



GLAUCUS RESEARCH GROUP

MARCH 2011

UNIVERSAL TRAVEL GROUP (UTA)

Things gained through unjust fraud are never secure.
- Sophocles

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Company:

Universal Travel
Group (NYSE:
UTA)

Industry: Chinese
Online Travel
Services

Recommendation:
Strong Sell

Estimated Value:
\$1.00/share

Report Date:
March 8, 2011

Price:
\$6.28 (as of close on
3/7/11)

Float:
13.2 million

Avg. Volume
300,000 shares/day

- UTA is fabricating its publicly filed financial statements. Its actual underlying business is far smaller than its SEC filings indicate.
- UTA's business model is not credible. For example, UTA claims to have earned \$110 million in net revenue in the first three quarters of 2010 on an advertising budget of \$247,449 in the highly competitive leisure travel market. Its competitors spend five to 10 times more on marketing as a percentage of net revenue, casting doubt on the authenticity of UTA's revenue and net income.
- UTA has a deficient and unpopular website, boasts only a minimal brick-and-mortar retail operation and has no kiosks under its control to directly sell to consumers. Yet the company's return on assets and asset turnover figures suggest it is the most efficient company in the leisure travel space, consistently trouncing the competition.
- UTA's website is barely functional (as can be seen in our videos [here](#), [here](#), [here](#), [here](#) and [here](#)), offers a terrible user experience and receives only a small fraction of the traffic of its Chinese competitors, despite the fact that the company holds itself out as an online travel service provider.
- UTA is a serial capital raiser, repeatedly returning to western investors for cash despite supposedly having, according to its balance sheet, ample cash on hand, which sits unused in an account earning .36% in interest per year. UTA is lying about the amount of cash on its balance sheet, as is evidenced by its inexplicably low interest income.
- UTA has destroyed shareholder value through a series of dilutive acquisitions. The company's acquisition targets had much smaller earnings than UTA claimed in its public filings.
- UTA's purported relationship with Agoda, a subsidiary of Priceline.com, is overstated.
- UTA has burned through 4 low-quality auditors and 3 CFOs in 5 years.

In this report, we present compelling evidence that Universal Travel Group (“UTA” or the “company”) is falsifying its publicly filed financial statements. We believe that UTA’s SEC financial statements greatly exaggerate the company’s revenue, cash balance and net income. UTA is actually a tiny and antiquated brick-and-mortar travel business, and its management is lying about the size and sophistication of the business in order to misappropriate funds from investors.

Introduction

UTA, a travel services provider in the People’s Republic of China (“China”), offers hotel reservations, air ticket bookings and packaged tours services. Like many other companies operating in China which have been accused of fraud, UTA went public via a reverse merger transaction in 2006.

In September 2010, investors publicized [compelling evidence](#) of the non-functionality of UTA’s website and accused the company of fraud. Up to that point, UTA had pitched itself as an online travel service provider akin to Orbitz (OWW), Expedia (EWW), Priceline (PCLN), cTrip (CTRP) and eLong (LONG). The following quote is taken *directly* from UTA’s SEC filings prior to the publication of evidence that the company’s website did not work:

- “We aim to be the foremost **leading online travel services provider in the People’s Republic of China**, especially in the air ticketing service, hotel booking and packaged tour providing sectors.”¹

Shortly after being accused of fraud, UTA’s management backtracked on an investor conference call and declared that only 2% of its air ticket and hotel bookings, and 0% of its package tour bookings were booked online through its website, and only 20% of its air ticket bookings, 30% of its hotel bookings and 0% of its packaged tour bookings were “online related.” This statement *directly contradicted everything UTA had told shareholders and investors prior to the allegations of fraud*. In addition, by admitting that UTA generated very little business online, management backed itself into a corner: if UTA is not an online travel company, then how does it reach customers? Consider the following:

- UTA has a miniscule marketing budget to attract and retain customers.
- UTA’s website is barely functional and unpopular.
- UTA has a limited number of, if any, brick-and-mortar retail outlets.
- UTA has no kiosks under its control through which the Company can sell airline tickets, hotel room or package tours. In 2008, UTA made a big deal about its plan to deploy kiosks across China in order to market and sell its travel products directly to consumers. UTA’s 10-K for the fiscal year 2009 mentions the word “kiosk” 35 times and its 10-k for the fiscal year 2008 mentions the word 28 times. Then, on September 10, 2010, UTA **sold all of its kiosks** to an insurance product retailer which has no contractual obligation to permit UTA to use the kiosks to market and sell its products to consumers.²

¹ UTA Form 10-Q for Q3 2009 , pg. 30

² [The Purchase and Sale Agreement](#) between UTA’s subsidiary and the insurance product retailer gives UTA “exclusive travel product sales right in all kiosks for a period of two (2) years from the Closing Date.” (Section 9.2). Note that the buyer, an insurance product retailer, has no *obligation* to offer any of UTA’s travel products at the kiosks. The buyer merely cannot use the kiosks to sell travel products of another company.

This begs the question: how does UTA attract customers? **With a moribund internet presence, a tiny brick-and-mortar retail operation and no direct-to-consumer kiosk business under its control, we would expect a large advertising budget to attract customers to its call center. UTA’s SEC filings show exactly the opposite.**

Marketing - Where’s the Beef?

UTA’s marketing budget is not sufficient to realize the company’s purported revenue, suggesting that the company is falsifying its financial statements.

UTA spent \$191,230³ on marketing in 2009 yet claims to have earned \$97 million in gross revenues for that year. UTA spends an order of magnitude less on marketing than any other travel service provider in China or the United States, yet achieves comparable revenue and net income, suggesting that UTA’s financial statements are fabricated.

70% of UTA’s revenue is from leisure travel customers and only 30% is from business travel customers. Advertising might not be as critical in the business travel segment because corporate customers negotiate bulk purchases of airline tickets and hotel rooms, there are higher switching costs for companies with an established provider relationship, and companies are slightly less price-sensitive than retail consumers. By contrast, in the leisure travel market, low switching costs and high price sensitivity among travelers forces both online and brick-and-mortar travel service retailers to establish strong brands through aggressive marketing and promotional campaigns. The Chinese leisure travel market is highly fragmented and ultra competitive, so we would expect UTA to devote a significant portion of revenue to marketing. This is not the case.

The table below compares UTA’s marketing expenses with its Chinese and American competitors:

Marketing Expenses	UTA (Reported Advertising and Marketing Expenses)	UTA (Marketing + Salary + Commission)	CTRP	LONG	PCLN	EXPE	OWW
1st 9mo 2010	\$ 247,449	\$ 5,241,416	n/a	n/a	\$ 533,701,000	\$ 921,687,000	\$ 165,522,000
2009	\$ 191,230	\$ 3,464,442	\$ 50,585,000	\$ 19,513,243	\$ 482,889,000	\$ 1,027,062,000	\$ 215,000,000
2008	\$ 148,903	\$ 2,775,809	\$ 41,852,993	\$ 23,872,737	\$ 386,693,000	\$ 1,105,337,000	\$ 310,000,000

The table above shows that compared to its competitors, UTA’s advertising budget is almost non-existent. In the first UTA column, we provided UTA’s reported marketing expenses. But in case UTA somehow classifies some of its marketing expenses under “salary and commission,” in the second column we provided an aggregate of UTA’s expenses for marketing, salary, commission and advertising. In absolute terms, UTA’s marketing expenses are tiny compared with its nominal competitors. The picture is just as bad when calculated as a percentage of net revenue:

³ This figure comes from the SG&A expenses breakdown on page 36 of UTA’s 10-K for FY 2009.

Marketing as % of Net Revs	UTA (Reported Advertising and Marketing Expenses)	UTA (Marketing + Salary + Commission)	CTRP	LONG	PCLN	EXPE	OWW
1st 9mo 2010	0.2%	4.8%	n/a	n/a	22.7%	36.3%	28.8%
2009	0.2%	3.5%	16.3%	35.1%	20.7%	34.8%	29.1%
2008	0.2%	4.2%	18.0%	46.9%	20.5%	37.6%	35.6%
Average	0.2%	4.2%	17.2%	41.0%	21.3%	36.2%	31.2%

The numbers above are staggering. As we would expect, larger and more established leisure travel service providers such as CTRP and PCLN achieve economies of scale with respect to their operating expense structure. By comparison, smaller firms such as LONG, EXPE, OWW and UTA, should be expected to spend an average of 30% to 40% of their net revenue on marketing.

UTA is an extreme outlier, spending between 0.2% and 4.2% of net revenue on marketing. Yet in a highly fragmented and competitive market in which customers are very price sensitive and have low switching costs, UTA's revenues, net income, gross margins and operating margins seem to be unaffected.

UTA's Financials are Grossly Misstated

UTA's Airline and Hotel Sales Are Not Credible

UTA's website is highly deficient and unpopular and compared to its competitors, the company spends virtually nothing on marketing. It has no meaningful kiosk or brick-and-mortar retail operations. Yet the company reports spectacular financial results. Compare UTA's sales with its competitor, LONG, which boasts a functional and popular website and a marketing budget in line with industry expectations.

Sales Figures v. Marketing Costs	UTA	LONG
2009: # of airline tickets sold	2,360,000	2,205,000
2009: # of hotels booked	2,349,000	4,316,000
2009: Advertising Costs	\$ 191,230	\$ 19,513,243
2008: # of airline tickets sold	1,720,000	1,788,000
2008: # of hotels booked	1,466,000	3,945,000
2008: Advertising Costs	\$ 148,903	\$ 23,872,737

In 2009, UTA claims to have booked the same number of airline tickets and less than half the number of hotel rooms as LONG with one one-hundredth of LONG's marketing budget. In 2008, UTA claims to have booked the same number of airline tickets and 40% as many hotel rooms as LONG with less than 0.8% of LONG's marketing budget. Take into account the fact that compared to LONG, UTA's website is barely functional and does not receive a lot of traffic, and such numbers seem even more incredible.

UTA sales in the airline ticket and hotel reservation segments **can be explained in one of two ways: either UTA is by far the most amazingly successful marketer in the history of the retail travel industry or UTA is completely fabricating its revenue and net income numbers.**

UTA's Gross Margins Are In Line With Competitors

UTA's gross margins are similar to those of its competitors, suggesting that UTA is accounting for COGS in a manner similar to its nominal peers, making the absence of significant marketing costs below-the-line even more absurd.

In order to have an apples-to-apples comparison, we stripped out UTA's package tour gross margins, which are much lower, and compared UTA's gross margins on its hotel room and airline ticket sales with that of its competitors.

Gross Margin	UTA (hotel and airline only)	CTRP	LONG	PCLN	EXPE	OWW
1st 9mo 2010	75.4%	n/a	n/a	60.8%	79.7%	80.1%
2009	76.9%	72.4%	66.1%	53.9%	79.5%	81.3%
2008	78.8%	72.7%	66.1%	50.7%	78.3%	81.3%
Average	77.0%	72.6%	66.1%	55.1%	79.1%	80.9%

Gross margins for online travel service providers are generally high, as such companies act as booking agents and thus carry very low inventory risk. UTA's gross margins on airline ticket and hotel bookings are in line with CTRP, EXPE and OWW, and well above LONG. This suggests that UTA accounts for COGS in a manner similar to its purported competitors. This makes the absence of any below-the-line marketing costs even more significant.

To be long on UTA, an investor would have to believe that UTA found a magic formula by which it achieves the same gross margins as its competitors without a functional or popular website, a limited kiosk and brick-and-mortar retail operation, and virtually non-existent marketing.

Asset Turnover and ROA Numbers Are Similarly Incredible

UTA's performance measured by asset turnover is also suspiciously spectacular when compared to its competitors.

Asset Turnover	UTA	CTRP	LONG	PCLN	EXPE	OWW
1st 9mo 2010	100.7%	n/a	n/a	102.8%	38.9%	43.6%
2009	144.9%	62.5%	32.1%	148.6%	50.0%	51.2%
2008	165.9%	66.6%	30.0%	142.4%	41.4%	60.3%
Average	137.2%	64.6%	31.1%	131.3%	43.4%	51.7%

Business valuation 101 dictates that asset turnover is a proxy for a firm's efficiency. Judging by the above table, UTA is the best run company in the leisure travel services market. UTA claims to be as efficient as a \$22 billion company, PCLN, and substantially more efficient than each competitor mentioned above, including its Chinese rivals, CTRP and LONG. **How can UTA generate so much revenue off its assets while hobbled with a terrible website, a tiny brick-and-mortar retail operation and a minimal marketing budget?** Either UTA has found a way to squeeze more from its assets than incredibly sophisticated, established and successful companies, or UTA is lying.

UTA's purported returns on its assets are similarly contrived, apparently placing UTA in line with industry leaders CTRP and PCLN.

Return on Assets	UTA	CTRP	LONG	PCLN	EXPE	OWW
1st 9mo 2010	16.1%	n/a	n/a	17.1%	5.4%	1.5%
2009	15.9%	19.4%	1.7%	31.1%	5.1%	n/a
2008	36.6%	18.6%	n/a	14.0%	6.7%	0.1%

UTA's seemingly magnificent performance despite the discrepancy in its marketing expenses also illustrates a larger point. It is not easy to fabricate SEC financial statements. Given the turnover in auditors and chief financial officers, as we discuss in greater detail below, it probably takes considerable effort for UTA to get all of its lies straight. When a company fabricates numbers, it misses little details, like making sure its advertising budget matches that of other companies in the industry, or insuring that the company's interest income matches the amount of cash the company claims to possess.

UTA's Website is Highly Deficient

UTA's website is barely functional: it is riddled with dead ends and broken links, it offers a terrible user experience, and it sells airline tickets and hotel rooms for a substantially greater price than offered on the websites of its competitors.

Glaucus Research Group urges readers to view each of the following videos demonstrating the failure of UTA's website to serve retail travel customers.

In our first video, which can be accessed [here](#), we are unable to complete the purchase of an international airline ticket on UTA's Chinese website, cnutg.com. In our second video, which can be accessed [here](#), we are unable to complete the purchase of an international hotel room on UTA's Chinese website.

In our third video, which can be accessed [here](#), we attempt to purchase a hotel room in Shenzhen on UTA's Chinese website. The website displays no pictures of the hotel, there is no interactive map and there are no reviews. Compared to the website of UTA's competitor, LONG, which boasts an array of pictures, an interactive map and fulsome reviews and comments, UTA's website offers a terrible user experience.

In our fourth video, which can be accessed [here](#), we attempt to purchase an airline ticket from Shenzhen to Xian. UTA's website offers the same tickets for a **substantially higher price** than its competitors, CTRP and LONG. UTA caters to leisure travelers, a segment of customers who are extremely price sensitive. This video also shows that other popular Chinese travel search aggregators (Chinese versions of Kayak.com) and competitor websites offer exactly the same product at a much lower price.

In our fifth video, which can be accessed [here](#), we show that the award-winning website of UTA's subsidiary, Shanghai Lanbao Service Company Limited ("SLB"), also offers a terrible user experience vis-à-vis UTA's competitors. Given UTA's highly deficient website, it is highly unlikely that the company is able to compete with CTRP and LONG for online travel customers. [But this should be old news.](#)

UTA's Website Traffic is Anemic

Independent research shows that UTA's website is unpopular, as we would expect from a website that presents such a terrible user experience.

According to chinarank.org.cn ("China Rank"), UTA's website is not ranked in the top 100 websites in China for travel service providers. China Rank is a trusted source of website rankings within the PRC and is hosted by the Internet Society of China, a government organization under the Ministry of Information.

This poor ranking is corroborated by numerous independent sources. CR-Nielsen, the Chinese joint venture of the international market research firm Nielsen, released a [study ranking the top 15 travel websites in China](#):

1. www.ctrip.com
2. www.elong.com
3. www.lotour.com
4. www.17u.com
5. www.travelsohu.com
6. www.houhepiao.com
7. www.daodao.com
8. www.huoche.com
9. www.51766.com
10. www.csair.com
11. www.9tour.com
12. www.yododo.com
13. www.travelsky.com
14. www.tourunion.com
15. www.go2map.com

UTA's website did not make the cut, although UTA's purported competitors, CTRP and LONG, took first and second place.

More detailed comparisons show the same deficiency. Below is an English translation of a comparative search of Chinese websites, ranked according to the number of unique visitors per day during the past six months. Baidu.com, as expected, is number one. CTRP and LONG come in a respectable, 119 and 678, respectively, in the rankings for the previous seven days. UTA's Chinese website, cnutg.com, is ranked **25,977** for the seven days prior the date of the comparison, February 26, 2011. The average ranking of UTA's website for the previous 90 days is an atrocious **359,587**, perhaps indicating that UTA's more recent numbers are artificially inflated by the travel requirements of the Chinese New Year celebration. **UTA's website traffic is the extreme outlier represented by the blue line in the graph below.**

Traffic Details
Category Ranking
Competitive Analysis
Correlation Analysis
Contact Information

www.cnutg.com **Competitive Analysis**

Ranking

Unique visitors (people / million)

Page views per

Range: week | January | March | June

综合排名

www.cnutg.com www.ctrip.com www.elong.com www.qunar.com
www.travelsky.com www.baidu.com

©2011, 中国网站排名 www.chinarank.org.cn 2011.02.26

Site comparison: www.cnutg.com VS

www.ctrip.com VS www.elong.com VS www.qunar.com VS www.travelsky.com VS www.baidu.com Submitted

Ranking

Unique visitors (people / million)

Page views per

Website	Current	Average of the 7th	Average of 90 days
www.cnutg.com	25158	25977	359,687
www.ctrip.com	122	119	127
www.elong.com	602	678	711
www.qunar.com	384	382	432
www.travelsky.com	407	488	645
www.baidu.com	1	1	1

Competitive Analysis

You can choose your site offers the same or similar services as the site for comparison.

Chinarank provide the most recent week, month, a quarter of the trend data.

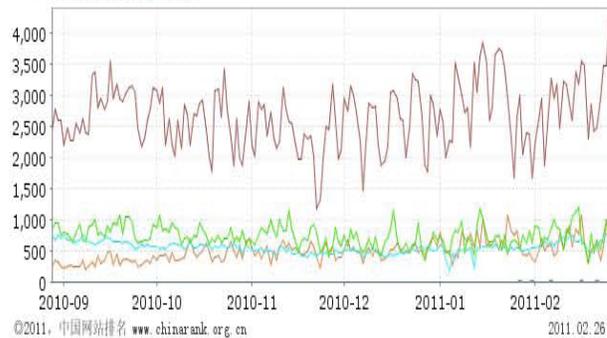
The unpopularity of UTA’s website is just as evident when comparing the number of unique visitors to UTA’s website against the number of unique visitors to the websites of its competitors. Below is an English translation of a comparison of the average number of unique visitors per million people that visited the applicable website in the past six months. CTRP attracted an impressive 3,277 unique visitors per million during the previous seven days. The websites of LONG and two English language competitors, qunar.com and travelsky.com, attracted between 679 and 656 unique visitors per million people during the same period. By comparison, UTA’s Chinese website, cnutg.com, **lured only 10 unique visitors per million people during the previous seven days and an average of 3 unique visitors per million over the previous 90 days.**

www.cnutg.com Competitive Analysis

Ranking Unique visitors (people / million) Page views per Range: week | January | March | June

独立访问者 / 百万 (人 / 百万人)

www.cnutg.com www.ctrip.com www.elong.com www.qunar.com
www.travelsky.com



Competitive Analysis

You can choose your site offers the same or similar services as the site for comparison.
Chinarank provide the most recent week, month, a quarter of the trend data.

Site comparison: www.cnutg.com VS

www.ctrip.com VS www.elong.com VS www.qunar.com VS www.travelsky.com VS Submitted

Ranking Unique visitors (people / million) Page views per

Website	Current	Average of the 7th	Average of 90 days
www.cnutg.com	12	10	3
www.ctrip.com	3992	3277	2771
www.elong.com	861	736	696
www.qunar.com	800	679	537
www.travelsky.com	626	656	579

UTA's performance is the extreme outlier presented by the blue line in the graph above. Again, the 90-day average is even more foreboding to investors.

The comparisons above, using publicly available data, show that UTA's website is deeply unpopular, which we would expect given its non-functionality.

UTA is Lying about the Amount of Cash on its Balance Sheet

As of the end of the third quarter of 2010, UTA purportedly had \$56.6 million in cash on its balance sheet. On UTA's investor conference call discussing the Q3 2010 results, management claimed that UTA earned interest on its cash at a rate .36% per annum. If this is true, then UTA should have earned more in interest income for the given time periods, as shown on the following chart.

Cash Balance Analysis	Q3'10	Q2'10	Q1'10	Q4'09	Q3'09	Q2'09	Q1'09
Claimed Interest Income - .36% per annum	0.09%	0.09%	0.09%	0.09%	0.09%	0.09%	0.09%
Expected Claimed Nominal Interest Income	\$ 50,998	\$ 39,232	\$ 34,050	\$ 33,010	\$ 21,143	\$ 16,549	\$ 17,254
Actual Reported Interest Income	\$ 17,723	\$ 17,081	\$ 23,631	\$ 18,918	\$ 15,909	\$ 12,358	\$ 10,939
Discrepancy	\$ 33,275	\$ 22,151	\$ 10,419	\$ 14,092	\$ 5,234	\$ 4,191	\$ 6,315
Overstatement of Cash Balance	188%	130%	44%	74%	33%	34%	58%

This chart demonstrates that UTA's reported interest income is much lower than it should be. We believe that the reason for the discrepancy is that UTA is currently lying about the amount of cash on its balance sheet. If we calculate the cash balance from the actual interest income reported in UTA's financial statements, **we believe that UTA had less than \$20 million in cash on the balance sheet as of September 30, 2010, when it told investors that it had over \$56 million.** Circumstantial evidence supports this conclusion.

UTA is a serial capital raiser, repeatedly returning to western investors for cash despite the fact that, according to UTA's balance sheet, it has ample cash on hand, which sits unused in an account earning .36% in interest per year.

On August 28, 2008, UTA consummated a private placement deal, selling common stock and warrants to purchase common stock to nine institutional investors for an aggregate purchase price of \$7.1 million. Just two months earlier, as of June 30, 2008, UTA had \$5.4 million in cash on its balance sheet. UTA did not engage in any acquisitions following the 2008 issuance. Why would UTA raise capital when it purportedly had sufficient cash?

Management will probably protest that it wanted to increase UTA's cash balance in the hopes of making future acquisitions or to build a war chest for leaner times. The problem with this explanation is that according to UTA's financials, UTA's business practically mints cash.

Here is where the story gets suspicious. On December 15, 2009, UTA again went to the market to raise **\$20 million**, purportedly to fund acquisitions and working capital. But according to UTA's balance sheet, as of September 30, 2009, the company had \$23.5 million in cash. Following the capital raise, UTA announced that it intended to acquire five companies for \$21 million in cash.⁴

Remarkably, UTA returned to the market again on June 21, 2010, issuing 2,857,143 shares of the common stock for a purchase price of \$7.00 per share and an aggregate purchase consideration of **\$19 million**. UTA's cash balance as of March 31, 2010 was almost \$39 million.

On UTA's Q2 2010 earnings call, an investor confronted UTA's management with the following question: why would UTA continue to dilute shareholders when it purportedly had sufficient cash on the

⁴ Following the capital raise, UTA acquired Huangshan Holiday Travel Service Co., Ltd. ("HHT") for \$2.9 million (\$2.3 million in cash), Kunming Business Travel Agency Co., Ltd ("KTB") for \$5.7 million, Shanxi Jinyang Travel Agency Co., Ltd. ("SJT") for \$2.3 million, Zhengzhou Yulongkang Travel Agency Co. Ltd ("ZYT") for \$5.7 million and Hebei Travel Agency Co. Ltd ("HTT") for \$4.4 million (\$3.5 million in cash).

balance sheet?⁵ Management answered that it needed the cash to grow the company in a competitive market. This would make sense if management actually spent the capital it raised in order to facilitate growth. But instead, the cash supposedly sits in an account earning .36% per annum.

The chart below shows that UTA repeatedly raised capital when it had ample cash on its balance sheet.

Date	# Shares	Price Per Share	Total Raised	Cash on the balance sheet at the end of the previous quarter
21-Jun-10	2,857,143	\$7.00	\$18,768,054.00	\$37,833,072
15-Dec-09	2,222,222	\$9.00	\$19,999,998.00	\$23,492,115
28-Aug-08	1,529,569	\$4.65	\$7,112,500.00	\$5,489,737
			\$45,880,552.00	

One such instance may not raise eye brows. **But why would UTA repeatedly return to the market to dilute shareholders when the company not only had ample cash on the balance sheet but was also generating cash from its organic business? We suspect that, in fact, UTA has been lying about its cash balance.**

Other circumstantial evidence supports the conclusion that UTA has grossly exaggerated its cash balance. Despite repeated requests from shareholders, the company has never issued a dividend. In addition, the company has never bought back its shares, a sensible use for cash that purportedly gathers dust. **In reality, UTA's cash balance is probably much lower than it claims.**

UTA Engaged in Suspect and Dilutive Acquisitions

Dilutive Acquisitions

In both 2010 and 2007, UTA binged on dilutive acquisitions. The trouble is that UTA's targets earned far less than UTA claimed in the company's publicly filed financial statements. We obtained income statements from China's State Administration of Industry and Commerce ("SAIC") showing the pre-acquisition revenue and net income of targets that UTA acquired in 2010 and 2007.

The chart on the next page shows that UTA paid between 134x to 4228x net income during its acquisition rampage. Across the board, UTA's target companies earned far less at the time of acquisition than UTA claimed in its public filings.

⁵ UTA Q2 2010 earnings call. (Minute 40). <http://cnutg.ir.stockpr.com/conference-calls/view/333/q2-2010-earnings-call>

Acquired Companies in 2007		Shanghai Lanbao Travel Service Co (SLB)	Xian Golden Net Travel Serve Service Co	Foshan Overseas International Travel Service Co (FOI)	Shenzhen Speedy Dragon Enterprise Co (SSD)
<i>All figures are in USD, using forex rate of \$1=6.85 RMB</i>	Date of Acq.	8/8/2007	8/6/2007	9/20/2007	4/10/2007
	Purchase Price	\$3,920,000	\$1,800,000	\$6,500,000	\$4,000,000
UTA Claimed Figures	Revenue	\$1,100,000 (2006)	\$5,500,000 (2006)	\$11,900,000 (2006)	\$9,696,813 (2006)
	Net Income	\$730,000 (2006)	\$490,000 (2006)	\$930,000 (2006)	\$898,674 (2006)
AIC filings	Revenue	\$65,432 (2007)	\$779,172 (2008)	\$7,637,693 (2006)	\$0 (2006)
	Net Income	\$927 (2007)	(\$4,672) (2008)	\$45,766 (2006)	(\$8,918) (2006)
	Assets	\$69,880 (2007)	\$174,373 (2008)	\$3,492,540 (2006)	\$421,861 (2006)
UTA Claimed Net Income Multiple paid	Net Income	5.4	3.7	7.0	4.5
Actual Aquired Multiples Paid	Revenue	59.9	2.3	0.9	n/a
	Net Income	4228.7	n/a	142.0	n/a
	Assets	56.1	10.3	1.9	9.5

Acquired Companies in 2010		Zhengzhou Yu Long Kang Travel Agency Co (ZYT)	Hebei Tian Yuan International Travel Agency Co (HTT)	Kunming Business Travel Agency Co (KBT)	Shanxi Jin Yang Travel Agency Co (SJT)	Shandong Shi Ji Aviation Development Co
<i>All figures are in USD, using forex rate of \$1=6.85 RMB</i>	Date of Acq.	March 2010	March 2010	June 2010	June 2010	June 2010
	Purchase Price	\$5,700,000	\$4,400,000	\$5,700,000	\$2,300,000	\$5,600,000
UTA Claimed Figures for 2009	Revenue	\$10,500,000	n/a	\$9,400,000	\$5,600,000	\$4,400,000
	Net Income	\$800,000	n/a	\$900,000	\$400,000	\$800,000
AIC Filings - 2009	Revenue	\$58,394	\$102,797	\$1,671,128	\$734,868	\$494,755
	Net Income	\$4,978	(\$101,687)	\$42,483	\$1,866	\$16,747
	Assets	\$84,433	\$336,333	\$687,543	n/a	\$438,149
UTA Claimed Net Income Multiple paid	Net Income	7.1	n/a	6.3	5.8	7.0
Actual Aquired Multiples Paid	Revenue	97.6	42.8	3.4	3.1	11.3
	Net Income	1145.0	n/a	134.2	1232.6	334.4
	Assets	67.5	13.1	8.3	n/a	12.8

The pre-acquisition net income and revenue of UTA's acquisition targets are nowhere near what the company claimed them to be. UTA is either wasting money or self-dealing.

There has been much debate recently about the validity of SAIC filings. The SAIC is a government agency which, among other functions, issues business licenses to Chinese firms. In order to obtain and renew a business license, which is required to operate in China, a Chinese company must file an annual inspection report containing a balance sheet and an income statement.

Brokers pumping small cap Chinese stocks often argue that SAIC filings do not match SEC filings because the SAIC is a business registrar and it does not review the accuracy of submitted financial statements. This makes no sense. Why would a government agency ask a company to submit a balance sheet or income statement and then not care if it is blatantly false? More importantly, what would a company gain by lying on financial statements submitted to the SAIC? Some small cap brokers have argued that Chinese companies understate revenue in SAIC filings so as to avoid the attention of corrupt government officials. This argument is weak. Nothing should attract more attention from potentially corrupt government officials than **raising tens of millions of dollars in cash in American capital markets**. Regardless, why are investors comfortable with a company that lies on any financial statement filed with any governmental agency, in the U.S. or China?

Western investors defending the discrepancy between financial statements filed with the SAIC and those filed with the SEC should consider the following decision box:

Decision	Upside	Downside
UTA lies on financial statements filed with the SAIC	?	Fines or criminal prosecution by a Chinese government with jurisdiction over UTA, its officers or directors.
UTA lies on financial statements filed with the SEC	Millions of dollars from investors looking to China.	None. Neither the SEC nor the US government has jurisdiction over UTA, its officers or directors.

Whereas for a Chinese company there is a large upside and a limited downside to lying to the SEC, there is by comparison no upside and a potentially large downside to lying to the SAIC. So if there is a discrepancy between SEC and SAIC filings, it is more likely that the SEC filings are false. Empirical evidence supports our logical reasoning: there are [many examples of legitimate companies](#) that file accurate financial statements with the SAIC.

Based on SAIC filings, **UTA paid far too much for its 2010 and 2007 acquisitions, wasting shareholder money.**

Speedy Dragon

In two years, UTA managed to buy a business for \$4 million, paying 75% in cash, and sell it back to the previous owner at a deep discount. UTA's management is either misappropriating money through acquisitions or it is incompetent.

On April 10, 2007, UTA acquired Shenzhen Speedy Dragon Enterprise Limited ("SSD") in exchange for 238,095 shares of UTA common stock and \$3 million in cash. On June 12, 2009, the company entered into a termination agreement with Xiangsheng Song, the previous owner of SSD, to return the company to Mr. Song. In exchange, Mr. Song (i) returned the 238,095 shares of UTA's common stock back to UTA for cancellation and (ii) agreed to pay UTA in cash \$500,000 by June 10, 2010.⁶

The business deal would be bad enough, but UTA then lied about the arrangement in its SEC filings. In its Form 10-Q for Q3 FY 2010, UTA claimed that Mr. Song was required to return \$2.8 million in cash to UTA as part of the termination.⁷ This is false. The [Agreement of Contract Termination](#), filed with the SEC, states that Mr. Song must only return **\$500,000** in cash by June 30, 2010. It is not clear whether UTA simply lied to make the transaction look less like a disaster or management misread a one-page contract. Alternatively, UTA may have a secret side deal with Mr. Song that it did not disclose to the SEC. Pick your poison.

Furthermore, according to the Agreement of Contract Termination, Mr. Song was obligated to return \$500,000 by June 30, 2010. But UTA's 10-Q for the quarter ending September 30, 2010, stated that Mr. Song had not *yet returned the cash*. Can UTA enforce the agreement? Does it have any intent to recover the money from Mr. Song?

The Speedy Dragon episode is an example of either fraud or idiocy. Neither should engender much investor confidence.

⁶ UTA Form 8-K, filed June 17, 2009.

⁷ UTA Form 10-Q, Q3 FY 2010. Note 2 (pg. 7).

UTA's Auditors: Who Watches the Watchman?

UTA cannot escape the stink of high turnover among low-quality auditors, churning through 4 in 5 years.⁸

Dates	Name	Notes
October 5, 2010 – Present	Windes & McClaughry Accountancy Corporation (“Windes”)	Not a top 100 accounting firm and no offices or accountants in China.
September 1, 2010 - September 28, 2010	Goldman Kurland Mohidin (“GKM”)	After serving for only 1 month , GKM resigned abruptly after investors accused UTA of fraud.
June 30, 2009 - September 1, 2010	Acqvella, Chiarelli, Shuster, Berkower & Co., LLP (“ACSB”)	UTA fired ACSB after less than 1 year .
June 23, 2006 - June 30, 2009	Morgenstern, Svoboda & Baer, CFAs (“MSB”)	A 2009 PCAOB report concluded that MSB’s system of quality control for detecting fraud was inadequate.
Formation - June 23, 2006	Moore and Moore & Associates, Chartered (“MMA”)	In August 2009 the SEC charged MMA with securities fraud for issuing false audit reports that were compiled by auditors with only a high school education and with little or no accounting or auditing experience.

Burning through 4 auditors in 5 years is not reassuring, but the details make UTA look even worse. The SEC charged its first auditor, MMA, with securities fraud for issuing false audit reports and compiling audit reports with auditors who did not even have college degrees.

The Public Company Accounting Oversight Board (“PCAOB”) reprimanded its second and longest serving auditor, MSB, for inadequate quality controls with respect to fraud. [The PCAOB’s report on MSB stated:](#)

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform all required procedures in accordance with the provisions of AU 316, *Consideration of Fraud in a Financial Statement Audit*. Specifically, **the Firm did not perform audit procedures to test journal entries and other adjustments for evidence of possible material misstatements due to fraud**, and other than sign offs on an audit program and notations on a fraud risk information form, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm inquired of management and the audit committee, or others with equivalent authority and responsibility, as to their views about the risk of material misstatement due to fraud, or conducted a brainstorming session with members of the engagement team.

Any investor putting faith in UTA’s auditors as a bulwark against our findings should consider that the PCAOB publicly chastised MSB for rubber stamping financials and not doing diligence to minimize the risk of fraud. Even such lax oversight was apparently not enough, because MSB and UTA parted ways. Then, UTA abruptly fired its third auditor. UTA’s fourth auditor quit **a month** after retention.

⁸ We are indebted to the due [diligence of goingconcern.com](#) in writing this section.

UTA’s fifth auditor in five years is Windes. Although Windes has yet to sign off on an audited financial statement, investors should be cautious as it shares many of the same characteristics as UTA’s past accountants. Like UTA’s four previous auditors, Windes is not considered [in the top 100 of public company accounting firms](#) and has no offices in China. Rather, Windes claims on its website that it uses Chinese auditors from the Baker Tilly network to conduct diligence of companies like UTA in China. This is problematic.

Chinese auditors from the Baker Tilly network are not regulated by the PCAOB. Without a legitimate American regulatory authority with dominion over their operations, Chinese auditors, under pressure to please clients, often refrain from a deep diligence dive, ignore suspicious numbers, and make favorable assumptions on their clients’ behalf. In short, without the risk of censure or punishment, given that they do not answer to any U.S. regulatory body, the carrot of substantial fees leads local Chinese auditors to prioritize client retention over accurate disclosure and a thorough investigation.

Revolving Door of Chief Financial Officers

UTA does not currently have, and has not had a Chief Financial Officer since August 17, 2010. The history of turnover at this position is disturbing.

Dates	Tenure	Name
Current “Interim” CFO	6 months	Jing Xie
August 17, 2009 - August 17, 2010	1 year	Yizhao Zhang
February 17, 2009 - August 17, 2009	6 months	Jing Xie serving his first term.
July 12, 2006 - February 16, 2009	2 ^{1/2} years	Xin Zhang

A recent study of public company accounting fraud shows that, in the three years prior to the discovery of fraud, companies manipulating financial statements experienced higher CFO turnover than non-manipulating firms.⁹ The study suggests that turnover is high at fraudulent companies because CFOs who refuse to bury their head in the sand either leave or are fired. The glove fits in UTA’s case. UTA’s CFO turnover has been very high. It has not had the same CFO for consecutive audit cycles in over three years. Given the mountain of evidence that UTA is engaging in a massive fraud, CFO turnover should eviscerate any remaining investor confidence in UTA’s published financials.

⁹ “[Why Do CFOs Become Involved in Material Accounting Manipulations?](#)” is forthcoming in the *Journal of Accounting and Economics*. It is the work of Weili Ge and Terry Shevlin of the University of Washington Foster School of Business, and Mei Feng and Shuqing Luo of the University of Pittsburgh Katz Graduate School of Business.

Partnership with Agoda

In July 2010, UTA announced a “partnership” with Agoda, a subsidiary of Priceline.com. We are not disputing that such a “partnership” exists, but we doubt that the relationship is meaningful.

According to UTA’s Form 10-Q for Q3 2010, the purpose of the partnership with Agoda was to enable UTA’s customers “through [UTA’s] website, [to] enjoy special Agoda promotions and instant confirmation at tens of thousands of hotels worldwide. Specifically, while conducting a search of international hotels on [UTA’s] website, the results will yield supply information from Agoda’s database.” Empirical evidence refutes UTA’s far-fetched claims of integration.

In reality, Agoda and UTA seem to have no overlap in either inventory or booking options. In [this video](#), watch as we try and book a hotel room in New York on UTA’s dysfunctional Chinese website. **Not only are we halted by a “booking failed” prompt every time we attempt to book a hotel, but UTA’s Chinese website does not even display the prices of hotel rooms.** By comparison, on Agoda’s website, [this video](#) shows that the transaction is seamless.

In [this video](#), watch as we try and book a hotel room in Shenzhen, the location of UTA’s headquarters, using both Agoda.com and UTA’s Chinese website. Given that Agoda, a hotel reservation company headquartered in Southeast Asia, partnered with UTA in order to gain a foothold in China, we would expect Agoda to either link to UTA’s website or at least offer similar products and prices. Not so. Unbelievably, the price on UTA’s website is **almost 30% higher** than Agoda’s website for the exact same hotel booking in Shenzhen. This should be embarrassing to UTA, as Agoda seems to have a much stronger relationship with suppliers of hotel rooms in UTA’s primary market. Moreover, whereas Agoda’s website offers a detailed description and a number of pictures of the hotel in question, UTA’s Chinese website offers one picture of the outside of the hotel which appears to be cut in half on the screen.

Further, there is evidence that UTA exaggerated the benefits of the purported partnership. On UTA’s Q2 2010 conference call, management announced that even though the relationship was in its infancy, the “partnership has been giving us a new revenue stream to improve our customer usage [for] online bookings.”¹⁰ An auspicious beginning, no doubt. However, on the company’s Q3 2010 conference call, management backtracked, claiming that although UTA now had access to Agoda’s hotel inventory (over 200,000 hotels worldwide), the partnership had “come online” but due to the “speed limit ... of the internet in China [UTA] had not achieved as high customer satisfaction as [management] wishes.”¹¹ **Complaining about the speed limit of the internet** should not engender much confidence in a firm that holds itself out as an **internet company**.

Both this backtracking and our videos suggest that UTA and Agoda are not sharing inventory, not negotiating as a unit with any suppliers, and not even linking to each other’s websites. In other words, there is **no meaningful partnership between Agoda and UTA**.

Our guess is that like many investors, Priceline.com and Agoda were fooled by UTA’s slick con. When it came time to actually work together, Agoda probably discovered what we already know: UTA’s main business purpose is to operate as a sophisticated stock scam, not a well-run internet travel business.

UTA is Lying about the Number of Call Center Representatives

¹⁰ UTA Q2 2010 earnings call. (Min 44). <http://cnutg.ir.stockpr.com/conference-calls/view/333/q2-2010-earnings-call>

¹¹ UTA Q3 2010 earnings call. (Min 31). <http://cnutg.ir.stockpr.com/conference-calls/view/863/q3-2010-earnings-call>

According to a UTA call center representative, **UTA employs only 30-40% of the call center representatives that it claims in its public filings.**

UTA claims to employ 500 call center representatives at three call centers, primarily out of its Shenzhen operating center. We called a representative in UTA's Shenzhen call center to discuss the non-functionality of the website. She said that the Shenzhen call center only staffs 100 representatives during the day and roughly 12 representatives after business hours. She said that there were only a handful of representatives at UTA's other two locations.

We also visited the primary call center in Shenzhen during business hours on a weekday and found it eerily quiet for an operation supposedly bustling with hundreds of representatives. Note that we visited the call center in Shenzhen during the Chinese New Year celebration, the **largest human migration on earth**. Call centers operated by Chinese travel service providers should experience extremely heavy traffic during this period as people migrate from the cities to their ancestral villages and towns. Rather than the bustling and chaotic operation we expected, we found the call center to be serene and pastoral.

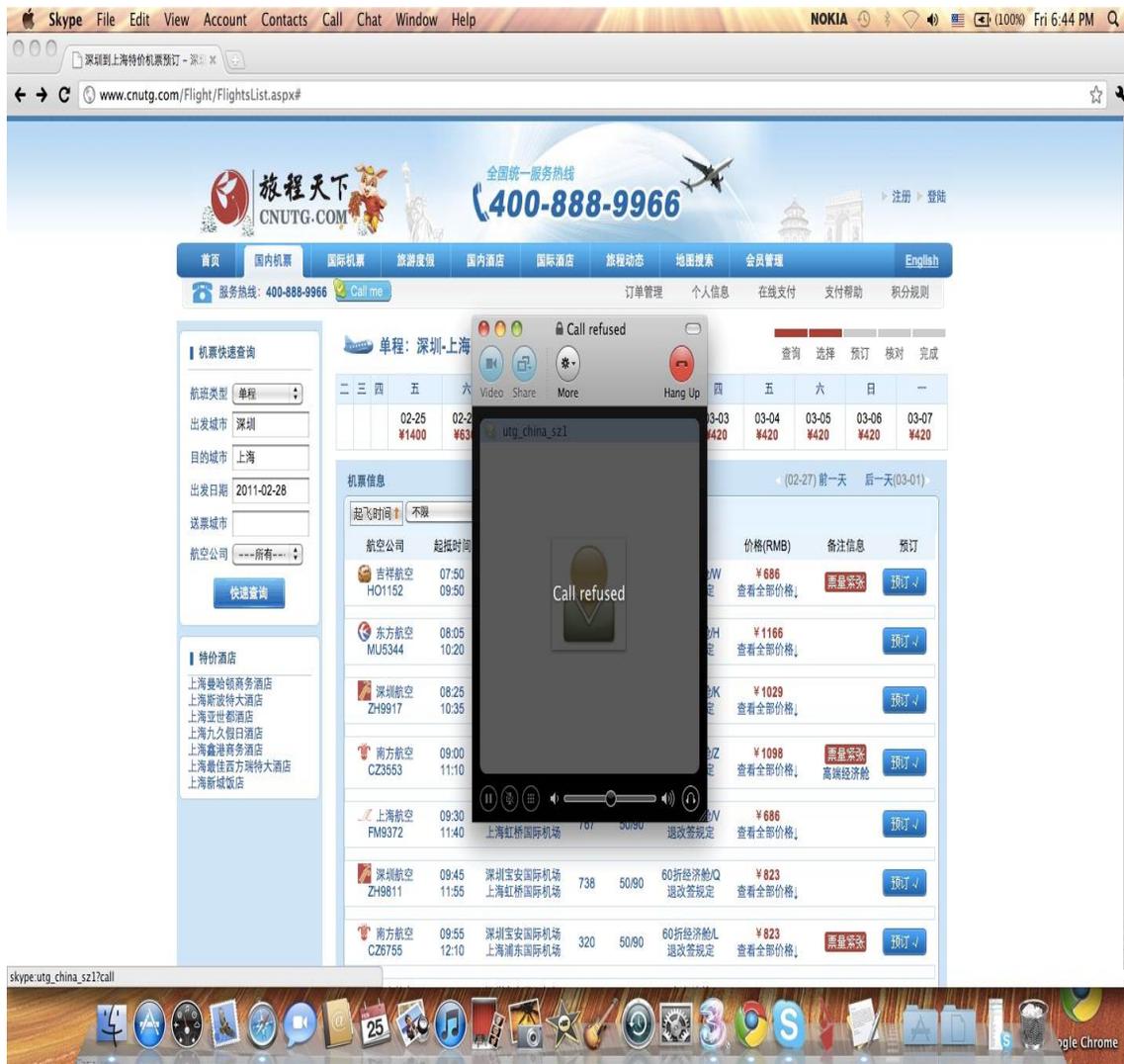
By conservative estimates, based on our visit to the call center and our conversation with a UTA employee, **we estimate that UTA employs 30%-40% of the call center representatives that UTA claims in its public filings.**

UTA's Call Center – Not as Advertised

In addition to being much smaller than advertised, UTA's call center is not open during the hours that the company claims, and the call center has functionality problems. First, UTA advertises on its website that its call center is open 24 hours. When we called the number, after selecting a prompt to speak to a representative in English, we were unable to connect to a call center representative. Rather, we heard a recording urging customer to call back during regular business hours, from 9 a.m. to 6 p.m., Monday through Friday.

Second, UTA's website invites prospective travelers to speak with a call center representative via Skype. This is ostensibly a cost effective and convenient way for internet users to connect with the company. The trouble is, the **Skype Me function does not work.**

We tried repeatedly to connect to a UTA call center representative via Skype without any success. Every time we tried to contact UTA through Skype, the following error message came up:



UTA's call center hours and the failure of the Skype function are more examples of what we found over and over again: a significant gulf between the claims made by management and the actual operations of the company.

Giving Away Money or Possible Self-Dealing?

In 2008, without any explanation, UTA advanced \$400,000 in cash to an unrelated company to assist in the unrelated company's business development. It does not appear that this advance has anything to do with UTA's business. Nor does the recipient of this cash have any obligation to pay UTA back the money. Otherwise, such an advance would be characterized as a loan. Furthermore, UTA did not acquire any equity in the target for such an advance. Otherwise, the value of such equity could be listed as an asset. Rather it appears to be a naked gift of \$400,000, raising the specter of self-dealing. A mere drop of impropriety amid a sea of fraud, a \$400,000 advance may not seem like a lot of cash unless investors consider that such a sum is over *twice as large as* UTA's 2009 marketing expenses.

Relentless Self-Promotion

Despite the fact that UTA's business generally appears to be a mixture of fraud and incompetence, UTA has engaged in a campaign of relentless self-promotion. Although not evidence of fraud, a whistle-stop publicity tour certainly makes sense if you believe that UTA is a serial capital raiser organized to bilk investors out of their money.

UTA has participated in the following conferences:

- September 2010 – New York - Rodman & Renshaw Annual Global Investment Conference
- May 2010 – New York - CCG China Rising Investment Conference 2010
- May 2010 – New York - 7th Annual Piper Jaffray China Growth Conference
- March 2010 – Beijing - Rodman & Renshaw Annual China Investment Conference
- January 2010 – New York - Cowen & Company 8th Annual Consumer Conference
- November 2009 – New York - Brean Murray, Carret & Co. China Growth Conference
- October 2009 – Miami Beach - Roth China Conference
- September 2009 – Beijing - Susquehanna's 3rd Annual Beijing Management Summit
- June 2009 – New York - In what will probably be considered a low point for the fabled institution, UTA CEO Jenny Jiang [rings](#) the opening bell of the NYSE.

UTA's relentless self-promotion raises another red flag. With so much publicity, the opportunity to invest in UTA is sure to have crossed the desks of many institutional investors. With UTA's return on assets, revenue and net income it appears to be the most fabulous bargain on Wall Street. Yet UTA's shares trade around 5x earnings. Investors must ask themselves this question: what do other institutional investors know that I do not? The answer is readily accessible through a quick sanity check of UTA's financial statements and a few minutes of web browsing.

Valuation - Clipping UTA's Wings

How do we appropriately value a business that is falsifying its financial statements? UTA's business is unlikely to be generating meaningful revenue or profit, given that its website is dysfunctional and does not receive a lot of traffic; it has a minimal brick-and-mortar and kiosk operation and the company spends virtually nothing on advertising. We believe that UTA's existing business, however small in size, is much closer to a commodity business than management leads investors to believe and thus would not warrant a premium valuation.

Furthermore, given that UTA's management team is incompetent and intent on defrauding investors, we are skeptical that shareholders will ever realize value from whatever form of underlying business actually exists. At best, we can attempt to value the company with what we believe is the cash actually on hand:

$\$19,692,222 + \$295,383$ (5 months of interest collected at a .36% per annum rate) = $\$19,987,605$.

Dividing this cash balance by the number of common fully diluted shares outstanding of **19,898,235** yields a **valuation of ~\$1.00 per share**.

Conclusion - Ocean Front Property in Arizona

When viewed together, the cumulative evidence that UTA is falsifying its SEC financial statements should give pause to anyone looking at a “can’t miss” opportunity by owning UTA’s shares. That UTA has duped investors and escaped the attention of regulators since going public in 2006 is staggering. UTA is actually a tiny and antiquated brick-and-mortar travel business, lying about size, sophistication and business model in order to misappropriate funds from western investors. To review:

- UTA is fabricating its publicly filed financial statements. Its actual underlying business is far smaller than its SEC filings indicate.
- UTA’s business model is not credible. For example, UTA claims to have earned \$110 million in net revenue in the first three quarters of 2010 on an advertising budget of \$247,449 in the highly competitive leisure travel market. Its competitors spend 5 to 10 times more on marketing as a percentage of net revenue, casting doubt on the authenticity of UTA’s revenue and net income.
- UTA has a deficient and unpopular website, boasts only a minimal brick-and-mortar retail operation, and has no kiosks under its control to directly sell to consumers. Yet the company’s return on assets and asset turnover figures suggest it is the most efficient company in the leisure travel space, consistently trouncing the competition.
- UTA’s website is barely functional and receives only a small fraction of the traffic of its Chinese competitors, despite the fact that the company holds itself out as an online travel service provider. Our videos can be seen [here](#), [here](#), [here](#), [here](#) and [here](#).
- UTA is a serial capital raiser, repeatedly returning to western investors for cash despite supposedly having, according to its balance sheet, ample cash on hand, which sits unused in an account earning .36% in interest per year. UTA is lying about the amount of cash on its balance sheet, as is evidenced by its inexplicably low interest income.
- UTA has destroyed shareholder value through a series of dilutive acquisitions. The company’s acquisition targets had much smaller earnings than UTA claimed in its public filings.
- UTA’s purported relationship with Agoda, a subsidiary of Priceline.com, is overstated.
- UTA is on its 5th low-quality auditor and 4th CFO in 5 years.
- According to a UTA call center representative, UTA employs only 30%-40% of the call center representatives that it claims.

We therefore issue a strong sell rating on UTA’s publicly traded securities and urge the last investor to turn out the lights.