



Global Sources: Major Concerns with one of the Oldest China RTOs

Global Sources Ltd.	Research Summary
Ticker: GSOL Exchange: Nasdaq Price: \$7.00 52wk High: \$12.78 52wk Low: \$5.87 Diluted Sh. o/s: 35.5m Market Cap: \$250m Cash: 80m Total Debt: 141m Ent. Value: \$310m Valuation LTM EV/Sales 1.3x EV/EBITDA 9.0x P/E 10.0x P/ Tang. Book 2.5x Conclusion: Strong Sell Price Target: \$2.50	<p>➤ A closer look into Global Sources (“GSOL”) reveals numerous question marks around their competitiveness, financial reporting and strategies</p> <p>1) Significant headwinds facing their business and industry:</p> <ul style="list-style-type: none"> ➤ Leveraged to a decline in global trade in Asia and, particularly exports in China ➤ Increasing competition online and declining print business ➤ Customer dissatisfaction with ability to police fraud cases <p>2) Financial reporting is opaque:</p> <ul style="list-style-type: none"> ➤ Unexplained change in accounting standard to IFRS from GAAP ➤ Non-standardized financial reporting and limited operational metrics provided to evaluate business performance ➤ Significant turnover at the CFO level (3 CFOs in 2 years) and at the executive management and board level ➤ Recent changes to the auditor over “fee” issues <p>3) Unusual financial strategies:</p> <ul style="list-style-type: none"> ➤ Limited investment in operating businesses; significant allocation of capital outside the business, especially to non-core real estate ➤ Complicated organization structure with over 61 subsidiaries and minimal reported tax expenses <p>Based on our independent research, we conclude GSOL is a strong sell and believe a fair value for the share price to be \$2.50</p>

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Report published in memoriam Bobby Kean 1979 – 2011

Introduction

Global Sources Ltd. (Nasdaq: GSOL) is perhaps the original and oldest existing China RTO Company in the US stock market. In March 2000, Global Sources exchanged 100% of its shares for a 95% stake in Fairchild (Bermuda) Ltd., a subsidiary spun-off from the now bankrupt Fairchild Corp. Through this deal, Global Sources obtained a public listing on the Nasdaq in order to provide liquidity to shareholders and a venue for raising additional source of funds for expansion.

A closer look at GSOL's business model reveals indications of weakening fundamentals, and significant customer dissatisfaction with their online media services, which is their largest and fastest growing revenue source. We also find a number of unusual issues with their financial reporting including a lack of standardized reporting metrics, voluntary changes in accounting standards from GAAP to IFRS, changes in auditors over "fees", and multiple CFO and executive transitions. Furthermore, we believe the Company has an unusual financial strategy which has focused on misallocating significant capital to real estate purchases, at the expense of internal investment to its core businesses. Through our research, we are unable to explain or justify any of these financial actions, and conclude the Company is not run for the benefit of public shareholders.

What does Global Sources do?

Global Sources is a business-to-business ("B2B") media Company that provides information and integrated marketing services to connect buyers and sellers for a range of products, with a particular focus on the Greater China market. The Company's revenues are generated through one of three segments:

1) Print media – Publication and distribution of trade and product catalogues. Suppliers pay for advertising in trade magazines to promote their companies' products. Other revenue is derived from buyers that subscribe to the trade publications and sourcing research reports

http://www.globalsources.com/SITE/MAGAZINES.HTM?pi_proj=10AWJP

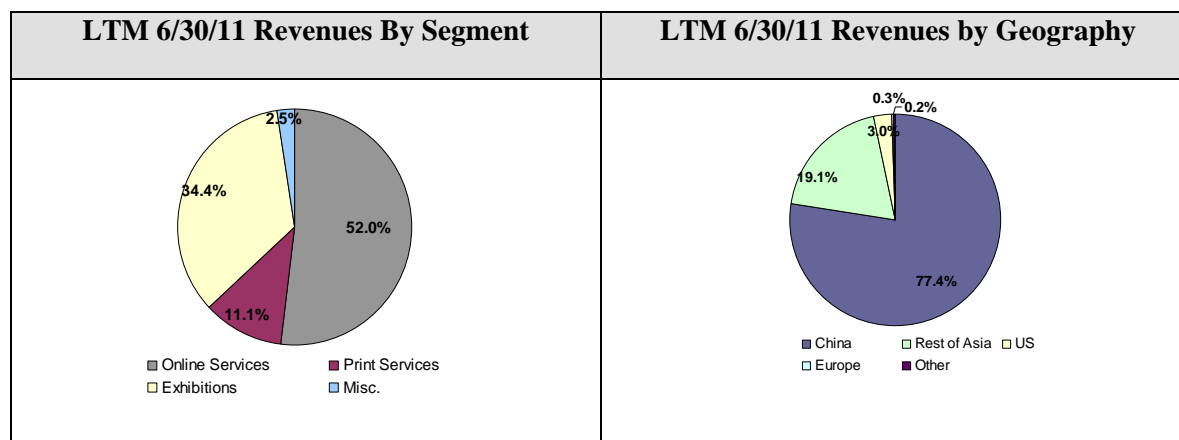
2) Online media – Website allowing buyers to find product suppliers. Suppliers are charged fees for the hosting and presentation of their products. Other revenues are derived from banner advertising and distribution of a digital e-magazine

<http://www.globalsources.com/gsol/l/all-manufacturers/b/2000000003844/3000000149681/-1.htm>

3) Trade shows and exhibitions – Organized shows to match buyers and suppliers. Revenues are primarily from exhibit space rentals, but also from advertising and sponsorship fees in show guides and other locations in and around event venues

<http://tradeshow.globalsources.com/TRADESHOW/CSF/INDEX.HTM?source=GSOL>

GSOL claims over 1 million active international buyers use their site from more than 240 countries and territories to connect with suppliers. In mainland China, the Company has a network of more than 40 office locations (60 global locations) and a community of nearly 3 million registered online users and magazine readers of its Chinese-language media. GSOL delivers information on over 5.7 million products and more than 262,000 suppliers annually through 14 online marketplaces, 13 monthly print and 18 digital magazines, over 90 sourcing research reports and 73 specialized trade shows a year across nine cities.



Source: Company filings

GSOL's Fundamentals are Weakening

If we take a closer look at each of GSOL's three revenue segments we can better understand why their foundation for growth may be weakening. The Company's future success is highly dependent on export growth from mainland China. Recent Chinese export data released this month is showing a rapid decline in trade growth and the Chinese customs bureau has warned of severe challenges as the global outlook dims.¹ The table below shows the revenue trend for each of the three segments.

GSOL Revenue Segments US\$ millions	2006	2007	2008	2009	2010	6 Months Ended		LTM 6/30/2011
						2010	2011	
Online Services	\$64.4	\$75.9	\$94.5	\$84.3	\$96.1	\$45.8	\$57.1	\$107.4
% growth	20%	18%	24%	-11%	14%	--	25%	--
Print Services	48.7	49.9	47.6	29.5	26.1	14.1	10.8	22.9
% growth	13%	2%	-5%	-38%	-12%	--	-23%	--
Total Media Services	\$113.1	\$125.8	\$142.1	\$113.8	\$122.2	\$59.9	\$67.9	\$130.2
% growth	117%	11%	13%	-20%	7%	--	13%	--
Exhibitions	42.1	51.6	58.2	55.1	69.5	31.9	33.5	71.1
% growth	195%	23%	13%	-5%	26%	--	5%	--
Misc.	1.3	4.6	6.6	4.0	5.0	2.4	2.6	5.2
% growth	152%	267%	42%	-39%	25%	--	10%	--
Total Revenues	\$156.5	\$182.1	\$206.9	\$172.9	\$196.6	\$94.2	\$104.3	\$206.7
% growth	139%	16%	14%	-16%	14%	--	11%	--

Source: Company filings

¹ <http://www.bloomberg.com/news/2011-10-13/china-trade-surplus-drops-to-lowest-in-four-months-as-export-growth-slows.html>

In the Print Services segment, revenues have been declining for each of the past three years, primarily from the secular shift occurring to online media advertising and the intensely competitive pricing environment. For the six months ended 2011 compared with 2010, this segment's revenue has declined by 23%. The trends are expected to continue in this segment in the future.

Offsetting the decline in Print Services segment, Online Media Services revenue grew 25% for the six months ended 2011 compared with 2010 as a result of greater revenue from hosting online websites and digital magazines. We estimate a long-term growth rate for this segment at 10-15%.

The Exhibitions business was started in 2003 and after a period of rapid growth appears to have matured relatively quickly having grown only 5% for the six months ended 2011 compared with 2010. We estimate long-term growth may be constrained by the frequency and type of shows that can be hosted in GSOL's current markets. The exhibition business is also competitive; the Company competes with others, including Hong Kong Trade Development Company (HKTDC), which is government-subsidized statutory body and the largest trade show organizer in Hong Kong with deep financial resources. The success in this segment has been historically heavily dependent upon shows in China. Additional revenue growth will have to come from successfully entering new markets such as India and U.S.

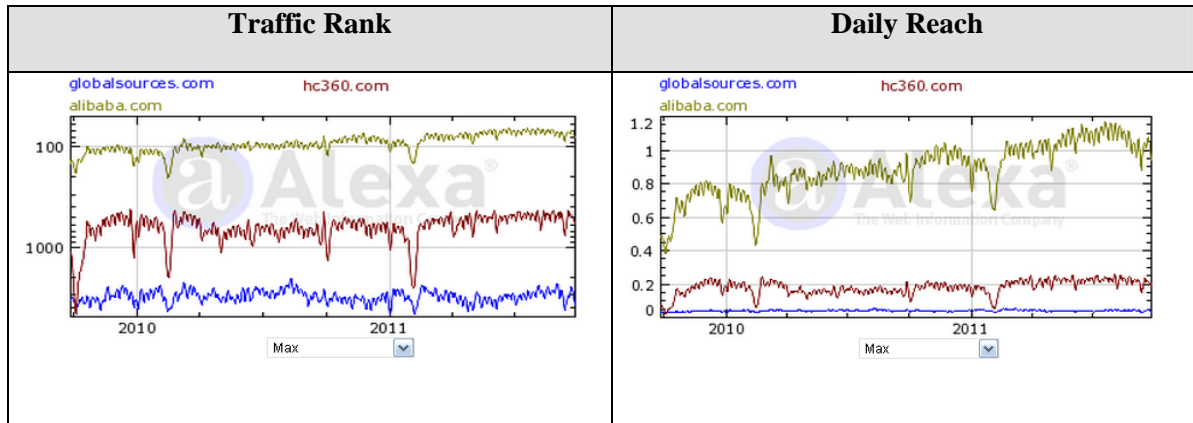
Taken as a whole, GSOL's main pillar of growth rests on its ability to execute in the Online Media Services segment. However, this is not without its challenges as the Company has numerous competitors, some with significantly more resources such as Alibaba.com (PINK: ALBCF) and also HKTDC. Other noteworthy competitors include HC International (PINK: HCINF), ECVV.com as well as a variety of other competitors since barriers to entry are low. Below is just a sample of a few companies offering B2B services online.

Overview of Selected Competitors

Company	Website	Ownership	Financial Resources	Supplier Verification	Exhibitions	Print / Research
Alibaba	http://www.alibaba.com/	Public	High	x		
HKTDC	http://www.hktdc.com/en-buyer/	Private	High	x	x	x
HC Int'l	http://www.hc360.com/	Public	Medium	x	x	x
ECVV	http://www.ecvv.com/	Private	Unkown	x	x	
B2B China	http://www.b2bchinasources.com/	Private	Unkown	x		
Tradett	http://www.tradett.com/	Private	Unkown	x		
DIY Trade	http://www.diytrade.com/	Private	Unkown	x		
Global Market	http://www.globalmarket.com	Private	Unkown	x	x	x
Tradekey	http://www.tradekey.com/	Private	Unkown	x		
Exports.cn	http://www.exports.cn/	Private	Unkown			
Mainone	http://www.mainone.com	Private	Unkown			
Bridgat	http://www.bridgat.com/	Private	Unkown			
Globalsources	http://www.globalsources.com/	Public	Medium	x	x	x

Source: Company information

To assess GSOL's relative position in the online space, we've looked at their page ranking using public sources such as Alexa. The statistics indicate that GSOL is losing share to strong rivals such as Alibaba and HC International. Both sites have been posting increasing traffic rank and daily reach metrics over the past few years, while GSOL has largely seen a stagnation of traffic.



Source: Alexa.com

It would certainly be easier to evaluate GSOL's online business if they disclosed information such as new customer additions, customer churn, revenue per average user, number of paying members, customer acquisition costs, etc. However, GSOL is opaque on these matters and does not report regular operating metrics for investors to evaluate its ongoing performance.

Global Sources Not Immune to Problems Plaguing the Industry

Fraud has been a major issue facing the online providers of B2B trade services. The story typically goes as follows. An unscrupulous supplier gains access to a trade website and advertises a particular product and convinces a buyer to purchase their product. The seller then either does not deliver the product or delivers a product not meeting the advertised specifications or is of inferior quality.

The problem has become so rampant that The Office of U.S. Trade Representative named the online China B2B/B2C markets as a "Notorious Market," and calling for more action from local authorities to combat the issue. (<http://www.ustr.gov/sites/default/files/Notorious%20Markets.pdf>) The industry leader Alibaba had to confront the issue headlong by issuing a statement that the Company will visit the facilities of all paying members of its China Gold Supplier program over the course of a year after more than 2,300 vendors used Alibaba's website to defraud buyers, and about 100 employees were responsible for letting sellers create bogus storefronts (<http://www.bloomberg.com/news/2011-09-09/alibaba-com-to-audit-all-paying-members-to-combat-fraud-1-.html>). Alibaba's Gold Supplier program for Chinese exporters fell by more than 4,200 in the quarter ended June to about 112,000, Alibaba said last month. In the previous three months, the Company lost more than 4,800 Gold Supplier members.

B2B websites like Alibaba and GSOL advertise suppliers as “Gold” members or some other form of internally developed ranking system. The fact remains that these rankings appear to be nothing more than marketing gimmicks that the customers can pay for to receive more favorable rankings or profile appearance on the B2B website. For example, GSOL says on their website that they conduct “3 or more visits or calls to a supplier company” and check “business licenses” as part of their supplier verification process. As we can all imagine and have witnessed in numerous cases, these protection measures are easily circumvented by any motivated fraudster. Independent credit checks and protections are listed as optional by GSOL suppliers (see here: <http://www.globalsources.com/SITE/QUALITY.HTM>)

When it comes to buying products on GSOL’s website, the mantra buyer beware cannot be stressed more. The critics have certainly expressed their scathing opinions of the protection measures the Company has used to combat fraudulent suppliers. A simple web search reveals numerous customer complaints from bad experiences on GSOL’s website, even from suppliers purported to be ranked highly.

“I had a bad experience getting connected by GlobalSources.com to a Chinese company CATIC. The company CATIC had none of the capabilities listed on GlobalSources.com who gave the top rating as a “verified supplier.”

<http://www.ripoffreport.com/business-consulting/globalsources-com/globalsources-com-global-sourc-3f6ee.htm>

One exceptionally dissatisfied customer even posted his own report of his customer experience on the internet entitled “Global Sources: A Pirates Nest Covering Pirates”

http://www.angelfire.com/globalsources.com/Globalsources.com_bloody_pirates.pdf

The dissatisfaction with GSOL’s website is not limited to their inability to curtail cases of fraud. The reviews on Alexa.com shows a preponderance of 1 star ratings of the site, and point to user dissatisfaction with the website’s functionality and pricing.

“I have an account at this site for over a year. Customer service is relatively quick to respond and professional. However, the user interface for sellers and manufacturers trying to list their products and create categories is one of the worst designed I had ever experienced and I've designed and created about three dozen web sites in my career so far. Trying to remove a product is a nightmare. Their product creation tools are simply very poorly designed.”

“I used the website 2 years, but not enough buyers contact me. It's very expensive. I will not use it.”

“Basically, Global Sources charges a lot and offers little. Look at the following 5 star rating from a user about Global Sources. It is an exact copy of a marketing statement and slogan by one of its competitors. Global Sources copied it!”

Source: <http://www.alex.com/siteinfo/globalsources.com#>

Global Sources' Unusual Financial Reporting

GSOL has the most unusual financial practices of all the companies we have looked at over the years.

For starters, let's consider their recent change in accounting standard. The Company adopted IFRS effective as of, and for the fiscal year ended December 31, 2010. For the previous 10 years as a public company, GSOL reported under U.S. GAAP. The move strikes us as unusual given that the adoption is completely voluntary. We've not seen any companies recently undertake a voluntary switch of standards. Our research indicates ~8% of US listed Chinese companies with market capitalizations between \$100m to \$1bn report under IFRS (Appendix 1). The time and cost involved with implementing the change are not trivial and require an experienced and dedicated internal team of finance professionals to properly oversee. The Company has not announced any external management hires in the finance department, nor have there been additional disclosures of the steps taken to oversee proper implementation.

What we have seen at the executive level, and at the CFO role in particular, at GSOL does not inspire confidence. For starters, the Company has switched CFO's three times since 2009. The long-time CFO Eddie Heng announced his retirement in 2009, and was replaced by a company-outsider David Gillian. We raise a cautionary point that Mr. Gillian then left the CFO position and the Company in less than 1 year to "pursue personal business opportunities." Eddie Heng returned for a brief interim period, and was then replaced by another company insider, Connie Lai, who has had a short tenure of only 3 years at the Company. Given the revolving door at the CFO position, and somewhat capricious change to IFRS, we have a skeptical posture towards the financial reporting. The recent executive turnover has not been limited to just the CFO role. In the past few months, the CEO, CIO, and COO have all been shuffled around, and 1 Board member has resigned.

Connie Lai CFO Appointment

<http://www.sec.gov/Archives/edgar/data/1110650/000095016210000220/ex1.htm>

Interim CFO Appointment

http://www.sec.gov/Archives/edgar/data/1110650/000092189510000854/ex1to6k04552_05242010.htm

David Gillian CFO Appointment

http://www.sec.gov/Archives/edgar/data/1110650/000092189509002042/ex1to6k04552_07012009.htm

New CEO Appointment

http://www.sec.gov/Archives/edgar/data/1110650/000114420411048288/v232761_ex1.htm

CIO and COO shuffle

http://www.sec.gov/Archives/edgar/data/1110650/000114420411031990/v223942_ex1.htm

Board Member Retires

http://www.sec.gov/Archives/edgar/data/1110650/000114420411037110/v226785_ex1.htm

Why would GSOL consider a change to IFRS in the first place? The answer is not entirely clear because the Company does not disclose their reason for the change. One thing we do know is that IFRS accounting gives management more leeway in choosing accounting methods than GAAP. GAAP is a more rules based and rigid accounting standard. GSOL's business is certainly international, which could be a motivating factor, but there are plenty of international companies with US listings that conform to US GAAP, and would not switch to IFRS unless it were mandatory in order to avoid the time, cost, and aggravation. GSOL has plenty of U.S. shareholders too, so the accounting switch raises question marks.

It's also noteworthy that GSOL switched auditors not long ago in 2008 from Ernest and Young to PWC. The reason cited was "cost." Elevated audit fees can be a red flag of problems to come for a company, say three recent academic studies that together warn about increased chances of fraud, stock price declines or financial restatements.² GSOL's reported audit fees doubled between 2006 and 2007, and again rose sharply from 2009 to 2010, even though their underlying business hardly changed. An even more interesting observation is that GSOL's fees for tax work were a paltry \$2,000 in 2006, 2007, and 2009. For a mere \$2,000 investment (yes two thousand dollars), GSOL has received tax planning, and advice that has allowed them to pay an average effective tax rate in the past 5 years of 3.22%. This is quite a striking accomplishment considering that GSOL is the only company we can find incorporated in Bermuda, has 61 subsidiaries in 16 different jurisdictions, yet reports doing nearly 80% of its business in China. To analyze just how remarkable their tax achievements are, we've also included our benchmarking results in Appendix 1. The results certainly beg the question: If GSOL has identified a great tax strategy to pay consistently low taxes, why hasn't every other company followed?

GSOL Audit and Tax Analysis						5 Yr
\$ in millions	2006	2007	2008	2009	2010	Average
Audit Fees	\$0.427	\$1.211	\$0.694	\$0.777	\$0.959	\$0.814
Audit-related Fees	0.000	0.000	0.000	0.000	0.142	0.028
Tax Fees	0.002	0.002	0.076	0.002	0.027	0.022
Other Fees	0.283	0.192	0.000	0.000	0.000	0.095
Total Fees	\$0.712	\$1.405	\$0.770	\$0.779	\$1.128	\$0.959
Revenues	\$113.097	\$125.818	\$142.129	\$113.775	\$122.203	\$123.404
% of sales	0.63%	1.12%	0.54%	0.69%	0.92%	0.78%
Profits Before Tax	\$30.43	\$26.35	\$28.80	\$15.41	\$27.30	\$25.66
Income Taxes Paid	\$0.586	\$0.747	\$1.184	\$0.498	\$1.117	\$0.826
Effective Tax Rate	1.93%	2.83%	4.11%	3.23%	4.09%	3.22%

Source: Company filings

Lastly, we note that the recent audit opinion was signed from PWC's Singapore office, which again raises eyebrows considering GSOL is the only Chinese listed company we could identify that is audited from this location. PWC certainly has branch offices in China; both of GSOL's closest peers, Alibaba and HC international, are audited from the PWC Hong Kong office.

PWC Accountant Change

http://www.sec.gov/Archives/edgar/data/1110650/000095016208000361/ex_1.htm

List of Subsidiaries

http://www.sec.gov/Archives/edgar/data/1110650/000095016211000146/exhibit8_1.htm

² Corporate audit fees up? Beware of trouble ahead: <http://www.reuters.com/article/2011/10/10/accounting-audit-fees-idUSN1E79806W20111010>

Our concerns over GSOL financial reporting does not stop here. Turning our attention to the presentation of the income statement, we have found something so unusual that we've never seen in our entire investing career spanning decades. GSOL does not report any information on its cost of sales directly related to revenues, and hence no presentation of its consolidated gross profit. It is inconceivable to us that GSOL does not present costs that are directly related to generating revenues for each of its reported revenue segments. As a result, investors cannot easily ascertain the contribution margin from each of their businesses.

	Year Ended December 31,				
	2004	2005	2006	2007	2008
	(In U.S. Dollars Thousands, Except Per Share Data)				
Income Statement Data:					
Revenue:					
Online and other media services	\$ 92,325	\$ 97,062	\$ 113,097	\$ 125,818	142,129
Exhibitions	13,010	14,300	42,122	51,608	58,179
Miscellaneous	511	832	1,262	4,633	6,584
Total revenue	105,846	112,194	156,481	182,059	206,892
Operating expenses:					
Sales (Note 1)	30,582	34,415	50,380	61,773	73,625
Event production	3,774	3,920	18,414	20,155	21,493
Community (Note 1)	17,983	20,726	24,885	27,086	30,488
General and administrative (Note 1)	31,395	34,666	38,945	44,167	47,525
Online services development (Note1)	4,564	4,235	4,499	5,703	5,992
Amortization of software costs and intangibles	1,480	1,335	1,250	193	193
Total operating expenses	89,778	99,297	138,373	159,077	179,316
Income from operations	\$ 16,068	\$ 12,897	\$ 18,108	\$ 22,982	27,576

Furthermore, the operating expenses lines are ambiguous and confusing. Take for example the "community" expense line which appears to be an amalgamation of expenses related to each of their revenue segments. The Company's description of community expenses is noted below.

"Community costs consist of the costs incurred for servicing our buyer community and for marketing our products and services to the global buyer community. Community costs also include costs relating to our trade magazine publishing business and marketing inserts business, specifically printing, paper, bulk circulation, magazine subscription promotions, promotions for our on-line services, customer services costs and the event specific promotions costs incurred for promoting the China Sourcing Fairs events and the technical conferences, exhibitions and seminars to the buyer community. The event specific promotion costs incurred for events are expensed during the event months in the year in which the expenses are incurred." Global Sources 20-F Annual Report

We could drill down even further but why belabor the main point: GSOL's financial reports should be viewed with extreme caution given the recent and unexplained accounting standard change, high CFO turnover, change in auditors, and highly unusual presentation of its income statement.

Global Sources' Unusual Financial Strategy

GSOL's financial strategy appears to indicate a tacit decision not to invest in the operating business, but rather filter the cash flow out of the Company and into non-core assets. The table below summarizes the Company's sources and uses of operating cash flow over the past five years.

GSOL Sources and Uses of Cash

\$ in millions

	Cash Sources		Cash Uses			
	Cash Generated From Operations	Equity Raise	Property Acquisitions	Capex	Stock Tenders	Business Acquisitions
2004	\$22.4	\$0.0	\$19.0	\$2.1	\$0.0	\$0.0
2005	20.5	40.5	0.0	7.3	0.0	0.0
2006	36.7	0.0	0.0	4.9	0.0	0.0
2007	60.6	0.0	7.0	4.3	0.0	3.1
2008	37.9	0.0	46.3	5.2	50.0	0.0
2009	30.1	0.0	0.0	1.4	0.0	0.0
2010	46.9	0.0	0.0	2.5	100.0	0.8
YTD 2011	NA	0.0	51.0	NA	0.0	4.0
Total	\$255.2	\$40.5	\$123.3	\$27.7	\$150.0	\$7.9

Source: Company filings

The one clear conclusion from this table is that GSOL has invested very little to grow their core business via acquisitions or investment in capital expenditures, but rather views share repurchases and property acquisitions as the most attractive return on its capital.

Two stock tenders were completed in 2008 and 2010. The first tender was for \$50m at \$8.00/share and the second for \$100m at \$9.00/share. These prices serve as handy high water marks for what GSOL's stock may ever be worth.

The more fascinating observation is that GSOL has reported acquiring nearly \$125m of property acquisitions since 2004 and just recently announced their largest acquisition ever of \$51m for property in Shanghai to support "future growth." The recent transaction is all cash, and no bank financing was used in the transaction. Despite the materiality of this transaction (representing over 20% of GSOL's assets), none of the purchase and sale contracts for this deal have been filed, or for any of their property transaction since 2004.

GSOL Announces Purchase of Shanghai Office

http://www.sec.gov/Archives/edgar/data/1110650/000114420411045465/v231687_ex1.htm

According to the press release, the location is close to Shanghai Hongqiao Airport, a regional transportation hub and metro stations. Additionally, we know that the location is in Changning District and the Company paid RMB 326m for 6,668 square meters, which is equivalent to 48,890 RMB per square meter, or \$700 per square foot.



Source: <http://map.baidu.com/?newmap=1&s=s%26wd%3D%25E9%2595%25BF%25E5%25AE%2581%25E5%258C%25BA%26c%3D2184&fr=alat0>

To those who are not familiar with Changning District, it is the part of Shanghai that spans the west part of the city. Hongqiao Airport is on its west edge. Three city belt ways, the Inner Loop, the Middle Loop and the Outer Loop, run through it and naturally further define the land in Changning district based on its locations relative to the belt ways. Not surprisingly, the land within the Inner Loop has the highest value and the land outside of the Outer Loop is the cheapest. GSOL's description of the real estate purchase puts the most likely location outside the Outer Loop, where Hongqiao Airport is. The second likely location is between the Outer Loop and the Middle Loop.

China's real estate sales are no secret. Soufun.com a (Nasdaq: SFUN) keeps many real estate records.

<input type="checkbox"/> 比较		<p>长宁馥邦中环广场 [在售] [新] 均价 27000 元/平方米</p> <p>物业类型: 写字楼 投资地产 Between the Middle and the Outer Loop</p> <p>物业地址: [中外环间]长宁北渔路46号 (近天山西路) 查看地图</p> <p>开发商: 上海茗嘉房地产发展有限公司</p> <p>业主论坛 (0) 团购人数 (0) 售楼电话 400-813-0000 转 67566</p>
<input type="checkbox"/> 比较		<p>旭辉虹桥国际 [在售] 均价 29200 元/平方米</p> <p>物业类型: 写字楼 投资地产 总部园区 Between the Inner and the Middle Loop</p> <p>物业地址: [中内环间]长宁通协路288弄 (近协和路) 查看地图</p> <p>开发商: 上海旭创置业有限公司</p> <p>业主论坛 (0) 团购人数 (1) 售楼电话 400-813-0000 转 59413</p>
<input type="checkbox"/> 比较		<p>中山万博广场 [在售] 均价 45000 元/平方米</p> <p>物业类型: 写字楼 地铁沿线 投资地产 Inside of the Inner Loop</p> <p>物业地址: [内环以内]长宁凯旋路1580号 (淮海西路680号) 查看地图</p> <p>开发商: 上海万博房地产开发有限公司</p> <p>业主论坛 (0) 团购人数 (0) 售楼电话 400-813-0000 转 60071</p>
<input type="checkbox"/> 比较		<p>大众金融大厦 [在售] 均价 26000 元/平方米</p> <p>物业类型: 写字楼 地铁沿线 投资地产 Inside of the Inner Loop</p> <p>物业地址: [内环以内]长宁延安西路1023号 (昭化路口, 延安西路高架旁) 查看地图</p> <p>开发商: 上海祥聆置业有限公司</p> <p>业主论坛 (0) 团购人数 (1) 售楼电话 400-813-0000 转 67567</p>

Source: <http://office.sh.soufun.com/SearchOffice/ci%C9%CF%BA%A3-di%B3%A4%C4%FE/sa1%2C4-ps10-nu1/>

Soufun shows all the office space currently on sale in the Changning District, only four of them – the top two listings are sponsored listings and do not belong to the district. No building is listed outside of the Outer Loop. The only one property between the Outer Loop and the Middle Loop is offered at RMB 27,000 per square meter. The most expensive one, which is located within the Inner Loop, is offered at RMB 45,000 per square meter, lower than the price paid by GSOL and in a much more desirable location.

The information provided by the Company on the real estate transaction is not consistent with our knowledge of the Shanghai real estate market and more information needs to be disclosed by the Company.

A list of all of their property acquisitions has been provided in the table below

\$ in million

Date	Location	Region	SqFt	Price US\$mm	Price / Sqft
August 2011	China	Shanghai	71,774	\$51.0	\$711
June 2008	Hong Kong	Southmark	22,874	11.9	520
May 2008	China	Shenzen	68,507	34.4	502
April 2007	China	Shenzen	20,875	7.0	335
June 2004	China	Shenzen	96,875	19.0	196
Owned Real Estate			280,905	\$123.3	\$439
Leased Real Estate			109,977		
Total Square Footage			390,882		

Source: Company Filings

Given our foregoing discussion about GSOL's business fundamentals, and observations that their capital allocation does not favor internal investment, how can we be confident that this property acquisition is truly to "support future growth?"

How can GSOL's management actually defend paying peak prices for a property in Shanghai when their business model is not one that even depends on owning real estate as a core asset, and there are indications that property prices are beginning to decline?³ After all, let's recall that their three businesses are print and online advertising, as well as organizing trade show exhibitions. The exhibitions are certainly not being held on these commercial properties, and management even discloses that they incur venue rental charges for hosting the conferences. Besides, their conferences are mostly held in Shanghai and globally at locations such as Miami, Dubai, and Johannesburg. Therefore, we can rule out that the property is actually being used for legitimate purposes related to their exhibition business. Does the Company need own almost 300,000 square feet of property to run a B2B website and trade publication business? We think the answer is certainly no.

³ China Housing Prices Inch Lower: <http://online.wsj.com/article/SB10001424052970203388804576618023919803638.html>

Let's now examine the property question from a different perspective by looking at the Company's workforce. The table below summarizes GSOL's historical employee composition in the past three years.

Global Sources Employees and Independent Contractors

Function	2008			2009			2010		
	Full-time	Independent Contractors	Total	Full-time	Independent Contractors	Total	Full-time	Independent Contractors	Total
Sales	33	2,656	2,689	10	2,142	2,152	41	2,365	2,406
Content Development	63	442	505	30	373	403	23	394	417
HR and Admin	48	61	109	49	49	98	47	67	114
Corp. Marketing	8	32	40	8	36	44	7	18	25
Community Development	80	91	171	67	93	160	60	83	143
IT	82	77	159	75	63	138	73	69	142
Corp Accounts	82	69	151	67	63	130	64	65	129
Office of the CEO, COO	8	0	8	10	0	10	13	0	13
Legal and Secretarial	6	4	10	6	4	10	6	1	7
Conf & Trade Show	42	66	108	37	66	103	39	82	121
Total	452	3,498	3,950	359	2,889	3,248	373	3,144	3,517

Source: Company filings

The two most striking observations are: 1) Almost 90% of the workforce is classified as independent contractors with almost 70% of the workforce being independent sales staff and; 2) Total headcount is still down by almost 450 people from the end of 2008 to 2010, which again calls into question why would GSOL spend \$51m on its recent property purchase.

Who are these independent contractors? According to Company disclosures, GSOL uses six main sales representative companies in mainland China which are responsible for approximately 71% of total revenues for the year ended December 31, 2010. Sales representatives are located in 60 cities worldwide, with 44 of these locations in Greater China. So what has us concerned with all of this? First, it appears that their property acquisitions have been concentrated in Shenzhen, which accounts for over 65% of their real estate square footage. This appears inconsistent with a globally dispersed sales force. Secondly, we assume that having an outsourced sales force is designed to reduce fixed costs and provide added labor flexibility. Therefore, owning real estate appears inconsistent with this strategy vis-à-vis the alternative of leasing office space, which if structured properly can allow them a cheaper and more flexible solution.

Attempts to contact management for answers to their vexing financial reporting and more information on their property purchases have so far gone unanswered.

Conclusion and Price Target

Global Sources does not appear to be a business that is run for the benefit of public shareholders. The financial strategies undertaken by the Company do not appear transparent and serve the prospects of maximizing shareholder value. Furthermore, there are indications that their underlying businesses are mature and facing significant headwinds, which may explain the recent executive turnover. The Company has determined that investing in Chinese real estate is in the best interest of shareholders, despite the fact that their business model does not appear to justify it from multiple perspectives. We are also concerned by their recent \$51m acquisition of Shanghai property at peak prices for no compelling reason. A complicated organizational structure and opaque financial reporting adds further doubt in our minds over the reliability of the financials. We arrive at a \$2.50 price target, the midpoint of our range, by giving full credit to the cash on the balance sheet, and discounting the value of the real estate, given our concerns on the legitimacy of the transactions and the illiquidity. We apply a generous 2x – 3x multiple to a through-a-cycle EBITDA to value the operating business, which we deem to be low growth, operating in a highly competitive environment, and difficult to evaluate due to limitations on financial disclosure.

\$ in millions

	Reported	Multiple Range	Estimated Value		
			Low	--	High
Cash	\$80	1.00x -- 1.00x	\$80	--	\$80
Real Estate at Cost	\$123	0.50x -- 0.70x	62	--	86
Opco EBITDA	\$30	2.00x -- 3.00x	60	--	90
Total Value	\$233		\$202	--	\$256
Book Value of Liabilities			(\$141)	--	(\$141)
Equity Value			\$61	--	\$115
Diluted Shares o/s			35.5	--	35.5
Value Per Share			\$1.70	--	\$3.25

Appendix 1

Analysis of Auditing and Accounting Standards for U.S. Listed Chinese Companies

US\$ millions

Company	Industry	Ticker	Equity Market Cap. \$mm	Country of Incorporation	2010 Effective Tax Rate	Auditor	Audit Location	2010 Audit+ Related Fees	Reporting Standard		Property / Buildings as % of Assets
									GAAP	IFRS	
Home Inns	Hotels	HMIN	\$1,000	Cayman	27.6%	PWC	Shanghai	\$1.34	x		1.2%
Spreadtrum	Semiconductors	SPRD	\$916	Cayman	10.8%	Deloitte	Shanghai	\$0.83	x		4.1%
eLong	Online Services	LONG	\$836	Cayman	25.0%	EY	Beijing	\$1.05		x	0.0%
WuXi PharmaTech	Medical R&D	WX	\$825	Cayman	21.2%	Deloitte	Shanghai	\$1.47	x		13.0%
China Lodging	Hotels	HTHT	\$734	Cayman	20.5%	Deloitte	Shanghai	\$0.38	x		2.6%
Tal Education	Private Education	XRS	\$671	Cayman	9.7%	Deloitte	Beijing	\$1.00	x		0.0%
China Real Estate Info	Online Services	CRIC	\$688	Cayman	9.6%	Deloitte	Shanghai	\$0.81	x		0.0%
AutoNavi	Navigation Services	AMAP	\$625	Cayman	16.5%	Deloitte	Beijing	\$0.85	x		11.9%
21Vianet Group	Computer Services	VNET	\$583	Cayman	NM	EY	Shanghai	NA	x		0.5%
PerfectWorld	Gaming	PWRD	\$560	Cayman	9.6%	PWC	Beijing	\$1.53	x		1.8%
Asia Info-Linkage	IT Services	ASIA	\$543	US	11.0%	Deloitte	Beijing	\$2.05	x		0.1%
Ambo Education	Private Education	AMBO	\$475	Cayman	15.0%	PWC	Beijing	\$1.50	x		12.4%
Noah Holding	Financial Services	NOAH	\$460	Cayman	29.4%	Deloitte	Shanghai	\$0.50	x		0.0%
China Kanghui	Medical Devices	KH	\$430	Cayman	6.7%	EY	Shanghai	\$0.62	x		2.0%
E-House China	Real Estate Services	EJ	\$430	Cayman	36.6%	Deloitte	Shanghai	\$1.56	x		0.2%
RDA Microelectronics	Semiconductors	RDA	\$425	Cayman	12.0%	PWC	Shanghai	\$0.54	x		0.0%
E-Commerce Dangdang	Online Services	DANG	\$390	Cayman	NM	EY	Beijing	\$0.90	x		0.0%
Jiayuan	Online Services	DATE	\$378	Cayman	37.5%	PWC	Beijing	NA	x		0.0%
iSoftStone	IT Services	ISS	\$340	Cayman	NM	Deloitte	Beijing	\$1.60	x		0.0%
Hollysys Automation	Industrial/Automation	HOLI	\$309	BVI	11.2%	BDO	Hong Kong	\$0.55	x		9.0%
VancelInfo Tech.	IT Services	VIT	\$299	Cayman	7.8%	Deloitte	Beijing	\$1.18	x		0.0%
Synutra	Food Processing	SYUT	\$296	US	18.8%	Deloitte	Shanghai	\$0.86	x		13.2%
Zhongpin	Food Processing	HOGS	\$270	US	6.7%	BDO	Shenzen	\$0.71	x		33.6%
HiSoft	IT Services	HSFT	\$267	Cayman	13.8%	Deloitte	Beijing	\$1.07	x		0.0%
China Blood Cord	Medical Services	CO	\$260	Cayman	25.7%	KPMG	Hong Kong	\$0.78	x		9.6%
3S Bio	Medical R&D	SSRX	\$250	Cayman	21.1%	EY	Beijing	\$0.67	x		7.7%
Global Sources	Online services/media	GSOL	\$250	Bermuda	4.1%	PWC	Singapore	\$1.10		x	47.6%
China Zenix Auto	Auto Manufacturing	ZX	\$230	BVI	21.2%	Deloitte	Hong Kong	NA		x	18.7%
China Digital TV	Software	STV	\$220	Cayman	23.3%	Deloitte	Beijing	\$0.80	x		0.0%
7 Days Inn	Hotels	SVN	\$210	Cayman	23.0%	KPMG	Hong Kong	\$0.73	x		0.0%
Bitauto	Online Services	BITA	\$206	Cayman	NM	EY	Beijing	\$1.61		x	0.0%
Phoenix New Media	Broadcasting	FENG	\$187	Cayman	10.2%	PWC	Beijing	NA	x		0.0%
Taomee Holdings	Media/Entertainment	TAOM	\$186	Cayman	NM	Deloitte	Shanghai	NA	x		0.0%
China XD Plastics	Industrials	CXDC	\$180	US	42.0%	KPMG	Hong Kong	NA	x		2.5%
Xueda Education	Private Education	XUE	\$175	Cayman	8.8%	Deloitte	Beijing	\$1.41	x		0.6%
Country Style Cooking	Restaurants	CCSC	\$170	Cayman	18.8%	Deloitte	Shanghai	\$0.81	x		6.7%
SouFun	Online Services	SFUN	\$170	Cayman	22.4%	EY	Shenzen	\$1.22	x		0.0%
NeQin Mobile	Software	NQ	\$170	Cayman	NM	PWC	Beijing	NA	x		0.0%
ChinaCast	Private Education	CAST	\$150	US	34.9%	Deloitte	Beijing	\$1.00	x		24.5%
AirMedia Group	Digital Media	AMCN	\$150	Cayman	NM	Deloitte	Beijing	\$1.03	x		0.0%
China Biologic	Medical R&D	CBPO	\$146	US	20.3%	KPMG	Hong Kong	\$0.47	x		13.4%
Acorn Int'l	Retail/Media	ATV	\$130	Cayman	18.0%	Deloitte	Shanghai	\$0.70	x		5.0%
Camelot Info Systems	IT Services	CIS	\$125	BVI	18.0%	Deloitte	Beijing	\$0.51	x		0.7%
China Gerui	Industrials/Steel	CHOP	\$117	BVI	25.2%	UHY	Hong Kong	\$0.28	x		2.4%
Feihe Int'l	Food Processing	ADY	\$110	US	NM	Deloitte	Beijing	\$1.28	x		26.2%
Global Education & Tech.	Private Education	GEDU	\$105	Cayman	12.1%	PWC	Beijing	\$0.74	x		7.7%
Vision China	Media/advertising	VISN	\$105	Cayman	NM	Deloitte	Hong Kong	\$1.50	x		0.0%
Lentuo	Auto Dealerships	LAS	\$100	Cayman	28.1%	EY	Shanghai	\$1.00	x		10.6%
China Nuokang	Medical R&D	NKBP	\$100	Cayman	18.8%	EY	Shanghai	\$0.80	x		22.3%
Syswin Inc	Real Estate Services	SYSW	\$100	Cayman	26.1%	PWC	Beijing	\$1.27	x		3.3%
Maximum			\$1,000		42.0%			\$2.05			47.6%
Top 10 Percentile			\$674		29.4%			\$1.53	% of Total		19.4%
Top 25 Percentile			\$453		25.0%			\$1.27	GAAP	IFRS	9.6%
Average			\$341		19.0%			\$0.99	92%	8%	6.3%
Bottom 25 Percentile			\$170		11.0%			\$0.72			0.0%
Bottom 10 Percentile			\$110		8.8%			\$0.51			0.0%
Minimum			\$100		4.1%			\$0.28			0.0%

Source: Public Filings