "newly re-structured, clean holding company" so that CAST can "take full ownership of the university assets".

In no way did they address why a farmer pocketed RMB 113 million in quick profits by acting as a middleman during the acquisition of Lijiang College.

Why didn't CAST provide clear, transparent answers when OLP came out with its very specific allegations regarding the Lijiang College acquisition?

Our Conclusion

We found the Company's public response insufficient to allay our concerns. With respect to the Lijiang acquisition, OLP made very specific statements and presented strong evidence indicating that someone misappropriated RMB 113 million. OLP provided backup documents from various sources to show that CAST paid a materially higher amount than the intermediary had paid to acquire the same asset only a few weeks before. We furthermore acquired the same backup documents and verified OLP's claims for ourselves. Where did that money go? Who pocketed the RMB 113 million?

The public investing community deserves to know. If those funds were ultimately transferred to CAST insiders, that should obviously be disclosed. If those funds were transferred to other independent parties, CAST shareholders should know that they paid a substantially higher amount than the original sellers of Lijiang College received. Based on the filings, some party pocketed the difference. Who was it? CAST's unwillingness to publicly address the issue in a direct, straightforward manner is highly concerning, in our opinion.

Part 3: Additional Red Flags With ChinaCast

Other Allegations of OLP Global

In addition to providing evidence that funds were misappropriated during the acquisitions of FTBC and Lijiang College, OLP made a variety of other allegations.

In our discussion of CAST's acquisition of FTBC, we focused on the initial purchase of an 80% stake in the college in 2008. OLP also raised concerns about the Company's purchase of the remaining 20% stake in September 2009. This argument is complex, and our interpretation is that OLP believed it identified a related party transaction during the acquisition of the remaining 20% of FTBC. Furthermore, our interpretation of OLP's arguments is that they believe they have evidence that shows that this acquisition of the remaining 20% of FTBC was again disclosed in SEC filings at an inflated value. The Company's responses can be found in the 8Ks listed earlier.

OLP also raises various questions around CAST's third college acquisition. CAST purchased Hubei Industrial University Business College (HIUBC) on August 23, 2010 for RMB 450 million. OLP noted certain striking similarities to the FTBC and Lijiang College acquisitions.

First, CAST acquired the college from a subsidiary that it itself had previously set up several years ago: Shanghai Rubao Information Technology ("Rubao"). Rubao was set up in 2005 and in Rubao's 2008 annual inspection report, CAST CEO Ron Chan's email address was listed as the corporate contact. Rubao's contact phone number was also a number previously used for ChinaCast Co. Ltd. CCL and CCT Shanghai were also shown to have had transactions with Rubao in historical periods.

Second, the recipient of CAST's RMB 450 million payment, Wu Shi Xing, appears to be a small business owner whose education is limited to junior high school. We question how he came to be the owner of a Hubei business college that was then sold to CAST. We hired investigators to acquire background information on Wu, and the information can be found below.

BACKGROUND OF WU SHIXING		
Name	Wu Shixing (吴始幸)	
PRC ID no.	330124195507252115	
Gender	Male	
Date of birth	July 25, 1955	
Race	Han	
Ancestral home	Lin'an County, Zhejiang Province 浙江省临安县	
Place of birth	Lin'an County, Zhejiang Province	
Residential address	No. 694 Xujing, Xujing Town, Qingpu District, Shanghai City 上海市青浦区徐泾镇徐泾694号	
Education	Junior high school	
Marital status	Married	
Military service	None	
Height	175cm	
Profession	Legal Representative	
Place of work	Shanghai Haida Printing Factory* 上海海达印刷厂	
Contact No.	021-59761390 (place of work)	
Registered PSB	Xujing Police Station	
Date of move to present city	July 28, 1997	
Reason for move	Land acquisition	
Address in previous city	Lin'an County, Zhejiang Province	
Date of move to present address	July 28, 1997	
Other residential address	No.10, Lane 72, Zhenjing Road, Xujing Town, Qingpu District, Shanghai City 徐泾镇振泾路72弄10号	

** our investigators did some brief research on this company and found that it was deregistered on November 26, 1998.However, it is not unknown for records to be very out of date.*

OLP said that they spoke to Wu and concluded that he "is an average small business owner and had nothing to do with independent colleges in China." Here is a recounting of their diligence regarding Wu:

> *"In our opinion, Mr. Wu Shixing, 100% owner of Wintown/Rubao, was clearly a front man. According to CAST's SEC filings, Mr. Wu owns 100% Wintown/Rubao and guarantees that HIUBC's 2009 academic year net profit will not be less than RMB 55 million. When we inquired about Mr. Wu's background, CAST management simply stated that "Mr. Wu was the shareholder of the offshore holding company after the reorganization undertaken by the sellers", without disclosing further details. Similar to Mr. Xie's role in East Achieve/Xijiu (acquisition #2), we believe Mr. Wu was just a front man and CAST has been behind Wintown/Rubao…*
>
> *Mr. Wu's true identity – a small printing shop owner. CAST management portrayed Mr. Wu as a wealthy Chinese citizen who shares the passion and vision in China's education industry. After all, for someone who is willing to invest $29.3 million in*

cash without any guarantee that HIUBC acquisition will even close must be a true visionary. Here is the real identity of Mr. Wu: he resides in the outskirts of Shanghai with his family, operating a small printing shop, Shanghai Hai Da Printing Factory (Hai Da). Hai Da makes plastic and fabric labels for clothing and packaging, rents a small factory plant and hires 4-5 temporary workers. Our conversation with Mr. Wu himself further convinced us that Mr. Wu is an average small business owner and had nothing to do with independent colleges in China."

Our investigators separately provided a similar profile of Wu; he is a small business owner who does not have the type of background we would expect from someone who would own a for-profit university like HIUBC.

As we saw with Lijiang College, the true sellers of HIUBC sold the college to a legal holding company that was previously set up by CAST and was owned by what appears to be a front man. The CAST-founded legal entity was then subsequently sold to CAST, and the recipient of the proceeds was an individual who does not appear to have the sort of background of someone who would own a highly valuable for-profit university.

Finally, OLP provided documentation that CAST does not own the land use rights for the land on which HIUBC operates. They provide a photocopy of the land use rights they obtained for what they said was the HIUBC campus. According to the document they provided, the land use rights for that plot of land belongs to Hubei Industrial University, the parent university that HIUBC is affiliated with. Furthermore, subsequent to CAST's announcement of the acquisition, HIUBC issued a statement on its website stating "it is pure rumor that CAST had successfully acquired HIUBC. The rumor is baseless and does not have supporting evidence. HIUBC's legal representative remains Mr. Chen Zhuoguo, the investor remains Wuhan Jiyang Education Investment Co. Limited. The school is operating in a normal state." This bizarre incident was documented by a local reporter on September 1, 2010, available here. The reporter verified HIUBC's statement with the parent university, and it appears that the parent university was not aware of HIUBC being acquired by CAST.

For our part, we have been unable to confirm the OLP documentation of the HIUBC land use rights. We called an official at HIUBC and they said that the college was owned by CAST. The whole incident nevertheless raises yet another red flag, in our opinion, and we could envision a scenario where HIUBC officials have since been told to tell any outside inquirers that the college is owned by CAST.

Unnecessary Capital Raises

When we come across U.S.-listed Chinese companies exhibiting red flags, such as mismatching SAIC financial information and suspicious acquisition transactions, we examine whether the companies have conducted unnecessary capital raises at low valuations.

Fraudulent companies conduct capital raises for several reasons. First, because frauds typically have small and negligible business operations, they typically do not generate much cash to fund their regular operating costs, not to mention the costs involved with perpetuating fraud. Second, management teams have found ways to misappropriate cash from company bank accounts once capital has been raised from foreign shareholders. Examples of misappropriation include overpaying for acquisitions, overpaying for capital expenditures, engaging in related party

transactions or merely transferring the funds out of the bank accounts and into personal accounts. Third, management teams of frauds raise cash in order to build out their businesses, attempting to "grow into" the inflated historical financials that they have been fabricating. At the least, by building a larger business, the fraud becomes more difficult to prove over time. Typically, capital raises for frauds can involve a combination of these various motives. Some funds are stolen, some are used to fund current operations, and some are used to build a more legitimate business.

ChinaCast has completed several secondary public offerings. They also conspicuously diluted their outstanding shares in 2008 by voluntarily reducing the strike price of their legacy SPAC warrants in order to raise $15 million from three hedge funds. This warrant exercise essentially functioned as a secondary offering, given that the warrants were out-of-the-money at the time. To further entice the hedge funds to exercise the warrants, CAST even offered additional restricted shares as a bonus. Altogether, the warrant amendment and share issuance increased outstanding shares by 15%, despite the fact that the Company had ample cash on its balance sheet at the time of the warrant amendment.

The first secondary public offering was announced on September 26, 2008. The Company raised $11.1 million of capital through a secondary equity offering arranged by Roth Capital. Roth also received warrants in addition to their customary underwriting fee. The offering was priced at an 18% discount to the closing price of CAST stock on the day prior to the announcement, and a 31% discount to the average closing price of CAST stock for the 30 days prior to the announcement. These are large discounts.

At the time of the capital raise, the Company was trading at an EV/EBITDA multiple of 3.9x and a P/E ratio of less than 10x. These were low multiples for a company that was supposedly growing through the recession unfazed (non-acquisition-related gross profit increased 25% from FY 2007 to FY 2008).

At the time of the capital raise, the Company had $57 million of cash on the balance sheet, and according to its SEC financial statements, the Company generated $11 million and $31 million of cash flow from operations in 2007 and 2008, respectively. According to the offering prospectus, the proceeds would be used to "fund product development, corporate growth and for other general corporate purposes." The offering was completed five months after the completion of the FTBC 80% stake acquisition, and it would be nearly a year before CAST announced its next college acquisition.

In our opinion, CAST's first secondary offering suffers from many of the red flags we have seen in the past. The Company raised cash from US investors despite reporting substantial cash on the balance sheet, healthy operating cash flow and no immediate need for the cash proceeds. Furthermore, the capital was raised while the Company was trading at a low valuation, and at a large discount to its prior 30-day trading average.

Chinacast's second public offering to US investors was announced on December 2, 2009. The Company raised $46.7 million in an offering arranged by Roth, Brean Murray and Global Hunter. The offering was priced at a 6% discount to the closing price of CAST stock on the day prior to the announcement, and a 4% discount to the average closing price of CAST stock for the 30 days prior to the announcement.

At the time of the capital raise, the Company was trading at an EV/EBITDA multiple of 8.3x and a P/E ratio of 31x. These multiples and discounts were reasonable metrics at which to raise capital (assuming, of course, that the EBITDA and EPS figures were accurate).

At the time of the capital raise, the Company supposedly had $100 million of cash on the balance sheet, and according to its SEC financial statements, the Company generated $31 million and $20 million of cash flow from operations in 2008 and 2009, respectively. According to the offering prospectus, the proceeds would be used "for working capital, future acquisitions and general corporate purposes." The Company had closed its Lijiang College acquisition three months earlier, and therefore the Company did not need the capital for the Lijiang acquisition. The Company announced the HIUBC acquisition in April 2010, four months after the capital raise, and the total spent on HIUBC according to SEC filings was $66 million.

Again, this secondary capital raise struck us as unnecessary because the Company supposedly had $100 million of cash on its balance sheet for potential acquisitions, such as the one of HIUBC announced several months later.

Lastly, in June and July of 2008, the Company voluntarily reduced the strike price of its warrants to allow several hedge funds to exercise their otherwise out-of-the-money warrants. The Company even issued additional shares to the hedge funds as part of the warrant amendment. Press releases announcing these warrant amendments can be found here and here.

To understand the nuances behind this action, which we consider highly dilutive and essentially equivalent to a capital raise, it's important to provide some background. ChinaCast was originally a Singapore-listed company that switched to a U.S. exchange by being acquired by a U.S.-listed Special Purpose Acquisition Company ("SPAC") in December 2006. This SPAC had warrants outstanding at the time of the 2006 acquisition that were exercisable at $5.00 and expired in March 2009. In 2006 and 2007, no warrants were exercised. In 2008, the Company's shares fell below $5, rendering the warrants out-of-the-money.

Intuitively, the potential removal of CAST's large warrant overhang should have been a boon and welcomed as a silver lining to the Company at the time. The legacy SPAC warrants would constitute more than a third of the Company's outstanding shares upon exercise, and if they expired worthless, the intrinsic value of the common shares would increase substantially.

Yet when the Company's stock price declined below $5, ChinaCast voluntarily entered into an agreement with three shareholders in June and July of 2008 to reduce the exercise price to $4.25 in order to allow the hedge funds to exercise their warrants. Even more conspicuously, ChinaCast issued additional restricted shares to entice the hedge funds to participate in the transaction. In total, three hedge funds exercised 3.5 million warrants, increasing the Company's outstanding shares by 13%. The 537,311 newly issued restricted shares increased the share base by another 2%.

The warrant exercise resulted in $15 million of new cash being sent to CAST's bank accounts.

This transaction effectively functioned as a capital raise. When the hedge funds exercised their warrants, the Company essentially raised $15m of new capital by issuing shares.

As with the two public offerings, let's examine the Company's financial metrics at the time of the warrant amendment. As of the day of the first announcement, the Company was trading at an EV/EBITDA multiple of 4.4x. (That multiple is pro forma for the FTBC acquisition which closed

on April 2008; excluding the FTBC EBITDA and the cash spent on the acquisition would yield a company EV/EBITDA of less than 1x at the time of the warrant amendment.)

As with the first capital raise, we note again the low company valuation at the time of the warrant amendment.

Prior to the warrant exercise, the Company supposedly had a cash balance of $57 million, if we use the cash balance as of June 30, 2008. We question why the Company needed the cash receipts from the warrant exercise, and why they were willing to reduce the strike price of the warrants when the Company was trading at such a low valuation.

Why would any management team voluntarily reduce the strike price of out-of-the-money warrants, and issue additional shares as a bonus, when the Company was trading at a depressed valuation and purportedly had ample cash on its balance sheet? One potential explanation is that the underlying company was materially smaller than SEC financial statements indicated, and that management was keen on raising cash from foreign investors to either siphon it to personal bank accounts, acquire brick-and-mortar colleges to try to "grow into" their financials, and/or cover business costs given that the stated cash on the balance sheet didn't actually exist.

Bank Statement Falsifications Committed by ChinaCast Co. Ltd.

When reviewing the SAIC filings for CCLX, we came across a government document that detailed bank verification falsifications by the management of ChinaCast Co. Ltd. The document highlights a case filed by the Investigation Unit of the Shanghai Administration of Industry and Commerce.

The salient points of the filing were:

- In order to qualify for overseas investment criteria in 2000, Shanghai Shuangwei Technology Investment Management Co., Ltd.[1] passed a resolution to increase its registered capital.
- Shuangwei Technology directed its accountant (Shanghai Wenhui Accounting Ltd.) to provide bank statements verifying the capital injection.
- The banks statements included incoming statements, bank certificates and bank inquiry forms.
- Following investigation by the Shanghai Administration of Industry and Commerce, it was determined that the incoming statement for the RMB 14.2mm capital injection was fabricated.

To summarize, the CCL management at the time fabricated a bank statement in order to deceive regulatory officials.

[1] "Shanghai Shuangwei Technology Investment Management Co., Ltd. isn't referenced elsewhere in CCLX's SAIC filings. However, in the document below, CCL is identified as the defendant.

Below is a copy of the relevant filing:

代码：2020043092

上海市工商行政管理局检查总队
行 政 处 罚 决 定 书

沪工商检处字（2003）第000200311050号

当事人：上海双威通讯网络有限公司 → Defendant: ChinaCast Co. Ltd.
注册号：３１０１１５１０１４８０６
法定代表人：殷建平
注册资本：人民币２亿元
企业类型：有限责任公司（国内合资）
住所：浦东新区浦建路１４５路２５号２５层

当事人虚假出资的行为，业经本总队立案调查终结，查明违法事实如下：

According to the case filed and closed by the Investigation Unit, the defendant's fraudulent capital investment actions were stated as follows:

２０００年９月，上海双威科技投资管理有限公司（以下简称双威科技公司）为了达到对外投资资格，经股东大会决议决定将注册资本从８００万元增加到２０００万元，并增加股东。当事人作为双威科技公司的股东之一，在没有资金的情况下决定出资１４２０万元，其中注册资本３８０万元、资本公积１０４０万元。当事人委托双威科技公司总经理孙斯惠全程办理增资事宜，由其向上海汶汇会计师事务所有限公司提供银行进帐单、银行对帐单、银行询证函等办理验资所需的资料。２０００年１１月２日，上海汶汇会计师事务所有限公司出具汶审验（２０００）第０８４号验资报告确认当事人出资１４２０万元，其中注册资本３８０万元、资本公积１０４０万元。随后双威科技公司凭借上述验资报告到工商浦东新区分局办理增资变更登记，并于２００１年４月２０日被核准，当事人对双威科技公司的出资额增加３８０万元。

经鉴定，上述验资报告附件中确认当事人出资１４２０万元的银行进帐单系伪造。

Below is a full translation of the above government document:

Code: 2020043092

Investigation Unit of the Shanghai Administration of Industry & Commerce

Article of Administrative Penalty

Shanghai AIC Department (2003) No. 000200311050

Defendant: ChinaCast Co. Ltd.

Registration No.: 3101151014806

Legal representative: Yin, Jianping

Registered capital: RMB 200mm

Enterprise type: Limited Liability Company (Domestic Joint Venture)

Address: #25 145 Pujian Road, Pudong New District, 25 FL

According to the case filed and closed by the Investigation Unit, the defendant's fraudulent capital investment actions were stated as follows:

In order to qualify for overseas investment criteria, in September 2000 Shanghai Shuangwei Science and Technology Investment Management Co., Ltd. ("Shuangwei Technology Co.") had its board pass a resolution to increase registered capital from RMB 8 million to RMB 20 million, and to increase the shareholder base. As a shareholder, the defendant decided to invest RMB 14.2 million, including 3.8 million of registered capital and RMB 10.4 million of contributed capital, without actually having the available capital. The defendant's proxy, the president of Shuangwei Technology, Sun Sihui, managed the capital injection process, using its accountant Shanghai Wenhui Certified Public Accountants Co., Ltd. to provide incoming statements, bank certificates and bank inquiry forms for verifying the capital injection process. On November 2, 2000, Shanghai Wenhui Certified Public Accountants Co., Ltd. filed examined document (2000) No. 084 Capital Verification Report to confirm the Defendant had injected RMB 14.2 million, including 3.8 million in registered capital and 10.4 million in additional paid-in capital. Subsequently, Shuangwei Technology Co. used the Capital Verification Report to alter the company's registered status with the Shanghai Pudong District Administration of Industry and Commerce, and its status change was approved on April 20, 2001 with the Defendant increasing registered capital by 3.8 million.

According to investigation and reevaluation, the above stated attachment verifying the RMB 14.2 million capital injection was fabricated.

A Key CAST Executive and Failed Chinese RTO Asia Premium Television

One of the key executives behind the origin of ChinaCast and its underlying operations is an individual named Yin Jianping. Yin is not mentioned often by CAST analysts because the face of the Company is CEO Ron Chan and Executive Director and President International Michael Santos.

Yet prior to 2010, Yin legally controlled and owned the Company's main ELG operating subsidiary. He was the principal signatory to most of the SAIC documents filed by CCLX.

Yin is currently Vice Chairman of the company, and prior to August 2009, he was also a director. As recently as the 2008 10K, he is described as being "responsible for our overall management, operations and strategic direction". With that sort of a biography, it's clear that Yin is a meaningful member of the executive team. We would not be surprised if Yin and Chief Operating Officer Li Wei are the real operators of the actual businesses, despite being lesser known to foreign investors.

In Part One of this report, we discuss how the ELG segment is operated by the subsidiary CCLX. The Beijing Branch of CCL, or CCLBJ, also historically contributed revenue to the Company in the form of "management service fee" revenue. As discussed previously, CCT Shanghai is mainly a dormant shell while the actual operations occur at CCLX. Below, we show the legal representatives of CCLX and CCL since their inceptions, as well as CCT Shanghai.

Entity	Year of Incorporation	Legal Representatives Since Inception
CCLX	2003	Yin Jianping (2003-2009); Li Wei (2009-Present)
CCL	1999	Lu Ruifeng (1999-2001); Yin Jianping (2001-Present)
CCT Shanghai	2000	Ron Chan (2000 to Present)

As we can see, Yin Jianping has been the Legal Representative of CCLX and CCL for much of the companies' historical life spans. Yin was the majority owner of CCLX prior to December 2009; on December 2009, Yin sold control of the entity to its current shareholders Li Wei, Jiang Xiangyuan and Zhang Liwen for an entity-wide valuation of RMB 30 million. Yin is also the controlling shareholder of CCL.

Therefore, as we can see, Yin Jianping has historically been a central figure in ChinaCast's ELG segment.

As such, it concerns us that Yin Jianping was also the CEO of a Chinese RTO that failed to consummate its proposed acquisition and ultimately ended up worthless in value. In late 2002, Yin was appointed to be CEO of the over-the-counter bulletin board company Asia Premium Television Group, Inc. as part of a reverse merger involving the acquisition of various Chinese media assets. The initial 8K announcing the deal is available here. It is unclear exactly when Yin was appointed CEO, but as of the next 10K filing, Yin was listed as CEO.

The transaction was never consummated. Yin left the CEO post in late 2003, and today the successor to Asia Premium Television Group, Inc., China Grand Resorts, Inc., trades at 20 cents, and less than 1,000 shares have traded in the past 6 months.

From our reading of SEC filings, Yin did nothing wrong, but we mention this historical data point to note that ChinaCast's management team is not new to the U.S.-listed Chinese RTO asset class.

Proponents of ChinaCast often refer to the Company's SPAC origins as justification that the Company does not belong to the RTO asset class, and should not receive the same level of scrutiny that most other Chinese RTOs have received over the past year. We disagree. First, allegations of fraud have been regular occurrences among U.S.-listed SPACs that have purchased China-based companies, with China MediaExpress (CCME) being the most high-profile example. SPACs often suffer from a similar low level of going-public due diligence as RTOs. Second, as we can see here, one of CAST's main founding executives is a former CEO of a failed U.S.-listed RTO. Finally, we will mention that the Singapore stock exchange has long been a breeding ground for fraud, and a list of articles worth reading on the topic can be found here.

Conclusion

We believe that ChinaCast Education Corp. is falsifying its SEC financial statements. Based on our evidence, we believe that the actual underlying ELG business has historically generated materially less revenue and profit than what the Company has reported in SEC filings. We also provide evidence that funds may have been misappropriated during two of the Company's college acquisitions; when faced with these allegations, the Company's unwillingness to publicly address these issues in a clear, straightforward manner made us further concerned about CAST.

Below, we summarize some of the most serious red flags that we found when researching ChinaCast:

- **The SAIC filings for the main operating subsidiary of the Company's ELG segment show materially less revenue and profit than what the Company reports in SEC filings.** In our report, we include photocopies of the annual inspection reports, as well as signed attestations by the subsidiaries' legal representatives attesting that the information in the SAIC filings is valid and accurate.

- **SAIC filings provide evidence that shareholder funds were misappropriated during the Company's acquisition of a business college in 2008.** The Company announced in SEC filings that it acquired a business college in 2008 for RMB 480 million. Yet Chinese filings show that CAST paid only RMB 165 million for the asset. We question what happened to the remaining RMB 315 million, and whether it was essentially stolen by insiders.

- **Filings with Chinese Securities Regulators and the SAIC provide evidence that funds were misappropriated during the acquisition of another college in 2009.** During CAST's 2009 acquisition of Lijiang College, Chinese filings show that CAST paid at least RMB 113 million more than what the sellers of the college sold it for. The RMB 113 million difference appears to have been pocketed by a farmer from Fujian province through an intermediary holding company previously set up by CAST. We question whether the RMB 113 million was misappropriated during the acquisition. We are furthermore concerned by CAST's unwillingness to directly address these specific allegations in a public manner when it had the opportunity to do so.

- **The Company has repeatedly raised cash through secondary equity offerings and unnecessary warrant exercises, despite having a large amount of cash on its balance sheet.** In multiple situations, capital was effectively raised at low valuations, diluting shareholders in what we believe would be an irrational manner if the Company's SEC financial statements were accurate.

We urge officials at Deloitte, NASDAQ and the Securities and Exchange Commission to review our report. In our opinion, there is clear evidence that CAST is providing false financial information to one set of regulators, given that SEC and SAIC financial statements diverge by a material disparity. We believe it is the American regulators and investing public that are being defrauded.

Full Legal Disclaimer

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