

BUSINESS INSIDER

Here's The Time That Muddy Waters May Have Got A Chinese Fraud Totally Wrong



Orient Paper CEO Zhenyong Liu

In the wake of accusations by short-seller Carson Block that it is a fraud company, Sino-Forest has called in independent investigators to look into the accusations, and denies the claims of trumped up timber holdings.

A recent probe by the Globe and Mail corroborates Block's findings.

But another target of Block's research, Orient Paper, recently won redemption after it launched an independent audit, in the wake of a damning research report issued by Block's firm, Muddy Waters.

For background, last year Muddy Waters published a report on Orient claiming it greatly exaggerated its revenue and assets, and had illegally pocketed about \$30 million since 2009. The report also made these allegations:

- ONP overstated 2008 revenue by 27x.
- ONP overstated 2009 revenue by 40x.

- ONP's claims about its top 10 customers support our fraud conclusion.
- ONP overvalues its assets by at least 10x.
- The value of ONP's Production Lines is greatly overstated.
- ONP's inventory is overstated by millions of dollars

Understandably, the stock nosedived by more than 50% on the report, and since January 2010 has plummeted 78%.

Orient then hired three independent firms to look into the allegations, including Deloitte, Loeb & Loeb and TransAsia Layers.

"That four-month investigation found no evidence to support the short-seller's claims," according to Bloomberg.

As a result of the finding, Orient is now urging other Chinese companies to do the same and "conduct the third-party independent investigation like we did [but] even better than us in order to shut others' mouths."

The CEO of Orient said he might take legal action against Muddy Waters, Bloomberg reported.

Despite what is ostensibly good news for Orient, there's been no positive repercussions for the shareprice today. In fact, the stock is down.

As for Sino-Forest, Blocks says he'll release more research on the company soon. Yesterday Paulson and Co. announced it had sold out of its Sino-Forest stake, ostensibly a win for Block, who's accused the Chinese forest plantation owner of being tantamount to the Madoff ponzi.

Incidentally, this morning he was the victim of a hoax targeting his firm: someone fabricated a fake news release saying Block and Muddy Waters had been charged with market manipulation by the SEC.