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China's muddy waters?

2012-12-18 14:30 [Caijing](#) Web Editor: yaolan [comment](#)

Recent attacks against a Chinese pharmaceutical firm in the latest case and liquor makers may have offered a clue to the nascent short-selling industry in China which appears to have taken shape.

Shares of Kangmei Pharmaceutical Co, once a darling of investors, plunged by the daily trading limit of 10 percent at the open on Monday, after it was targeted by Beijing Zhongneng Xingye Investment Consulting Co., in a similar attack like Muddy Waters's against Chinese companies.

Prices of the Shanghai traded shares are continuing falling on Tuesday from a mixture of a substantial selloff by investment agencies and sizable purchases by its biggest shareholders, after it was accused by Zhongneng of fraud in land purchases and constructions in a report, which contributed to at least 1.2 billion yuan worth of inflated assets which almost equals to its combined net profit generated from 2002 to 2010.

Zhongneng published the report with the Capital Week over the weekend, just days after it has helped fuel a liquor scandal in China by sucking a series of top-branded liquor makers into the testing field of excessive plasticizer.

Short-selling accusation

Some suspect there is money behind this to profit from short-selling, a sensation felt also in the liquor case. The Southern Metropolis Daily quoted a margin investment manager as saying that recent changes in margin trading and short selling of stocks, which is unusual, should be noted.

"Regarding that accusation of by Kangmei executives, that our company has pre-sold 6 to 10 million yuan in a short sale, our company's general manager Zhaobing has offered a clear response: such accusations are completely fictitious as neither the company nor stakeholders holds any short position in Kangmei's stock," the company said in a Weibo notification.

Described itself as "the first consulting corporation that focuses on corporate value in China", Zhongneng has reminded many of Muddy Waters which has dealt a series of blows to Chinese companies including Sino-Forest, New Oriental and Focus Media.

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Chinese media reported Zhongneng may indeed have links with Muddy Waters. According to the China Network, the company's caucus had worked for Muddy Waters, in charge of researches on oversea-listed Chinese stocks.

Earlier in April, Zhongneng accused LETV.com of forging financial data, forcing a suspension of shares of the online video portal.

China embraced short selling in 2010, but efforts to promote its use have been hampered by the limited number of shares available for qualified asset managers to borrow.

Short sellers sell borrowed shares in the hope of reaping a profit by buying the equivalent securities back later at a lower price and returning them to the lender.

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