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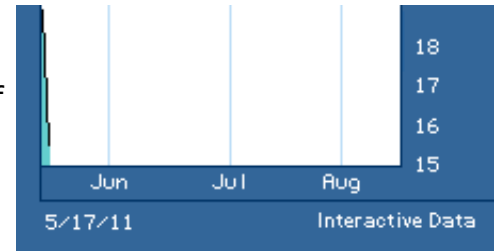
## [Longtop Financial \(NYSE:LFT\) Final Proof of Undisclosed Related Party Transactions](#)

Posted in [Citron Reports](#) by Stocklemon on the May 9th, 2011

### Management Continues to Mislead Investors

stock ticker: **LFT**[1d](#) [3m](#) [6m](#) [1y](#) [2y](#) [5y](#)

Two weeks ago Citron Research reported on Longtop Financial (NYSE:LFT). Citron questioned whether the third-party agency disbursing payroll, benefits and other HR functions for over 80% of Longtop's technical employees was in fact an unrelated party, as Longtop has claimed for over two years. Just last week, the company vehemently denied our report, and went so far as to conduct a conference call, replete with analysts' defense of the name.



One week after Citron's report, Longtop CFO Derek Palaschuk, resigned his post as head of the audit committee of the heavily anticipated IPO Renren. This confirmed our suspicion that something very shady was going on at Longtop. It appeared as if Wall St. was preparing for the next shoe to drop on Longtop....well here it is.

Here is the proof — what you all have been waiting for. As Citron was preparing part II of its investigation into Longtop, we were beaten to the punch by respected research shop OLP Global. Now, while Citron will not distribute a copy of the OLP Report (call them up and become a client), we today post documentation that proves Xiamen Longtop Human Resources (XLHRS) is indeed a related party to Longtop Financial.

This linked PDF contains routine governmental filings of XLHRS and its SAIC filings. These documents from 2007, 2008, and 2009 **are signed by employees of Longtop Financial's legal department**, who have apparently been handling and signing off a variety of routine government filings for Longtop Human Resources (XLHRS).

#### [Proof of Ownership Relations](#)

So now we are supposed to believe that XLHRS, located on Longtop Financial's premises, has only one client, Longtop Financial, used the same email servers, AND had staff from Longtop's legal department personnel sign their administrative filings with the government ... but they're NOT a related party. C'mon....Really?

Once you get beyond the shock that legal responsibility of XLHRS is administered by Longtop employees, you get to the financials of XLHRS, as disclosed in the SAIC documents, which tell an ominous story that strongly warrants the scrutiny of objective third party verification.

#### [AIC of XLHRS](#)

According to LFT 20-F, XLHRS is to receive a service fee for all 3,200 employees they "handle" for Longtop's mostly technical and professional workforce (appx 76% of its headcount). This service fee is defined as "for salary + bonus + social insurance + other expense for the entire year". On a conservative basis, this would amount to \$400 to 500 million RMB.

Yet, on these SAIC docs we see a total revenue (or service fee) of merely \$5.1 mil RMB.

Every other number of the SAIC filings shows that XLHRS would be underpaying the government for benefits for Longtop Financial employees, but that is a sideshow if the company is lying about its revenue by such proportion.

Now we understand that much has been made about the inaccuracies of SAIC filings, but please note that these filings from XLHRS **ARE AUDITED**. The accounting firm is Xiamen Xinzhou

Certified Public Accountants Co., Ltd [http://www.xmxzxg.com/about\\_xz.asp](http://www.xmxzxg.com/about_xz.asp)

This throws out the whole myth of just scribbling some numbers on the paper and submitting them to the government. Clearly these filings do not accurately reflect a company handling payroll, benefits and human resources expenses for 3,236 people, operating under an agreement such as this:

<http://www.sec.gov/Archives/edgar/data/1412494/000095012310065856/c03364exv4w36.htm>

Citron believes that one of the two scenarios stated below is true...which one we don't know.

1. Longtop Human Resources (XLHRS) is and was always a related party to Longtop Financial, essentially a captive entity created to hide expenses of Longtop Financial, and/or underpay employee benefits. They never in fact paid LFT employees as stipulated by SEC filings and press releases, but rather were always a vehicle to hide off balance sheet transactions.
2. Longtop Financial is a fraud of massive proportion that does not operate nearly on the scale that they claim ... either way, Longtop Human Resources is still a related party.

Ximamin Longtop Human Resources (XLHRS) is apparently not doing the size and scale of non-related party business that was reflected to Longtop Financial shareholders. As to the other details, we will let it all play out in the many lawsuits that the company faces.

In order to properly deliver any form of transparency to Wall Street, investors and analysts need to know who is paying Longtop's employees, who is paying their benefits, are the amounts proper as according to Chinese law, and are the expenses being fully reflected on Longtop's financials.

## The Deloitte Conundrum

On the conference call last week defending the company, Longtop's CFO made an extraordinary claim that his relationship with the company's auditor, Deloitte, was "very close, third only to his relationship to his family and the CEO". Leaving aside for a moment the impropriety of such a statement (after all, auditors work on behalf of the shareholders and the integrity of the markets, not the company insiders), the evidence posted today places Deloitte in a very uncomfortable position. How could anyone charged with verifying the accuracy of Longtop's Financials look at these documents and dismiss the reasonable concern (not to mention professional skepticism) **that Longtop's largest expense line item is being transacted through a related party with full transparency ?**

If Longtop insists XLHRS is unrelated, Deloitte has the responsibility to "audit XLHRS from the outside", considering at its tax filings, and all government payroll benefits deposits purportedly made on behalf of Longtop's employees, to "open the black box" of Longtop's staffing expense as wide as possible to the light of transparency.

Meanwhile, Longtop has stated its full confidence that its 20-F, due next month, would be signed off by its auditor with no reservations.

Lastly, it is Citron's opinion that believing an unrelated third party ran your human resource business to make \$30,000 a year (according to filings) is as crazy as believing that a Chairman of

a company would just give away \$80 million in stock to his employees because money doesn't really mean that much to him (as per the CFO's explanation).

For those of you who have the benefit of being a client of OLP, we recommend you read their full report on Longtop. They do an excellent job at explaining the history of broken acquisitions by Longtop and other shortcomings in their story.

## **Conclusion**

We hope this can end any debate as to whether the company has been deceiving its investors. It is not the time to host any more conference calls or cover ups. The excuses have run their course. It is now time to confess, let the auditors figure out the necessary restatements, and let the real Longtop Financial Technologies stand up.

## **Cautious Investing to All.**

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