

The China Hustle

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Puda Coal (PUDA) was a high-flying stock on the AMEX. It raised nearly \$130 million after it went public through a 2005 reverse takeover. Its shares reached an all-time high of \$16.47 in 2010. Then it all came crashing down for PUDA and anyone who held its shares.

We are GeoInvesting. We research and invest in publicly-listed companies. During the course of looking at PUDA for a possible investment, we discovered that executives had sold the company's assets before raising money from investors. It was not difficult to uncover this fraud. It was documented in public filings in China. No one cared or bothered to look. Not investment banks. Not auditors. Not regulators.

We shared our findings and PUDA was eventually delisted by AMEX. Its chairman was charged with fraud by the SEC. Investors lost hundreds of millions.

We wish PUDA was an isolated case. Unfortunately, it is not. In the last three years, our firm discovered fraud by 19 Chinese companies trading on U.S. stock exchanges. Firms similar to ours have uncovered numerous other instances of fraud by China-based companies. Remarkably, even after fraud had been detected and, in some cases, admitted to by executives of these companies, no one was prosecuted. Dozens of frauds totaling tens of billions of dollars have been perpetrated on U.S. investors. Not only are we helpless to prosecute executives in China, these same executives keep all the stolen funds with the secure knowledge that we can do nothing about it. We call it The China Hustle.

The combined historical high market capitalization of the 19 companies we analyzed was \$5.4 billion. The combined market capitalization now is less than \$300 million. The loss of more than \$5 billion in market capitalization should be alarming to everyone. That represents real money lost by individuals like yourself, your co-worker or your friends and family. PUDA, for example, was a holding in Vanguard's Total Stock Market Index Fund.

Making this situation more troubling is the fact that these Chinese companies are aided by a select few law firms, promoters/finders, second-tier investment banks, auditors and accounting firms based here in the United States.

ABC News has reported more than 100 China-based companies had been de-listed, left the NASDAQ or NYSE, been denied listing or withdrawn listing applications. In its report, Securities and Exchange Commission (SEC) Chairman Mary Schapiro told ABC News that the Chinese government was not cooperating with U.S. efforts to stop the instances of fraud and accounting irregularities.

We support the efforts of the SEC but we need action today. Investors large and small are being hurt financially by the actions of these companies.

Our message is simple: Stop The China Hustle

Dan David
Vice President and Partner



Stopping The China Hustle

Stopping The China Hustle is a must. It will not be easy and it may take time. But U.S. investors, pension funds and companies should be able to invest with confidence without the prospect of losing billions as a result of fraud.

The following are actions that we believe should be taken to Stop The China Hustle:

Hold Company Executives Accountable

Executives of companies that list on U.S. exchanges should be accountable to the rules and regulations that are followed in the United States. If the executive of a U.S.-based company commits fraud, he or she is subject to prosecution under U.S. law. If the executive of a China-based company commits fraud, he or she thus far, without fail, has evaded prosecution by remaining in China.

Simply put, if a company lists here, it should be required to follow the rules here.

Accountability should also apply to the dealmakers that help Chinese companies list and operate. Executives at investment banks, law firms, accounting firms and auditing firms must be held accountable. These firms are paid significant fees but bear no responsibility for illegal actions taken by Chinese companies.

Require Transparency From The Chinese Government

China-based companies listed on U.S. exchanges must file financial reports with the Securities and Exchange Commission (SEC). These companies also file reports with the State Administration for Industry and Commerce (SAIC) in China. Our research has uncovered numerous instances where the SEC filing differed greatly from the SAIC filing. However, the government of China has restricted access to SAIC filings and they are no longer available for review. Access to SAIC reports was cut off in 2012. SAIC filings should be as accessible to investors as SEC filings. Only then, will transparency have a chance of being realized.

Force Verification By U.S. Exchanges

The NYSE and NASDAQ should be required to conduct their own due diligence on companies listed on their exchanges. Even when accusations of fraud have been levied against a China-based company, our exchanges do very little. In most cases, no on-the-ground investigation, such as sending an independent investigator to confirm a factory has been shuttered, is undertaken. The NYSE and NASDAQ make millions in listing fees yet accept no responsibility for the financial harm when a company commits fraud. The exchanges must bear responsibility for ensuring that companies are what they claim to be in filings and reports. Otherwise, U.S. investors are left to suffer.

A Loss Of \$5 Billion And Counting

| Company | Capital Raised | Peak Market Cap | Current Market Cap |
|---------------------------------|--------------------------------------|----------------------------|----------------------------|
| L&L Energy, Inc. | \$ 16,198,824.00 | \$ 392,624,781.00 | \$ 347,770.00 |
| New Energy Systems Group | \$ - | \$ 52,064,353.00 | \$ 4,410.00 |
| Orsus Xelent Technologies, Inc. | \$ - | \$ 16,464,357.00 | \$ 50,420.00 |
| Puda Coal, Inc. | \$ 128,345,000.00 | \$ 341,901,718.00 | \$ 150.00 |
| China Natural Gas, Inc. | \$ 83,007,813.00 | \$ 313,733,618.00 | \$ 579,380.00 |
| Sino Clean Energy, Inc. | \$ 39,492,830.00 | \$ 148,669,530.00 | \$ 1,193,190.00 |
| Fuwei Films(Holdings) Co., Ltd. | \$ 30,233,000.00 | \$ 228,593,750.00 | \$ 6,244,837.00 |
| RINO International Corp. | \$ 117,093,175.00 | \$ 868,281,648.00 | \$ 2,860.00 |
| Longwei Petroleum Hold, Ltd. | \$ 15,997,000.00 | \$ 369,783,251.00 | \$ 1,520,000.00 |
| China Integrated Energy, Inc. | \$ 67,852,303.00 | \$ 403,221,383.00 | \$ 4,895,370.00 |
| Yuhe International, Inc. | \$ 42,441,965.00 | \$ 193,068,370.00 | \$ 20,250.00 |
| Deer Consumer Products, Inc. | \$ 93,578,000.00 | \$ 293,142,950.00 | \$ 335,930.00 |
| Subaye, Inc. | \$ 4,999,000.00 | \$ 156,607,079.00 | \$ 940.00 |
| Exceed Co., Ltd. | \$ 30,035,000.00 | \$ 128,310,000.00 | Private |
| GLG Life Tech Corp. | \$ 33,241,278.00 | \$ 332,560,639.00 | \$ 8,676,900.00 |
| China Redstone Group, Inc. | \$ 4,195,371.00 | \$ 81,908,660.00 | \$ 17,740.00 |
| Sinotech Energy, Ltd. | \$ 156,019,736.00 | \$ 571,710,529.00 | \$0.00 |
| Fab Universal Group | \$ 1,108,923.00 | \$ 201,816,842.00 | \$ 4,161,168.00 |
| Lihua International Inc | \$ 51,840,055.00 | \$ 373,876,403.00 | \$ 345,370.00 |
| | \$ 915,679,273.00 | \$ 5,468,339,861.00 | \$ 28,396,685.00 |
| | | | |
| | Loss In Market Capitalization | | \$ 5,439,943,176.00 |

L&L Energy (LLEN)

| | |
|--|--------------------------|
| Peak stock price | \$14.29 on April 6, 2010 |
| Current price | \$0.01 on March 28, 2016 |
| Market capitalization at peak price | \$392,624,781 |
| Current market capitalization | \$347,770 |
| Capital raised after going public | \$16,198,824 |

L&L Energy is a Seattle-headquartered coal company with all of its operations in China and Taiwan. L&L had stated that it produced coal at its LuoZhou and LaShu mines in China. Through inspections of the mines and discussions with employees, we discovered that there was no production taking place at either mine. L&L had fabricated production figures. In addition, we learned that L&L did not even own the LouZhou and LaShu mines.



The LouZhou mine that was said to be producing coal.

Orsus Xelent Technologies (ORSX)

| | |
|--|-------------------------|
| Peak stock price | \$6.53 on June 14, 2011 |
| Current price | \$.03 on March 28, 2016 |
| Market capitalization at peak price | \$16,464,357 |
| Current market capitalization | \$50,420 |
| Capital raised after going public | \$0 |

Orsus Xelent Technologies designs, manufactures and distributes mobile phones for retail and wholesale distribution in Asian market through its Orsus and Proxlink brands. Our research determined that Orsus had no discernible business operations.

Our due diligence team visited the address of Orsus' one China subsidiary listed in its 2010 10K, Beijing Orsus Xelent Tech& Trading Company, but no active business was conducted at that address. We visited a second address and again did not find an active business for Orsus. In fact, the address belonged to a wholesale clothing company.

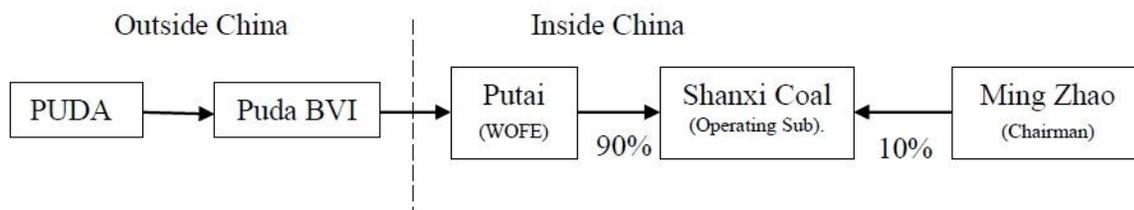
The 2010 10K also listed an address for Beijing Huanyitong Tech & Trading Company. Based on BHTT's SAIC file, we learned the company is 100% owned by Mr. Yongli Shi. We were unable to determine the nature of the relationship between Beijing Huanyitong Tech & Trading Company and Orsus. But since Mr. Shi owns 100 percent of Beijing Huanyitong Tech & Trading Company, investors by definition had no ownership interest in what was apparently Orsus' only connection to an operating business.

Puda Coal Inc. (PUDA)

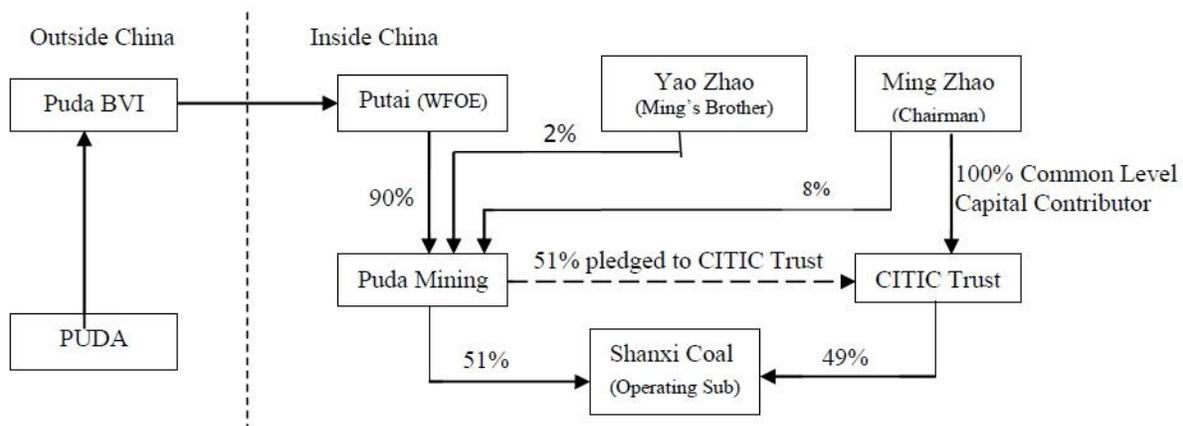
| | |
|--|-----------------------------|
| Peak stock price | \$16.47 on December 2, 2010 |
| Current price | \$.00 on March 28, 2016 |
| Market capitalization at peak price | \$341,901,718 |
| Current market capitalization | \$150 |
| Capital raised after going public | \$128,345,000 |

Puda Coal owned interest in Shanxi Coal. Our research uncovered numerous material and undisclosed share ownership transfers since PUDA listed on the NASDAQ in 2009. The real story was that PUDA management had sold the company's assets before raising money from investors.

Corporate Ownership from Puda's 2010 10K



Actual Puda Ownership After September 3, 2009



China Natural Gas (CHNGQ)

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|--|-----------------------------|
| Peak stock price | \$14.81 on October 16, 2009 |
| Current price | \$.03 on March 28, 2016 |
| Market capitalization at peak price | \$313,733,618 |
| Current market capitalization | \$579,380 |
| Capital raised after going public | \$83,007,813 |

China Natural Gas operated compressed natural gas fueling station for buses and taxis in the Shaanxi province of China. Profit margins for the company were controlled by the government.

Our due diligence uncovered strong evidence that company management stole or misappropriated \$20 million from public investors through an undisclosed related party acquisition.

We discovered this alleged fraud as we looked at China Natural Gas' plan to liquefied natural gas central station project that was estimated to cost \$40 to \$45 million. Funding for the project was completed in 2008. China Natural Gas immediately diverted \$20 million of the proceeds to acquire Lingbao Yuxi Natural Gas Co. in January 2009 while announcing a delay in the central station project.

Further research showed that Lingbao Yuxi Natural Gas Co. was actually an existing subsidiary of China Natural Gas. In other words, China Natural Gas paid \$20 million to acquire 100 percent of the equity of a company they already owned. The acquisition was never disclosed as a related party transaction, which is a major violation of securities regulations.

The \$20 million used to purchase Lingbao Yuxi Natural Gas Co. went into an account controlled by China Natural Gas CEO Qinan Ji. Mr. Ji was able to use the proceeds from the sale as he saw fit.

Sino Clean Energy Inc. (SCEI)

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|--|----------------------------|
| Peak stock price | \$8.85 on November 9, 2010 |
| Current price | \$0.05 |
| Market capitalization at peak price | \$148,669,530 |
| Current market capitalization | \$1,193,190 |
| Capital raised after going public | \$39,492,830 |

Sino Clean Energy is a commercial producer and distributor of coal water slurry fuel, which is clean fuel that consists of fine coal particles suspended in water. The fuel is used in boilers and furnaces to generate steam and heat for commercial, industrial, residential and government clients.

In its 2010 10K, Sino Clean Energy reported that it had three production lines at its Tongchuan facility at Wangjiabian Village, Dongjiahe Town, Yaozhou District, Tongchuan Shaanxi Province. The three lines were said to have a production capacity of 550,000 tons of coal water slurry fuel. Our on-the-ground research showed that only one line was actually in production. By our estimates, the facility was only producing 9,000 tons of fuel.

The Tongchuan facility was reportedly generating about 65 percent of Sino Clean Energy's total fuel output. In fact, the 9,000 ton production we estimate for the facility visited is nearly 1 million tons short of what would have to be produced to generate the revenues claimed by Sino Clean Energy in 2010.

Our research also determined that Sino Clean Energy likely had 10 to 20 workers at the facility during the peak producing season. Yet, Sino reported in its 10K that it employed 86 people at the Tongchuan facility.

We were also unable to locate four of Sino Clean Energy's top 10 customers that were listed in its 10K.

RINO International Corporation (RINO)

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|--|------------------------------|
| Peak stock price | \$34.25 on November 30, 2009 |
| Current price | \$.00 on March 28, 2016 |
| Market capitalization at peak price | \$868,281,648 |
| Current market capitalization | \$2,860 |
| Capital raised after going public | \$117,093,175 |

Rino International sold desulfurization and other environmental equipment to Chinese steel mills.

In 2009, Rino reported revenue of \$193 million. Its actual revenue was less than \$15 million. Rino reported the \$193 million in U.S. filings while reporting the lesser amount in Chinese regulatory filings.

Rino claimed to be an industry leader but was actually a lesser player in a crowded sector in China. The company was better known for failed projects than successes.

We discovered serious flaws in Rino's accounting that indicated manipulation of its books. We believed Rino's management was draining revenue from the company for personal use.

Longwei Petroleum Investment Hold Ltd (LPIH)

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|--|----------------------------|
| Peak stock price | \$3.79 on November 8, 2010 |
| Current price | \$.02 on March 28, 2016 |
| Market capitalization at peak price | \$369,783,251 |
| Current market capitalization | \$1,520,000 |
| Capital raised after going public | \$15,997,000 |

Longwei Petroleum Investment was a wholesale distributor of finished petroleum products. Longwei stated it had a fuel storage capacity of 220,000 metric tons at three storage facilities within Shanxi.

Over a span of three weeks in 2012, we used video surveillance to monitor Longwei's Taiyuan and Gujiao storage depots around-the-clock. We detected only five tanker trucks fueling at the two facilities. Longwei's CFO Mike Toup, a U.S. resident, had stated in a video that 50-60 trucks were using the Taiyuan facility on a daily basis. The lack of activity was visible to Mr. Toup's from the window of his office at the Taiyuan facility.

We also conducted 13 days of video surveillance at the Huajie facility. During that period, not one truck fueled at the facility.

By our estimate, Longwei had exaggerated sales at its Taiyuan and Gujiao facilities by more than 800 times.

China Integrated Energy (CBEH)

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|--|--------------------------|
| Peak stock price | \$12.12 on April 5, 2010 |
| Current price | \$0.11 on March 28, 2016 |
| Market capitalization at peak price | \$403,221,383 |
| Current market capitalization | \$4,895,370 |
| Capital raised after going public | \$67,852,303 |

China Integrated Energy was a producer of biodiesel fuel. The company maintained production facilities in Tongchuan and Chongqing Tianrun. Our research uncovered little to no biodiesel fuel was actually being manufactured, which was not what China Integrated Energy reported in SEC filings.

Our due diligence included four months of video surveillance of the Tongchuan facility. We found no activity at the plant. Our investigators witnessed six trucks at the facility during those four months. Five of those trucks were connected with what seemed to be an investor tour of the facility. After weeks of no activity, we finally observed five trucks entering the facility and other activity related to production. The next day, potential investors were toured through the facility. When the investors left that day, any activity ended. This lack of activity took place at a facility that China Integrated Energy reported produced 88,500 tons of biodiesel product and generated a gross profit of \$22 million in 2010.

We also conducted on site and video surveillance of China Integrated Energy's Chongqing Tianrun facility. Over three months, we observed the same lack of activity as the Tongchuan plant. China Integrated Energy reported that the Chongqing Tianrun was running at full capacity.

Yuhe International (YUII)

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|--|--------------------------|
| Peak stock price | \$12.28 on March 9, 2010 |
| Current price | \$.00 on March 28, 2016 |
| Market capitalization at peak price | \$193,068,370 |
| Current market capitalization | \$20,250 |
| Capital raised after going public | \$42,441,965 |

Yuhe International was a supplier of day-old broiler chickens. Yuhe purchased parent breeding stock from chicken breeder farms, raised the stock to produce hatching eggs and then sold the live broilers to be raised.

In a December 2009 8K, Yuhe announced that the acquisition of 13 farms from Dajiang Enterprise Group Co., Ltd. Yuhe stated it paid an initial 80 percent deposit of \$12.1 million and said the acquisition would close by March 2010. Yuhe made subsequent announcements in filings that the acquisition had been delayed. Finally, in a May 2011 release with its Quarter 1 financial results, Yuhe announced that it had taken possession of 11 farms from Dajiang rather than the previously-announced 13 farms.

We were concerned by the delay in the acquisition and the change in the number of farms acquired. We contacted the general manager of Dajiang Enterprise Group Co., Ltd. in June 2011. He told us that Yuhe had not acquired the farms owned by Dajiang and that Yuhe never had serious negotiations with Dajiang.

We determined the acquisition of the farms owned by Dajiang Enterprise Group Co., Ltd. did not happen. We were unable to determine what happened to the \$12.1 million deposit that Yuhe stated was made for the acquisition.

Deer Consumer Products (DEER)

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|--|-------------------------------|
| Peak stock price | \$18.71 on September 30, 2009 |
| Current price | \$0.01 on March 28, 2016 |
| Market capitalization at peak price | \$239,142,950 |
| Current market capitalization | \$335,930 |
| Capital raised after going public | \$93,578,000 |

Deer Consumer Products was a producer of small kitchen appliances. Our research discovered that Deer had substantially inflated its sales and profit margins. The company also failed to disclose direct competition from entities related to its chairman.

In 2010, Deer reported a 40 percent gross margin and operating margins 46 percent higher than its strongest competitor. That company was eight times the size of Deer. Top competitors to Deer reported spending about 16 percent of revenue on selling and marketing expenses. Deer, conversely, reported in its 10Q for 2009 and 2010 that advertising costs were not significant. Deer's high gross margin and low selling expenses defied logic.

As part of our due diligence, we engaged an independent research group to check the channel distribution of Deer's products. The company visited 60 retail stores. The research showed very low sell through of Deer's products. The channel check confirmed that Deer was exaggerating its margins given its low end and low price market position.

We discovered in our work that Ying He, Deer's founder and CEO, and his brother owned 50HZ Electric, which was based in Hong Kong. We learned that 50HZ Electric was engaged in the same or similar business as DEER and had been shipping products to the U.S. to potentially compete with Deer. This conflict of interest was never disclosed as required by SEC rules.

Subaye Inc. (SBAY)

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|--|-----------------------------|
| Peak stock price | \$23.50 on January 12, 2010 |
| Current price | \$0.00 on March 28, 2016 |
| Market capitalization at peak price | \$156,607,079 |
| Current market capitalization | \$940 |
| Capital raised after going public | \$4,999,000 |

Subaye was a provider of online business services in China. The company offered its bundled cloud product to small-to-medium sized businesses.

Our research revealed a massive discrepancy in Subaye's corporate structure that left investors with no claim to the company's revenues and profits.

In an SEC filing, Subaye reported 1,539 employees as September 2010. Our investigation, which included reports from employees at the company's Guangzhou facility, concluded that Subaye had about 60 employees. Those employees seemed to be shared with Guangzhou Aixi Software Co.

Subaye reported 2010 total revenue of \$39.1 million. Subaye did not identify its top customer. We questioned how Subaye could generate \$24.8 million in revenue from its online video service when other companies provided a similar service for free. Our research led us to conclude that there was not a reasonable scenario in which Subaye could generate its claimed revenue.

China Redstone Group (CGPI)

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|--|--------------------------|
| Peak stock price | \$6.47 on April 13, 2010 |
| Current price | \$.00 on March 28, 2016 |
| Market capitalization at peak price | \$81,908,660 |
| Current market capitalization | \$17,740 |
| Capital raised after going public | \$4,195,371 |

China Redstone Group, through its operating entity, Chongqing Foguang Tourism Development (Group) Co., Ltd., was a private provider of cemetery products and services in Chongqing. Chongqing Foguang primarily focused on developing cemeteries and selling cemetery plots, although it also provided park and garden development and construction services.

During our investigation, we uncovered discrepancies in the corporate structure of China Redstone. We learned that a company named Chongqing Guiyuan Cemetery Industrial Co., Ltd. held the required cemetery license related to Chongqing Foguang. In November 2008, Chongqing Foguang transferred its shares in Chongqing Guiyuan Cemetery and subsequently held no shares. When our investigator visited the Chongqing Guiyuan Cemetery and purchased several plots, the Chongqing Guiyuan Cemetery issued the down payment receipts. This indicated the revenue of the cemetery was being booked under Chongqing Guiyuan Cemetery rather than Chongqing Foguang.

In March 2010, China Redstone recorded the land use rights for 339,444 square meters of as an intangible asset with a value of \$11.7 million. We determined that this land was Longgiao Lake, which could not be used for the cemetery business. China Redstone also claimed to lease land in Jiangnan Town. We concluded the land was illegally leased from the town since the agreement was with the town and not the farmers and villagers.

Fab Universal Corp. (FABU)

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|--|------------------------------|
| Peak stock price | \$9.70 on September 25, 2013 |
| Current price | \$.20 |
| Market capitalization at peak price | \$201,816,842 |
| Current market capitalization | \$4,160,000 |
| Capital raised after going public | \$1,108,923 |

FAB Universal marketed and distributed officially licensed digital entertainment products in China. FAB used “Intelligent Media Kiosks” where consumers could download copyright-protected movies and music to portable storage devices.

In a June 2012 proxy statement, FAB stated it had 3,954 kiosks in Beijing. In a November 2013 press release announcing 2013 third quarter results, FAB reported 16,820 kiosks in 40 Chinese cities. The two main manufacturers of FAB's kiosks were Beijing Riyao Technology Co. Ltd. and Beijing Chongfeng Touch and Control Technology Co. Ltd. The companies reported selling only 1,600 to 1,700 kiosks to FAB. In addition, Beijing Riyao stated it had assisted FAB with staging a fake manufacturing site visit by creating fake signage.

We determined that FAB’s revenue was likely only a fraction of what it was reporting as a result of the discrepancy in stated versus actual kiosks.

Our research also showed that FAB was pirating many U.S. films on its kiosks. In some cases, the films were being made available on kiosks well in advance of official DVD release dates.

In November 2013, we uncovered that FAB Digital, a FAB Chinese subsidiary, had secretly issued \$16.4 million in bonds. The bond sale jeopardized the interest of any U.S. investor in FAB Universal.

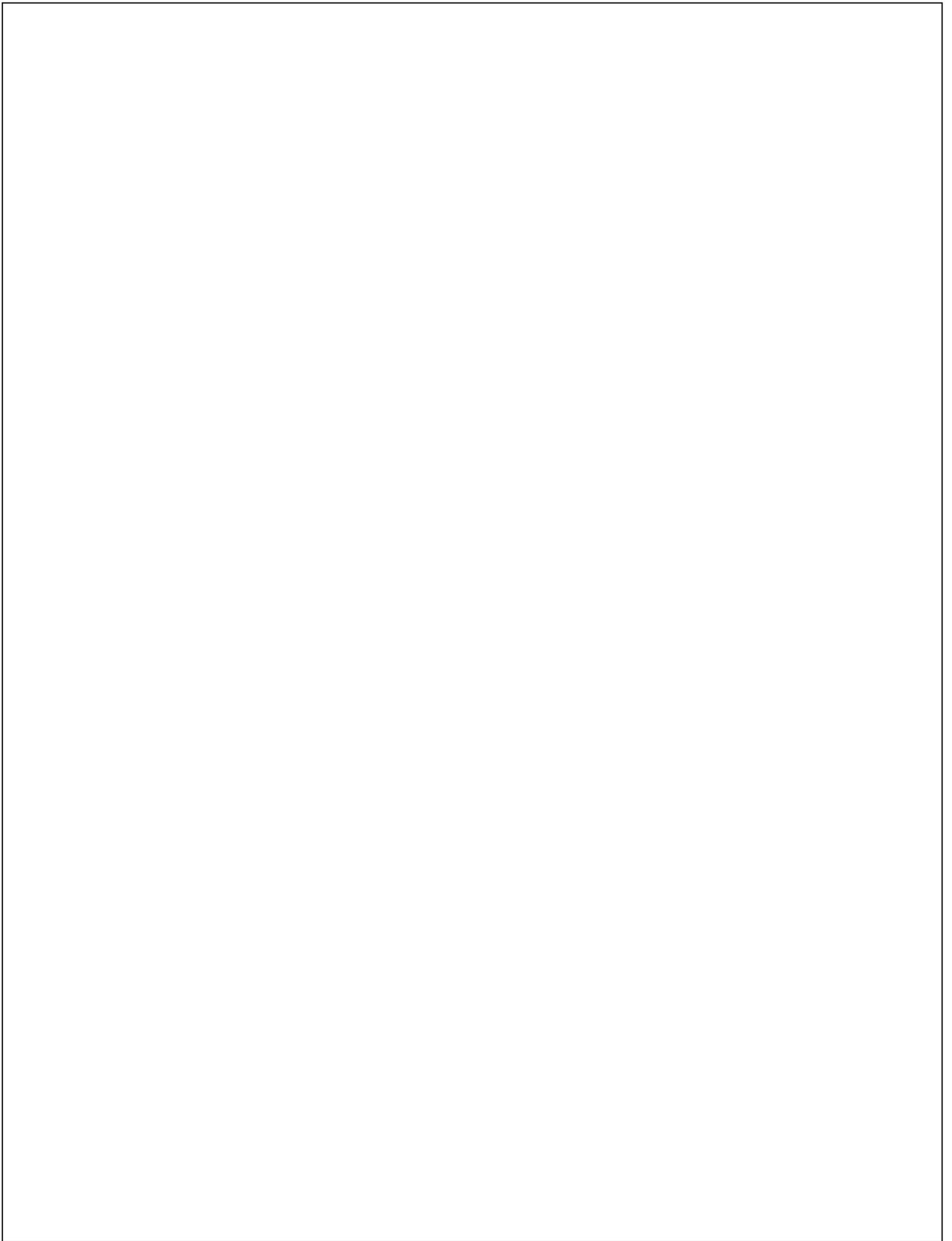
Lihua International (LIWA)

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|--|------------------------------|
| Peak stock price | \$12.82 on November 11, 2010 |
| Current price | \$.01 on March 28, 2016 |
| Market capitalization at peak price | \$373,876,403 |
| Current market capitalization | \$345,370 |
| Capital raised after going public | \$51,840,055 |

Lihua International designed, manufactured, marketed and distributed refined copper products.

As reported by The People's Daily, the official newspaper of the government of China, in March, Lihua's production activities started a significant downturn in late 2012, decreased even further in 2013 and essentially stopped completely in early 2014. Lihua's financial statements, however, did not reflect the downturn in its business from 2012 to 2013.

Lihua's chairman and CEO attempted to move a portion of Lihua's inventory by allegedly hiding it in garbage trucks to keep it from creditors. He is being investigated for larceny. The People's Republic government later seized Lihua's warehouse.





GeoInvesting provides high quality stock market research tools and insights on U.S. mid- and micro-cap equities and performs in depth due diligence on Chinese companies trading in China and the U.S. GeoInvesting is the leading research boutique when it comes to helping investors navigate the treacherous China equity universe.

GeoInvesting is located in suburban Philadelphia. Visit www.GeoInvesting.com for more information.

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