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AOB Deal Questionable Even Without Undisclosed Relationship between Chairman and Seller

As previously reported by asensio.com, American Oriental Bioengineering, Inc. (NYSE: AOB) paid nearly \$105 million in two separate transactions for Beijing-area property to a company that appears to be an undisclosed related party. [here](http://www.asensio.com/Reports/ReportView.aspx?ReportId=973&CompanyId=167&CompanyName=American+O here) to read the prior asensio.com report.

However, even without evidence of an undisclosed related party, many of the Wall Street analysts covering AOB were clearly surprised by the \$70 million Beijing property acquisition announced in January 2009. Many of the analysts openly questioned the company's decision to make the \$70 million expenditure. None of the analysts, though, connected the \$70 million transaction with the \$34.9 million transaction that occurred in the third quarter of 2008 and that appears to have been conducted with the same related party.

A Piper Jaffray analyst wrote in a report dated January 8, 2009, "AOB used approximately \$70m to purchase resort-style properties. We tried really hard, but still are not convinced that is a good use of capital that was intended for pharma company/asset acquisitions. We are downgrading the stock to Sell."

An analyst from Brean Murray Carret & Co. stated in a report dated January 12th that the purchase was "inconsistent with the company's core strength of pharmaceutical manufacturing and marketing," and that "a purchase of such magnitude is unnecessary, in our opinion."

Consistent with the Piper Jaffray analyst's remark that the properties were "resort-style," a later report from Brean Murray, dated March 10th, shows photos of the property AOB acquired: residential apartments, villas, and a club room.

AOB made no announcements to its US investors disclosing an intention to purchase Beijing real estate prior to the \$70 million transaction that reportedly occurred on December 31, 2008, the last day of the year. The 8-K announcing the \$70 million transaction does not include a purchase agreement and only offers an explanation for the purchase by stating, "AOB intends to use the properties as a Convention and Training Center."

No disclosure is made in AOB's press releases or SEC filings concerning the 'resort-style' nature of the properties. AOB provides no basic description of the 'villas' and residential apartments given by analysts who visited the property.

The 8-K also does not offer an explanation of why AOB management thought it necessary to spend \$70 million on a convention and training center in Beijing. AOB made no mention in press releases of the \$70 million transaction being connected to the prior \$34.9 million transaction. Furthermore, there is no indication from AOB's SEC filings of whether the \$34.9 million transaction for Beijing Development Area property is also for the purpose of a "convention and training center," or even whether the \$34.9 million was spent on a property separate from the 'resort-style'

property visited by analysts.

AOB management apparently felt it necessary to issue a press release two days after the January 8-K to give some justification for the \$70 million purchase. The press release, dated January 9, 2009, states that the property transaction positions the company "to secure government support in various forms." [Click here](http://www.asensio.com/AOB/AOB_Release.pdf) to see the press release.

The press release did not elucidate what forms of government support the company hoped to receive for its \$105 million expenditure or how the purchase of a "convention and training center" from an apparent related private party would dispose the Chinese government to provide extraordinary support to AOB's existing operations.

Describing the AOB property transaction, an Oppenheimer analyst wrote, "While we wish the investment had been made in core business acquisitions, the money didn't disappear into thin air," in a report dated January 8, 2009.

Given the questionable commercial value to AOB's business of the property and what appears to be a less-than-arm's-length relationship with the seller, it remains to be seen whether or not some of the money reportedly spent by AOB "didn't disappear into thin air."