

# Sino-Forest Plunges as Short Seller Claims Timberland Holdings Overstated

By Matt Walcoff and Nikolaj Gammeltoft - Jun 3, 2011

**Sino-Forest Corp. (TRE)**, whose largest shareholder is hedge fund Paulson & Co., plunged a second day after a short seller said the forestry company overstated timberland holdings and production, an allegation it denied.

It sank 60 percent to C\$5.85 at 1:14 p.m. in Toronto. Sino-Forest fell 21 percent yesterday after Muddy Waters LLC, an investment firm run by Carson C. Block that's betting against Sino-Forest, [said](#) the company is a "fraud." Sino-Forest has lost more than C\$3 billion in market value since June 1.

"The latest reports from Muddy Waters have been unquestioned home runs," said Eric Jackson, a founding and managing member of Ironfire Capital LLC, a Naples, Florida-based hedge fund. "When he first started a year ago I didn't think his background was particularly well suited for the job, but he clearly knows China and he has built up a high-quality network of other short sellers and consultants."

Sino-Forest, based in [Hong Kong](#) and Mississauga, Ontario, said in a statement today that it will establish a committee of independent directors to examine the accusations.

"The allegations contained in this report are inaccurate and unfounded," Allen Chan, Sino-Forest's chief executive officer, said in a statement. "[Muddy Waters](#)' shock-jock approach is transparently self-interested and we look forward to providing our investors and other stakeholders with additional information to rebut these allegations."

## Land Holdings

Muddy Waters, based in Hong Kong, said the amount of land the company said it bought from Lincang City in China's Yunnan province doesn't match city records.

**"I find it hard to believe they would ever publish a report like this in such a sensational way without knowing what they're talking about," said Daniel L. Bain, who oversees about C\$400 million (\$408 million) as chief investment officer at Thornmark Asset Management Inc. in Toronto.**

Regulators and investors have increased scrutiny of Chinese companies trading in [North America](#). The U.S. Securities and Exchange Commission began an investigation last year into the use of reverse takeovers, in which a closely held firm becomes public by purchasing a shell company that already trades. The Bloomberg Chinese Reverse Mergers Index of U.S.-listed stocks fell 38 percent this year through yesterday.

## Rino, China MediaExpress

Block has made allegations of financial-statement manipulation against [Rino International Corp. \(RINO\)](#) in November and [China MediaExpress Holdings Inc. \(CCME\)](#) in February.

Nine days after Block's report, Rino, a provider of water treatment systems for steelmakers, said two years of financial statements aren't reliable. China MediaExpress's auditor, [Deloitte Touche Tohmatsu](#), resigned five weeks after Block's accusations, saying it was "no longer able to rely on the representations of management." MediaExpress's chief financial officer resigned later the same month.

C.V. Starr, the [investment company](#) owned by former American International Group Inc. Chief Executive Officer Hank Greenberg, was among China MediaExpress's largest owners together with New York-based hedge fund D.E. Shaw & Co. and Goldman Sachs Group Inc.,

according to data compiled by Bloomberg. Shareholders in Rino included Julius Baer Group Ltd., [Switzerland](#)'s fifth- biggest money manager, and the Colorado Public Employees Retirement Association.

Paulson

Paulson & Co., [John Paulson](#)'s New York-based hedge fund that made \$15 billion in 2007 betting against subprime mortgages, owned 34.7 million Sino-Forest shares as of April 29, according to data compiled by Bloomberg.

Shares of China Forestry Holdings Co., partly owned by Washington-based private equity firm [Carlyle Group](#), have been halted since Jan. 31, when KPMG International identified what the company called "possible irregularities." On April 29, the company said its former management team faked bank documents.

"What you have right now is the forestry business in China is lucrative but it doesn't seem like anyone has been able to validate what they own, licenses, or the numbers," said Jeff Papp, a senior analyst for the \$250 million Oberweis [China](#) Opportunities in Lisle, [Illinois](#).

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