



# GLAUCUS RESEARCH GROUP 格勞克斯研究

*"A lie can travel halfway around the world while the truth is putting on its shoes."* - **Mark Twain**

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COMPANY: Asia Plastic Recycling Holding Limited | TWSE: 1337  
INDUSTRY: Plastic Recycling

*"The only thing necessary for the triumph of evil is for good men to do nothing."*

- Edmund Burke

On April 24, 2014, we [published our](#) investment opinion (the "Initial Report") on ASIA PLASTIC RECYCLING HOLDING LIMITED ("APR" or the "Company"), a People's Republic of China ("PRC") based producer of EVA (foam rubber) products. In our Initial Report, and in subsequent rebuttals, we presented independent, publicly available evidence indicating that, in our opinion, APR has made material misrepresentations regarding the scale and profitability of its business to Taiwanese investors and regulators.

After a three day visit to APR's headquarters, the Taiwan Stock Exchange ("TWSE") announced on May 2, 2014, that it had concluded a preliminary investigation of APR and that it was satisfied with the responses provided by the Company. While we are extremely disappointed with the results of the initial investigation, we are confident that once the TWSE and other Taiwanese authorities finish a full and complete investigation of APR, the evidence will vindicate Glaucus and its investment opinions.

Regulatory investigations into material misrepresentations by publicly listed companies take years in the United States and Hong Kong, and rightfully so, because regulators must conduct a detailed, lengthy and thorough investigation of the available evidence. In these jurisdictions, investigations take a long time because regulators obtain documents and records from many independent sources (tax bureaus/banks/customers/suppliers etc...) and do not rely solely on the limited disclosures of the very company under investigation.

In this case, the TWSE announced its findings after only a three day visit to APR, and one of those days was May 1st, a public holiday in China where banks, filings offices, tax bureaus, government offices and most corporations are shut down. We do not believe that it was possible in such a short time to obtain, review and analyze all of the independent evidence required to reach a fair, informed and correct conclusion.

We believe that any investigation of APR must include, at a minimum, an analysis and review of the following documents:

- The books and records of the Company, obtained directly from APR's offices, plus any supporting documentation (ledgers, invoices, receipts, records of cash transfers) authenticating the information disclosed by the Company in its Taiwanese filings.
- SAIC filings for all APR subsidiaries, obtained directly from local AIC offices, to verify that the financial statements contained therein are consistent with the information disclosed in APR's Taiwanese filings.
- SAIC filings for APR's top ten customers, including the financial statements contained therein, to ensure that the purchasing activity is consistent with the sales figures disclosed by APR.
- SAIC filings for APR's top ten suppliers, including the financial statements contained therein, to ensure that the sales reported to SAIC offices are consistent with the purchasing activity disclosed by APR.
- Historical bank statements, obtained by physically visiting the bank headquarters (not the local branch, which in the [case](#) of Longtop Financial, was shown to be corrupt), to ensure that the cash balances and cash flows are consistent with the information disclosed by APR. It is critical that the investigator physically visits the bank headquarters to obtain such records, because there have been many examples of companies in the PRC, who under accusations of fraud, produce fake bank accounts, fake statements and other fake documents.
- Tax records, obtained directly from the local tax bureau, to ensure that the taxes paid by APR are consistent with the taxes reportedly paid by the Company in its Taiwanese filings. Again, it is critical that such records are obtained directly from the tax bureau and not from the Company, as there are examples of company's producing fake tax receipts and invoices to deceive auditors, regulators and investors.

In addition, we believe that any investigation of APR must include the following steps:

- Surprise visit to APR's facilities to ensure that the production and activity is consistent with APR's disclosures in its Taiwanese filings.
- Hiring of an independent due diligence organization (such as Kroll) to conduct field interviews with APR customers, suppliers, employees, and the managers and employees of neighboring facilities to verify APR's disclose level of output and production.
- Depositions or interviews with former employees to inquire whether APR has misled investors regarding the productivity, scale or profitability of the business.
- Depositions or interviews with senior executives to review the operations of the Company.
- Interviews with competitors to verify APR's claimed market share and production figures and to stress test APR's claimed margins.

It is absolutely necessary for any credible investigation of APR to **check with independent sources to verify the disclosures and representations of the Company**. Investors, regulators and the public should remember that almost every single publicly listed company which has committed fraud or made material misrepresentations **has conjured up documents, records, receipts, invoices, and a litany of excuses which supposedly vindicate the company against accusations of wrongdoing**. At the time of production, some of these records even appeared credible. But we know, now, that such records were simply fabricated by clever criminals with the experience and motivation to deceive investors, auditors and ultimately regulators. Likewise, every single fraudulent company that we have exposed to the market has protested its innocence, offered a number of explanations as to why our evidence should not be relied upon, and accused us of acting inappropriately.

It is entirely insufficient to simply rely on the very people accused of fraud or material misrepresentations to provide the documentation and evidence to form the basis of a judgment on the authenticity of their disclosures. We are therefore skeptical that the TWSE, in just two days (remember that on the third day of the investigation – all government offices in China were closed), was able to obtain the documentation necessary **from independent sources to thoroughly evaluate the authenticity of the Company's claims.**

For example, Glaucus published its first research report on March 8, 2011 (available on our website by clicking [here](#)) warning investors that SAIC filings, auditor and CFO turnover, outlying financial metrics and Chinese web traffic data indicated that UTA was vastly overstating the size and profitability of its business. On September 27, 2013, the United States Securities and Exchange Commission (“SEC”) announced fraud charges against Universal Travel Group (“UTA”), and its former CEO and chairwoman, Jiangping Jiang and its former director and interim CFO, Jing Xie. We believe that the investigation of UTA took **over two years** because American regulators did not simply rely on UTA's explanations (or documents provided by UTA), but conducted a thorough inquiry (including a review of independent sources and evidence) into the accuracy of UTA's disclosures.

In our experience, regulatory investigations Hong Kong are similarly thorough. On January 28, 2013, Glaucus published its investment opinion on China Metal Recycling (HK: 0773). On July 26, 2013, Hong Kong regulators announced that it would seek the forced liquidation of the Company. In that case, Hong Kong's regulators acted decisively to protect investors following a thorough and detailed **six-month** investigation into the company.

We spent hundreds of hours over 5 months to compile our research on APR. We question a preliminary investigation that reached a conclusion in two business days but remain confident that the TWSE and any other Taiwanese authorities investigating will reach the correct conclusion after a more thorough inquiry.

We stand by our research. We stand by our research methodology. We stand firmly behind our right, protected by law, to discuss our investment opinions (and the evidence on which we base such opinions) in a public forum.

We fear, based on the investigative process and the hostile stance to our right to discuss our opinions in the public forum, that participants in the Taiwanese market will be deterred in the future from sharing their opinions on a listed company. Rather than strengthening the market, such actions will chill the free flow of ideas and lead to a deep freeze in Taiwanese capital markets.

Capital markets are a marketplace of ideas, and a hostile response to the diverse opinions of short sellers serves only stop the exchange of ideas. The result, sadly, will be a decrease in the transparency in the market and a loss of confidence by investors (both in Taiwan and in the global financial community) that they can get the full story on a company before they make an investment in the Taiwanese market. Ultimately, **decreasing confidence in the integrity and transparency of the market will only hurt Taiwan, its investors and its citizens.**

**DISCLAIMER**

*We are short sellers. We are biased. So are long investors. So is APR. So are the banks that raised money for the Company. If you are invested (either long or short) in APR, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions and the underlying facts about the public companies we research is in the public interest.*

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