

Hedge fund commissioned critical Silvercorp report in May

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VANCOUVER/TORONTO— Globe and Mail Update

Published Wednesday, Sep. 14, 2011 5:26AM EDT

Last updated Wednesday, Sep. 14, 2011 6:28AM EDT

A new short-seller report alleging improprieties against Chinese miner Silvercorp Metals Inc. ([SVM-T6.20-1.58-20.31%](#)) was commissioned by a hedge fund in May, weeks after the company's share price hit a record high alongside surging silver prices.

An analyst behind the report said the hedge fund was curious about the Vancouver-based company's high grade and low cost as compared to its peers.

"They wanted us to look into this," Dino Huang, a Shanghai-based analyst with International Financial Research & Analysis Group (IFRA) said in an interview. He would not reveal the identity of the hedge fund, or where it's based.

IFRA was part of a team of investigators and technical staff hired to conduct the report, which was released Tuesday by Alfred Little, a high-profile independent research that focuses on public companies operating in China.

The report alleges Silvercorp overstated its production, inflated the grade of silver it mines and failed to disclose that its largest customer is a related party.

It says provincial mining reports in China contradict the higher resource and production estimates Silvercorp released from its Ying mine, which Mr. Huang called "very suspicious."

Researchers also monitored the volume of trucks delivering ore to its Chinese mills and tested mined material that fell off trucks along the route from the ferry dock. More results are expected from those tests in the coming days to increase the sample size.

Mr. Huang said the report includes facts from their investigation that took place over several months this summer.

"We never said in the report that the company is a scam, or cooked the books," Mr. Huang said.

The report notes that some of its contributors have shorted Silvercorp stock, which Mr. Huang said is the unnamed hedge fund.

Silvercorp shares plunged 20 per cent to \$6.20 on the Toronto Stock Exchange on Tuesday, after having recovered from an initial hit earlier this month when an anonymous letter surfaced alleging the company was involved in a "potential \$1.3-billion accounting fraud."

Alfred Little said its report isn't related to the anonymous letter and the firm isn't aware of who wrote it.

Silvercorp has denied the accusations and said it's co-operating with police and regulators who are investigating both the allegations against the company and the anonymous letter. The new report will also be part of the investigation, an official with the British Columbia Securities Commission said Tuesday.

Silvercorp is the second Toronto-listed company with operations in China to be hit by allegations of fraud in recent months. In June, short-seller Carson Block of Muddy Waters released a report accusing Chinese forestry firm Sino-Forest Corp. of accounting fraud.

The Alfred Little report contains some similar allegations to the Muddy Waters report, which has led to a halt in trading of Sino-Forest shares as regulators cite evidence of fraud. The Ontario Securities Commission is looking into allegations that Sino-Forest may have misrepresented some of its revenue and exaggerated some of its timber holdings.

Allegations against Chinese firms targeted by short sellers have wiped billions from the market value of the companies. Silvercorp's stock has dropped 60 per cent from its record high of \$15.58 in April when silver hit a 31-year high of about \$49. The company's market capitalization is now \$1-billion, down from around \$2.7-billion at its peak.

The company's corporate secretary, Lorne Waldman, condemned the report before investors at the Rodman & Renshaw conference in New York on Tuesday.

"Ours is about as clean and as simple of a business, as you can get," Mr. Waldman said. "I really encourage everybody, find out the truth for themselves. This is an exceptional Canadian junior exploration success story – a company that was one of those lottery ticket companies that you see out there, but made real, and now somebody is trying to spread lies about it. Don't believe them, find out for yourself and act accordingly."

Alfred Little is also known for other recent reports on other Chinese companies including Puda Coal Inc.

In the spring, Alfred Little published a report alleging the company's chairman had misappropriated the company's assets. Puda Coal recently confirmed allegations that its chairman transferred ownership of its majority-owned Chinese unit to himself in September 2009 without seeking a formal shareholders' approval.