Athenex – Where there’s smoke...

Athenex’s revenue generating business is a house of cards, muddled with further ties to large scale frauds, fabricated management credentials, and photoshopped offices.

October 23, 2019 – This follow up report focuses specifically on Athenex’s Polymed subsidiary, which accounts for a large portion of Athenex’s revenues and capital expenditure:

- Our investigations have found ties between Polymed and its management team’s ties to the largest taxol smuggling ring in history Hande Yunnan, resulting in 50 arrests and 32 imprisonments. Major perpetrators and shareholders of this scheme now work for Athenex.
- Polymed appears to continue sourcing its taxol from Hande Yunnan, despite the fact that our investigations show Hande Yunnan no longer taxol.
- Further inspection of Polymed’s management show inconsistencies in prior executive roles, specifically of William Zuo. Zuo was also the US liaison of bringing smuggled taxol to the USA.
- A deep dive into Chinese regulatory notes from the Ministry of Emergency Management, coupled with Polymed’s history of objectionable site inspections by Chinese regulators and the FDA, lead us to believe that Polymed’s manufacturing facility suspension was anything but voluntary. In any event, Athenex’s manufacturing facility does not manufacture anything.
- Viceroy dismantles photoshopped Polymed advertisements for its facilities and expose chemical manufacturing facilities we believe are non-existent or outsourced.

Viceroy remains short Athenex with high conviction. The quantum of red flags uncovered within the business and management team surpass any other company we have previously analyzed purely within data sourced from the public domain.

We reiterate our target price of $2.83, now representing a 75% downside, and will continue to keep investors informed through further reporting.

We conclude that Athenex exists to abuse capital markets and enrich its management through related party transactions and licensing deals, rather than bring revolutionary drugs into the market. This activity is masqueraded through overpromise in both its flagship drug, Oraxol, and its purported “supply-chain” businesses, such as Polymed.

Athenex is a perfect storm of investor deception, insider enrichment and clinical trial risks. Investors should demand a full investigation of the issues discussed within this report: we are confident there is more to this story given how much was available purely through the public domain.

Athenex’s operational and R&D cash-burn rate is over US$100m a year – the company would be lucky to survive until HY 2020 without needing a further cash injection from investors. Even if Athenex scrapped its R&D completely, the company’s revenue streams operate at a substantial loss.

Accordingly, we believe our valuation of $2.83 is optimistic, and will be realized in the short term. We do not see a future for the company in its current state. Viceroy’s preliminary report on Athenex can be found in the below link:

https://viceroyresearch.org/2019/10/22/athenex-too-little-too-late/
Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Athenex, its affiliates or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

About Viceroy

Viceroy Research are an investigative financial research group. As global markets become increasingly opaque and complex – and traditional gatekeepers and safeguards often compromised – investors and shareholders are at greater risk than ever of being misled or uninformed by public companies and their promoters and sponsors. Our mission is to sift fact from fiction and encourage greater management accountability through transparency in reporting and disclosure by public companies and overall improve the quality of global capital markets.

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1. Polymed & Yunnan Hande

This one is something of a rabbit hole.

Athenex subsidiary Polymed therapeutics appears to source its Taxol and other raw API from Hande Yunnan Biotechnology Co.

Hande Yunnan Biotechnology Co. Ltd. Was previously the second largest taxol supplier in the world, until the company was raided by Chinese authorities for illegally harvesting yew bark (the source of taxol), resulting in 50 arrests and 32 imprisonments, and setting a precedent against illegal harvesting which has resulted in hundreds of arrests since.

Polymed founder William Wei Zuo was the director of a US Yunnan Hande subsidiary as far back as 1995 implying his involvement in the smuggling and illegal sale of Taxol – in fact, Hande’s US distributor and Polymed even shared the same offices.

Wu Xiaojing, the American investor in Hande Yunnan and sister of its imprisoned Chairman at the time of its impropriety, continues to run alongside Zuo for Hande’s USA distributor, which now appears to operate as a subsidiary of Polymed. Her Facebook shows she is indeed an employee of Athenex.

More recent documents show Hande Yunnan continues to supply Athenex’s taxol.

On the ground checks at Yunnan Hande’s one remaining operating subsidiary show no evidence of taxol processing. This subsidiary, which used to harvest yew illegally, now owns a tent that dries tea leaves.

So where exactly does Hande, and therefore Polymed, get its raw material?

Yunnan Hande: corruption, smuggling, illegal sales

Taxol is the primary ingredient in the manufacture of paclitaxel and is distilled from the bark of the pacific yew. Removing the bark from the Yew tree causes it to die: 360,000 mature trees per year would be required for production of taxol as calculated by NCI’s Gordon Craig. As such the excessive harvesting and smuggling of yew bark is illegal in many countries, China included.

Yunnan Hande was one of China’s first and largest taxol suppliers and a joint venture 80% owned by Chinese American Wu Xiaojing until it was charged with:

- Illegally obtaining 55,519.12kg of yew bark extract and 10,765.475g of semi-finished product (chloroform)
- Fraudulently obtaining export licenses
- Fraudulently mis-labelling goods.
- Evading customs checks and inspections
- Illegally sold ~100kg of paclitaxel although the eventual buyers were not identified in the media.

Among the 32 arrests, Chairman Wu Jun was sentenced to 18 years imprisonment and a 2m yuan fine, President Li Song was sentenced to 9 years imprisonment and vice president Qi Wei was sentenced to 7 years prison. The period for these offences was between September 10, 1999 and November 2001, which will be important when showing the complicity of Zuo with this scheme.

We believe William Zuo, Athenex’s President of China Operations was implicitly involved with this entity and that Zuo facilitated and may continue to facilitate this scheme.

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Polymed’s connection to Hande Yunnan

The 2015 acquisition of Polymed Therapeutics secured Athenex supply of Taxol which it uses in its API operations. The importance of Taxol is highlighted in sell side reports and the raw materials disclosure in Athenex’s own 10K. Polymed represented about US$20m of the company’s ~US$90m current revenues in 2018.

![Figure 1 Athenex 10K - 2018](image)

Polymed itself does not appear to own any taxol production facilities but instead procure them from a third party: Yunnan Hande.

William Zuo: A “Hande” guy to know


![Figure 2 Texas Taxable Entity Search – Taxpayer number 17604765481](image)

Hande’s third party distributor in the US was Hande Tech Development Corp USA and shared the same address as Polymed until Polymed acquired the company in 2004, all the while Zuo was listed as the agent for each company.
The first archived copy of the www.handetech.com site dates to 1997, and touts Yunnan Hande as the key paclitaxel producer in China. There is also a profile for Hande Tech Development Co. USA, Inc, the owner and operator of the website.

**Hande Tech Development Co. USA, Inc.**

Hande Tech USA, located in Houston, Texas, was founded in August 1993, as the marketing subsidiary for Hande's products in North America, South America and Europe. This subsidiary also provides advanced technical support to Hande, by investigating viable projects to be developed in headquarters for the Chinese market.

Furthermore, Hande Tech USA has set up its own laboratory in USA, engaged in New Drug Discovery and its Preclinical Research and Development. This laboratory concentrates on drugs developed from natural products.

Yunnan Hande Technological Development Co. Ltd. (Hande) was founded in 1993. Hande’s headquarters and major facilities are located in the city of Kunming, the capital of Yunnan Province and one of the major cities in the Southwest region of China. This city is known as the scenic “Spring City” in China. The surrounding area possesses abundant botanical resources.

The company’s immediate goal is the manufacturing and marketing of high quality anti-cancer pharmaceutical products. Starting as a bio-technology research company in 1996, it gradually acquired sufficient venture capital, and consolidated with leading organizations in the field of advanced botanical chemical research, to excel in both extensive basic research and product development. Product development include product refining, product manufacture and raw material plantation. The company has engaged in the manufacturing of paclitaxel, a naturally occurring anti-cancer compound found in certain species of yew (Taxus) trees. Hande has been recognized as a leading company for its technical achievement, high quality products and market domination in China.

Since then, the company has expanded from producing pharmaceutical products, and diversified into many other areas:

- A key figure in natural bulk product manufacture
- An active member of the food refining industry
- An integral player in agriculture

Currently, Hande has the following joint ventures and subsidiaries:

- Yunnan National Institute for Technology and Economy
- Yunnan Hande Yunnan Forest Products Development Co. Ltd.
- Hande Tech USA, Inc.
- Hande Tech Beijing, Ltd.
- Hande Koning Trading Co. Ltd.
- Xishuang-Banna City of Credit Union Yunnan United Foods Co. Ltd.
- Hande Agriculture Development Co. Ltd.

**Figures 3 & 4 handetech.com archive dated December 21, 1997**

However the May 18, 2004 archive of www.handetech.com redirects to www.polymedt.com. The last link without a redirect is dated April 5, 2004. Comparing with the timeline of the events at Hande Yunnan we can see that this covers the period of Hande Yunnan’s illicit activities.

There is more evidence of complicity between Polymed: Hande Yunnan’s imprisoned Chairman’s sister, Wu Xiaojing, who was a major enough investor in Yunnan Hande to bear a mention in the media.

This company located in Kunming Jinding Technology Park, 80% of the shares are in the United States, the US investors for the United States are the Deyun company - Wu Jun’s sister, American Chinese Wu Xiaojing and other companies established in Texas, the main business is the operation of yew products. Before becoming a Chinese American, Wu Xiaojing worked in the

**Figure 5 The truth of the destruction of 100 kilograms of paclitaxel and dead yew**

Ms. Wu Li has actually represented herself under several names but helpfully used her full name in her Facebook profile.

Figure 6 Xiaojing Wu Li Facebook Profile

*Xiaojing Li* was appointed as a director and as our Vice President and Corporate Secretary as of February 11, 2008. Ms. Li is currently a Vice President of Polymed Therapeutics, Inc., a pharmaceutical manufacturing and distribution company she co-founded in 1995. From 1995 to 2001, Ms. Li also served as President of Hande Tech USA, a pharmaceutical manufacturing and distribution company. Ms. Li is a graduate of Xian Jiaotong University, Xian, China.

Figure 7 Inovachem 10-K 2009

We also have to applaud Ms. Wu Li for concealing her involvement with Hande Tech by misspelling it in her bio for Inovachem, a company that existed solely to purchase goods and services from Polymed founded by William Zuo. More information on Inovachem can be found in our previous report.

**Phantom pain**

We understand Hande Yunnan Biotechnology Co. Ltd (云南汉德生物科技有限公司) has remained Polymed’s supplier and business partner. Patent application CN102336726A filed September 30, 2011 by Polymed subsidiary Chongqing Taihao Pharmaceutical shows the company purchased taxol from Yunnan Hande.

Figures 8 & 9 Paragraph 70 from Patent CN102336726A and translation

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7 [https://www.facebook.com/xiaojing.w.li](https://www.facebook.com/xiaojing.w.li)
Of Hande’s 5 subsidiaries, 4 have been deregistered with one former taxol collection company still operating as a tea company, and has changed its name accordingly. The company’s profile on TianYanCha.com shows part of its mandate was the growing of yew trees.

Viceroy’s investigators found more complications on the ground in China. The following observations were made in Q1-Q2 2019. Investigators visited Hande’s remaining operation Jinghang Yikan Tea Co., Ltd (景洪市怡康茶业有限公司)

Yikan Tea turned out, predictably, to be drying tea.

The investigator questioned locals who confirmed that there were no yew trees at the facility although villagers remember yew production many years ago.

Investigators also visited Polymed’s Chongqing API factory. Note that this visit was prior to the voluntary temporary suspension of operations announced in Athenex’s 2019 Q2 10-Q (more on this later).

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According to observations, only finished/semi-finished products entered the facility.

These facts once again raise the question: where does Hande – and therefore Polymed – get their taxol from?

It is of further concern that Hande Yunnan have been slapped by the FDA for multiple objectionable offences in routine inspections of their facility, and lack of corrective action, as determined by the FDA.

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Figure 13 Extract - Chongqing Pharmaceutical Co’s occupational disease hazard assessment report

<table>
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<tr>
<th>District</th>
<th>Firm Name</th>
<th>City</th>
<th>State</th>
<th>Zip Code</th>
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<td>Drug Quality Assurance</td>
<td>OAI</td>
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</table>

Figures 14 & 15 – FDA Assessments of Chongqing facility & Classification Guide

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10 https://www.accessdata.fda.gov/scripts/inspsearch/index.cfm
2. Factory shutdown

In May 2019, Athenex advised that its Polymed facility in Chongqing was voluntarily suspended:

This statement released by Athenex is totally contradictory to its voluntary suspension: why would a resolution need to be had with the Department of Emergency Management of Chongqing if the suspension was voluntary?

A search of the Chinese Government’s Ministry of Emergency Management conversely showed that required local province investigators were advised to heavily scrutinize these types of plants upon back-to-back catastrophic disasters at two unrelated biochemical API factories, resulting in almost 100 deaths and hundreds of injuries.

We understand guidelines for investigations were established around April 2019, per the following link which can be translated directly from the Ministry of Emergency Management:

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12 [https://www.in-pharmatechnologist.com/Article/2019/06/10/Athenex-suspends-API-production-in-China](https://www.in-pharmatechnologist.com/Article/2019/06/10/Athenex-suspends-API-production-in-China)
Specifically, more recent communications from the Ministry of Emergency Management advised that the crackdown should not only be focused on the safety aspects, but also illegality of operations, following further accidents and biological plants:

http://120.52.31.79:7040/ezweb/ctrl/news/6EBBB0F1EE61094101EC8322EF96CD25

Most telling, however, is Polymed’s atrocious track record of safety inspections in the past. For instance, a 2017 review of Chongqing Pharmaceutical Co’s occupational disease hazard assessment report by the Chongqing Occupational Disease Prevention and Treatment Institute concludes that the risk of occupational disease hazards at the site are classified as “serious”:

![Figure 18 Extract - Chongqing Pharmaceutical Co’s occupational disease hazard assessment report](http://120.52.31.79:7040/ezweb/ctrl/news/D1BE086F5A667038644C0C910329AF2D)

Reviews by the FDA also reported objectionable conditions/practices were found during inspections, similar to Hande, who we maintain is a supplier of Polymed:

![Figure 19 & 20 – FDA Assessments of Chongqing facility](https://www.accessdata.fda.gov/scripts/inspsearch/index.cfm)

![Figure 19 & 20 – FDA Assessments of Chongqing facility](https://www.fda.gov/inspections-compliance-enforcement-and-criminal-investigations/inspection-references/inspections-database-frequently-asked-questions#classification)

Given its track record, we are cynical that Polymed’s voluntary suspension was voluntary at all, and believe the company will face heavily scrutiny both for its current and past failures in corporate governance and health and safety.

3. Show me what you got?
All else excluded, we have put together a comparison on what Athenex would like you to believe they run, versus the actual state of operations within Polymed.

Here is Polymed’s website:

http://polymedt.com

As you will see, the company boasts headquarters in Houston, manufacturing plant in China, and offices in Japan.

**China**

The company’s manufacturing location is listed in Changshou National Chemical Industry Zone, with “communal facilities”. The depiction of the factory, however, is completely fabricated:

![Glimpse of Company](image)

*Figure 21 – Extract from Polymed website*¹⁶

This is hard to spot unless you blow up the image, in which Athenex have blatantly photoshopped their name to a building, photoshopped a garden and bushes out front, and photoshopped a US American flag on a pole outside. Further, it is laughable that this “communal facility” is entirely “branded” as Polymed Therapeutics.

Inspecting a bird’s eye view of the surrounding area of the site, nothing appears to resemble the photoshopped facility:

![Figure 22 – Google Maps view of Polymed Japan Site](image)

**Houston**

The Houston Headquarters of Polymed, depicted below, are not actually the headquarters of Polymed:

![US Headquarters](image)

Polymed Therapeutics is a wholly owned US corporation, headquartered in Houston, Texas. Very early on, we recognized and captured the strategic niche of being a US pharmaceutical company with manufacturing in China.

![Figure 23 – Extract from Polymed website](image)

A simple reverse image search of this location identifies it as 3050 Post Oak Boulevard\textsuperscript{19}, a much, much nicer office than Polymed’s actual headquarters, 4 miles away, at 6200 Savoy Drive, Houston.

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{Figure_24_Google_Maps_Streetview_of_Polymed_Japan_Site.png}
\caption{Google Maps Streetview of Polymed Japan Site\textsuperscript{20}}
\end{figure}

Japan

In a laughable over exaggeration, Polymed shows depicts the Nagayo Bridge\textsuperscript{21} over the Tokyo skyline as its frame for their Japanese “IT Chemical Specialist” site, which allegedly custom manufactures pharmaceutical and specialty chemicals.

\textsuperscript{19} https://42floors.com/us/tx/houston/3050-post-oak-blvd
\textsuperscript{20} http://polymedt.com/index.php?option=com_content&view=article&id=63&Itemid=58
\textsuperscript{21} https://www.pixtastock.com/photo/37786658
Japan Polymed - Your IT Chemical Specialist

Japan Polymed specializes in Custom Manufacturing, and serves the Japanese and other Asia markets of Pharmaceutical and Specialty Chemicals. Our team of scientists is expert in the whole range, from R&D, pilot scale, to industrial scale manufacture. Being flexible and fast, our plants achieve extremely complex and simple synthesis, large and small demands.

Our main reactions cover:

<table>
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<tr>
<td>Acylation, Amidation</td>
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<tr>
<td>Amination (Reductive)</td>
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<tr>
<td>Asymmetric Synthesis</td>
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<tr>
<td>Azide Reactions, Butyl Lithium Chemistry</td>
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<tr>
<td>Carbohydrate Chemistry</td>
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<tr>
<td>Claisen Rearrangement</td>
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<td>Cryogenic Reactions</td>
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<td>Heterocyclic Synthesis</td>
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We sincerely doubt that Polymed can pull this off from its tiny, residential location, which isn’t even in Tokyo!

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4. Fibrocell & Zuo – The man who wasn’t there

It’s a lot easier to say you did something than to actually do it. William Zuo’s Athenex bio says he was the CEO of the Chinese operation for Fibrocell (NASDAQ:FCSC) from 2010 to 2013 and introduced the LaViv cell therapy product to the market. This is a mixture of untruths and outright lies.

There is no mention of Zuo in any of Fibrocell’s SEC filings for the period except for his sale of shares in the company’s prospectus in which he is not mentioned as an employee. The Asia section is a little stranger.

On November 3, 2010 Fibrocell announced the establishment of a joint venture with Hefei Meifu Bio-Tech Limited Co. for development and marketing of its products in Asia. This was the first mention of Asia in the company’s announcements. Coincidentally, Hefei Meifu Bio-Tech manufactures and distributes APIs including paclitaxel and docetaxel.

No website, Chinese name or other identifying information was ever given for Hefei Meifu Bio-Tech. The company had no other information available on the internet both at the time and now. Hefei Meifu Bio-Tech appears to disappear except for Fibrocell’s 2014 10-K and 2014 Q1 10-Q where it stated:

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“In April 2010, we entered into a letter of intent with Chinese company Heifei Meifu Bio-Tech Limited Co. to form a joint venture... to date we and Heifei Meifu have not received Chinese governmental approval to form the proposed joint venture.”

We face risks in connection with doing business in China.

In April 2010, we entered into a letter of intent with Chinese company Heifei Meifu Bio-Tech Limited Co. to form a joint venture to commercialize autologous fibroblast therapies in Asia (excluding Japan) and to produce and develop such therapies in China. This letter of intent was intended to serve as the template for a joint venture agreement between us and Heifei Meifu, which would expand the scope of our operations to China and Asia more broadly. However, to date we and Heifei Meifu have not received Chinese governmental approval to form the proposed joint venture and we are considering alternative business structures in Asia (excluding Japan). If we are able to consummate alternative business structures in Asia (excluding Japan), we expect to generally no longer have an independent right to make or sell autologous fibroblast therapies in Asia (excluding Japan). If, however, we are unable to finalize alternative business structures in Asia (excluding Japan), our business could be harmed.

It appears as though Zuo oversaw absolutely nothing at Fibrocell, and we are unsure whether he was ever there at all. Crediting him with introducing LaViv to the Asian market appears to be an outright lie considering the company had no Asian operations during that time.

As a side-note Fibrocell shares are now virtually worthless, having been at the center of a stock manipulation scheme during the time Zuo was “employed”.

What was Zuo doing from 2010 to 2013?

Are investors aware of the falsehoods in William Zuo’s biography?

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27 The misspelling of Hefei Meifu has been copied verbatim from the Fibrocell filings.