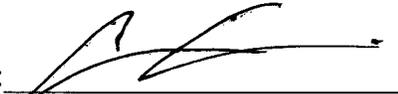




Dated: New York, New York  
May 9, 2011

LOEB & LOEB LLP

By: 

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**SUPREME COURT OF THE STATE OF NEW YORK  
COUNTY OF NEW YORK**

-----X  
SINO CLEAN ENERGY INC.,  
Plaintiff,  
-against-  
ALFRED LITTLE; SEEKING ALPHA LTD.;  
GEOINVESTING, LLC; and JOHN DOES 1 - 10,  
Defendants.  
-----X

Index No. \_\_\_\_\_/2011  
**COMPLAINT**

Plaintiff, Sino Clean Energy Inc. (“SCEI” or the “Company”), by and through its attorneys, Loeb & Loeb LLP, for its complaint alleges as follows:

1. This is an action by SCEI, a public corporation, for fraud, defamation, and tortious interference with business relationships against a cadre of short sellers who are, either individually or in concert, manipulating the public market for SCEI stock for personal gain at the expense of SCEI and its shareholders. The short sellers – Alfred Little (“Little”), who publishes his reports on the Seeking Alpha (“SA”) web site, among other places, GeoInvesting LLC (“Geo”), and others working with them – use a combination of fraudulent tactics, including, without limitation, establishing short positions, publishing false and defamatory statements about SCEI, which artificially depresses the price of the Company’s stock thereby allowing the short sellers to cover their short positions cheaply at the expense of the Company and its shareholders. The defendant short sellers and those assisting them are referred to collectively herein as the “short sellers.”

2. The short sellers' weapon is the "report." Disguised as a common analyst's report, the short sellers' reports differ from conventional analyst reports in that they are not anchored to the truth. Rather, the short sellers' reports rely on innuendo, loaded questions, skewed facts, and outright lies to falsely portray companies – in this case SCEI – as fraudulent.

3. As the short sellers well know, their fraudulent attacks will yield predictable results: (a) shareholders who are frightened and intimidated by the short sellers' false reports will rush to sell their shares, (b) as a result there will be significant downward pressure on the stock price, (c) the regulators, exchanges, and/or the self-regulatory organizations may step in and commence a formal or informal investigation, (d) as a result, the target – in this case SCEI – will feel compelled to commence an independent investigation of the short sellers' bogus allegations, (e) even though the regulatory investigations are not public, the investing public will recognize the announcement of an independent investigation as evidence of a possible regulatory investigation, (f) as a result, there will be added downward pressure on the stock price, and (g) if the short sellers succeed in raising enough doubts and/or driving down the price of the stock sufficiently, the listing exchange will halt trading and/or delist the stock, driving the stock price further down – to pennies.

4. All of these predictable results of the short sellers' manipulative, fraudulent conduct reward the short sellers and severely damage the Company and its shareholders. The short sellers sell SCEI stock short (explained below) before they embark on their carefully orchestrated fraudulent, manipulative assault on the Company. As they artificially depress the price of the Company's stock, the short sellers wait to cover their short position. As the price declines, the short sellers' profits soar. If they hit a home run, the stock is delisted and trades for pennies on the pink sheets.

5. SCEI thus brings this action seeking relief against the short sellers, including and all other persons working with, for, or through them.

### **PARTIES**

6. Plaintiff SCEI is a corporation organized under the laws of the State of Nevada, with its principal place of business in Xi'an, China.

7. Upon information and belief, defendant Alfred Little ("Little") is an individual who is the author of false and defamatory reports concerning SCEI. He purports to be a resident of Shanghai, China. On information and belief, he is a resident of New York.

8. Upon information and belief, defendant SA is the owner and publisher of a web site entitled "Seeking Alpha," [www.seekingalpha.com](http://www.seekingalpha.com). According to the information published by SA on that web-site, SA reviews and edits all reports published on the Seeking Alpha web-site.

9. Defendant Geo is the owner and publisher of a web site entitled Geoinvesting, [www.geoinvesting.com](http://www.geoinvesting.com). According to its web site, Geo is a Pennsylvania LLC residing in Skippack, Pennsylvania. According to the Geoinvesting LLC web site:

GeoInvesting is a new and exciting website designed to gather, analyze and disseminate information on public companies trading on the U.S. financial markets. The major theme of the GeoTeam's philosophy is to provide quick, concise and efficient research instead of the pages and pages of information indicative of most research reports. . . . The GeoTeam largely focuses on Asian stocks because of their favorable growth profiles.

10. Defendants John Doe #1 — John Doe #10 are the persons currently unknown who, on information and belief, work with, for, and/or through Defendants Little, Geo, and SA to profit from the concerted attack on SCEI. Once SCEI learns the true identity of the Does, it will amend this complaint to name those persons or entities.

### **JURISDICTION AND VENUE**

11. This court has jurisdiction over the claims in this action based upon: (a) the publication of the false and defamatory reports in New York; (b) defendant Little's residence in the State of New York; and (c) defendants SA's and Geo's business activities in the State of New York.

12. Venue is proper in this court based upon: (a) the publication of the false and defamatory reports in New York County; and (b) defendant SA's business activities in the New York County.

### **FACTS**

#### **SCEI**

13. SCEI is a publicly-traded company that is a leading producer of clean coal heating and energy solutions for residential, commercial and industrial uses in China. It produces and distributes coal water slurry fuel ("CWSF"), which is a liquid fuel that consists of fine coal particles suspended in water, mixed with chemical additives, and is primarily used to fuel boilers and furnaces to generate steam and heat for both residential / commercial heating and industrial applications. CWSF is an economic and environmentally friendly alternative to oil and natural gas and provides many benefits over coal briquettes, including increased burn-off rates, improved thermal efficiency, and reduced emissions, making it an ideal alternative for cleaner heat and energy production in China.

14. As CWSF's primary raw material is coal, it is a very competitive alternative to oil and natural gas on a per unit of energy basis, primarily because of the relatively low cost of coal in China. Depending on the geographic area, CWSF may be approximately 50% cheaper than oil and approximately 30% cheaper than natural gas on a per unit of energy basis. Due to China's ongoing

support for research and development of CWSF and its abundant coal resources, CWSF is expected to maintain a price advantage over oil and natural gas.

15. The Company began its business operations in August 2002 through a predecessor entity. It launched its first CWSF plant in the city of Tongchuan, north of Xi'an, the provincial capital of Shaanxi Province in 2007. The Tongchuan plant presently has an annual production capacity of 550,000 metric tons and supplies customers in Shaanxi Province. In October 2009, the Company commenced operations at its new CWSF production plant located in Shenyang, the capital of Liaoning Province in northeastern China. The Shenyang plant has an annual output capacity of 300,000 metric tons, increasing total annual CWSF production capacity to 850,000 metric tons.

16. The Company's strong growth has been evidenced by financial performance. Its revenue increased from \$14.3 million in 2008 to \$46 million in 2009 to \$106 million in 2010 as a result of its success in expanding production capacity and increasing market penetration. During the same period, its income from operations increased from \$4.4 million to \$14.2 million to \$ 34.7 million, respectively. The history, growth, and financial success of the Company are detailed in the Company's public filings, which are incorporated herein by reference.

17. The Company has announced its intention to continue to grow its business by expanding production capacity at new and existing locations throughout China.

### **The Short Sellers**

18. Upon information and belief, at some point during the period from early April 2011 to the present, Defendants, along with one or more John Doe Defendants, conspired to manipulate the public market for SCEI common stock and artificially drive down the price of SCEI common stock for their own personal, financial benefit.

19. Little and Geo have admitted having short positions in the Company's stock. One puts on a short position by selling shares of stock (or derivatives, such as a put) that the person does not own. The seller is supposed to borrow the stock in time to deliver the stock on the settlement date. If the seller has not borrowed the stock, the position is called a "naked short." The presence of naked short positions is a hallmark of manipulation.

20. Short sellers make money when the price of the stock declines between the time of their short sale and the time they enter the market to buy the stock to cover the short sale (or make good on the put). Thus, the short seller is betting that the price of the stock will decline. Defendants hedged their bet by depressing the price of the stock artificially by making false and defamatory comments about the stock.

21. Upon information and belief, the short sellers' short positions are "naked," meaning that the short sellers have not actually borrowed the shares before selling them. Since the short sellers know that they can artificially drive down the price of the stock and thus virtually assure themselves of a profit, as noted above, naked short selling is a clear red flag of a corrupt arrangement among short sellers.

#### **The Short Sellers' False and Manipulative Attack on SCEI**

22. On April 26, 2011, Geo published on its web site a summary of a so-called "Business Analysis Report" regarding the Company. The full "report" was supposedly made available on April 26 only to Geo's so-called "Premium Members," which appear to be persons willing to pay a fee to Geo. Nonetheless, at some point shortly after the original publication, the full "report," complete with pictures, was made available to anyone accessing the Geo web site, and it currently remains available. The "report" is referred to herein as the "April 26 Geo Report."

23. The April 26 Geo Report purported to analyze the Company's production and revenue. In reality, much that is reported in the "report" is simply false. A copy of the April 26 Geo Report is attached hereto and incorporated by reference herein as Exhibit A.

24. On April 28, 2011, apparently in tandem with the release of the April 26 Geo Report, Little released a "report" entitled "Sino Clean Energy Is a Complete Hoax and its Shares are Worthless" (the "April 28 Little Report"). The blog is available on Little's web site along with the SA web site under a banner reading "SCEI is defunct." A copy of the April 28 Little Report is attached hereto and incorporated by reference herein as Exhibit B.

25. Little purports to have conducted a four month video surveillance of the Company's facility, focusing on the loading dock, to demonstrate the supposed absence of activity as evidence of the absence of production and therefore revenue. In fact, Little focused his camera on a construction site in the back of the building and not on the loading dock. His findings are false.

26. Not satisfied to have defamed and harmed the Company with the initial set of falsehoods, on May 2, 2011, Little published, once again on his own site and on SA, yet another defamatory article, this one entitled "Sino Clean Energy's \$20 Million Chinese Ponzi Share Scheme" (the "May 2 Little Report"). The focus of this defamatory article was sales of stock in the Company prior to the time it went public. As was the case with his prior publications, this "report" was false and defamatory. A copy of the May 2 Little Report is attached hereto and incorporated by reference herein as Exhibit C.

27. In the midst of all of this, predictably, and as the short sellers doubtlessly hoped, the class action Plaintiffs' bar weighed in. Thus, on April 29, 2011, one such firm, the Rosen Firm, announced the commencement of an "investigation" into the allegations raised by Little and Geo. On information and belief, that investigation consists of nothing more than reading the defamation

published by others, perhaps reading publicly filed documents, and preparing a complaint. On information and belief, the true purpose of the announcement of an investigation is to entice a shareholder to contact the firm and agree to be a Plaintiff against the Company and possibly others, thus providing the law firm what it needs in order to be in line for a lucrative pay day: a client.

28. On May 3, 2011, the Company published a thoughtful, thorough, and honest response to these defamatory reports (the "SCEI Response"). The SCEI Response, which thoroughly debunked the primary allegations regarding the Company set forth in the reports, is attached hereto and incorporated by reference herein as Exhibit D.

29. Little responded to the SCEI Response with a further false and defamatory report, published on Little's web site on May 4, 2011, entitled "Irrefutable Proof SCEI Chairman Fabricated His Production Videos" (the May 4 Little Report"). In the May 4 Little Report, Little accuses the Chairman of SCEI of engaging in a hoax and fabricating videos in an attempt to discredit Little. As was the case with all prior Little reports, the May 4 Little Report is false and defamatory.

30. In addition to the falsehoods about SCEI contained in Little's reports, upon information and belief, the statements contained in the various reports concerning Little's background and, indeed, even his existence are materially misleading. SCEI and other have been unable to locate a person named "Alfred Little" meeting the description provided in the reports. Accordingly, SCEI believes that "Alfred Little" may be pseudonym for one or more persons engaged in a market manipulation scheme involving SCEI common stock.

31. Over the period of the short sellers' attack on the Company, its stock price has, predictably and as the short sellers doubtlessly intended, fallen. Between the open of the market on April 25 and the close on May 2 (the day before the Company published its response), the

Company's stock lost 38% of its value. The stock rebounded slightly on the basis of the publication of the SCEI Response, but it declined again the following day. Thus between the open on April 25 and the close on May 6, the Company has lost more than half of its market capitalization.

32. The decline in the Company's stock feeds directly into the short sellers' obvious plan: to drive down the price of the stock and allow them to cover their short positions as cheaply as possible. Moreover, all of this causes great harm to the Company. Not only has its market capitalization declined dramatically, its attention and focus has been diverted from the conduct of its business. It has incurred legal and other fees and expenses in responding to the false and defamatory attacks, Its Chairman has been defamed and damaged by the false, defamatory and malicious attacks on him personally, further exacerbating the harm done to the Company. In short, the short sellers' scheme to bring down this Company in order to financially benefit the short sellers will, unless stopped, succeed.

### **Specific Falsehoods in the Short Sellers' Manipulative "Reports"**

33. The short sellers' reports are riddled with falsehoods. The titles of the Little reports call the Company "a Complete Hoax" and its stock "Worthless" (May 2 Little Report). He calls the Company a "Ponzi Scheme" (May 4 Little Report). Geo called SCEI "a textbook example of an RTO "field of dreams" misrepresentation to US investors.

34. Set forth below are specific false statements in the various reports, followed by a summary of the true facts.

### **The April 26 Geo Report**

35. The April 26 Geo Report is, in many places, couched in terms of questions, innuendo, and implications. Moreover, Geo ascribes many of the statements it has published to a

third party: an unidentified “shop owner,” about whom nothing is revealed. While these tactics would not in any event shield Geo from liability for publishing false and defamatory materials, nonetheless at page two, by way of introduction to the matters it purports to report, Geo states “**What follows are some highlights of our findings** [emphasis in the original].”

36. At page two of the April 26 Geo Report Geo states: “our investigator relayed that there is likely only **one production line in operation** [emphasis in the original].” Geo notes that “SCEI claims to have three production lines in this facility that provide a total capacity of 550,000 tons. See page 19 of the 2010 10-K.”

37. The gist and meaning of these statements, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading. Geo’s statement is false and defamatory. There are in fact three production lines in operation that provide a total annual capacity of 550,000 tons.

38. At pages two and three of the April 26 Geo Report, Geo purports to paraphrase or quote a local shop owner’s statements that “the facility mostly produces CWSF during the winter months . . . . He [the unidentified shop owner] stated that other than the winter season, ‘SCEI has no essential production at Tongchuan, as there is no demand. It should be noted that on page 20 of the 2010 10-K, SCEI **explicitly denies** seasonality plays a factor in its business [emphasis in the original].”

39. The gist and meaning of these statements, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading. Geo’s statements are false and defamatory. In fact, SCEI’s production occurs year round and is accurately disclosed in its public filings.

40. At page three of the April 26 Geo Report Geo states: “The shop owner’s statements imply SCEI **may be massively overstating** its revenues for non-winter quarters [emphasis in the original].”

41. The gist and meaning of this statement, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading. Geo’s statement is false and defamatory. In fact, SCEI’s production figures are accurately disclosed in its public filings.

42. At page three of the April 26 Geo Report Geo states:

We know that the residential & commercial heating season in China typically begins in November and ends in March. Given that the heaviest use of heating is during this period, how can SCEI produce equal amounts of revenue in QII and QIII? Why is there no seasonal pattern reflected in SCEI’s quarterly revenues? It should be noted that SCEI did not report the addition of new production capacity after January 2010. Perhaps the Company is currently building capacity it claimed to have in the past? [emphasis in the original]”

43. The gist and meaning of these statements, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading. Geo’s statements are false and defamatory. In fact, SCEI’s production and capacity figures are accurately disclosed in its public filings.

44. At page three of the April 26 Geo Report Geo states: “

The shop owner stated that SCEI typically has around 6 or 7 employees working at the Tongchuan site at any given time. Our investigator did not see any employees on the site other than a door guard who works for the construction company, not SCEI. The shop owner further stated that during the peak demand season, there are generally 10 to 20 workers at the site. This number blatantly conflicts with SCEI’s claim in its most recent 10-K that states on page 24 that SCEI employs 86 people at its Tongchuan site.”

45. The gist and meaning of these statements, taken in context and as a whole, is that SCEI's SEC filings are materially false and misleading. Geo's statement is false and defamatory. In fact, SCEI's employee head count is accurately disclosed in its public filings.

46. At pages three and four of the April 26 Geo Report, Geo states:

The shop owner reported that SCEI only **has two CWSF trucks (our investigator saw only one CWSF truck on the site)**. During peak demand season, SCEI typically **moves three to four** truckloads of CWSF daily. There are times when it **moves five to six** truckloads per day. One truck carries around 15 tons of CWSF. This suggests that in the most recent peak demand period (November to March, 120 days), which represents the majority, if not the totality of SCEI's Tongchuan production, that **SCEI only produced around 9,000 tons** of CWSF in the last peak season. (5 truckloads/day x 15 tons/truckload x 120 days).

SCEI claims to have generated \$106 million revenues and \$26.7 million net income in 2010 which translates to a 26% net operating margin. Based on the claimed average selling price of \$108/ton (2010 revenue/production of \$106 million/982,116 tons), the company would have had to produce nearly 1.0 million tons of product in 2010 to have generated the reported revenues. Again, we estimate that SCEI produces around 9,000 tons of product at the facility we visited. That implies revenues of only \$1.0 million based on an average sales price of \$108/ton. Applying SCEI's 2010 non-GAAP net income margin of 26%, which would not be possible at such low production levels, the facility visited would generate around \$260,000 net income or approximately \$.02 per share contribution to EPS. That means the other facilities would have to make up the difference. This would not be possible since SCEI states the facility we visited has annual production capacity of 550,000 tons and total capacity for all facilities is 850,000 tons meaning the facilities not visited can only produce around 300,000 tons.

47. The gist and meaning of these statements, taken in context and as a whole, is that SCEI's SEC filings are materially false and misleading. Geo's statements are false and defamatory. In fact, SCEI's production figures are accurately disclosed in its public filings.

48. At page four of the April 26 Geo Report Geo states: “Keep in mind that SCEI management claims that production capacity is 550,000 tons at the Tongchuan facility or 64% of the Company’s total capacity of 850,000 tons. Clearly, our 9,000 ton capacity estimate is **substantially less** than SCEI claims for the Tongchuan facility. Once again, this suggests SCEI is massively overstating revenues to U.S. investors. [emphasis in the original]”

49. The gist and meaning of these statements, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading. Geo’s statement is false and defamatory. In fact, SCEI’s production is accurately disclosed in its public filings.

50. At page four of the April 26 Geo Report Geo states: “Note that the SCEI’s own claims with respect to capacity are contradictory. On page 19 of the 2010 10-K, the company claims that as of December 2010 it had total capacity of **850,000 tons**. Then, two pages later, on page 21, it claims to have sold **982,166 tons** in 2010. The 10-K makes no mention of any production outsourcing, which begs the question: How does SCEI manage to sell more CWSF than it can produce? [emphasis in the original]”

51. The gist and meaning of these statements, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading. Geo’s statement is false and defamatory. In fact, SCEI’s production is accurately disclosed in its public filings.

52. At page five of the April 26 Geo Report Geo states:

The shop owner told our investigators that in 2010 a group of US investors visited SCEI in **conjunction** with the local township government. 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. He also stated SCEI also rented a fork lift truck for the occasion because SCEI does not own any fork

lift trucks to shove coal into storage. This production, according to the shop owner, was staged to make US investors believe that SCEI has extensive and ongoing business operations. [emphasis in the original]

53. The gist and meaning of these statements, taken in context and as a whole, is that SCEI made material misrepresentations of fact to investors in connection with the purchase or sale of securities. Geo's statements are false and defamatory. Presentations to investors are accurate and honest.

54. On page 6 of the April 26 Geo Report Geo states: "Based on our current findings, we suspect that the SCEI story is a textbook example of an RTO "field of dreams" misrepresentation to U.S. investors."

55. The gist and meaning of these statements, taken in context and as a whole, is that SCEI made material misrepresentations of fact to investors and that SCEI's business, capacity and production are materially overstated. Geo's statement is false and defamatory. In fact, SCEI accurately and honestly portrays its business, capacity and production to investors.

#### **The April 28 Little Report**

56. The April 28 Little Report is entitled "**Sino Clean Energy Is a Complete Hoax and its Shares are Worthless**" [emphasis in the original].

57. Little's statements are false and defamatory. SCEI is a real and operating company whose shares have value.

58. On the first page of the April 28 Little Report Little states: "Sino Clean Energy (NASDAQ: SCEI) is the most outrageous Chinese fraud to date committed against U.S. investors."

59. Little's statement is false and defamatory. SCEI is a real and operating company and is not a fraud.

60. On the first page of the April 28 Little Report Little states:

SCEI management pre-announced its first quarter 2011 results Tuesday in a press release stating that revenues were \$33.7 million. In its 2010 10-K 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.

61. Little's statements are false and defamatory. SCEI is a real and operating company and is not a fraud. Its public announcements, including announcements of revenues, are truthful and accurate.

62. On the first page of the April 28 Little Report Little states:

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 7<sup>th</sup> 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**. [emphasis in the original]

63. The gist and meaning of these statements, taken in context and as a whole, is that SCEI's SEC filings are materially false and misleading Little's statements are false and defamatory. In fact, SCEI's production and capacity figures are accurately disclosed in its public filings.

64. On the second page of the April 28 Little Report Little states:

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.

65. The gist and meaning of these statements, taken in context and as a whole, is that SCEI's SEC filings are materially false and misleading and that SCEI is a sham and a fraud. Little's statements are false and defamatory. In fact, SCEI's production capacity figures are accurately disclosed in its public filings and SCEI is a real and operating company and is not a fraud.

66. On the fourth page of the April 28 Little Report Little states: "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. 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."

67. The gist and meaning of these statements, taken in context and as a whole, is that SCEI's SEC filings are materially false and misleading. Little's statements are false and defamatory. In fact, SCEI's production and capacity figures are accurately disclosed in its public filings.

68. On the sixth and seventh pages of the April 28 Little Report Little states: “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.”

69. The gist and meaning of these statements, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading, that the Company is a sham and a fraud, and that the Company paid no tax. Little’s statements are false and defamatory. In fact, SCEI’s production capacity figures are accurately disclosed in its public filings and SCEI is a real and operating company and not a fraud. Moreover it is not true that the Company paid no CIT or VAT.

70. On the seventh page of the April 28 Little Report Little states: “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.”

71. The gist and meaning of these statements, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading, that the Company is a sham and a fraud, and that the Company paid little or no taxes. Little’s statements are false and defamatory. In fact, SCEI’s production capacity figures are accurately disclosed in its public filings and SCEI is a real and operating company and not a fraud. Moreover it is not true that the Company paid no CIT or VAT.

72. On the seventh page of the April 28 Little Report Little states that:

According to [Geoinvesting.com](http://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 13<sup>th</sup>. 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. [emphasis in the original]

73. The gist and meaning of these statements, taken in context and as a whole, is that SCEI made material misrepresentations of fact to investors in connection with the purchase or sale of securities. Geo’s statements are false and defamatory. Presentations to investors are accurate and honest.

74. On the eighth page of the April 28 Little Report Little once again states that “SCEI shares are worthless.”

75. Little’s statements are false and defamatory. SCEI is a real and operating company whose shares have value.

76. On the eighth page of the April 28 Little Report Little states: “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.”

77. The gist and meaning of these statements, taken in context and as a whole, is that SCEI’s SEC filings are materially false and misleading and that the Company is a fraud. Little’s statements are false and defamatory. In fact, SCEI’s production and capacity figures are accurately disclosed in its public filings and SCEI is a real and operating company and not a fraud.

78. On the eighth page of the April 28 Little Report Little states:

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".

79. SCEI has been unable to verify the statements regarding Mr. Little's alleged history, expertise, and location. Accordingly, on information and belief the statement set forth above is believed to be false.

#### **FIRST CLAIM FOR RELIEF:**

##### **COMMON LAW FRAUD**

80. SCEI repeats and realleges the allegations set forth in paragraphs 1 through 74 above as if set forth in full herein.

81. Defendants' conduct set forth above, including, without limitation, publishing false statements and engaging in naked short positions, constitutes, evidences, or result from misrepresentations of fact and fraud. Moreover, upon information and belief, defendants also selectively shared information about upcoming reports with persons and entities working with, for, or through them.. Defendants did not reveal this selective disclosure.

82. These misrepresentations were material and known to Defendants to be false.

83. Defendants made these misrepresentations for the purpose of and intending that SCEI's shareholders and market participants as a whole would rely on them and sell their shares as a result.

84. SCEI's shareholders did so reasonably rely on these misrepresentations and were ignorant of the truth.

85. Defendants' conduct was willful and wanton and intended to injure SCEI.

86. As a direct and proximate result of Defendants' above-described fraudulent conduct, SCEI has suffered damages in an amount not yet ascertainable and to be determined at trial but believed to exceed \$55 million.

87. Punitive damages are appropriate to punish Defendants and deter similar conduct by Defendants and others.

**SECOND CLAIM FOR RELIEF:**

**DEFAMATION OF SCEI**

88. Plaintiff SCEI repeats and realleges the allegations contained in paragraphs 1 through 82 of this complaint as though fully set forth at length herein.

89. During at least the period from April 25, 2011 through May 4, 2011, Defendants authored and/or published the false and defamatory statements concerning SCEI set forth above. The statements were published to persons other than SCEI.

90. Defendants authored and/or published these false and defamatory statements maliciously and without privilege, knowing the statements to be untrue or with reckless indifference to the truth or falsehood of the statements.

91. Upon information and belief, Defendants authored and/or published these false and defamatory statements for the purpose of facilitating a market manipulation scheme.

92. The false and defamatory statements authored and published by Defendants constituted libel *per se* with respect to Plaintiff SCEI.

93. As a direct and proximate result of the above-described conduct by Defendants, SCEI has suffered damages in an amount not yet ascertainable and to be determined at trial but believed to exceed \$55 million.

**THIRD CLAIM FOR RELIEF:**

## **TORTIOUS INTERFERENCE WITH BUSINESS RELATIONSHIPS**

94. Plaintiff SCEI repeats and realleges the allegations contained in paragraphs 1 through 88 of this complaint as though fully set forth at length herein.

95. During at least the period from April 25, 2011 through May 4, 2011, Defendants authored and/or published the false and defamatory statements concerning SCEI set forth above.

96. Upon information and belief, Defendants published these false and defamatory statements knowing and believing that the Company's shareholders would read or come to know of them and, in reliance on the truth of the statements, would offer their shares for sale, thereby depressing the market price of the shares.

97. In fact, the volume of trading in the Company's shares reflects that shareholders did offer their shares for sale in reliance on the false and defamatory statements published by or through the Defendants and, as a result, the price of the Company's stock fell.

98. Defendants' conduct is a direct, wrongful interference with the conduct of SCEI's business as a public company and its relationship with its existing shareholders and prospective future shareholders.

99. Defendants were aware of the business relationship between SCEI and its existing shareholders and prospective future shareholders and conducted themselves in a manner such as to deliberately and intentionally interfere with those relationships.

100. In doing so, Defendants employed wrongful means and did so for wrongful purpose, as described above.

101. As a direct and proximate result of Defendants' conduct, or conduct for which Defendants are liable, SCEI has suffered severe damage with regard to its business relationships with its existing and prospective shareholders, including, without limitation, (a) the sale, at fire sale prices, of stock by shareholders, (b) significant diminution in market capitalization, and (c) increased scrutiny by regulatory organizations requiring the otherwise unnecessary expenditure of significant resources.

102. As a direct and proximate result of Broder's conduct, or conduct for which he is liable, SCEI has suffered damages in an amount not yet ascertainable and to be determined at trial but believed to exceed \$55 million.

### **RELIEF DEMANDED**

WHEREFORE, Plaintiff SCEI demands that this Court enter judgment against Defendants as follows:

- I. An award of compensatory money damages in an amount to be determined at trial and estimated to exceed \$55 million;
- II. An award of punitive damages in the amount of sufficient magnitude to deter such further conduct, believed to be at least \$10 million;
- III. An order requiring Defendants who have participated in any market manipulation scheme to disgorge to SCEI all illicit trading profits;
- IV. An order requiring Defendants to immediately remove all false and defamatory reports concerning SCEI from their web-sites and permanently enjoining Defendants from publishing any further false and defamatory reports concerning SCEI;
- V. An award of costs and expenses incurred in connection with this action, including reasonable attorneys' fees to the extent available under any applicable law; and

VI. Such other and further relief as the Court may deem just and proper.

Dated: New York, New York  
May 9, 2011

LOEB & LOEB LLP

By:   
\_\_\_\_\_

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SINO CLEAN ENERGY INC.

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# **EXHIBIT A**

# BUSINESS ANALYSIS REPORT

on

## SINO CLEAN ENERGY

(NASDAQ: SCEI)

Geoinvesting LLC

April 26, 2011

GeoTeam's Findings .....	3
1. Facility and Production Lines: Why Aren't They operating? .....	3
2. Seasonality: You Only Do Business in the Winter? .....	3
3. Employee Count: Does Anyone Work Here? .....	4
4. Production Volume: Overstated .....	4
5. Who are your customers?.....	5
6. "Dog and Pony" Show for US Investors: CBEH All Over Again. ....	6
Conclusion:.....	6
Disclosure.....	6
Disclaimer.....	6

Dear Premium Member,

We recently completed **on-the-ground due diligence** on Sino Clean Energy (NASDAQ: SCEI) regarding its Tongchuan facility and uncovered what we consider to be substantial misrepresentations by the company about its operations. As originally indicated in an earlier alert, we currently have a short position in SCEI.

GeoTeam's Findings

**What follows are some highlights of our findings:**

### **1. Facility and Production Lines: Why Aren't They Operating?**

Our investigators visited SCEI's Tongchuan facility at Wangjiabian Village, Dongjiahe Town, Yaozhou District, Tongchuan Shaanxi Province. SCEI claims to have three production lines in this facility that provide a total capacity of **550,000 tons**. See page 19 of the 2010 10-K:

[http://www.sec.gov/Archives/edgar/data/1120096/000114420411020077/v216628\\_10k.htm](http://www.sec.gov/Archives/edgar/data/1120096/000114420411020077/v216628_10k.htm)

However, our investigators relayed that there is likely only **one production line in operation**. We also discovered that SCEI recently broke ground for new construction for what we assume will be additional production lines. This is **confirmed** in soon to be released photos and videos that were taken at the site.

We found a webpage on the local government's website (Yaozhou District, Tongchuan City, Shaanxi province) that describes SCEI.

<http://www.yaozhou.gov.cn/tzyz/News-view.aspx?id=175>

Based on this page link; by **July 25, 2009**, SCEI started to purchase equipment for the second production line and SCEI was preparing for a third production line. However, in the SEC filings, SCEI claimed the second line started producing product **from February 2009 and the third line from Jan 2010**. If SCEI only started to purchase the equipment for second production line in July 2009, how could the second production line have started to produce product without equipment from **February 2009**?

### **2. Seasonality: You Only Do Business in the Winter?**

Our investigator talked to the gate guard at the Tongchuan facility and learned that he worked for the construction company, not SCEI. The guard knew nothing about SCEI's business. Next, our investigator spoke to a local shop owner who runs the only convenience shop near SCEI's Tongchuan facility. The shop owner is quite familiar with SCEI and said that the facility mostly produces CWSF during the winter months (Nov. - Mar.) when residential heating boilers are in use and require CWSF input. He stated that other than the winter season, "SCEI has no essential **production** at Tongchuan, as there

is no demand.” It should be noted that on page 20 of the 2010 10-K, SCEI **explicitly denies** seasonality plays a factor in its business.

“As industrial users use the steam generated by **Coal-Water Slurry Fuel (CWSF)** boilers for power and heat in manufacturing processes, there is **little seasonality** in their consumption of CWSF”

The shop owner’s statements imply SCEI **may be massively overstating** its revenues for non-winter quarters.

Based on the 10-K & 10-Q filings with the SEC, quarterly revenues reported for 2010 were as follows:

Jan-March: USD 24.5 million

April –June: USD 24 million

July-Sep: USD 24.9 million

Oct.-Dec: USD 32.5 million

On page 20 of the most recent 10-K, SCEI reported that 51% of its revenues are generated by “industrial heating customers” and 49% generates by “residential & commercial customers”.

We know that the residential & commercial heating season in China typically begins in November and ends in March. Given that the heaviest use of heating is during this period, how can SCEI produce equal amounts of revenue in QII and QIII? Why is there no seasonal pattern reflected in SCEI’s quarterly revenues?

It should be noted that SCEI did not report the addition of new production capacity after January 2010. **Perhaps the Company is currently building capacity it claimed to have in the past?**

### **3. Employee Count: Does Anyone Work Here?**

The shop owner stated that SCEI typically has around 6 or 7 employees working at the Tongchuan site at any given time. Our investigator did not see any employees on the site other than a door guard who works for the construction company, not SCEI. The shop owner further stated that during the peak demand season, there are generally 10 to 20 workers at the site. This number blatantly conflicts with SCEI’s claim in its most recent 10-K that states on page 24 that SCEI employs 86 people at its Tongchuan site. **We spoke with another source that has also been investigating SCEI’s operations and has similar findings.**

### **4. Production Volume: Overstated**

The shop owner reported that SCEI only has **two CWSF trucks (our investigator saw only one CWSF truck on the site)**. During peak demand season, SCEI typically moves

**three to four** truckloads of CWSF daily. There are times when it **moves five to six truckloads per day**. One truck carries around 15 tons of CWSF. This suggests that in the most recent peak demand period (November to March, 120 days), which represents the majority, if not the totality of SCEI's Tongchuan production, that **SCEI only produced around 9,000 tons** of CWSF in the last peak season. (5 truckloads/day x 15 tons/truckload x 120 days).

SCEI claims to have generated \$106 million revenues and \$26.7 million net income in 2010 which translates to a 26% net operating margin. Based on the claimed average selling price of \$108/ton (2010 revenue/production of \$106 million/982,116 tons), the company would have had to produce nearly 1.0 million tons of product in 2010 to have generated the reported revenues. Again, we estimate that SCEI produces around 9,000 tons of product at the facility we visited. That implies revenues of only \$1.0 million based on an average sales price of \$108/ton. Applying SCEI's 2010 non-GAAP net income margin of 26%, which would not be possible at such low production levels, the facility visited would generate around \$260,000 net income or approximately \$.02 per share contribution to EPS. That means the other facilities would have to make up the difference. This would not be possible since SCEI states the facility we visited has annual production capacity of 550,000 tons and total capacity for all facilities is 850,000 tons meaning the facilities not visited can only produce around 300,000 tons. Given...

- the 9,000 ton production we estimate for the facility visited is nearly 1.0 million tons short of what would have to be produced to generate the revenues claimed by SCEI in 2010, and
- the facilities not visited can only produce 300,000 tons,

...reported revenues for 2010 do not stand up to scrutiny. Simply put, the 2010 numbers reported don't work based on what we have learned about SCEI's operations.

Keep in mind that SCEI management claims that production capacity is 550,000 tons at the Tongchuan facility or 64% of the Company's total capacity of 850,000 tons. Clearly, our 9,000 ton capacity estimate is **substantially less** than SCEI claims for the Tongchuan facility. Once again, this suggests SCEI is massively overstating revenues to U.S. investors. **We spoke with another source that has also been investigating SCEI's operations and has similar findings.**

Note that the SCEI's own claims with respect to capacity are contradictory. On page 19 of the 2010 10-K, the company claims that as of December 2010 it had total capacity of **850,000 tons**. Then, two pages later, on page 21, it claims to have sold **982,166 tons** in 2010. The 10-K makes no mention of any production outsourcing, which begs the question: How does SCEI manage to sell more CWSF than it can produce? And if its capacity has been reduced, why haven't we been told about this?

## 5. Who are your customers?

SCEI disclosed its top ten customers in the most recent 10K filing. However, there are several customers we cannot find:

- “Xi’an Institute of Architecture” - we could not find such an institute with this name. There is one called “Xi’an University of Architecture & Technology” and there is another one called “Shaanxi Technical Institute of Architecture”.
- “China Northern Airline” - there is currently no such company with this name. Prior to 2002, there was a company called China Northern Airline. After 2002, China Northern Airline became a subsidiary of China Southern Airline under the name China Southern Airline Group Northern Branch.
- “Northwest Rubber” - we could only locate a Northwest Rubber & Plastic Products Research Institute which is located in Shaanxi province. However, this is a research institute rather than “industrial products” firm, as claimed by SCEI.
- “Shanxi Urban Development” - we were unable to figure out who or what this company/entity is.

We urge the company to provide more clarity that these customers are an integral part of SCEI’s customer base.

## **6. “Dog and Pony” Show for US Investors: CBEH All Over Again.**

The shop owner told our investigators that in 2010 a group of US investors visited SCEI in **conjunction** with the local township government. 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. He also stated SCEI also rented a fork lift truck for the occasion because SCEI does not own any fork lift trucks to shove coal into storage. This production, according to the shop owner, was staged to make US investors believe that SCEI has extensive and ongoing business operations. Note that SCEI raised over **\$28MM** from US investors in late 2010 so the staged operations were apparently persuasive.

### **Conclusion:**

Although we only visited one of SCEI’s facilities, we believe that our findings are indicative of what we would find at the others. Based on SCEI’s end users, it is safe to assume that the Company’s other operations would have similar seasonality patterns as the one visited. Also, please note that while we were unable to go inside the facility to confirm the shop owner’s statement that SCEI operates only one production line, logic supports his statement.

- It seems illogical that SCEI would only operate two trucks for a three production line operation SCEI claims to be able to produce 550,000 tons of CWSF product.
- Our investigator witnessed no activity at the facility grounds which also confirms the shop owner’s statements regarding seasonality.

- Pictures and video also support our findings.

Based on our current findings, we suspect that the SCEI story is a textbook example of an RTO “field of dreams” misrepresentation to U.S. investors. In addition to statements from locals, we have also been able to corroborate our findings with pictures and videos of SCEI’s Tongchuan facility. We may visit the other SCEI’s facility located in Shenyang, Liaoning province shortly. We are currently attempting to obtain SCEI’s SAIC and SAT filings, but based on the evidence we have already accumulated do not believe they are required to support our conclusions.

### **Disclosure**

Long SCEI puts at time of report.

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# **EXHIBIT B**

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

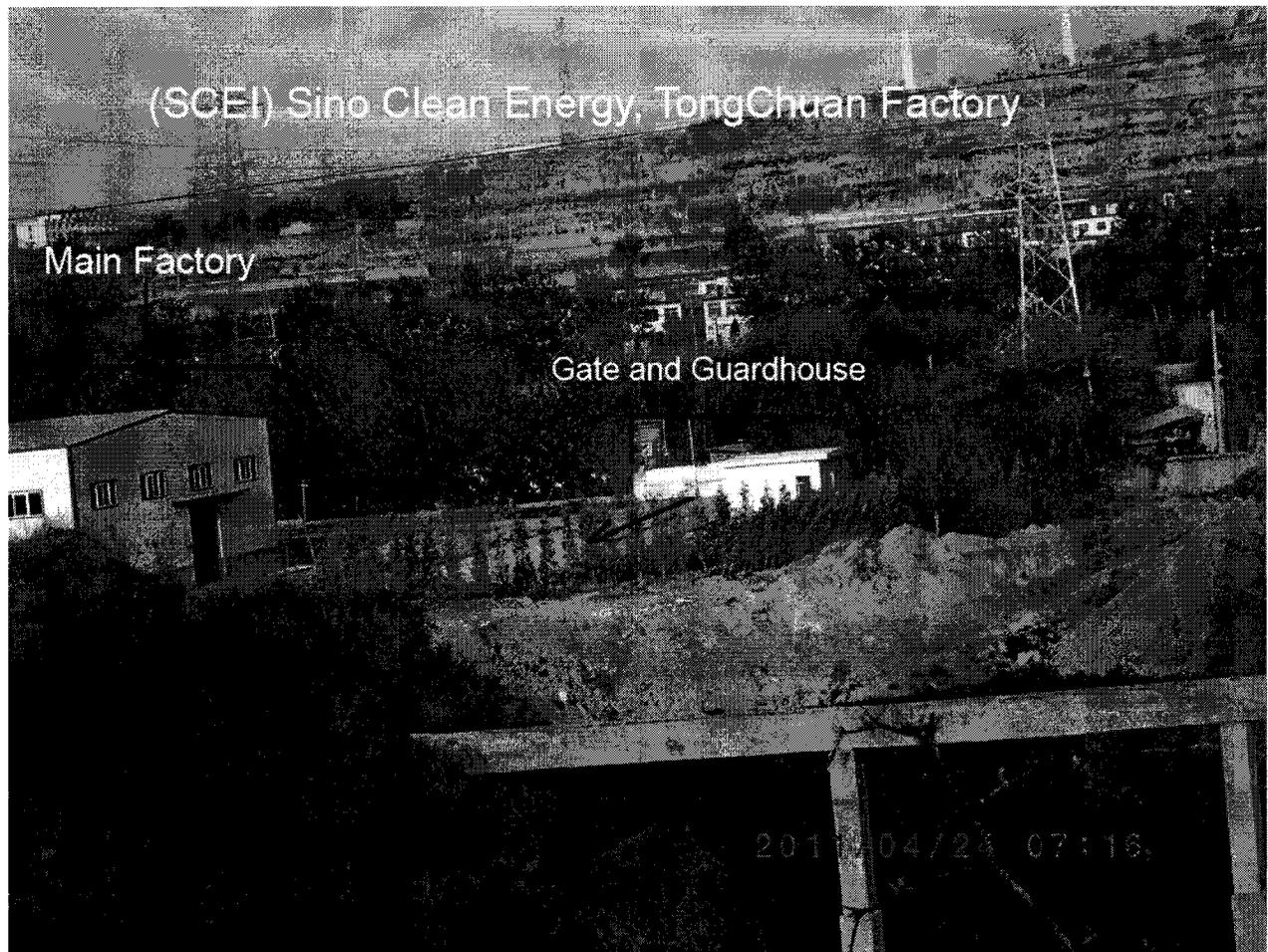
**Alfred Little**  
**Shanghai, China**  
**April 28<sup>th</sup>, 2011**

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.

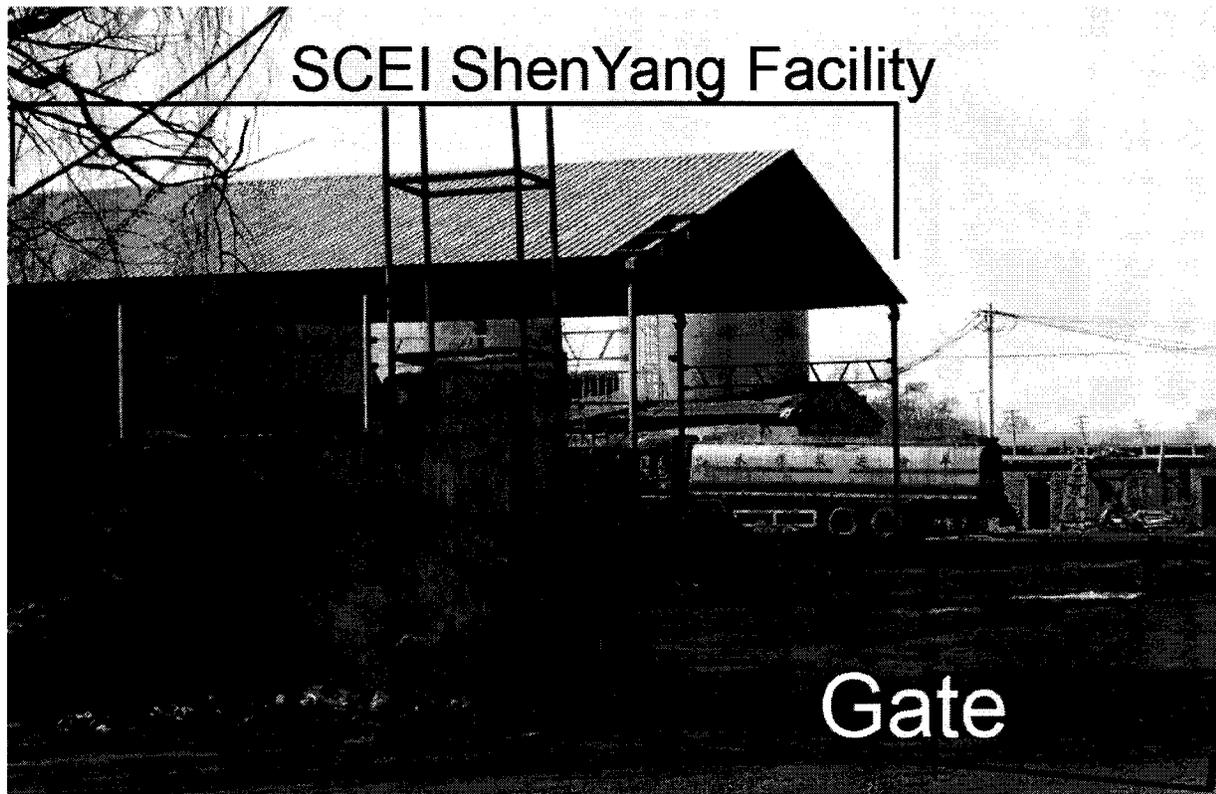
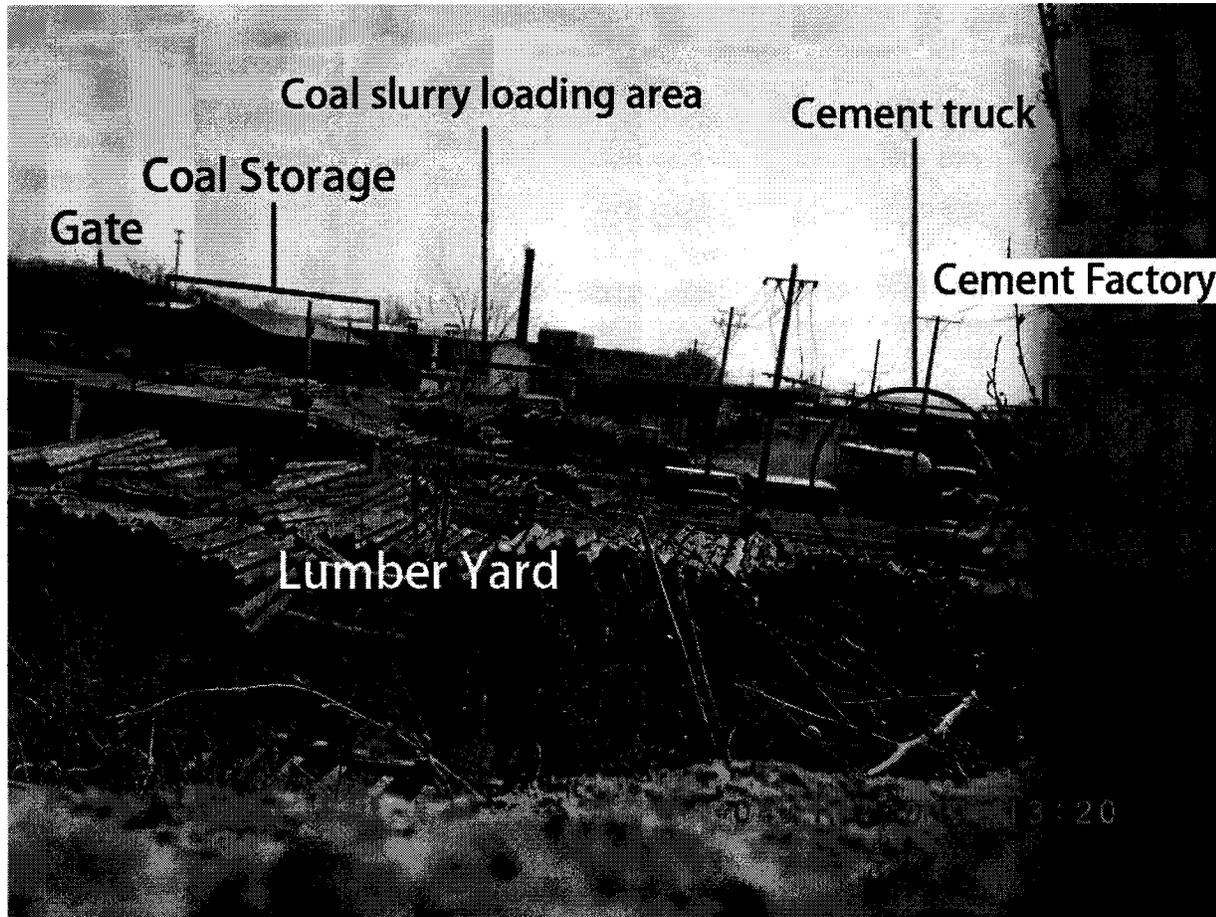
### **Surveillance Summaries of the Three Plants show no Meaningful Production**

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 7<sup>th</sup> 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:



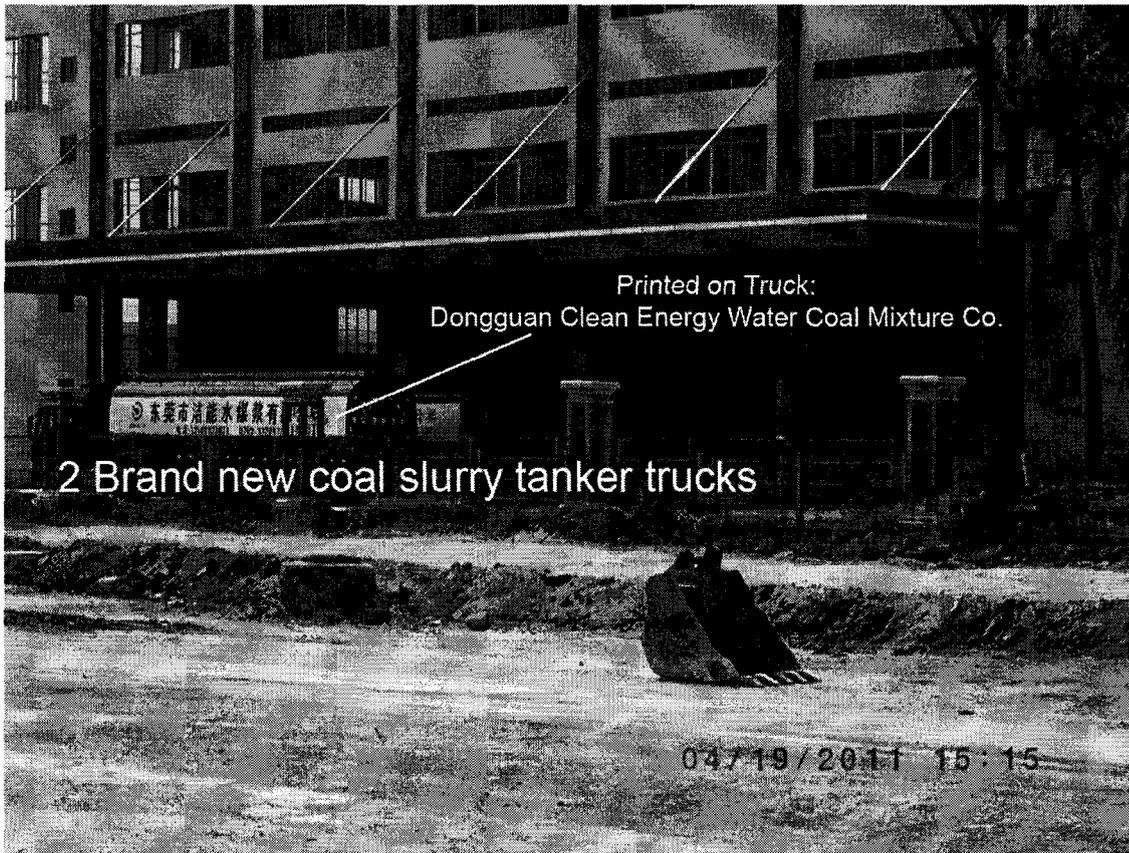
**Shenyang (300,000 ton capacity):** SCEI claims it has five customers in Shenyang. In reality the company only has one tanker truck servicing its only customer, Haizhong Heat Resource Co., Ltd. The tanker only makes one shipment each day. The plant was completely shut down since April 1st after the 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:





**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



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 13<sup>th</sup>. 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 4<sup>th</sup> 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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# **EXHIBIT C**

## **Sino Clean Energy's \$20 Million Chinese Ponzi Share Scheme**

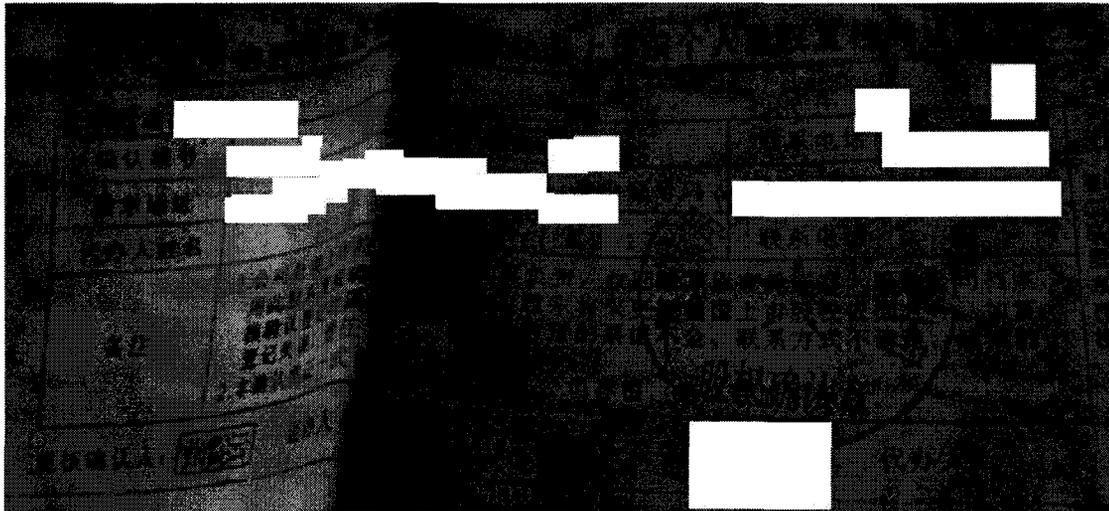
**Alfred Little  
Shanghai, China  
May 2, 2011**

In my previous report, available [here](#), I questioned whether Sino Clean Energy (NASDAQ: SCEI) had ever made a profit in its nearly 5 years as a public company. Four years of tax records and four months of surveillance of SCEI's three factories show little or no operations, sales or income. Today I will show how SCEI Chairman Baowen Ren defrauded over \$20 million from Chinese investors using a Ponzi share scheme, in which he raised money at 1 RMB per share from friends and relatives and then using a network of sales agents to raise more money from the Chinese public, repaying original shareholders and pocketing the difference himself in successive rounds at 4 to 7 RMB per share from 2004 to 2007, in total violation of Chinese securities laws. As everyone knows, Ponzi schemes are built on confidence. As long as SCEI stock went up the defrauded Chinese investors stood quietly by, hoping for an exit, until now.

### **SCEI's Original Operating Company Ownership Records Conceal a \$20 Million Ponzi Scheme**

According to the 8-K filing ([here](#)) on 8/18/06, just prior to the reverse merger, SCEI's original Chinese operating business, Shaanxi Suo'ang Biological Science & Technology Co., Ltd., ("Suo'ang BST"), was owned by 13 investors who together invested 70 million RMB at 1 RMB per share to purchase 70 million shares. These amounts can be seen in the consolidated statements of shareholders' equity in the 2006 third quarter 10-QSB ([here](#)).

However, these records conceal the fact that Suo'ang BST had in fact over 1000 shareholders, mostly retirees, who bought stock between 2004 and 2007 from unscrupulous agents and promoters authorized by Baowen Ren. At least 30 million shares were sold at prices ranging from 4 - 7 RMB (\$0.61 - \$1.08) per share, both before and after SCEI's reverse merger, according to various web reports and eyewitness interviews my team uncovered, some of which are referenced in this report. Purchasers of Suo'ang BST shares never received official share certificates nor had their names entered into the company's official SAIC government ownership record. Instead Chairman Ren signed and issued them legally unenforceable "pre-U.S. listing individual shareholder verification registry receipts," an example of which is shown below (with its holder's identifying details redacted):



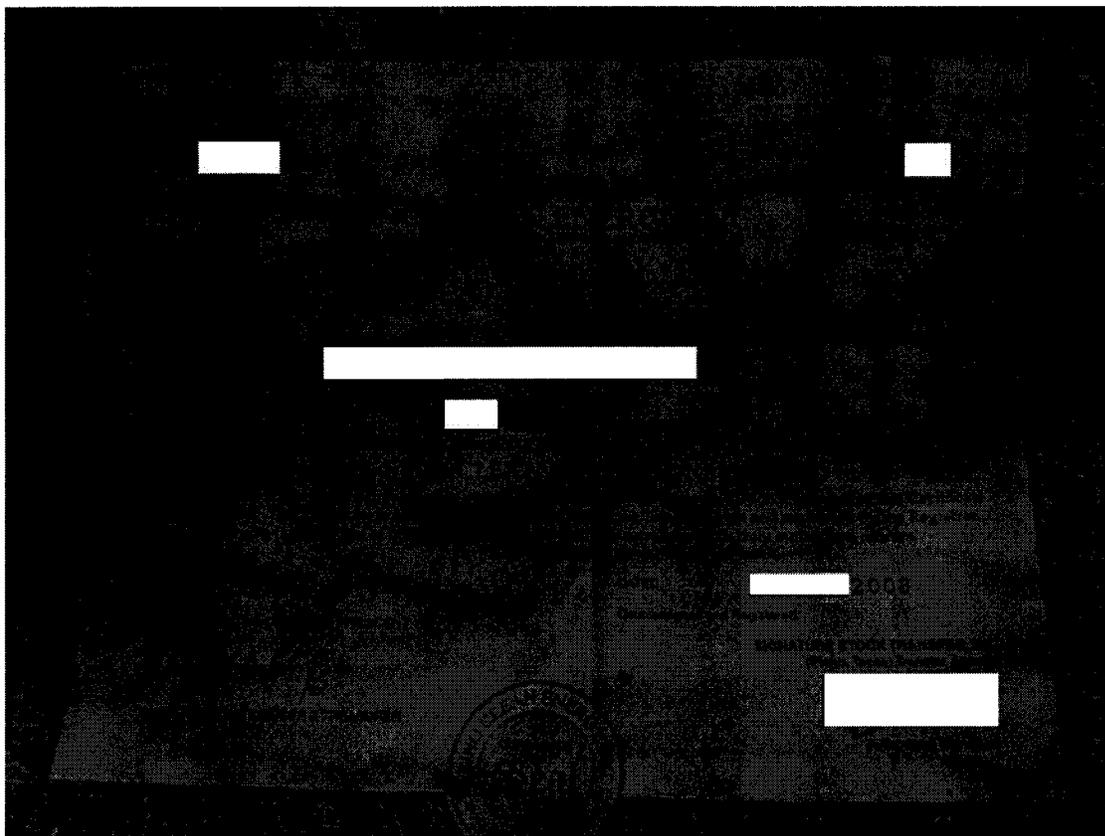
What happened to the difference between the 4-to-7 RMB prices paid by the 1000+ small retail investors and the 1 RMB purchase price paid by the 13 official shareholders identified on Suo'ang BST's financials and consolidated into SCEI's audited financials? **Given at least 30 million shares sold to Chinese retail investors in this manner, the shortfall is at least 135 million RMB, or \$20.8 million. Where did this money go?**

Investors my team interviewed said Baoren Wen split the proceeds from these share sales between himself and the sales agents. As documented in this news article ([here](#)), one investor from Jiangsu Province bought shares in early 2006 from a SCEI sales agent who promised him the company would go public in Singapore. The projected return on the investment would be 329%. In late 2006, instead of getting listed in Singapore, SCEI went public in the US. In July 2007, SCEI asked these Chinese investors to pay 1,300 RMB each to exchange their shares to SCEI's U.S. listed company shares. But when the investor tried to contact SCEI's agent he found out the agent was in jail for selling shares illegally. The agent has pocketed a large portion of the proceeds. The lawyer interviewed in the article said SCEI already broke Chinese securities laws for fabricating going public information and selling shares illegally to the general public. The lawyer suggested investors should ask for their money back from SCEI.

Growing numbers of Chinese retail investors eventually realized they had been defrauded. They began to doubt the value or enforceability of the pre-IPO share receipts. Those who could read English could see that their investments were carried on the books of SCEI at 1 RMB per share, far below the 4 to 7 RMB purchase price they had paid. In 2007, angry investors threatened to expose Ren's Ponzi scheme to Chinese authorities if he didn't make them whole on their money losing investment. So in 2007 Ren offered to "exchange" their Suo'ang BST "share receipts" on a 1:1 basis for real share certificates of SCEI, the U.S. public listed company. To do this on a simple, 1:1 basis, Ren first had SCEI split its stock 3:1 effective 8/15/07, an unusual move for a penny stock.

As a result of the 3:1 forward split as of 9/30/07 SCEI had 84,681,750 shares outstanding, compared to 70,000,000 shares of Suo'ang BST. Deducting the roughly 15% of SCEI that

belonged to shell owners and other middlemen involved with the reverse merger (who of course had to be kept whole), SCEI had 72 million shares outstanding owned by Chinese citizens, nearly a 1:1 match. Chinese retail shareholders who agreed to the exchange each had to pay 1300 RMB expense to Ren's agents (as mentioned in the article cited above). Groups of Chinese investors who paid the fee began receiving SCEI shares in October 2007 and continuing on through 2008. The example pre-IPO share receipt shown above was exchanged for the following SCEI share certificate shown below (again, redacted to preserve the privacy of the man defrauded):



Investors I interviewed felt safer owning the SCEI share certificates vs. pre-IPO share receipts, but were not sure whether the SCEI certificates were real and could be sold. Unfortunately these defrauded Chinese investors found they could not sell the SCEI shares since the shares bore restrictive legends that required a legal opinion to resell, under Rule 144. Once again they were at the mercy of Baowen Ren.

Again, groups of angry investors pushed Ren to let them sell their SCEI shares. Throughout 2009 and 2010 Ren made up excuses delaying the sales. In September and October 2010, Ren notified Chinese shareholders that he would help them, for a fee of 1800 RMB each, to open U.S. brokerage accounts at First Trade where they could deposit and sell their shares. Ren's notices to the Chinese shareholders can be found [here](#) and [here](#). Then in a March 25, 2011 [announcement](#), the company told the Chinese investors due to the fact First Trade had to manually fill out all the W-8 tax forms the account opening will be delayed until the

end of April. As of April 2011 none of the Chinese investors have been able to sell any shares. I estimate that approximately 3 million of these shares would be sold, immediately, once these accounts are finally open and Ren authorizes the sale.

Remember SCEI promised a letter to shareholders on Friday? Well Ren, mindful of his constituencies, did publish a letter to his Chinese shareholders on Friday (on SCEI's Chinese website link [here](#)). The letter can be summarized as stating: A US firm published untruthful information about company's operation recently resulting stock price decline. The management hopes every shareholder can side with the company to go through this difficulty. Please trust the management team's ability to deal with current issue.

Basically Ren is saying in the letter that his Chinese shareholders should rest assured that everything will be fine, "trust me". Right. Bernie Madoff was more trustworthy than Baowen Ren. To be sure, just check out this Chinese financial website ([here](#)) where many defrauded Chinese retail shareholders vent their anger at the SCEI's management and Ren.

### **Video Surveillance Update - Irrefutably Shows Little or No CWSF Production**

100% of SCEI's revenues come from the sale of Coal Water Slurry Fuel (CWSF). The videos tell the naked truth. Four months of documented surveillance are far more reliable than Weinberg's "audit alternative". The surveillance videos clearly show SCEI's three plants neither day nor night produce much CWSF (most of the videos run until midnight). Just like I did with China Integrated Energy (CBEH), I continue to upload surveillance videos to my [SCEI Vimeo Channel](#). I encourage everyone to check them out. No trucks = no production.

CBEH could not disprove the surveillance videos and neither can SCEI. Multi-month video surveillance is the gold standard of operational due diligence. Both CBEH and SCEI completely fail this test. CBEH's stock is halted and in the process of delisting. NASDAQ will soon do the same to SCEI when management fails to adequately explain their idle factories and Ponzi share sales scheme.

### **Tax Record Update – Confirms SCEI has Never Turned a Profit**

From 2006 to 2008, the Shaanxi Suo'ang New Energy Enterprise Co Ltd (Tongchuan) subsidiary was the only operating subsidiary of SCEI producing CWSF, and hence the only entity paying PRC VAT and corporate income tax to the state and local branches of the Chinese State Administration of Taxation (SAT). In mid October 2009 SCEI established the Shenyang subsidiary. IFRA did not collect Shenyang's tax record since Shenyang, at best, is only producing one tanker truck load of CWSF per day during the winter heating season. What is the point?

The following table reflects the nearly 100% variance between SCEI's Shaanxi Suo'ang New Energy Enterprise Co Ltd (Tongchuan) SAT and SEC reported revenue, VAT and corporate income tax payments for 2006 to 2009:

**Revenue SCEI (Tongchuan) 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%
1H 2010	¥ 2,284,653	\$334,743	NA*	NA*

**Corporate Income Tax SCEI (Tongchuan) 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%
1H 2010	¥ -	¥ -	NA*	NA*

**Value-Added Tax SCEI (Tongchuan) 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
1H 2010	¥ -	\$0	NA	NA

\*SEC filings do not break out Tongchuan Revenue or CIT for 2009 or 1H 2010

**For the first half of 2010, the SAT records show the SCEI's main subsidiary (Tongchuan) only generated a paltry \$334,743 in sales and paid no VAT or corporate income tax. After four years in operation, SCEI's main subsidiary had yet to turn a profit.**

The original records as well as a translation can be downloaded ([here](#)). The fact SCEI's main subsidiary 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 therefore a total hoax. Note: Separately, my legal team confirmed Shaanxi Suo'ang Biological Science & Technology Co., Ltd., the parent of Shaanxi Suo'ang New Energy Enterprise Co Ltd. (Tongchuan), did not report any sales for 2008 or 2009 to the SAT state tax bureau and therefore paid no VAT or corporate income tax. A copy of the statement from the state tax bureau regarding Suo'ang BST can be downloaded ([here](#)).

## **Conclusion: Nothing Left for U.S. Investors**

Baowen Ren defrauded over \$20 million from Chinese investors in a giant Ponzi share scheme. These investors have long thought their investment was worthless. No one even knows what Ren and his agents did with the money. U.S. investors funneled another \$29.6 million into Ren's pyramid scheme in December; briefly giving the Chinese investors I interviewed hope that the resulting liquidity in the pyramid might help get their money back.

Any remaining "pyramid" cash on the SCEI's Chinese books is worthless to U.S. investors, since Chinese courts will certainly award it to the legions of small Chinese retail investors first defrauded by Ren. I expect SCEI's shares will soon be halted and delisted from NASDAQ and the company will simply go dark. Right now NASDAQ is no doubt drafting questions based on this very report and videos; questions that SCEI cannot adequately answer, no different than CBEH.

## **Next Steps**

I am working with the defrauded PRC investors to 1) help them get a legal opinion from U.S. counsel letting them immediately sell their approximately 30 million SCEI shares (pre-1:10 reverse split); and 2) help them initiate legal action against Ren in China. Even after dumping their SCEI shares the average Chinese investor will lose 60-90% of their investment. Under PRC law, Baowen Ren could get a long prison term for what he has done if he does not compensate the victims.

**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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# **EXHIBIT D**

## **Sino Clean Energy Shareholder Letter**

Dear Shareholders:

Last month, the Company announced financial results for 2010 – a very successful year by all measures. Revenues increased 131% to \$106.3 million; adjusted net income was up 155% to \$27.9 million; and the Company generated \$26.2 million in operating cash flows. However, we have received numerous questions from investors regarding a purportedly subscriber-only report released last week on a website called Geoinvesting and reports by an individual calling himself Alfred Little. Both Mr. Little and Geoinvesting admit that they have a short position in our stock, giving each of them a significant motive to drive down our stock price to enrich themselves at the expense of our stockholders.

Management points out that the information provided and the allegations made in these “reports” are false, misleading and reflect a general lack of understanding of our business. Virtually all of the allegations in the Geoinvesting “report” are based on an interview with someone described only as a “local shop owner.” This person – who is not identified by name, location, description, or anything else – purports to know what the Company owns, leases, sells, and manufactures, who it employs, when it operates, and the like, yet nothing is revealed about the source or quality of the shop owner’s information, what particular biases this shop owner has, what specific questions were asked of the shop owner, and what specific answers were given. While Geoinvesting claims to have conducted “on-the-ground due diligence,” there is no hint of what that supposed due diligence was. Perhaps the most audacious of the liberties taken by Geoinvesting are the two references to another source – of course not identified or qualified in any manner – who agrees with some aspect of the outlandish claims, as if this made the false accusations more credible. If consensus among interested parties were meaningful, then we could easily give you a long list of executives of China-based companies who have a uniformly negative view of the short sellers and those who falsely bash companies on their behalf.

The two reports distributed on the internet by Alfred Little are also false and defamatory. The Company believes that the name “Alfred Little” is a disguise used by one or more short sellers to support their illegal naked short sale schemes against SCEI and other public companies. The tactics used by “Alfred Little” are nothing short of pernicious. For example, the data he purports to quote from Chinese tax authorities to support his various false allegations against SCEI bear inaccurate names of the referenced tax bureau so that the information cannot be tracked down. He purports to present dramatic and impactful videos to support his false and defamatory claims that the Company has no deliveries of product. What the videos actually show is a construction site behind our plant and not the loading dock. It is likely not an accident that “Alfred Little’s” various articles appear to be coordinated with short sellers’ activities in large blocks of SCEI’s stock through which the short sellers get rich at the expense of our shareholders.

We thus take this opportunity to provide a factual description of Sino Clean Energy’s business and to provide a factual counterpoint to the reckless and baseless attacks by the short sellers.

### **Production and Facilities:**

Geoinvesting reports that its investigators visited one of our facilities and believes, for some unstated reason, that it is “likely” that only one production line is operating rather than the three reported in our SEC filings. Alfred Little claims that his surveillance camera proves that none of our facilities are functioning. Both accusations are wrong.

As we clearly state in our 2010 10-K, the Company operates a total of five production lines, which have a combined annual capacity of 850,000 metric tons (MT). Three of the production lines are in Tongchuan, with 550,000 MT of annual capacity, and two lines are located at the Shenyang facility and have a combined 300,000 MT of annual capacity.

<u>In Place</u>	<u>Method</u>	<u>Location</u>	<u>Start Date</u>	<u>Capacity (MT/year)</u>
Line 1	Grinder	Tongchuan	July 2007	100,000
Line 2	Atomizer	Tongchuan	February 2009	250,000
Line 3	Grinder	Shenyang	October 2009	150,000
Line 4	Grinder	Shenyang	October 2009	150,000
Line 5	Grinder	Tongchuan	February 2010	200,000

Photographs of our Tongchuan production facilities, available on our website ([www.sinocei.net/production-plant](http://www.sinocei.net/production-plant)) clearly show that we have three full production lines, a coal storage facility, and an office building that has been under construction since March 2011. These pictures provide a comprehensive view of our property in Tongchuan, while the one in the Geoinvesting report only captures one small corner of our Tongchuan facility.

Geoinvesting also references a webpage on the local Tongchuan government’s website, which describes the Company and says that by July 25, 2009 the Company started to purchase equipment for Line 2 in Tongchuan and was preparing for a third production line. Unfortunately, the publication included in the government website was inaccurate with regard to the dates. In July 2009, the Company applied to the local Tongchuan government for a permit for the construction of the third production line located in Tongchuan, referred to above as Line 5, which began production in February 2010. In October 2009, the Company entered into a contract with an equipment manufacturer to purchase the equipment for Line 5 and completed the installation and testing of the machinery on January 16, 2010 as indicated by the Acceptance Report signed by the vendor of machinery and the company. Unfortunately, the local government did not confirm the information included in its webpage prior to publication, and given the nature of the information and the purpose of the filing, the Company did not see a need to correct it. Since the short sellers have seized upon the outdated information on the district government’s web site that led to the date discrepancy in order to label the Company a fraud, however, the Company has contacted the local Tongchuan government to request that its webpage be updated with the correct information.

Here is the table showing each production lines cost, the date the machinery was ordered as indicated on the machinery purchase contract, and the date the machinery began production, according to acceptance reports signed by the vendor and our company after co-testing the machine and after installation:

<u>Production Line</u>	<u>Machinery Cost</u>	<u>Order Date</u>	<u>Completion Date</u>
Line 1 (100,000 MT)	1.5 million	9/2006	7/2007
Line 2 (250,000 MT)	5.3 million	8/2008	1/2009
Line 3 (150,000 MT)	1.9 million	6/2009	10/2009
Line 4 (150,000 MT)	1.9 million	6/2009	10/2009
Line 5 (200,000 MT)	3.5 million	10/2009	2/2010

We provide pictures of the two production lines at Shenyang on the Company's website and [www.sinocei.net/production-plant](http://www.sinocei.net/production-plant).

The Company had a design capacity of 850,000 MT in 2010. This stated capacity is based on operating each of our lines 10 hours/day, 360 days/year. Our actual operations, running two to three 8-hour shifts of each production line (see the table under Personnel section), given robust demand and pricing for our products during 2010, resulting in actual production of 984,020 MT and sales of 982,166 MT. Here is the quarterly breakdown of our production in 2010 (MT):

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2010</u>
Production Volume	224,674	228,787	239,371	291,188	984,020

The monthly transportation report from January 2010 to December 2010, signed by the 3<sup>rd</sup> party logistic company to whom we outsourced the service of transporting and delivering of coal water slurry fuel to our customers, proved the above volume produced by our company was actually delivered to our customers in 2010. In contrast to Mr. Little and Geoinvesting, neither of whom has presented any tangible evidence to support their libelous claims, the Company has backup and/or supporting documents for all of the above statistics.

### **Personnel**

Geoinvesting claims that our representations in our public filings with regard to our personnel are false. Its sole source is the anonymous shop owner. Once again, Geoinvesting chooses to base their shoddy research on an unidentified shop owner's speculation about our head count rather than relying on the Company's statements. In doing so, they are mistaken.

We have 86 full-time employees at our Tongchuan facility at December 31, 2010, which is our peak season. Their functions are as follows:

<u>Function</u>	<u># of Employees</u>
Management	3
Sales and Marketing	9
Technical Staff	7
General & Administrative	11
Manufacturing	<u>56</u>
Total	86

We run 3 shifts a day by rotating the three production lines. Of course, our approximate 21 management, administrative, technician, logistic, purchase and sales staffs are not always present on site across the various shifts. Our operation of production lines and shifts in Tongchuan are as follows:

Shift time	Production line(s) (metric tons)	Production line staff	Production support staff	Total Production Staff working on the shift
8:00am-4:00pm (1 production line)	1 <sup>st</sup> - 100,000	6	11	17
4:00pm-12:00pm (3 production lines)	1 <sup>st</sup> - 100,000	6	7	30
	2 <sup>nd</sup> - 250,000	9		
	5 <sup>nd</sup> - 200,000	8		
12:00pm-8:00am (2 production lines)	2 <sup>nd</sup> - 250,000	9	1	18
	5 <sup>th</sup> -200,000	8		
Total		46	19	65

The reason why we produce and transport the majority of our CWSF from 4:00pm to 8:00 am is because electricity costs from about 10:00pm to 8:00am are one-third the cost of electricity during the day. Therefore, anyone viewing our facilities during the day would likely see fewer employees and tanker trucks coming in and out.

The videos Alfred Little posted of the Company's Tongchuan facility spanned from 8:00 a.m. to 12:00 p.m., conveniently leaving out our busiest time of the day. Further, his videos are misleading because they are focused only on the area of our facility where we are currently in the process of constructing additional coal storage. He has not included in any of his footage the primary production and transportation area of our facility. The Company's security cameras clearly show activity at our Tongchuan facility from midnight to 8:00 a.m. from April 20<sup>th</sup> through the 29<sup>th</sup>. Video for this period of time can be accessed at the following link: <http://www.sinocei.net/company-info/videos>. The Company's surveillance cameras retain footage for 10 day periods before being deleted. However, our most recent footage covers days prior to the "reports" issued by Geoinvesting and Alfred Little. Furthermore, we have a log from our third party logistics company, Xi'an Kai Feng Transportation Company, Ltd., documenting the number of deliveries and the total amount of goods delivered at our Tongchuan facility from

November 2010 to February 2011. You can view these documents in Exhibit I located in the data room at the Company's website: <http://ir.stockpr.com/sinocei/data-room>.

In addition, of course the management, technical, general and administrative and manufacturing staff spend the majority of their time inside our buildings. Someone camped outside our facilities would not see more than 8-10 workers at any time. If they were really interested in presenting a valid statement about our headcount, one would have thought that the short sellers would have asked to take a look inside. No one working for Geoinvesting or Alfred Little, however, to the best of our knowledge, has ever stepped foot inside any of our production facilities, including Tongchuan. Therefore, the photos and videos they took from outside our facilities during the slowest parts of our day are completely useless in assessing the actual business activity at our plants.

### **Sales:**

Geoinvesting claims that the factory in Tongchuan operates only in the winter. Who is their source? The "shop owner," of course. The shop owner and Geoinvesting are wrong. Alfred Little claims to have camped out at our facilities in order to conduct a 4-month surveillance, from which he concludes that we could not be producing even a small fraction of what we claim to produce. As we noted above, he located his cameras in the wrong place and shut them down too early each day. He too is wrong. Finally, Geoinvesting claims not to have been able to find several of our customers. We suspect that they just did not try hard enough.

The Company sells coal water slurry fuel (CWSF) to two types of customers - industrial and residential - representing approximately 54% and 46% of total 2010 sales volume, respectively. Sino Clean Energy had 43 total customers at the end of 2010, including 38 in Shaanxi province. The Company's top 5 customers accounted for approximately 46% of total volumes sold in 2010:

<u>Name</u>	<u>Sales Volume (MT)</u>
Shenyang Haizhong Heating 海众(沈阳) 热源有限公司	329,341
Shaanxi Dade Property 陕西大德置业房地产开发有限公司	40,629
Shaanxi Tongchuan Yitong 陕西铜川易通高压电瓷厂	31,618
Shaanxi Urban Development 陕西铜川城建开发有限公司	27,124
Northwest Rubber 西北橡胶总厂	27,106

The transportation sheets from 1/2010 to 12/1010 from our third party transportation companies, Xi'an Kai Feng Transportation Company, Ltd., ("Kai Feng") for Shan'xi Suo'ang New Energy and Sheng Yang Xin Yu Transportation Co., Ltd. ("Xin Yu") for Sheng Yang Suo'ang New Energy, show the delivered volume to these customers. You can view these documents in Exhibit II located in the data room at the Company's website: <http://ir.stockpr.com/sinocei/data-room>.

In contrast, the total volume of sales to the customers Geoinvesting's could not find represent approximately 0.43% of total volumes sold in 2010. While we cannot speculate as to why Geoinvesting was unable to find the information for the four customers listed, we provide the addresses information below:

<u>Name</u>	<u>Chinese Name &amp; Address</u>
Xi'an Institute of Architecture	西安建筑科技大学华清学院 / 陕西西安幸福南路 109 号
China Northern Airline	中国北方航空公司 / 沈阳市大东区小河沿路 3-1 号
Northwest Rubber	西北橡胶总厂 / 陕西省咸阳市西华路 1 号
Shanxi Urban Development	陕西铜川城建开发有限公司/陕西省铜川市新区金漠路 6 号

Sino Clean Energy experienced stable demand for our products in 2010 from both types of customers for separate reasons. Residential heating customers have peak seasons for winter heating usage from November to March, while industrial customers use CWSF year-round to provide energy and heating. The following table clearly shows the slight seasonality of residential heating customers and the steady usage for our industrial customers. In any event, it proves that we have robust sales throughout the year. Note that line 5 came online in February 2010, adding an additional 200,000 MT of annual CWSF capacity. As a result, we signed nine new supply agreements and ramped production for our residential and industrial heating customers in Shaanxi province during the second and third quarter of 2010. This increase in production helped offset the slight seasonality we typically experience in demand from our residential heating customers during the second and third quarters.

Here's the breakdown of total sales volumes (MT) in 2010:

<u>Customer Type</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Industrial	88,683	141,607	145,299	152,811	528,400
Residential	<u>136,619</u>	<u>85,378</u>	<u>87,140</u>	<u>144,628</u>	<u>453,765</u>
Total	225,302	226,985	232,439	297,439	982,165

The Company uses third party logistics companies to transport the majority of its finished goods from our production facilities to our customers. During 2010, at our Tongchuan facility, in addition to the two tanker trucks that we own and use, on average 26 tanker trucks, with tonnage from 20 metric tons to 60 metric tons a day, were provided by our outsourced providers, Xi'an Kai Feng Transportation Company, Ltd., ("Kai Feng"). At our Shenyang facility, on average 23 tanker trucks, with tonnage from 20 metric tons to 60 metric tons, are provided by a third party logistic company, Sheng Yang Xin Yu Transportation Co., Ltd.("Xin Yu"), in addition to the one truck we own. Each truck, depending on the transporting distance and customer demand,

can deliver one or more times a day. For example, on November 7, 2010, Kai Feng delivered 37 truck loads of our CWSF to our customers

### **Transportation Activity:**

The two largest third party logistics companies used by Sino Clean Energy are Xi'an Kai Feng Transportation Company, Ltd., ("Kai Feng") and Sheng Yang Xin Yu Transportation Co., Ltd. ("Xin Yu"). Once again, unlike our attackers, we make the supporting evidence available to you. Copies of the shipping record from 2010 for each of these two logistics companies can be viewed in Exhibit II located at <http://ir.stockpr.com/sinocei/data-room>. We present following documentation to evidence the transportation activities in Shan'xi Suo'ang New Energy and Sheng Yang Suo'ang New Energy: (1) The 11/2010 and 12/2010 transportation log from the Kai Feng shows the numbers of deliver each day in the two months as a sample of evidence of truck delivery times and volume in those months. (2) The monthly transportation sheet from 1/2010 to 12/2010 signed by both our company and Kai Feng and "Xin Yu" in order to calculate the transportation fee, showing the total volume delivered to each customers for each month, proving the total volume delivered to our customers for 2010, which matches with our reported sales volume in 10K. For example, in November, 2010 Kai Feng delivered 2,667 metric tons of CWSF to our 5<sup>th</sup> largest customer Shanxi Urban Development and Xing Yu delivered 20,457 metric tons to our largest customer Shenyang Haizhong Heating. These records prove conclusively that Alfred Little's allegation that the company has little operation is completely false.

### **Taxes:**

Consistent with other companies operating in China, we pay a 17% value-added sales tax (VAT) on our net sales. Both of our operating entities, Shanxi Suo'ang New Energy and Sheng Yang Suo'ang New Energy, filed a VAT and Corporate Income Tax ("CIT") with the Chinese government. A reconciliation of our 2010 SEC filings to our VAT return reported revenue is set forth below:

**Reconciliation of 10K revenue with China Tax Report revenue for 2010**  
**(Reporting period 1/1/2010 - 12/31/2010)**

	r/f	RMB	EX rate	US\$
<b>China Sales Tax (VAT) Report Revenue:</b>				
Shan'xi Suo'ang New Energy	①	RMB 399,532,835	\$1=RMB6.769	\$ 59,023,908
Sheng Yang Suo'ang New Energy	②	<u>317,995,709</u>	\$1=RMB6.769	<u>46,978,240</u>
Total Sales Tax (VAT) Reported Revenue		RMB 717,528,544		\$ 106,002,149
Commission & Other income		RMB <u>1,838,703</u>	\$1=RMB6.769	\$ <u>271,636</u>
Total Reported Revenue to China Tax bureau		<u>719,367,247</u>		<u>106,273,784</u>
10K reported Revenue				\$ <u>106,273,785</u>
Round up difference				-1

Moreover, we prepaid the CIT in a total amount of \$ 4.85 million (RMB 31.76 million) for the first three quarters of 2010 and accrued \$ 2.26 million (RMB14.8 million) CIT for quarter four, which will be cleared in May according to China corporate tax regulation. Thus, in contrast to the allegations set forth in Alfred Little's "report," we have timely filed tax returns with Chinese tax authorities and paid both VAT and CIT in due time. Alfred Little claims to have obtained data from the tax bureau but does not supply the exact name of the bureau for us to check out the source of their data. Our tax returns, filed with stamps from the tax authorities for acceptance by them and tax payment remittances, prove that we have done nothing wrong in this respect.

\* \* \* \* \*

Our business remains sound, and we are working diligently to execute our growth strategy as we laid it out for our investors. As always, we welcome any investors who wish to visit any of our facilities. Upon legitimate request, we can provide more detailed information and data on our operation.

I deeply regret the harm these malicious attacks have caused our shareholders. If these perpetrators continue to carry out their reckless allegations against Sino Clean Energy, we will not hesitate to take all legal actions available to us.

Sincerely,

Baowen Ren  
Chairman and CEO, Sino Clean Energy

