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## *More on China Sky's 'Brotherly' Suppliers from Motley Fool*

On July 22nd, asensio.com released a report on China Sky One Medical, Inc. (NASDAQ: CSKI) concerning what may be an undisclosed related party relationship between CSKI and an unnamed supplier run by the brother of China Sky's CEO. [Click here](http://www.asensio.com/Reports/ReportView.aspx?ReportId=963&CompanyId=165&CompanyName=Report) to view the report.

The asensio.com report was based on statements made on a post on the Motley Fool website. The post stated: "The excuse for lean inventory (and not one that wholly provides peace of mind) is the company gets its raw materials from a company run by the CEO's brother. Thus, they get all sorts of related party benefits (so it goes in China)."

The post was not written simply by a blogger, as we initially thought, but by a Co-advisor for Motley Fool's Global Gains, a stock research service. Motley Fool Global Gains staff visited a number of companies in China, including CSKI, and provided reports to their subscribers, along with the postings available to the public.

Yesterday Motley Fool posted a new comment about its previous CSKI post and also made available to the public notes on the meeting with CSKI management.

In the update on the original post ([click here to view](http://www.asensio.com/CSKI/MF_updated.mht)), the writer states, 'I've been contacted by the company's [CSKI's] IR firm and said we interpreted the quote wrong vis a vis the relationship between CSKI and one of its suppliers. In fact the companies are "close as brothers," but not necessarily blood related.'

Whether a supplier is a brother of the CEO, or "close as a brother," the remark by China Sky management and the follow-up from China Sky's IR firm are both highly irregular, and raise questions about this supplier relationship. It appears the IR firm likewise did not divulge the name of the brotherly supplier.

Motley Fool provided notes on the CSKI meeting, which included a Q&A with questions about asensio.com's critiques. The Motley Fool staff's notes paraphrase responses from CSKI management. The notes state, "In some sense U.S. investors are naïve when it comes to China. They have a hard time understanding that a supplier might be willing to make an arrangement where most of the inventory we need is held on their books until the last minute when we actually need it." [Click here](http://www.asensio.com/CSKI/MF_notes.mht) to view Motley Fool's notes on the CSKI meeting.

The remark from CSKI management, echoing one made during the first quarter conference call, is insufficient to explain the inventory irregularity, and points to the crux of the inventory's importance. Even if China Sky is somehow able to get its brotherly suppliers to hold inventory until "the last minute" when China Sky's customers need finished product, there is still the issue of storing the finished product inventory until it reaches retail locations, or until it is shipped to distributors.

If China Sky somehow also has a brotherly relationship with distributors, where all inventory is held for it off-its-books, China Sky must provide some incentive to these parties. China Sky does not describe any such incentives in its SEC filings.

A note on the last asensio.com report: Motley Fool Global Gains maintains that it provides independent research and that it has no position in China Sky, unlike the anonymous Seeking Alpha blogger cited in the last report who disclosed a long position in CSKI.