On July 18th, a Motley Fool blog published a piece entitled "On China Sky One Medical." The blogger, Tim Hanson, claimed to have visited CSKI in Harbin, China, and told of visiting the company's production facilities with China Sky's CEO. Click <a href="http://www.asensio.com/CSKI/motleyfool.mht">here</a> to view the Motley Fool blog entry.

What is most interesting about Mr. Hanson's story is a response the blogger makes to asensio.com's critique of CSKI's accounting, particularly the company's incredible inventory claims. (Click <a href="http://www.asensio.com/Reports/ReportView.aspx?ReportId=942&CompanyId=165&CompanyName=China+Sky+One+Medical%2c+Inc.&IsArchived=false">here</a> to see the inventory report.) The blogger writes, "The excuse for the lean inventory... is the company gets its raw materials from a company run by the CEOs brother. Thus, they get all sorts of related party benefits (so it goes in China)."

The supposedly well-informed report did not explain how CSKI "benefits" from the irregular undisclosed dealings, nor what the related party's motives and intentions are in allegedly providing such "benefits."

CSKI has never publicly disclosed information to investors about a supplier run by the CEO's brother, even after the asensio.com report on CSKI's irregular inventory accounting. By claiming to have received non-public insider information about China Sky's operations, Hanson tries to pass off the low inventory as a typical-in-China 'related party benefit.' Unfortunately, his remark only reinforces investor concerns and asensio.com's critique of the inventory levels and reinforces the suggestion that China Sky's irregular accounting may belie its stated revenues and earnings. To read asensio.com's prior report on China Sky's irregular accounting and reported results, click <a href="http://www.asensio.com/Reports/ReportView.aspx?ReportId=937&CompanyId=165&CompanyName=China+Sky+One+Medical%2c+Inc.&IsArchived=false">here</a>.

If China Sky does indeed use a related party supplier to keep inventory exceptionally, almost unbelievably, low, then China Sky is legally obligated to disclose the related party transactions, and the company's board of directors should take steps to ensure that no irregularities exist in the transactions that might, for instance, inflate reported earnings. As it stands, China Sky has made no disclosures of a related party. From the Motley Fool blog it seems CSKI's CEO has not only improperly disclosed non-public information, but has also asserted the materiality of the related party transactions.

This also reinforces the suspicion that China Sky's revolving-door auditor policy is inadequate to properly inform U.S. investors. Click <a href="http://www.asensio.com/Reports/ReportView.aspx?ReportId=932&CompanyId=165&CompanyName=China+Sky+One+Medical%2c+Inc.&IsArchived=false">here</a> to read asensio.com's report on China Sky's auditors.

Another report previously issued by asensio.com made the case that China Sky may have another undisclosed related-party relationship with one of the key suppliers of its slim patch product. Click <a href="http://www.asensio.com/Reports/ReportView.aspx?ReportId=947&CompanyId=165&CompanyName=China+Sky+One+Medical%2c+Inc.&IsArchived=false">here</a>.
to see this report.

This is not the first time a U.S. blogger has claimed to possess unusually detailed insider knowledge of the company. In April, an anonymous blogger on the Seeking Alpha website claimed to have a translated version of a 'clinical' study performed on China Sky's slim patch product. The blogger also published what he said was a direct statement from the company confronting allegations that it had been censured by the Chinese government for misleading advertising claims related to the slim patch product. To view the Seeking Alpha blog entry, click <a href="http://www.asensio.com/CSKI/seekingalpha.mht">here</a>.

The pattern of bloggers claiming to possess insider knowledge of China Sky is certainly unusual. If the company were to be deliberately passing material insider information to these bloggers in violation of SEC fair disclosure laws, it would be yet another reason to avoid buying CSKI stock.