

CHICAGO STOCK EXCHANGE ("CHX") BUYER - CHINA CASIN GROUP STOCK TRADING HALTED BY SHENZHEN STOCK EXCHANGE

**CHX OWNERSHIP TO POTENTIALLY FALL UNDER CHINESE GOVERNMENT CONTROL
CASIN GROUP DEFAULTED ON HUNDREDS OF MILLIONS OF DOLLARS STOCK COLLATERALIZED LOANS TO CHINESE GOVERNMENT CONTROLLED BANK ¹**

Opaque China Casin Group and owner/Chairman ShengJu Lu Hid Hundreds of Millions of Dollars in Collateralized Stock Loans with Chinese Government controlled, scandal-plagued HengFeng "Evergrowing" Bank.² Publicly traded Casin affiliate was halted by regulators.

Casin announces first year 2017 net profit down 81-85%, liabilities exceed shareholders equity, creating negative net worth.³ HengFeng Bank demands more collateral, Casin stock price has collapsed from \$69 Yuan to Zero - More than \$1 billion market value disappeared - *Google Finance* ⁴

This raises the substantial risk that CHX would become property of the Chinese government-owned HengFeng Bank when the bank collects on Casin's unpaid loans.



RESEARCH SUMMARY

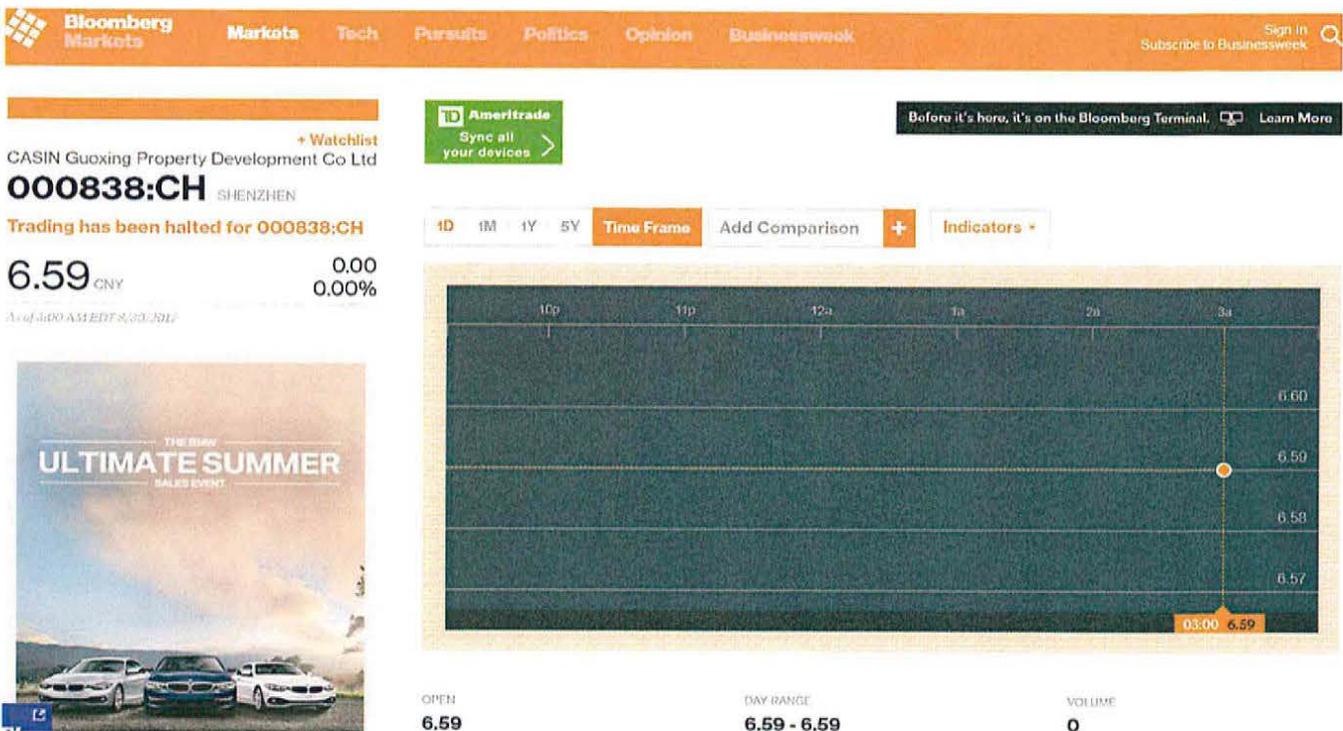
¹ See Bloomberg: Casin Group share price: "Trading has been halted for 000838:CH" <https://www.bloomberg.com/quote/000838:CH>.

² See Caixin Finance: "Hengfeng Bank Shaken by Management Feuds, Regulatory Inquiries." <http://www.caixinglobal.com/2016-11-22/101009986.html>.

³ See Reuters: Casin Guoxing Property Development sees FY 2017 H1 net profit down 80.9 pct to 84.9 pct. <http://www.reuters.com/article/brief-casin-guoxing-property-development-idUSL4N1K33WU>.

⁴ See Google Finance: Casin stock price chart: <https://www.google.com/finance?cid=703305>.

- ❖ On Feb 5, 2016, China's Chongqing Casin Group ("Casin") and Chicago Stock Exchange ("CHX") announced that CHX would be acquired by a brand new, empty shell, North American Casin Holdings, Inc. ("NA Casin") - touting Casin as a "diversified holding company."⁵
- ❖ Casin is owned/controlled by its non-English speaking Chairman ShengJu Lu, who was described by his non-English speaking deputy - NA Casin CEO, Yong Xiao in his comment letter to the SEC as the man who "owns and controls **Casin Development (Code: 000838)**, a public company on China's A share market."⁶
- ❖ Casin's Chairman, ShengJu Lu hid hundreds of millions of Dollars in Collateralized Stock Loans with Chinese Government owned, and scandal plagued, HengFeng "Evergrowing" Bank.⁷ Lu used the stock of Casin Development (000838) as collateral for cash loans to masquerade as a "diversified holding company," including money to acquire the Chicago Stock Exchange.⁸
- ❖ Since the delay of the CHX approval, Casin Development (000838) stock has crashed, its trading was halted by the Shenzhen Stock Exchange authorities, citing "massive, undisclosed collateralized stock loans by its largest shareholder - Chongqing Casin Group."⁹ Casin stock price dropped from \$69 Yuan to Zero. More than \$1 billion worth of market value was lost. See: *Google Finance*.¹⁰ *Bloomberg*.¹¹



⁵ See CHX press release dated February 5, 2016: *Chinese Investor Group to Acquire Chicago Stock Exchange*.

<http://www.businesswire.com/news/home/20160205005113/en/Investor-Group-Acquire-Chicago-Stock-Exchange>.

⁶ See *SEC Comment Letter Submitted by President of North America Casin Holdings, Inc.*, at *4 (March 1, 2017).

⁷ See Caixin Finance: "Hengfeng Bank Shaken by Management Feuds, Regulatory Inquiries." <http://www.caixinglobal.com/2016-11-22/101009986.html>.

⁸ See N.7., *infra*.

⁹ See Chinese government-run National Enterprise Credit Information Publicity System: <http://www.gsxt.gov.cn/index.html>.

¹⁰ See Google Finance: Casin stock price chart: <https://www.google.com/finance?cid=703305>.

¹¹ See Bloomberg, CASIN "Trading has been halted for 000838:CH": <https://www.bloomberg.com/quote/000838:CH>.

- ❖ Since then, Casin has announced first year 2017 net profit down 81-85%. Its liabilities exceed shareholder equity, suggesting a negative net worth, potentially teetering towards bankruptcy.¹²
- ❖ The Chinese government run HengFeng Bank has demanded more collateral from Casin and Lu. Casin has no collateral (the stock is worthless) to support the cash loan it took from the government bank, giving the Chinese government a lien over Casin and ShengJu Lu (who is also the father of proposed CHX "investor" Jay Lu, a student of Pasadena City College,¹³ whose father's debts are defaulting to the Chinese government-run bank.

THE CLASSIC STOCK "PUMP AND DUMP"

I. Casin Collateralized Loans From a Chinese Government Bank With Its Own Stock, Indirectly Mortgaged CHX to the Chinese Bank.

- ❖ On Feb 5, 2016, China Casin Group ("Casin") and Chicago Stock Exchange ("CHX") announced that CHX would be acquired by Casin, touting Casin as a "diversified holding company."¹⁴ But public data and stock charts indicate Casin appears to be a classic "pump and dump" penny stock manipulation that hinges on the outcome of the proposed Casin-CHX acquisition.¹⁵
- ❖ Within days of Casin's CHX acquisition announcement, the share price for Casin's only publicly listed subsidiary *Casin Development Co. Ltd.* (*Shenzhen Stock Exchange stock code: 000838, which went public via reverse merger in 2015*¹⁶) shot up 3,000% to RMB 69 (or \$10.46) per share from RMB 2 (or \$0.30) per share. This event was driven by news of the CHX acquisition, as per *Google Finance*.¹⁷
- ❖ Investment blogs in China tie Casin's CHX acquisition announcement to the hyped share price of Casin Development (000838).¹⁸
- ❖ Between March 2016 and May 2017, Casin's owner and Chairman ShengJu Lu borrowed hundreds of millions of dollars in cash from the Chinese government owned HengFeng Bank¹⁹, using his and his shell company Chongqing Hengyi Investment Co. Ltd.'s entire share holdings in the public vehicle ***Casin Development (code: 000838)*** as collateral for the massive stock loans.
- ❖ The source for this information is found by visiting the *official Chinese government operated national database: National Enterprise Credit Information Publicity System*²⁰, and entering

¹² See Reuters: Casin Guoxing Property Development sees FY 2017 H1 net profit down 80.9 pct to 84.9 pct. <http://www.reuters.com/article/brief-casin-guoxing-property-development-idUSL4N1K33WU>.

¹³ See Jay Lu's life journey school paper posted online as a student of Pasadena City College: <https://prezi.com/r-wqzzw4apry/rising-to-the-challenge/?webgl=0>.

¹⁴ See CHX press release dated February 5, 2016: *Chinese Investor Group to Acquire Chicago Stock Exchange*. <http://www.businesswire.com/news/home/20160205005113/en/Investor-Group-Acquire-Chicago-Stock-Exchange>.

¹⁵ See MSN Money: Casin stock chart, the classic "pump and dump." <http://www.msn.com/en-us/money/stockdetails/fi-137.1.000838.SHE>.

¹⁶ See Sina finance: History of Casin Development. <http://finance.sina.com.cn/realstock/company/sz000838/nc.shtml>.

¹⁷ See Google Finance: <https://www.google.com/finance?cid=703305>.

¹⁸ See Sina finance website, China's most popular financial news channel: <http://guba.sina.com.cn/?s=bar&name=sz000838>.

¹⁹ See Reuters: "China central bank finds 40 banks in violation of interbank rules." <https://www.reuters.com/article/us-china-banks-regulation-idUSKBN1AH2ZM>.

²⁰ See <http://www.gsxt.gov.cn/index.html>.

Chinese characters: 重庆财信企业集团有限公司, or registration number: 91500000202818791J²¹ The database returns the picture below (*translation added*):

公告时间	登记编号	Bank borrower / collateralized party: Shengju Lu	LENDER: HENGFENG Bank, Chongqing Branch	状态	操作
2016-04-26	500000001090804	重庆恒直投资有限责任公司	恒丰银行股份有限公司重庆分行	有效	详情》
2016-04-26	500000001090803	重庆恒直投资有限责任公司	恒丰银行股份有限公司重庆分行	有效	详情》
2016-04-26	500000001090790	重庆恒直投资有限责任公司	恒丰银行股份有限公司重庆分行	有效	详情》
2016-03-30	500000001090359	卢生举	恒丰银行股份有限公司重庆分行	有效	详情》
2016-03-30	500000001090357	卢生举	恒丰银行股份有限公司重庆分行	有效	详情》

公告时间	登记编号	Bank borrower / collateralized party: Shengju Lu	LENDER: HENGFENG Bank, Chongqing Branch	状态	操作
2016-10-25	500000001093922	卢生举	恒丰银行股份有限公司重庆永川支行	有效	详情》
2016-10-25	500000001093930	重庆恒直投资有限责任公司	恒丰银行股份有限公司重庆永川支行	有效	详情》
2016-05-24	500000001091176	卢生举	恒丰银行股份有限公司重庆分行	有效	详情》
2016-04-26	500000001090805	卢生举	恒丰银行股份有限公司重庆分行	有效	详情》
2016-04-26	500000001090800	卢生举	恒丰银行股份有限公司重庆分行	有效	详情》

Casin's Fraud on the SEC

- ❖ NA Casin CEO, Yong Xiao, aka "Jackson Xiao" has himself even publically touted Casin's ownership of Casin Development (000838) in filings with the SEC, claiming the company to be "healthy and worth \$1.3 Billion dollars."²² (picture below Xiao's March 1, 2017 comment letter to the SEC). The stock has been halted by regulators since May 2017, now is worth \$0.²³

²¹ See Chinese government-run National Enterprise Credit Information Publicity System: <http://www.gsxt.gov.cn/index.html>.

²² See [SEC Comment Letter Submitted by President of North America Casin Holdings, Inc.](#), at *4 (March 1, 2017).

²³ See Google finance: <https://www.google.com/finance?cid=703305>.

Chongqing Casin also has developed valuable mixed use property consisting of a five-star hotel, an IMAX cinema, restaurants, sports and leisure shops in Chongqing's *jiangbeizui* Central Business District.

Casin Real Estate Development Co. Ltd was founded in 1996, and it has the First Grade Real Estate Development Qualification and Property Management Qualification. It has developed projects in Beijing, Zhengzhou and Chongqing in China. It is the controlling shareholder (59.65% ownership) of Casin Development (Code: 000838), a public company on China's A share market (market cap: approximately \$1.3 billion).

Casin Property Management Co. Ltd manages a total of 30 million square feet of residential and commercial space and serves more than 100,000 residents.

To summarize, Chongqing Casin is a large, well-known and highly successful company in China. Mr. Lu is its Chairman, founder and controlling stockholder. Anyone wanting to learn more about Chongqing Casin is encouraged to review our website at <http://www.cqcasin.com>.

II. Casin Development is in Loan Default and Any Ownership of CHX by Casin Would Become Chinese Government Property, As Would CHX.

- ❖ As the CHX acquisition stalled with SEC and Congressional input, Casin's share price quickly collapsed. In May 2017, Casin shares trading on the ShenZhen Stock Exchange was halted by Exchange authorities. According to public data from Google finance, Casin's share price decimated to zero.²⁴ (See stock chart pictured below)²⁵:



²⁴ See Google Finance: "Casin Development Plunges 100%": <https://www.google.com/finance?cid=703305>.

²⁵ See ShenZhen Stock Exchange homepage: <http://www.szse.cn/main/en/marketdata/quotes/index.shtml?code=000838>.

- ❖ ShengJu Lu's proposed acquisition of the Chicago Stock Exchange was financed by the state-owned HengFeng Bank through its subsidiary, which lent cash to Casin to acquire CHX and other commercial interests.²⁶
- ❖ Casin's less-than-transparent collateralized stock loans are a funding scheme commonplace in China, explained in a June 2017 Reuters article titled "In China, Stock-for-Loans Under Stress as Markets Slide."²⁷ It is also public data located on China's National Enterprise Credit Information Publicity System.²⁸
- ❖ The loan from the Chinese bank was personally guaranteed by ShengJu Lu, with 97.8% of the stock he owns in his only public vehicle - Casin Development Co. Ltd.²⁹
- ❖ Artificially holding up Casin Development's stock price is directly related to ownership of the CHX by Casin Development, according to publically available investor message boards in China.³⁰
- ❖ The value of Casin Development stock skyrocketed to \$10.46 per share (RMB 69 Yuan) on the news of CHX's acquisition by Casin. Share price immediately cratered when the deal stalled. The stock chart below mirrors a classic "pump and dump" market manipulation.



- ❖ Casin share price has since fallen to zero, as trading of its stock was halted on the Shenzhen stock exchange (code: 000838) in May 2017.³¹
- ❖ Now that the stock guaranteeing the loan from the government bank is gone, Casin's owner and Chairman ShengJu Lu, along with Casin, must immediately repay that loan. This scenario mirrors

²⁶ See [SEC Comment Letter Submitted by President of North America Casin Holdings, Inc.](#), at *3-4 (March 1, 2017).

²⁷ See June 9, 2017 Reuters article: "In China, Stock-for-Loans Under Stress as Markets Slide". <http://www.reuters.com/article/us-china-collateral-stocks-insight-idUSKBN1900TA>

²⁸ See above: Chinese government company database: National Enterprise Credit Information Publicity System.

²⁹ See above: Chinese government company database: National Enterprise Credit Information Publicity System.

³⁰ See Sina finance website, China's most popular financial news channel: <http://guba.sina.com.cn/?s=bar&name=sz000838>

³¹ See ShenZhen Stock Exchange website: <http://www.szse.cn/main/en/marketdata/quotes/index.shtml?code=000838>

what led to the instant bankruptcies of Lehman Brothers - collateralized stock loans were immediately due when their underlying collateralized shares dropped below certain levels.³²

- ❖ ShengJu Lu and Casin are liable to the Chinese state bank for the loan to finance the CHX deal, which raises the substantial likelihood that CHX will naturally become property of the Chinese government.
- ❖ This scheme explains why Casin has used various Chinatown-based shell companies to own CHX (hiding their true ownership), and has never filed with the Chinese central bank seeking required regulatory permission to remit US dollar funding out of China to pay for the CHX acquisition.³³

CONCLUSION

CHX, CFIUS and SEC Division of Trading and Markets Missed The Casin Fraud But the SEC Commissioners and Congress Have Acted To Stop it.

Both Congress and the SEC seem to have understood the danger of such a murky transaction from its inception, helping CHX avert a major catastrophe down the road.

Congressman Pittenger and Commissioner Piwowar's observations that the Chinese business culture is "corrupt" and suffers from a major "lack of transparency," seem to have been accurate in terms of this proposed acquisition.³⁴

The SEC and Congress should be applauded for their prudence in desiring to stay and deny this transaction. Still, the larger question now stands as to how could CFIUS have missed the fact that CHX buyers Casin and ShengJu Lu, are actually subject to a lien by a Chinese Government run state-bank. CFIUS reform is urgently needed now to ensure the safety of American infrastructure from ownership by foreign governments .

When there's smoke, there's fire. There is plenty of both in this opaque Chinese acquisition of CHX. During his Senate confirmation hearing on March 23, 2017, SEC Chair Jay Clayton promised Congress he would "hold non-US acquirers to the same standards as U.S. acquirers, including disclosure standards." CHX and government officials were grossly misled in this Chinese deal that undercuts our market integrity.

It's time for the SEC to enforce our securities laws and shoot down this opaque Chinese export that does not conform to our disclosure standards. CHX should be thankful that the SEC Commissioners and Congress have saved this tiny stock exchange by rejecting this misleading Casin deal.

³² See Bloomberg: Lehman: One Big Derivatives Mess. <https://www.bloomberg.com/news/articles/2008-10-07/lehman-one-big-derivatives-mess>

³³ See Reuters: China's New Rules on Yuan Transfer: <http://www.reuters.com/article/us-china-yuan-idUSKBN14M032>

³⁴ *Chicago Exchange Sale Looks Shaky as China Tensions Rise*; David Michaels, Wall Street Journal (Aug 27, 2017).

Committee on Banking, Housing, and Urban Affairs
Nomination of Mr. Jay Clayton
March 23, 2017



Question 11

As you know, the SEC is currently reviewing the proposed acquisition of the Chicago Stock Exchange by a group of Chinese investors led by the Chongqing Casin Enterprise Group.

- Given Chongqing Casin's various business lines in China including property development, insurance, and municipal commercial banks, and its likely ties to the Chinese government, in your opinion, does the potential acquisition raise U.S. market integrity, transparency, and confidence concerns?
- If confirmed, what specific steps will you and your staff undertake to thoroughly review the near and long-term implications of Chongqing Casin's acquisition of a U.S. exchange?

It would not be appropriate for me to comment on a specific pending proposal. If confirmed, one of my goals will be to hold non-U.S. acquirers to the same standards as U.S. acquirers, including disclosure standards. If confirmed, I will work with the staff and my fellow Commissioners to review this and any other proposal for consistency with the standards set forth in our securities laws.