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UNITED STATES OF AMERICA
BEFORE THE
SECURITIES AND EXCHANGE COMMISSION

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In the Matter of: : ADMINISTRATIVE PROCEEDING
File No. 3-15942
China Integrated Energy, Inc. :
Respondents. : **ANSWER TO ORDER**
: **INSTITUTING**
: **ADMINISTRATIVE**
: **PROCEEDINGS AND NOTICE**
: **OF HEARING PURSUANT TO**
: **SECTION 12(j) OF THE**
: **SECURITIES EXCHANGE ACT**
: **OF 1934**
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Pursuant to the Securities and Exchange Commission's ("Commission") Rules of practice (17 C.F.R. § 201.220(b)), Respondent China Integrated Energy, Inc. ("China Integrated," "CBEH¹" or the "Company"), by its attorneys, hereby answers the Order Instituting Administrative Proceedings and Notice of Hearing Pursuant to Section 12(j) of the Securities Exchange Act of 1934, dated June 24, 2014 (served July 7, 2014)(the "Order") as follows. CBEH denies all allegations, stated or implied, of improper, wrongful or actionable conduct. CBEH further denies any allegation in the Order that is not specifically addressed herein.

I. RESPONDENT'S STATEMENT OF FACTS

Respondent CBEH is a Delaware corporation with operations in the People's Republic of China ("PRC"). CBEH is engaged in three business segments – the wholesale distribution of finished oil and heavy oil products, the production and sale of biodiesel, and the operation of retail gas stations in the PRC. The Company operates through its wholly owned

¹ The ticker symbol, which obviously does not track the Company's name, is a vestige of a prior name of the Company.

subsidiaries and their contractual relationships with companies operating within the PRC. The Company is the 100% owner of Hong Kong subsidiary Baorun China Group Limited, which owns Chinese subsidiary Redsky Industrial (Xi'an) Co., Ltd. These subsidiaries operate in China through a series of contractual agreements with PRC energy company Xi'an Baorun Industrial Development Corp. ("Xi'an Baorun"). The Company has no equity interest in Xi'an Baorun, which, under PRC law, must be owned domestically. The Company has fewer than 300 shareholders of record.

A. The Short Attacks Against China Integrated

CBEH, like numerous other PRC-based public issuers, became the subject of attacks by short sellers and their associated funds and media groups in and around March 2011.

1. March 16, 2011 Sinclair Upton Report

On or about March 16, 2011, China Integrated was the subject of a short attack by "analyst" Sinclair Upton, which published a "report" on various short seller websites, including Seeking Alpha (the "Sinclair Upton Report"). The name, of course, is a pseudonym; the true identity of Sinclair Upton has never been revealed and, unlike a number of other short sellers, Sinclair Upton did not attack other companies after it launched its attack on CBEH.

The Sinclair Upton Report claims that China Integrated 1) transferred company funds to management insiders through fraudulent sham acquisitions and 2) fabricated its SEC financial statements. It provides no information regarding the author's identity, background, source of information, education, business experience, legal or financial expertise, familiarity with PRC accounting standards, or any other indication of his authority as to the matters alleged in the Sinclair Upton Report. The author of the Sinclair Upton Report intentionally remains anonymous. The report begins with a disclosure that "[a]s of publication date, the author of this report has short positions in and owns options of the company covered herein and stands to

realize gains in the event that the price of the stock declines.” In addition, the report contains a broad disclaimer as to the veracity or accuracy of the report: “The author of this report makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. All expressions of opinion are subject to change without notice, and the author does not undertake to update or supplement this report or any of the information contained herein.”

Based solely upon the report by Sinclair Upton, various analysts downgraded CBEH. On March 21, 2011, Roth Capital announced that they were downgrading shares of CBEH from “buy” to “neutral” pending clarification regarding the allegations in the Sinclair Upton Report. The Roth Capital Report noted in its announcement that “AIC filings may not be completely reliable sources of income statement data (particularly net income)” and that the “primary purpose” of SAIC filings is to accurately record “registration and ownership data.”

2. The March 28, 2011 Alfred Little Report

Shortly following the Sinclair Upton attack, on or about March 28, 2011, a second “analyst” report emerged from Alfred Little, another anonymous author. Alfred Little’s report (the “Little Report”) purports to present the results of a “detailed investigation by the International Financial Research & Analysis Group (“IFRA”),” which is alleged to have included video surveillance of the Company’s biodiesel production facilities in the PRC. The alleged IFRA report on China Integrated is neither made available in the Little Report nor anywhere else. The allegation, once again based on anonymous sources, was that there was “no meaningful production activity” at the facilities, no production licenses, and no purchases of feedstock for the production of biodiesel.

“Alfred Little” is Jon Carnes. He has been sued numerous times for defamation and is the subject of regulatory actions in Canada. His operative in China has been arrested for manufacturing false evidence.

B. The Company Responds to the Short Sellers

The Company denied the allegations contained in the Sinclair Upton Report in Chairman Gao’s March 23, 2011 letter to shareholders, which was published on CBEH’s website. With regard to the alleged related party transactions (allegedly involving Mr. Gao’s son), Mr. Gao explained that although his son Gao Bo previously owned shares in Chongqing Tianrun, Gao Bo exited ownership of Chongqing Tianrun in November 2009, prior to its acquisition by CBEH, and that “no amounts were ever paid to Mr. Gao’s son in connection with the acquisitions.” The letter stated that

In connection with the [Chongqing] Tianrun transaction, after Mr. Gao made a significant deposit from his own personal funds, Mr. Gao was allowed to, and did, designate a shareholder of Tianrun to safeguard the deposit and monitor the construction that was underway at Tianrun. Mr. Gao designated his son, Gao Bo, to act in this capacity. Gao Jiankang acted as the legal representative of Tianrun, but he is not related to Mr. Gao. Upon completion of certain construction to increase the capacity of the plant, in November 2009, Gao Bo exited ownership of Tianrun and the security deposit was returned to Mr. Gao. Gao Jianking remained in the capacity of the legal representative of Tianrun. We continued negotiating the acquisition.

In addition, Mr. Gao’s letter also explained that the actual owners of Chongqing Tianrun at the time of its acquisition were Liao Xiadong, Wang Xiaoyong, and Xie Hui, as disclosed. However, in order to reduce the owners’ tax liability, each of the owners contributed their ownership interests to Chongqing Tianrun’s parent Chongqing Huaneng prior to the acquisition. Xi’an Baorun then acquired Chongqing Tianrun from Chongqing Huaneng.

With regard to the other alleged related party transaction, known as the Shenmu acquisition, Mr. Gao disclosed in his March 23, 2011 letter that in order to expedite the

acquisition, “the transaction was structured so that the ownership interests would first be transferred to an individual . . . and then upon completion of the transfer of title, related permits and licenses, ownership will transfer to the Company.” Thus, Shenmu’s majority shareholder Lu Wenhua and shareholder Wang Zhijun transferred an 80% interest in Shenmu to Gao Bo, for the benefit of Xi’an Baorun, in exchange for a security deposit of RMB 20 million. The remaining 20% interest was transferred to Yongsheng Song, to be transferred to Xi’an Baorun upon completion of the transfer and full payment. “The aggregate purchase price is \$9.2 million, and the outstanding balance will be paid to Lu Wenhua, the former shareholder, not to Gao Bo.” Mr. Gao’s letter also responded to the remaining allegations in the Sinclair Upton report.

In addition to Mr. Gao’s refutation of the Sinclair Upton allegations, on March 28, 2011, the Company also issued a press release and Form 8-K to refute the “similar and overlapping” allegations in the Little Report. Although the Company published thorough and thoughtful refutations of the short sellers’ attacks, the Audit Committee of the Board of Directors also authorized an independent investigation of the allegations lodged in the Little and Sinclair Upton Reports.

C. The Investigation and Resignations

As has happened time and time again to China-based public companies attacked by the short sellers, when CBEH was attacked, its auditors at the time, KPMG, put pencils down and refused to proceed with their work unless and until a thorough, Independent investigation of the allegations was commenced and completed. In April 2011, the Company’s audit committee retained the law firm Pillsbury Winthrop, accounting firm Deloitte, and the Chinese law firm King & Wood to investigate the allegations. The investigation commenced on April 11, 2011. On April 20, 2011, prior to the completion of the investigation, Nasdaq halted trading in CBEH stock pending the outcome of the investigation.

Regrettably, the counsel retained by the committee to assist it with the independent investigation conducted themselves in a manner that indicated to all concerned that they had begun with the premise that the allegations were true and that management had engaged in wrongdoing. Management took offense at their conduct; the relationship was anything but productive.

As a result, the investigation ground to a halt. On April 21, 2011, the day after the Nasdaq trading halt was imposed, Pillsbury Winthrop, Deloitte, and King & Wood resigned, claiming a refusal by the Company's managers to supply certain requested information and their resultant inability to continue the internal investigation. Simultaneously, Larry Goldman resigned from the Board of Directors and as Chairman of the Audit Committee, also citing the committee's inability to continue its investigation. The Company's auditors, KPMG, resigned on April 26, 2011. Thereafter, the Company's Chief Financial Officer, Albert Pu, and board and audit committee member Christopher Wang resigned on May 3, 2011, all citing the inability to conduct the investigation. Nasdaq delisted CBEH on May 16, 2011.

D. The Audit Committee Conducts Its Investigation

CBEH replaced the departed directors with two new independent directors: Stephen Markscheid and Liren Wei. On May 13, 2011, the Company announced that the Audit Committee hired Shearman & Sterling LLP to replace Pillsbury Winthrop. On May 24, 2012, the Company announced the completion of its investigation. At the conclusion of the investigation, the Company issued a public statement that "[w]hile some issues remain as to production at the Company's Tongchuan biodiesel facility, and while the investigation revealed the need to strengthen internal controls and take similar measures, the primary substance of all other allegations has been proven groundless."

E. The Company Hires Auditors and Makes a Filing

As disclosed in an 8-K filed on July 25, 2011, the Company re-engaged its former auditor, Sherb & Co., LLP ("Sherb"), as its independent principal accountant to replace KPMG. KPMG withdrew the one report it had provided, which pertained to the year ended December 31, 2010. Sherb was thus engaged to re-audit the financial statements for the year ended December 31, 2010 as well as 2011. Of course, Sherb too would not complete its work until the investigation was complete. As noted above, the audit committee took a year to complete its investigation, finishing in May 2012.

On January 14, 2014, CBEH filed the Form 10K for the year ended December 31, 2011. The Company's financial statements were certified by RBSM, an auditing firm that had entered into a business combination with Sherb subsequent to the engagement of Sherb by CBEH. The January 14, 2014 filing included financial statements for the years ended December 31, 2010 and 2011 certified by RBSM.

In late 2013, Sherb was the subject of an SEC administrative proceeding and Order (unrelated to CBEH). As a result, the year ended December 31, 2009 (which was audited by Sherb) needed to be re-audited as well.

Thus, while CBEH succeeded in filing for the year ended December 31, 2011, it has not, to date, filed for the years ended December 31, 2012 and 2013 and it must re-audit the year ended December 31, 2009.

F. The Company Submits a Plan to Become Current

By letter dated March 10, 2014, the SEC notified the Company that it was considering commencement of what would become this action. The letter was served directly on the company by mail to Xi'an and took quite a long time to arrive. The Company (acting

through its audit committee) responded by letter from counsel dated April 25, 2014, attached hereto.

In the April 25 letter, counsel reported the Company's plan to become current with the Company's public filings by October 31, 2014. Counsel informed the SEC that the Company recognized the need to proceed expeditiously, and, given RBSM's limited resources, had determined the need to conduct the outstanding audits and subsequent filings on dual tracks, employing dual auditors. The Company communicated its intention to have RBSM complete the 2009 audit and to employ another qualified PCAOB registered firm simultaneously to perform the audits of the years ended December 31, 2012 and 2013. The Company emphasized that the employment of a second auditor did not reflect any issues or disagreements with RBSM but, rather, reflected only the need for expeditious action and the Company's dedication to becoming current.

CBEH began to implement its plan. Nonetheless, on or about June 24, 2014, the Commission filed the Order Instituting Administrative Proceeding against CBEH, presumably because required periodic reports had not been filed by the Company following the short-sellers' attack, the Company's independent investigation, and the SEC's action against Sherb. While the actions of the Commission are no doubt intended to be remedial, they may in fact be causing a punitive effect upon the Company and its shareholders, inadvertently furthering the short-sellers' unlawful attacks and market manipulation.

II. ANSWER WITH RESPECT TO THE ALLEGATIONS SET FORTH IN SECTION II

The Order is issued with regard to four entities. CBEH responds only to those allegations made with regard to CBEH, as no response with regard to the remaining entities is required or available.

1. With respect to paragraph A(3) of Section II, Respondent CBEH denies the allegations, except admits that CBEH is a Delaware corporation with principal offices in Xi'an, China; that CBEH's securities have been registered with the Commission pursuant to Exchange Act Section 12(b) for a certain specific period; that CBEH's securities were listed and, at times, traded on the NASDAQ under the symbol "CBEH."

2. With respect to the portion of paragraph B(6) that pertains to Respondent CBEH, Respondent CBEH denies the allegations but admits that the Company has not yet submitted certain filings with the Commission as set forth above.

3. Paragraphs B(7) and B(8) of Section II purport to state legal conclusions to which no response pleading is required. To the extent that those Paragraphs allege facts to which a response is required, Respondent CBEH denies the allegations.

DEFENSES

First Defense

In light of Respondent's statement of facts, any and all relief proposed by the Commission (paragraph B of Section III) is impermissibly punitive.

Second Defense

In light of Respondent's statement of facts, any and all relief proposed by the Commission (paragraph B of Section III) is not in the public interest, nor is such relief appropriate for the protection of investors.

Third Defense

In light of Respondent's statement of facts, any and all relief proposed by the Commission (paragraph B of Section III) is unnecessary, as Respondent has no prior record of non-compliance with SEC regulations; has voluntarily taken investigatory action (at great

expense); and has cooperated with the Commission and has indicated and demonstrated to the Commission a willingness to take corrective action.

CONCLUSION

WHEREFORE, having fully answered, Respondent China Integrated, respectfully request that:

1. The relief sought and described in paragraph B of Section III be denied and that these proceedings be dismissed; and
2. Respondent China Integrated be granted and awarded all such other and further relief as the Commissioner deems just and proper.

Dated: July 16, 2014

Respectfully submitted,

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