Sino Clean Energy Is a Complete Hoax and its Shares are Worthless

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Shanghai, China
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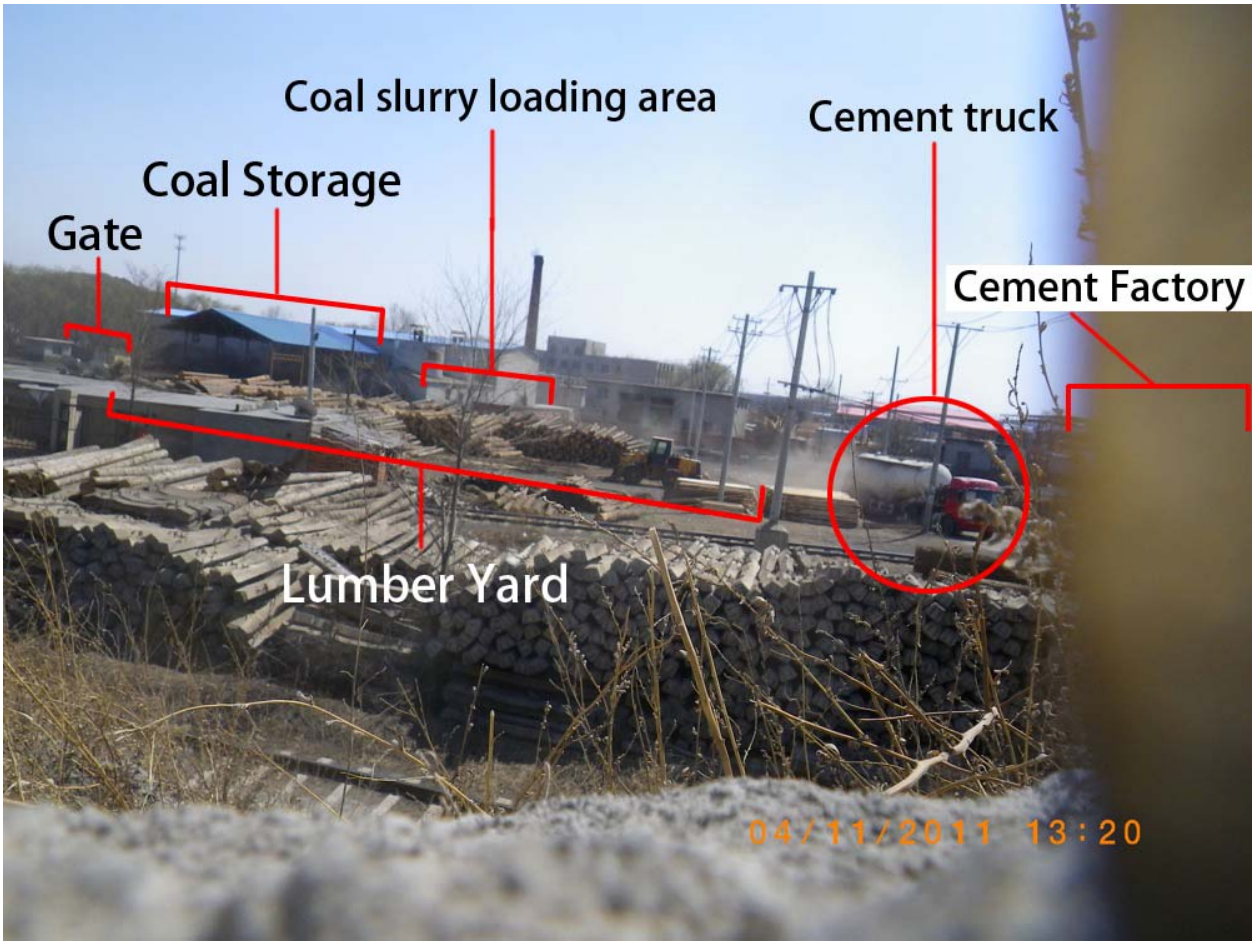
Sino Clean Energy (NASDAQ: SCEI) is the most outrageous Chinese fraud to date committed against U.S. investors. SCEI management pre-announced its first quarter 2011 results Tuesday in a press release (here) stating that revenues were $33.7 million. In its 2010 10-K (here) SCEI reported 2010 full year revenues of $106.2 million and adjusted net income of $27.9 million. However, four months of surveillance of SCEI's three coal water slurry fuel ("CWSF") factories clearly show nothing more than backyard-sized money losing operations. Incredibly, in December, SCEI's fee-hungry investment bankers, Rodman & Renshaw and Axiom Capital Management, raised this scam company $33 million ($29.6 million net proceeds after deducting $3.4 million of investment banking, legal, due diligence and other fees). Did the banksters do any due diligence at all? Simply observing these idle operations proves SCEI is a total fraud, a fact further confirmed by official tax records. Investors will never recover any money from SCEI and its shares are worthless.

Surveillance Summaries of the Three Plants show no Meaningful Production

SCEI has three plants in Tongchuan, Shenyang and Dongguang. The International Financial Research & Analysis Group ("IFRA") conducted an extensive four-month surveillance of the three plants beginning in January (SCEI's busiest month due to the winter heating season). The surveillance records of each plant are summarized as follows:

Tongchuan (550,000 ton capacity): The plant produced an average of 4 tanker truckloads of CWSF per day in January and February. In March and April there was no production with the possible exception of April 7th when there were a number of tanker trucks entering and exiting the facility. According to the 10-K, the Tongchuan and Shenyang plants, combined, sold 982,167 tons of CWSF in 2010. Divide this total by 365 theoretical days of production yields 2,691 tons per day. Divide this by a maximum load of 30 tons per tanker delivery truck yields 90 truckloads per day, on average, each day of the year. Tongchuan's production of 4 tanker truckloads per day in January and February is by comparison, **nothing**. A screenshot from the video surveillance footage of the Tongchuan plant is below:

Shenyang (300,000 ton capacity): SCEI claims it has five customers in Shenyang. In reality the company only has one tanker truck servicing its only customer, Haizhong Heat Resource Co., Ltd. The tanker only makes one shipment each day. The plant was completely shut down since April 1st after the heating season ended on March 31st. Contrast these facts with SCEI's claim in its 10-K that Haizhong Heat "accounted for approximately 85% of the production capacity in our Shenyang facility". Multiplying 300,000 by 85% yields 255,000 tons per year. Divide that product by 180 days of production during the half-year heating season yields 1,417 tons per day. Divided 1,417 by a maximum of 30 tons per tanker truck yields 47 trucks per day during the heating season. Compared to the one tanker truck in operation, the dreadful reality of the tiny Shenyang operation again shows that SCEI is a complete fraud. A screenshot from the video surveillance footage of the Shenyang plant is below, followed by close-up shots of the plant and its lone tanker truck:


Coal slurry loading area
Cement truck
Coal Storage
Gate
Cement Factory
Lumber Yard
04/11/2011 13:20

SCEI ShenYang Facility
Gate

Dongguan plant (300,000 ton capacity): There has been no production activity to date at the Dongguan plant, the newest and best looking of SCEI's operations. The company has two brand new tanker trucks bearing SCEI's new Dongguan subsidiary's name parked inside the plant. The two trucks have not moved during a month of observation. A screenshot from the video surveillance footage of the Dongguan plant is below, followed by a close-up shot of the two new tanker trucks:

(SCEI) Sino Clean Energy, DongGuan Factory
Gate
Coal slurry tanker truck
parking area
04/26/2011 14:18

Printed on Truck:
Dongguan Clean Energy Water Coal Mixture Co.
2 Brand new coal slurry tanker trucks
04/19/2011 15:15

Together the surveillance record shows a combined tiny and unprofitable operation completely at odds with the $27.9 million adjusted net income reported in SCEI's 2010 10-K. Like I did with CBEH, I am uploading all of the videos IFRA shared with me to Vimeo. This is an ongoing process due to the huge size of the files. **The videos can be viewed and downloaded here: SCEI Vimeo Channel**

Audit Committee Chairman Albert Pu: "Partner in Two Crimes"

A month ago I showed that China Integrated Energy (NASDAQ: CBEH) was lying about its production of biodiesel at its plant located in Tongchuan, the same small town where SCEI's main facility is located. I proved CBEH produces no meaningful amount of biodiesel. Yesterday, this fact was effectively confirmed after CBEH filed an 8-K (here) announcing its audit committee chairman Larry Goldman resigned, blaming the unwillingness of management to cooperate with the independent investigation. Simultaneously each of the investigators (Pillsbury, King & Wood and Deloitte) also resigned citing management's failure to cooperate with the investigations. CBEH will now be delisted from NASDAQ and I consider the shares to be worthless. At the heart of CBEH's scheme was its CFO Albert Pu, who was caught on film leading Rodman investors on a phony tour of staged operations at CBEH's Tongchuan biodiesel facility (video can be seen here). Until his resignation last week, Albert Pu was the audit committee chairman of SCEI, no doubt helping cook the books there too, and making him a partner in both crimes.

Rodman & Renshaw: "Banker to Two Crimes"

In comparison to Rodman & Renshaw, the International Financial Research & Analysis Group is a tiny operation, and Alfred Little is just a 59 year-old semi-retired investor with a nice network in China. Why can't Rodman & Renshaw with its vast resources perform even half the due diligence we did? It must be the fees. Getting paid 7% of the funds raised plus reimbursement of inflated expenses makes time consuming due diligence efforts counterproductive to Rodman's operation.

Rodman will no doubt blame CBEH and SCEI crimes on CFO and Audit Chairman Albert Pu (among others), but investors should keep in mind that Rodman invited Albert Pu his sidekick Susan Zhou to numerous road shows and conferences where the duo made quite an impression on investors, to the tune of $33 million. Why didn't Rodman focus on due diligence prior to fundraising? Rodman's behavior is inexcusable considering they raised $33 million for SCEI two months after another banking client, RINO, admitted massive fraud that Rodman also failed to catch.

SCEI Pays no PRC Corporate Income Tax or VAT

Profitable companies with sales and net income pay corporate income tax ("CIT") and value-added tax ("VAT") to China's State Administration of Taxation ("SAT"), its equivalent of the IRS. A good discussion of the SAT is available (here) in an article I wrote last fall showing that RINO never paid any tax. Basically investors can trust amounts reported to SAT because the penalties for tax evasion in China are very severe.

I obtained SCEI's tax records (both Shaanxi state and local tax bureau records) from IFRA. The record spans June 2006 to June 2010. During this four-year period SCEI paid no CIT and almost

no VAT, compared to $3.92 million CIT payments reported in its SEC filings. SCEI does not disclose VAT payments in its SEC filings. The following table summarizes my findings:

Revenue Reported to SAT versus SEC

Year	Revenue (RMB) - SAT	Revenue (USD) - SAT	Revenue - SEC	Variance
2006	¥ -	$0	$923,129	-100.0%
2007	¥ -	$0	$2,802,750	-100.0%
2008	¥ 431,082	$60,998	$13,785,125	-99.6%
2009	¥ 1,236,586	$181,161	$46,012,353	-99.6%
2010 1H	¥ 2,284,653	$334,743	$24,149,761	-98.6%

Corporate Income Tax Paid: SAT versus SEC

Year	CIT Paid (RMB) - SAT	CIT Paid (USD) - SAT	CIT Paid - SEC	Variance
2006	¥ -	¥ -	$0	0
2007	¥ -	¥ -	$92,654	-100.0%
2008	¥ -	¥ -	$24,760	-100.0%
2009	¥ -	¥ -	$1,161,346	-100.0%
2010 1H	¥ -	¥ -	$2,641,771	-100.0%

Value-Added Tax Paid: SAT versus SEC

Year	VAT Paid (RMB) - SAT	VAT Paid (USD) - SAT	VAT Paid - SEC	Variance
2006	¥ -	$0	NA	NA
2007	¥ -	$0	NA	NA
2008	¥ 25,890	$3,664	NA	NA
2009	¥ 36,983	$5,418	NA	NA
2010 1H	¥ -	$0	NA	NA

The original records as well as a translation can be downloaded (here). The fact SCEI did not make any tax payments over these four years is totally consistent with the video surveillance record proving the company has no meaningful production or sales and is a total hoax.

2010 Investor Tour Was Another Staged Affair

According to Geoinvesting.com, a group of U.S. investors (no doubt from Rodman and Axiom) toured the Tongchuan facility in late 2010. During the tour management allegedly staged phony production activities, similar to the show CBEH staged at its nearby Tongchuan biodiesel facility on March 13th. According to a nearby shopkeeper interviewed by Geoinvesting's investigator:

> SCEI rented more than **20 trucks** for the occasion to take position along the coal storage line. The shop owner related that, "the two empty CWSF trucks went back and forth", giving the appearance of business activity.

IFRA verified the existence of the shop. It is located directly across the street from the plant. In light of all the other evidence, I have no reason to doubt the veracity of the shopkeeper's story. Nor would it make any sense for the shopkeeper to make it up.

The $29.6 Million SCEI Raised in December Is Gone by the Time You Read This

SCEI's 12/31/2010 balance sheet showed $52.1 million cash, but this figure is meaningless since the company in reality is unprofitable. Only the $29.6 million, the net amount SCEI raised from Rodman and Axiom investors can be verified. On April 4th SCEI issued a press release (here) disclosing $19.1 million in capital expenditures in 2011. The remaining $10.5 million divided by 17.758 million shares outstanding equals $0.59 per share. Now that SCEI's hoax has been exposed there is no way U.S. investors will recoup a penny of this cash. Like CBEH, SCEI shares are worthless.

Conclusion

SCEI's small money-losing CWSF operations are completely at odds with the $106.2 million sales and $27.9 million net income reported in its 2010 10-K. The remaining verifiable cash on the books is worth nothing to investors. I expect SCEI's shares will be delisted from NASDAQ and the company will soon go dark, just like CBEH.

I am short SCEI and CBEH.

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About the Author

Mr. Little has over 35 years investing experience having begun his career as an accountant at Deloitte. He spent 10 years in China, from 1994 to 2004, representing various foreign investors including Coke, P&G, and Budweiser as they established beachheads in the world's fastest growing economy. Today he lives in Shanghai and spends his time researching Chinese and other high growth companies. Having built a very successful track record investing the last decade, he now shares all his investing ideas in his financial blog "Little Al's Big Emerging Market Picks".

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