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On the trail of the truth behind Sino-Forest

By MARK MacKINNON
 From Monday's Globe and Mail

Two weeks of travelling by car and plane to visit Sino-Forest offices, properties and partners in Yunnan lead to as many new questions as answers

The deepening mystery surrounding Canadian timber company Sino-Forest Corp. TRE-T leads to the regional capital of Kunming in China's Yunnan province and down Huashan West Road - to an address that doesn't exist.

That address, No. 125 - 129 Huashan West Rd., is listed as the office of a forestry company that sold 1,600 hectares of timber in Yunnan province to a Sino-Forest subsidiary in March. But the odd-numbered side of Huashan West Road ends at 81.

Finding the buyer, the Sino-Forest subsidiary, proves almost as elusive. The office is in a white three-storey building with a green Sino-Panel sign on Bai Tai Road on the northern edge of Lincang, the administrative centre of the region's forestry industry. But it's empty.

The curious transactions totalling \$6-million and inked on March 7 between a Sino-Forest subsidiary with an empty office and a seller with no address highlight the bigger questions surrounding Sino-Forest's dealings in southern China. Trying to penetrate Sino-Forest's complicated business in Yunnan can be like trying to spot the sun through the thick forests of oak, birch, pine and other timber that carpet the mountains in this sprawling region along China's border



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Sino-Forest, once Canada's biggest publicly-traded timber company, has seen its stock fall by 82 per cent since the June 2 publication of a report by a short seller, Carson Block of Muddy Waters LLC, that alleged large-scale fraud and overstatement of assets by the company.

The Globe and Mail reported on Saturday that Yunnan forestry officials say the company's claim that it controls almost 200,000 hectares in Yunnan province doesn't match their records. A key business partner, the intermediary in a Yunnan "master agreement" under which Sino-Forest says it conducted the bulk of its transactions there, told The Globe it has so far sold less than 14,000 hectares to Sino-Forest. Sino-Forest has said that it has almost completely fulfilled the 10-year master agreement signed in 2007, which gave it the right to purchase up to 200,000 hectares in the region via the intermediary, Gengma Dai and Wa Tribes Autonomous Region Forestry Co. Ltd. (also known as Gengma Forestry).

Senior forestry bureaucrats also told The Globe and Mail that there's no official valuation of Sino-Forest's properties, since the company has never applied to have an evaluation conducted by the local government. The Yunnan Forestry Bureau has since launched an investigation into the company's claims.

In e-mail responses to the Globe, Sino-Forest says it stands by its public statements regarding its holdings in Yunnan, and said it bought some assets from Gengma Forestry, and used Gengma Forestry as a purchasing agent to buy another 180,000 hectares of forest from other sellers. The company has denied all wrongdoing alleged by Muddy Waters and the board of directors has formed a committee to investigate.

Two weeks of travelling by car and plane to visit Sino-Forest offices, properties and partners in Yunnan, Hunan and Beijing - and interviews with forestry officials, industry experts and local residents - led to as many new questions as answers.

In the series of deals inked on March 7, the buyer was named as Sino-Panel (Yunnan) Forestry Co., the local affiliate of Sino-Forest, and the seller was listed as Yunnan Shunxuan Forestry Co. Ltd. of Huashan West Road.

No one on Huashan West Road recalls a forestry company ever having an office in the area. "If there was a company like this on Huashan West Road, I would know about it," said a member of the neighbourhood committee (a hyperlocal and usually omniscient arm of the ruling Communist Party) that is responsible for the street.

At the same time, neighbours say the office of Sino-Panel on Bai Tai Road sat empty until Thursday, June 2 - hours before Muddy Waters released the report that rocked investor confidence in Sino-Forest and sent its share price spiralling downwards. Then a moving van arrived at the long-vacant building and began unloading desks, chairs, power bars and Internet cables.

A week later, however, there was still no evidence of anyone working there, other than a squashed cigarette butt and a caulking gun that lay on the dirty tile floor amid the bare workstations.

"We wouldn't have noticed, but (on June 2) my car was blocking the moving van (and had to be moved). Before that, the building was empty," said Wu Jie, manager of the regional office of Fanhua Forestry Investments Development Co., which sits beside a massage parlour and an English training centre across the

street from the deserted Sino-Panel building.

Sino-Forest says its office was empty because they only incorporated their Lincang office at the start of the year. "The signing of the four contracts occurred after the registration of this new office but we haven't yet moved our staff to this location because we have been renovating the office space," the company said in a statement e-mailed to The Globe and Mail.

But other answers did little to shed light on who the company was dealing with in the March 7 transactions. Asked why Yunnan Shunxuan didn't have an office at the location listed on the four purchase certificates for the 1,600 hectares Sino-Forest bought, Sino-Forest gave another address.

This one turned out to be a 60-square-metre room in an apartment hotel, with no sign on the door indicating a business of any kind inside. The woman who answered the phone said she was Chen Xin, the company's sales manager. She confirmed that Shunxuan had indeed done business in the past with Sino-Forest. But she refused to answer any other questions.

A short flight and a long drive away in a remote corner of Hunan, another Chinese province, questions mount around a separate partner, Huaihua Yuda Wood. The company was identified on Chinese websites - including that of the Huaihua City Bureau of Commerce - as a subsidiary of Sino-Forest. Such a relationship with Huaihua Yuda Wood would have been a required disclosure when the Sino-Forest reported a 2007 transaction in which it paid \$68-million for just over 7,000 hectares of forest in Yunnan.

Sino-Forest denies that Huaihua is a related party, and has since made public a letter from Huaihua Yuda Wood asking that the website be corrected after apparently going unnoticed for almost five years (an application accepted by the local government, which acknowledged making an "error").

But again, it's a challenge trying to track down the real origins of the Sino-Forest partner. No street address is given for Huaihua Yuda Wood on the documents made available by Sino-Forest, only the name of a tiny township called Anjiang in southern Hunan province. There, locals say a company called Yuda did indeed own a crumbling sawmill in the area that has since changed hands.

Employees who remained behind at the mill after it was sold say they believed that Huaihua Yuda Wood was indeed a subsidiary of Sino-Forest. "There were Canadians here all the time back then," said an office worker who would only give her family name, Yi.

At the offices of Jiading, the Sino-Forest subsidiary in the nearby city of Dongkou, the story gets even more complicated. The factory manager says Huaihua Yuda Wood's operations are indeed in the same building as Jiading's. Yuda is a "cousin company," the factory manager explained.

But his boss, general manager Liu Zhiwei, denies that's the case and says Yuda Wood remains an independent company based in Anjiang, though he says he doesn't know its address or phone number.

An official with the Huaihua City Bureau of Commerce told The Globe and Mail by telephone Wednesday that Huaihua Yuda was no longer a legally registered company and that he could not provide any other information. But that same week, the seemingly defunct company wrote to the same commerce bureau, asking for and receiving a letter clarifying that it was indeed a separate entity from Sino-Forest.

The questions about Sino-Forest, which have made headlines in North America, have barely made a ripple here in the heart of its operations. None of the government officials, business people, forestry industry experts or local residents interviewed by The Globe and Mail in Yunnan and Hunan had heard anything about Muddy Waters or the allegations against Sino-Forest.

At Sino-Forest's real centre of operations in Yunnan, on the fourth floor of a converted hotel in the small but affluent town of Mengding, a harrowing five-hour drive through the mountains south of Lincang, the company's troubles seem to be little more than a rumour. Branch manager Shen Xe "heard something happened at the company, but I'm not certain what it is." Others among the company's 19 staff in Mengding professed complete ignorance.

Or perhaps the questions were just unwelcome. When the interview was over, local police were waiting in the parking lot. They questioned The Globe's reporter, and then attempted to follow his movements for the rest of the day.

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