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April 23, 2009

China Sky's Defense: NASDAQ. NASDAQ's Response: No Comment.

China Sky One Medical, Inc. (NASDAQ: CSKI) issued a press release on April 21st responding to criticisms made by "short selling advisors." Though China Sky's release does not mention asensio.com, it seems that the release is directed at the asensio.com's reports on China Sky's many problems, including questions about the quality of its earnings, inconsistent figures for its gross margins and average selling prices, its history of four auditors in three years with each having been cited for deficiencies, and the problematic appointment of a 25 year-old to serve on the audit committee of the company's board of directors, among other issues.

The China Sky release states, "The Company stands by its full year basic earnings per share figures as represented on its April 15, 2009, earnings press release and filed in its Form 10-K." What is odd in this statement is the company's qualification that it "stands by" the full-year basic EPS figures. Why would the company say that it "stands by" one set of highly specific figures and not all the others? Is this another mistake? Or is the company using a sleight-of-hand to try to keep investors happy?

Surely a self-described "leading fully integrated pharmaceutical company" that is admittedly the questionable product of a shell deal and PIPE financing, which included several serial penny-stock promoters, can create a fuller, more detailed explanation of its accounting.

The China Sky release also notes that "the reports question the Company's ability to generate consistent gross margin, especially in light of volatile selling prices for certain products." But the release does not give a full explanation for the irregularity of the average sales prices and the margins. The release states, "This reports [sic] failed to note that overall average selling prices did not exhibit the same level of volatility, due to changes in the Company's diverse mix of 97 products, the growing contribution of new biochemical products and the discontinuation of lower priced contract products."

China Sky’s "overall average selling prices" statement is not clear. Average sales prices are typically only referred to for specific products.

China Sky fails to explain how a material amount of its sales can experience drastic changes in sales price, while overall gross margins remain constant.

China Sky's release also did nothing to address the company's selection of auditors, and why they chose their current auditor, a firm subject to an SEC sanction and a PCAOB inspection finding significant audit deficiencies. In 2007 alone, China Sky had three auditors at different times.

China Sky states, "The Company meets all corporate governance standards required by the NASDAQ stock market, including a board with a majority of independent directors and the establishment of audit, compensation and corporate governance and nominating committees." While this is a nice statement, there are certain problems with China Sky's supposed compliance. For instance, one of its independent directors was only 25 years old when elected last year, and serves on the company's audit committee as a "financial expert."

NASDAQ public relations was contacted on China Sky's NASDAQ claim. NASDAQ declined to provide an official response to China Sky's invoking its NASDAQ listing to defend the quality of its earnings and corporate governance. A NASDAQ listing qualification official stated, "NASDAQ does not publicly disclose regulatory communication with its listed companies."

Though China Sky is apparently keen to appear that they are defending their corporate governance, they need much more of a defense than a reference to NASDAQ compliance, which can't be verified.