Case Study on Accounting Fraud of U.S.-Listed Chinese Companies

By

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ABSTRACT

During the period from 2009 to 2013, 76 out of 848 U.S. federal securities class action litigations were against Chinese companies listed in U.S. markets. The U.S. Securities and Exchange Commission (SEC) has also initiated more and more investigations into accounting fraud of U.S.-listed Chinese companies during recent years. This paper seeks answers to the following questions: what kinds of accounting fraud are those companies usually involved with? How did they commit such fraud? Are there any common indications that we could identify from those companies and could be used as red flags for accounting fraud?

Using a case-study method, I analyze three Chinese companies: RINO International Corporation, Universal Travel Group, and ShengdaTech, Inc. I explore management issues and the various means that these three companies used in their fraudulent behaviors. The major part of this paper comprises three case studies, each of which includes a brief introduction of company background and industry and business discussion, followed by analysis of key management and accounting issues.

Together with evidence and clues from other companies, I identify three major sets of characteristics that emerged in my study of these companies involved in accounting fraud, including: 1) low integrity of higher management, weak corporate governance, and internal control deficiencies; 2) suspicious corporate transactions and potential mechanics of how fraud was committed, including overstated revenues, unusually high cash balances and accounts receivable balances, abnormally higher gross profit margins or lower expenses, and undisclosed related party transactions; and 3) external warning signals from auditors and from inconsistent numbers between SEC filings and filings to Chinese regulators.

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1. Introduction

On December 3, 2012, the U.S. Securities and Exchange Commission (SEC) charged China affiliates of Big Four accounting firms with violating U.S. securities laws in refusing to provide related documents when the SEC investigated nine China-based companies for potential accounting fraud. In August 2011, Longtop, the first U.S.-listed software company from Mainland China, was delisted from New York Stock Exchange (NYSE). More and more U.S.-listed Chinese companies have come under investigation by SEC during recent years, which has caused severe public suspicion and a dramatic drop in their stock prices.

Meanwhile, some investment institutes, for example, Citron Research and Muddy Waters, both of which are famous for short selling cross-listed Chinese companies, have issued a large number of research reports on accounting fraud of different Chinese companies. Most of these short sales succeeded as the research reports revealed severe accounting issues of those companies.

Both the regulators and investors started to pay more and more attention to the accounting information quality of cross-listed Chinese companies. From 2009 to 2013, 76 out of 848 U.S. federal securities class action litigations were against Chinese companies listed in U.S. markets. Among all those companies that had been charged with accounting fraud, what kinds of accounting fraud are they usually involved with? How did those companies commit such fraud? Are there any common indications that we could identify from those companies? What can we learn from these cases?

In this paper, I would like to seek answers to the above questions. My research will be focused on accounting fraud of the Chinese companies listed in the U.S. security markets. I will conduct case studies on three major companies selected from different industries. Each case analysis will include a brief introduction of company background and industry and business discussion, followed by analysis of key management and accounting issues.

The three companies, which are RINO International Corporation, Universal Travel Group and ShengdaTech, Inc., are selected from the 76 litigations during 2009 to 2013, according to the database of Securities Class Action Clearinghouse from Stanford Law School. These companies are selected based on their size, industry and key issues charged in the litigations. All of them have more than $100 million annual revenues. RINO International Corporation is a manufacturing and construction company providing environmental protection equipment. Universal Travel Group is an online travel service company. Finally, ShengdaTech, Inc. is a high-tech manufacturing company producing chemical products. The first and third companies were listed in NASDAQ, and the other one was listed in NYSE.

From the analysis of the above three companies with various backgrounds and accounting issues, I will identify and summarize some common factors that emerged in my study. I hope these common characteristics of companies involved in accounting fraud can provide warning signals to both regulators and investors.

2. RINO International Corporation

RINO International Corporation ("RINO" or "the Company") is an industrial technology-based, P.R.C. environmental protection and remediation company, which is engaged in the business of designing, manufacturing, installing and servicing wastewater treatment and exhaust emission desulphurization equipment principally for use in China's iron and steel industry, and anti-oxidation products and equipment designed for use in the manufacture of hot rolled steel plate products.[1] RINO was first listed on OTCBB in October 2007 through a reverse merger with a Nevada corporation, Jade Mountain Corp. The OTC Bulletin Board (OTCBB) is an electronic quotation system that displays real-time quotes, last-sale prices, and volume information for many over-the-counter securities that are not listed on a national securities exchange.[2] Requirements for companies to be traded in OTCBB are much less strict than those for NASDAQ or NYSE. RINO was then transferred to NASDAQ in July 2009.

RINO's stock performed quite well after its listing in the U.S., especially after July 2009 when transferred from OTCBB to NASDAQ (See Exhibit 1 for its historical stock price from 2007 to 2010). RINO entered the market with a price of around $2.40 and the highest stock price hit $35.15 on December 1, 2009. However, everything suddenly changed after a research report issued by Muddy Waters on November 10, 2010, pointing out that RINO had potentially overstated revenue and was involved in serious accounting fraud. Within 7 days, RINO's stock price dropped from $15.74 to $6.08. On December 8, 2010, NASDAQ made its determination to delist RINO, which became effective on December 30, 2010.[3] RINO was then transferred back to the OTC market.

Market for RINO's products

RINO has three principal products and product lines: the "Lamella Inclined Tube Settler Waste Water Treatment System," the "Circulating, Fluidized Bed, Flue Gas Desulphurization System," and the "High Temperature Anti-Oxidation System for Hot Rolled Steel."[4] All of those products are for environmental protection and remediation.

Environmental Issues in China

Although China experienced dramatic economic growth since its economic reforms after 1978, one by-product of fast development is environmental issues. China's air and water pollution become more and more serious in recent years. China's outdoor air pollution is the most serious environmental issue for the public health, which is mainly caused by a mixture of coal-combustion and motor-vehicle emissions.[5] Water pollution is another cause for serious health concern in China, especially in rural areas. In 2008, among 200 major rivers in China, water quality in 20.8% of 409 monitored sections was below grade V, the worst grade in the Chinese National Standard for Water Quality; water of this grade is virtually of no functional use, even for agricultural irrigation (Ministry of Environmental Protection of China 2009).[6] Thus in its 11th five year plan (2006-2010), China has put great emphasis on environmental protection and improvement. The Chinese government has estimated environmental protection investment accounted for 1.35% of GDP over this same period.[7]

Wastewater Treatment Market

In the iron and steel industry, water is used as a cooling material in the manufacturing process. However, wastewater after cooling usage is contaminated with gasification products, organic compounds, and large amounts of rough solids. Thus, a wastewater treatment system is required by most iron and steel plants. According to a report of China's Water Sector by APCO Worldwide[8], more than 1,000 new waste water treatment projects representing an investment of RMB 330 billion (USD 50 billion) will be constructed by the end of 2010, and a focus on wastewater treatment is expected to continue in the 12th Five-Year Plan. In addition, the government has earmarked RMB 370 billion (USD 55.8 billion) for rural infrastructure construction, including water supply, and RMB 350 billion (USD 52.8 billion) for environmental protection, including wastewater treatment.[9]

Flue Gas Desulphurization Market (FGD Market)

Flue Gas Desulfurization (FGD) technology is used to remove SO2 from the exhaust flue gases when iron ore, coal, or oil is burnt during manufacturing processes. This technology is mainly used in the sintering process in an iron and steel plant. With its reliance on coal and increasing focus on the environment, China is predicted to be the largest purchaser of FGD systems followed by the United States.[10] The installed capacity of FGD systems in China will rise from 365 000 MW in 2009 to 723 000 MW in 2020, representing a value based on international pricing of over $100 billion.[11] Under the 11th five year plan, 2006-2010, it is envisaged that the six major Chinese utilities will install a total of 300 new FGD systems.[12]

Anti-Oxidation Market

During the hot rolling steel heating process, a thick layer of oxidized iron will appear on the surface of the steel. Oxidization reduces steel output, adds pollution, and increases energy and water consumption. By adding a protective coating on the steel, iron and steel plants use this anti-oxidation technology to prevent or reduce the oxidation when producing hot rolling steal. In its 2009 annual report, RINO stated that "China is estimated to have produced approximately 500 million tons of steel in 2008, of which the expected output of hot rolled steel is estimated at 450 million tons" and estimated that "the full application of the Anti-Oxidation System to that projected production output would result in approximately $567,000,000 in water and cost savings per year."[13]

RINO's Business and Growth

RINO's three principal product lines account for most of its operating revenue, 97% of total net sales in 2009 and 90% in 2008, respectively. RINO's largest operating revenue came from the Flue Gas Desulphurization System segment, which took 60% and 76% of total net sales in 2009 and 2008 (See Exhibit 2). The second largest segment is from Wastewater Treatment Systems. Although Anti-Oxidation Systems took the smallest part of RINO's main businesses, it experienced fast growth from 2007 to 2009 (from 3% of total net sales in 2007 to 13% in 2009).

Wastewater treatment systems is RINO's traditional product, which comprises almost all of RINO's net sales in 2005 and more than half of net sales in 2006 (See Exhibit 3). The FDG system and Anti-oxidation system are new products launched from 2007. Before listing on the OTCBB in October 2007, RINO experienced fast growth from 2005 to 2007. Compared to 2005, RINO's total revenue in 2006 increased from \$3.6 million to \$10.3 million, excluding government grants, which is a 187% increase (See Exhibit 4). Total revenue continued increasing by \$53.1 million in 2007, with launching of FDG and Anti-oxidation products. FDG contributed an increase of \$33 million and Anti-oxidation contributed an increase of \$2 million in 2007, while wastewater treatment contributed only \$1.5 million.

In its 2009 annual report, RINO claimed that its Lamella Inclined Tube Settler Waste Water Treatment System is "among the most technologically advanced wastewater treatment systems presently in use in China's iron and steel industry"[14] and RINO owned a patent to this technology. Compared to rivals' products, RINO's wastewater treatment system had a lower cost and a higher throughput rate. RINO also claimed itself "the first company to design, manufacture and complete an iron and steel sinter machine desulphurization installation in the P.R.C." and "the Company's Anti-Oxidation System is unique and virtually without competition in the China market."[15] Given all these competitive advantages, RINO's management showed great confidence in the company's future revenue growth.

RINO did not only sell the environmental protection and energy saving equipment, but it also provided construction and installation service of the equipment. All RINO's products were manufactured and installed according to customers' requisitions. Revenues were generated from large scale projects with iron and steel factories, based on long-term fixed price contracts, which generally lasted for 12 months. Such revenue was recognized using the percentage-of-completion method (PCM). PCM is used to account for long-term construction contracts. The amount of revenue reported each year under the contract using the PCM is determined by multiplying the total estimated contract price times the percentage of completion at the end of year (completion factor) less any gross receipts reported in the prior years of the contract.[16] In addition to the company's major contract sales for equipment and installation, RINO also provided contract machining services to third parties using their over capacity during "down time". However, machining services only accounted for a small portion of the company's total sales (2.7% in 2009 and 9.9% in 2008). The company estimated that the machining services would further shrink due to increase sales and production of its own equipment.

Reverse Merger

In a reverse merger transaction, an existing public "shell company," which is a public reporting company with few or no operations, acquires a private operating company - usually one that is seeking access to funding in the U.S. capital markets.[17] Shareholders of the private company will control the public company through exchange of their original shares to the public company's shares. RINO became listed on the OTCBB through a reverse merger with Jade Mountain Corp, a Nevada registered corporation.

In October 2007, Jade Mountain Corp was a clean shell company, with only cash as assets and no outside liabilities. The reverse merger was accomplished through a series of transactions. Jade Mountain first acquired all stock of Innomind Group Limited ("Innomind"), a company registered in British Virgin Islands in 2006. Innomind holds 100% of Dalian Innomind Environment Engineering Co., Ltd. ("Dalian Innomind"), which is a wholly foreign owned entity in China. Dalian Innomind then acquired substantially all assets and properties of Dalian RINO Environmental Engineering Science and Technology Co., Ltd. ("Dalian Rino"), a Chinese company. Dalian Innomind fully controlled Dalian Rino through a contractual arrangement with Dalian Innomind (See Exhibit 6). Dalian Rino was founded in 2003 by Mr Zou Dejun and his wife Ms Qiu Jianping. Zou holds 90% of Dalian Rino's shares and Qiu holds 10% of the remaining shares. Dalian Rino is a Variable Interest Entity ("VIE") but not a subsidiary of RINO. A VIE refers to an entity in which the investors hold controlling interest but do not own the majority of this entity's stock or voting rights. A company which has VIEs needs to consolidate such entities into its consolidated financial statements if the company is the primary beneficiary of the VIEs.

In 2008, Dalian RINO set up two new 100% owned subsidiaries: Dalian Rino Environmental Engineering Project Design Co., Ltd. ("Dalian Rino Design") for research, development and design and Dalian Rino Environmental Construction & Installation Project Co., Ltd. ("Dalian Rino Installation") for providing construction services. Both subsidiaries are registered under the laws of China. In 2009, Dalian RINO set up another 100% owned subsidiary in Nevada for corporate business development activities.

Furthermore, in 2009, RINO International Corporation set up a wholly owned subsidiary, Rino Investment (Dalian) Co., Ltd. ("Rino Investment") under the laws of China. Rino

Investment mainly deals with RINO's professional investment and business development in China. Rino Investment also set up a wholly owned subsidiary, Dalian Rino Heavy Industries Co., Ltd. ("Rino Heavy Industries") to expand production capacity. See Exhibit 7 for RINO's corporate structure in 2009.

RINO's Management

As of 31 December 2009, RINO's higher management consisted of five directors, one CFO and one Controller. Among the five directors, Zou Dejun is CEO and his wife, Qiu Jianping is Chairman of the Board. Zou is also director and CEO of Dalian Innomind and Dalian Rino (the VIE). In addition, Qiu is also director and Chairman of the Board of Dalian Innomind and Dalian Rino. Over the period from 2007 to 2009, Zou and Qiu together constantly held more than 65% of RINO's shares. And the couple is founder of Dalian Rino, the only substantial income resource for RINO. The other three directors are claimed to be independent directors who comprised RINO's audit committee. From this corporate governance, it is not difficult to judge that RINO's operation is actually under full control of this couple.

RINO highlighted internal control deficiencies in its 2009 annual report: 1) Insufficient controls over related party transactions and cash disbursement management; 2) Ineffective controls over accounting for revenues and billing process; 3) Lack of controls over fixed assets management; and 4) Lack of internal audit function.[18] However, although RINO publicly admitted that their internal control may not be effective ever since it listed on the OTCBB in 2007, no significant improvement on internal control systems had been observed. The audit committee of RINO was formed in March 2008 but they seemed to have done nothing about internal control enhancement, except for disclosing internal control deficiencies in the annual report year after year. Lack of efficient internal control and the Chinese couple's actual control over RINO and the VIE, Dalian Rino, suggest there is a high possibility for fraud.

Furthermore, according to the company filings from 2007 to 2010, RINO's CFO has been changed four times during that period. The frequent change of CFO is not common in a listed company, which could be a sign of possible severe financial problems and accounting issues of the company.

Accounting Issues

In the November 10, 2010 research report, Muddy Waters, an investment research firm, which is famous for identifying fraud and false accounting in Chinese companies, recommended a Strong Sell of RINO. It claimed RINO's financial statements "show substantially inflated revenues, profits and assets."[19] Muddy Waters pointed out overstated FGD sales, different revenue shown in RINO's Chinese regulatory filings, large amounts of low quality "paper" assets and management's draining cash for its own business and personal uses. However, not all these findings could be completely verified, but the report did reveal some serious accounting fraud of RINO.

M-Score

The Beneish M-Score is a commonly used score to predict earnings manipulation. The M-score uses eight variables to identify companies likely to manipulate earnings. The eight variables include:

Days' Sales in Receivables Index (DSRI), Gross Margin Index (GMI), Asset Quality Index (AQI), Sales Growth Index (SGI), Depreciation Index (DEPI), Sales, General and Administrative expenses Index (SAI), Leverage Index (LVGI), Total Accruals to Total Assets (TATA).

M Score = -4.84 + 0.92*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI – 0.172*SGAI– 0.327*LVGI + 4.679*TATA

RINO's M-Scores calculated from year 2007 to 2010 are listed below. Since RINO delisted from NASDAQ at the end of 2010, no 2010 annual report is available. The 2010 figures used from the income statement and cash flow statement were obtained from the Company's 2010 3Q report and projected to full year numbers. Normally, an M>-2.22 indicates a potential manipulator. RINO's M-Scores and probabilities for manipulation were surprisingly high after its listing in U.S. stock markets. This could be significant red flag to warn investors and public that the company was involved in earnings manipulation and fraud. Further analysis of the company's financial statements corroborated the results from the M-Score.

		2007		2008		2009		2010 projected	
Variable	**Coefficient**	**Variable**	**Value**	**Variable**	**Value**	**Variable**	**Value**	**Variable**	**Value**
	-4.840		-4.840		-4.840		-4.840		-4.840
DSRI	0.920	0.669	0.615	1.101	1.013	0.829	0.763	2.175	2.001
GMI	0.528	1.043	0.551	1.237	0.653	1.039	0.548	1.111	0.587
AQI	0.404	3.085	1.246	0.540	0.218	0.484	0.196	2.160	0.873
SGI	0.892	5.914	5.276	2.190	1.954	1.383	1.233	1.149	1.025
DEPI	0.115	0.601	0.069	0.981	0.113	0.786	0.090	1.982	0.228
SAI	-0.172	1.580	-0.272	0.859	-0.148	0.883	-0.152	1.220	-0.210
LEVI	-0.327	0.356	-0.117	1.020	-0.334	0.256	-0.084	2.494	-0.816
TATA	4.679	0.244	1.143	0.129	0.604	0.098	0.460	0.465	2.177
M-Score			3.672		-0.766		-1.785		1.024
Manipulation Probability			100.0%		22.2%		3.7%		84.7%

Overstated Revenue

One of the biggest accounting issues at RINO involved overstated revenue. Although the exact amount of overstatement is unlikely to be quantified, several signals alerted that RINO had a very high probability to overstate its revenue.

According to Muddy Waters, among nine of RINO's purported FGD customers, five of them denied having purchased FGD systems from RINO. And it is likely that RINO fabricated a sixth customer relationship as well. In RINO's announcement on November 19, 2010, Zou Dejun, CEO of the company, admitted that among the six customers, "the Company did not in fact enter into two of the six purported contracts, and a third contract among the six was explainable."[20] In addition, the CEO was not sure about the company's other contracts, saying that "there might be problems with 20 - 40% of them".[21] FGD systems accounted for 60% to 75% of RINO's total revenue in 2008 and 2009. The large percentage of fabricated customers indicates that RINO's largest segment of revenue was not reliable.

The annual filings that Dalian Rino sent to the Chinese regulatory (the State Administration for Industry and Commerce, "SAIC") show that Dalian Rino's 2009 revenue was significantly lower than that in RINO's 2009 10-K. According to Dalian Rino's 2009 Annual Tax Return for Enterprise Income Tax, total operating revenue is RMB 75,793,121.59 (about $11 million, using exchange rate of 6.83) and operating income is RMB - 246,419.96[22]. Dalian Rino is the only operating entity of RINO and sole income resource. However, RINO reported revenue around $193 million in its 2009 10-K, which is 17.5 times of its revenue reported to Chinese regulatory and operating income is $55 million. Although it is possible that GAAP differences exist between U.S. and P.R.C. GAAP, such a gap could not explain a 17.5 times difference.

RINO's cash and cash equivalents reached $134 million at the year ended 2009. However, cash and cash equivalents dramatically dropped to $56 million at September 30, 2010. Meanwhile, during the same period, Accounts receivable increased by $54 million, costs and estimated earnings in excess of billings on uncompleted contracts (which "represent revenues recognized in excess of amounts billed pursuant to the percentage-of-completion method used to recognize contract revenue"[23]) increased by $38 million and advances for inventory purchases increased by $23 million. Such changes may suggest a series of possible fraudulent accounting activities relating to overstated revenue and profit. First the company inflated profit by overstating revenue and cost of sales simultaneously. In order to complete the whole cash flow process, without considerably overstating accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts, which could be easily identified by financial statements users, the company overstated cash and cash equivalents and advances for inventory purchases. Excluding $100 million raised by common stock issuance on December 7, 2009, cash and the cash equivalents balance reached $34 million, which increased by $14.7 million compared to the 2008 year-end balance. Advances for inventory purchases also increased by $12 million in 2009. Nevertheless, the inflated cash was brought back to normal. In the first three quarters of 2010, cash and cash equivalents dropped by $78 million with accounts receivable, costs and estimated earnings in excess of billings on uncompleted contracts and advances for inventory purchases increased significantly by $54 million, $38 million and $23 million, respectively. The increase of these three accounts in 2010 could be evidence for revenue inflation in 2009, as well as continuing accounting fraud in 2010.

Abnormal Gross Profit Margin

Compared to the FGD industry leaders and competitors RINO mentioned in its annual report, RINO also had very abnormal gross profit margin. RINO's gross profit margin from 2007 to 2010 3Q was 48.5%, 39%, 37.5% and 33.78%. Given that FGD systems is RINO's main business, the company's gross profit margin could be roughly considered as an indicator for RINO's FGD margin. Fujian Longjing Environmental Company and United Mechanical & Electrical Co., Ltd. are the FGD industry leaders. Zhejiang Feida Company and Jiulong Electric Power Company are competitors of RINO. The below table is gross margin for the FGD business of the four companies. RINO's gross margin is far higher than the industry leaders and its competitors.

(in RMB)	2008			2009			2010		
	Sales	COGS	GM	Sales	COGS	GM	Sales	COGS	GM
Feida	135,196,291.51	120,089,295.77	11.2%	145,158,928.24	127,071,664.81	12.5%	68,599,898.87	60,684,629.81	11.54%
Longjing	1,368,722,137.65	1,159,289,585.42	15.3%	1,175,919,194.86	987,036,755.88	16.1%	329,271,508.80	263,040,083.60	20.11%
Jiulong	1,188,762,171.37	1,065,316,208.77	10.4%	1,099,262,946.29	1,005,780,813.97	8.5%	474,507,985.01	406,042,560.97	14.43%
Unitied	958,096,862.86	827,930,713.49	13.6%	851,698,811.69	720,009,048.89	15.5%	184,283,001.03	142,538,020.30	22.65%

Low Inventories and PPE

Normal manufacturing companies usually have large a proportion of inventories and equipment for their production. As a manufacturer and construction service provider for heavy equipment, RINO should also have large inventories and PPE balances. RINO should have asset and labor intensive production processes for its business. However, inventory and PPE only accounts for a small part of RINO's total assets, leaving large amounts of "paper" assets in RINO's balance sheet. The inventory plus PPE only accounted for 6.8% and 12.1% of RINO's total assets in 2009 and 2008, respectively. This percentage is far below the industry average, which was around 50%. Below is the 2009 percentage of RINO's competitors. Even the lowest one of United, the percentage is above 20%.

(in RMB)	Inventory	PPE	CIP	Total Assets	(Inv, PPE, CIP)/TA
Feida	1,146,647,573.01	166,611,262.66	9,123,501.88	2,105,310,191.10	62.8%
Longjing	1,861,825,130.00	306,414,109.74	50,540,586.93	4,886,026,229.49	45.4%
Jiulong	272,254,577.94	2,360,621,628.00	291,461,602.12	5,323,270,826.25	54.9%
United	141,770,507.25	59,452,371.18	257,113,963.15	2,225,936,652.61	20.6%

Value Added Tax

In China, companies selling goods and providing services to customers are required to pay value added tax (VAT) based on sales amount. VAT is tax excluded in the calculated prices. The tax rate of VAT on sales for VAT general taxpayers in China is normally 17%, which is applicable for Dalian Rino. According to the Value Added Taxes Payment Declaration Form provided by the Chinese tax bureau[24], VAT on sales is RMB 10,400,600, suggesting total sales revenue subjected to VAT is RMB 61,180,000. However, according to RINO's 2009 annual report, RINO's VAT on sales amounted to $53,066,225[25], suggesting revenue of $312 million, which is 1.6 times of RINO's reporting revenue and 28 times of RINO's reporting revenue ($11 million) to SAIC. The contradictory reporting amounts of VAT on sales may suggest another signal for management cooking the books.

Related Party Transactions and CEO

RINO has "Two major suppliers provided approximately 93% of the Company's purchases of raw materials for the year ended December 31, 2009, with each supplier individually accounting for 45% and 48%, respectively. One major supplier provided 82% of the Company's purchase of raw materials for the year ended December 31, 2008."[26] The two suppliers are Dalian Shuntongda Trading Co., Ltd. and Dalian Shuangying Trading Co., Ltd. However, Dalian Shuntongda was owned by the CEO's mother, and Dalian Shuangying was owned by the CEO's nephew (also a RINO employee).[27] RINO did not disclose these related party transactions in its annual reports. Advances for inventory purchases are mainly paid to these two suppliers. Balances for this account grew from $12 million in 2007 to $22 million in 2008, $34 million in 2009 and $57 million as of September 30, 2010. The significant growth in advanced payment to CEO's relatives' companies could be a red flag for the company's revenue manipulation.

Moreover, RINO gave Zou and Qiu, the CEO and chairman couple, a $3.5 million interest free, unsecured loan to buy a personal residence in Orange County, CA.[28] RINO, Zou and Qiu initially failed to disclose this diversion, and conflicting information was provided to RINO's outside auditor, Frazer, about the expenditure. Zou and Qiu also used offering proceeds to pay for automobiles as well as designer clothing and accessories without recording them as personal expenses or otherwise disclosing them in RINO's public filings.[29]

Auditor

RINO had three different auditors from 2007 to 2010. S.W. Hatfield, CPA was replaced by Jimmy Cheung & Co. in 2007 and Jimmy Cheung & Co. was placed by Frazer Frost, LLP in 2008. The independent audit opinion on the 2007 financial statements was issued by Jimmy Cheung & Co. and the audit opinion on 2008 and 2009 financial statements was issued by Frazer Frost, LLP. On November 18, 2010, Frazer Frost delivered a letter advising that "the Company to promptly notify any person or entity that is known to be relying upon or is likely to rely upon our audit report(s) for the periods ended December 31, 2008 and December 31, 2009 and reviewed quarterly financial statements for periods between March 31, 2008 to September 30, 2010 that they should no longer be relied upon, and that revised financial statements and revised auditor's report(s) will be issued upon completion of an investigation."[30] On the same day, RINO's Board of Directors made the same filing.

Frazer delivered this letter ten days after the Muddy Waters research report. However, as an auditor, Frazer failed to identify material accounting misstatements and fraud in RINO's 2008 and 2009 financial statements. Given all the current audit procedures, it is not difficult to identify RINO's fabricated customers and unreal sales contracts. Frazer could easily have accessed RINO's filings to Chinese regulatory. However, they did not point out the huge difference between different filing documents. Tax filing documents approved by tax bureaus are important supporting documents for revenue and taxation audit. Normally, during the audit process, auditors should ask for all these documents and compare numbers in these documents with the company's books. Frazer again failed to identify such differences. In an investor lawsuit regarding RINO, "plaintiff has dismissed all claims against all defendants, with the exception of Frazer Frost."[31] Investors charged Frazer for ignoring obvious signals of financial irregularities, failing to comply with audit standards, and issuing false audit opinion. The judge denied Frazer Frost's motion to dismiss, indicating the independent auditor's negligence in its audit process.

SEC Investigation Results

On May 15, 2013, SEC released its final decision on RINO. SEC charged RINO, its CEO, and its Chairman of the Board with a scheme to overstate revenues and divert money for personal use. After investigation, the SEC alleged that RINO's SEC filings contained materially false and misleading statements and omissions concerning RINO's revenue and operations between 2008 and 2010. Meanwhile, the CEO and chairman couple had used some of the proceeds from an offering of securities by RINO in December 2009 to purchase a $3.5 million family home for personal use. The SEC required the CEO Zou and Chairman Qiu to pay civil penalties of $150,000 and $100,000, respectively. In addition, Zou and Qiu are prohibited to serve as officers and directors of a public company for a period of ten years.[32] In December 2010, RINO was delisted from NASDAQ. RINO's stock was moved to the OTC market, but the company shortly thereafter ceased business operations.

3. Universal Travel Group

Universal Travel Group ("UTG" or the "Company") is an online travel service company in China, mainly providing domestic and international airline ticketing services. Additionally, UTG also provides hotel reservations, packaged tours, and air delivery services, both online and through customer representative offices.[33] UTG entered the OTCBB market in June 2006, through a reverse merger transaction with Tam of Henderson, Inc., a Nevada registered corporation. UTG was then transferred to NYSE after May 2009.

UTG's stock price experienced a sharp increase after its listing on NYSE (See Exhibit 9 for its historical stock price from 2006 to 2011). UTG entered the market with price of around $0.51 and the highest stock price hit $16.83 on August 4, 2009. On March 8, 2011, Claucus Research Group released a research report of UTG, indicating the company had fabricated its financial statements and recommending a strong sell of UTG. UTG's stock price then started to drop significantly. By April 11, 2011, one day before UTG's stock was halted, its stock price had dropped to $3.96. The stock was not resumed until November 17, 2011. On April 26, 2012, UTG voluntarily delisted its stock from NYSE, but the stock kept trading on OTC Pink Sheets. On September 27, 2013, UTG had its registration of securities revoked by the SEC.

Online Travel Service Industry

The online travel service industry in China has great business potential given the Chinese economy's steady growth and great expansion of consumers' spending on travel. Internet development in China also helped this industry grow dramatically. The total online travel market transaction amount reached RMB 103.74 billion (USD 15.67 billion) in 2010, increased by 58.0% compared to 2009. Aggregated revenue of third party online travel agents reached RMB 6.76 billion (USD 1.02 billion) in 2010, increased by 56.0% compared to 2009.[34] The growth continued in 2011. Revenue from third party online travel agents exceeded RMB 2 billion in 2011Q1, up 4.7% compared to the previous quarter.[35] According to 2010's market structure, revenue arising from airline ticket booking accounted for 44.2% of total revenue of online travel market, hotel reservation accounted for 44.3% of total revenue, and packaged tour products accounted for the remaining 11.5%.[36]

Key market leaders in online travel service included: Ctrip.com, eLong.com, Mangocity.com, 118114.cn, huitongke.com, 12580.com, 17u.com, etc. See Exhibit 10 for market share by revenue in 2011. Ctrip.com (holding 47% of market share) and eLong.com (holding 8% of market share) are the two biggest online service providers in China, both listed on NASDAQ.

Although the online travel service industry is expanding rapidly in China, profit for third party online travel agents has not grown accordingly. Ctrip reported a 20 percent increase in sales for 2011Q2 and eLong reported a 17 percent increase in sales; however, Ctrip only eked out a 4 percent increase in operating profits and eLong even reported a 25 percent decline in profit.[37] The possible explanation is that more and more competitors were entering the market, such as Taobao, Qunar and travel suppliers like hotels and airlines, etc. With a large amount of new entrants, price wars would be more severe. In the meantime, prices offered by hotels and airlines would not be as favorable as before since these travel suppliers now engaged in online direct sales and had become rivals to third party travel agents.

UTG's Business and Growth

UTG has three lines of business and revenue, namely (i) air-ticketing (Shenzhen Yu Zhi Lu Aviation Service Company Limited and Chongqing Universal Travel E-Commerce Co., Ltd), (ii) hotel reservations (Shanghai Lanbao Travel Service Company Limited), and (iii) packaged tours (Xi'an Golden Net Travel Serve Service Co., Ltd., Foshan Overseas International Travel Service Co., Ltd., Universal Travel International Travel Agency Co. Ltd, (formerly Shenzhen Universal Travel Agency Co., Ltd.), Huangshan Holiday Travel Service Co., Ltd., Hebei Tianyuan Travel Agency Co., Ltd., Zhengzhou Yulongkang Travel Agency Co., Kunming Business Travel Service Co., Ltd., and Shanxi Jinyang Travel Agency Co., Ltd.).[38] Air ticketing and hotel reservations services were provided by UTG's 100% owned subsidiaries. However, the packaged tours service was all provided by UTG's VIEs. See Exhibit 11 for UTG's 2010 corporate structure.

In 2010, among UTG's three business segments, air ticketing accounted for about 16%, hotel reservation accounted for about 9% and packaged tours accounted for the remaining75% of total revenue (See Exhibit 14). Compared to 2009 and 2008, the revenue percentages of air ticketing and hotel reservation had decreased gradually while percentage of packaged tours had increased. However, gross profit margins for air ticketing and hotel reservation were much higher than packaged tours. From 2008 to 2010, gross margins for air ticketing and hotel reservation remained higher than 60% while that for packaged tours remained lower than 15%.

UTG, through its subsidiaries in China, had contracted with certain Chinese domestic airlines such as Air China, China Southern Airlines and China Eastern Airlines and 34 international airlines such as United Airlines, Cathay Pacific and Virgin Airlines to sell Chinese domestic and international air tickets.[39] It also held the "First Class Air-Ticketing Agency" license from the General Administration of Civil Aviation of China ("CAAC").[40] UTG received commissions (averaging 6%) from travel suppliers for air-ticket selling while not assuming inventory risks nor having obligations for cancelled air-ticket reservations.[41]

For its hotel reservation business, UTG had two agency models with contracted hotels, the "guaranteed allotment" model and the "on-request" model. UTG received commissions from travel suppliers for hotel room reservations based on the transaction value of the rooms. Similar to air ticketing, UTG did not assume inventory risks and had no obligations for cancelled hotel reservations.[42]

Through its VIEs, UTG provided domestic and cross border packaged tour travel services. UTG contracted with traffic service providers, accommodation providers and leisure service providers to purchase air tickets, train and coach tickets, accommodation and leisure or entertainment packages in bulk and then resell them to individual and group customers at a mark-up.[43] UTG had no control over the ticket prices and profit mainly came from the mark-up it made to customers. More manpower cost was needed, and it thus decreased gross margin for packaged tours.

Mergers and Acquisitions

Just like RINO, UTG entered the U.S. stock markets through a reverse merger with Tam of Henderson, Inc. ("TAM") in June 2006. TAM was a clean shell company with no assets or liabilities when UTG merged with it. TAM was then merged into UTG, leaving UTG as the surviving corporation. TAM's subsidiary was then merged with Full Power Enterprise Global Limited ("FPEG"), a wholly owned subsidiary of UTG registered in the British Virgin Island and the holding company that owns all of the issued and outstanding stock of Shenzhen Yu Zhi Lu Aviation Service Company Ltd ("YZL").

In April 2007, UTG acquired Shenzhen Speedy Dragon Enterprise Limited ("SSD") in exchange for 238,095 shares of UTG's common stock and $3 million cash. In June 2009, UTG sold SSD back to its original owner and spun off SSD from UTG's business. However, the original owner was required to return all his shares of UTG's common stock and only $0.5 million of cash.[44]

In August 2007, through YZL and a contractual agreement, UTG fully controlled Xi'an Golden Net Travel Serve Service Company Limited ("XGN"). Later in October 2007, XGN acquired Foshan Overseas International Travel Service Co., Ltd. ("FOI") as a 100% owned subsidiary. In December 2008, similar to XGN described above, UTG set up another P.R.C. VIE named Shenzhen Universal Travel Agency Co. Ltd. ("STA"). STA then acquired five companies in 2010, including Huangshan Holiday Travel Service Company ("HHT"), Hebei Tianyuan International Travel Agency Co., Ltd ("HTT"), Zhengzhou Yulongkang Travel Agency Co., Ltd (the "ZYT"), Kunming Business Travel Agency Co., Ltd. ("KBT") and Shanxi Jinyang Travel Agency Co., Ltd. ("SJT"). Both XGN and STA with their subsidiaries provided packaged tours.

Also in August 2007, YZL acquired Shanghai Lanbao Travel Service Company Limited ("SLB") for its hotel reservation business. In March 2009, in order to seize upon opportunities arising from the economic promotion by the Chinese government of the middle and western regions of the P.R.C., YZL set up another 100% owned subsidiary, Chongqing Universal Travel E-Commerce Co., Ltd, a P.R.C. company ("CTE"), to strengthen their presence in that region.[45] CTE and YZL both provided air ticket service.

UTG's Management

UTG's Chairwoman, Chief Executive Officer and Director, Jiangping Jiang, has served in these positions since July 2006 after UTG's merger with TAM. While the CEO position has been stable, UTG's CFO has been changed for four times from 2006 to 2011. According to company filings, the first CFO after UTG was listed on the OTCBB was Ms Xin Zhang. Zhang resigned from UTG in February 2009. Jing Xie, the company's Secretary and Director was then appointed as CFO. After Xie served as CFO for half a year, he was succeeded by Yizhao Zhang, who then served from August 2009 to August 2010. After Mr Zhang's resignation, Jing Xie was appointed as interim CFO again. Similar to the case of RINO, frequent change of the CFO is not common in a listed company, which could be a signal for possible severe financial problems and accounting issues.

UTG's internal control also contained material weaknesses. The company's independent auditor claimed that UTG did not maintain effective internal control over financial reporting as of December 31, 2009 because of material weaknesses in the following areas:[46] 1) The company's policy documentation of all controls identified during their assessment and remediation process was incomplete; and 2) Lack of technical accounting expertise among financial staff regarding U.S. GAAP and the requirements of the PCAOB, and regarding preparation of financial statements.

In its 2010 annual report, UTG's management reported that the company's internal control still contained material weaknesses because of: (1) an inconsistency between the acquisition dates of our five new subsidiaries per the company's 8-K filings and the reported periods of profit and loss statements included in the consolidated financial statements of the company; and (2) a deficient assessment of accelerated performance conditions related to the company's 2009 Incentive Stock Plan.[47] These internal control deficiencies left space for management's fraud and also provided red flags for the company's accounting information.

Accounting Issues

In the March 8, 2011 research report which subsequently caused sharp drop of UTG's stock price and further doubts on the company's accounting information quality by the public, Claucus Research Group recommend a "Strong Sell" of UTG's stock.[48] The report further pointed out that UTG's business model was incredible and its actual underlying business was far smaller than its SEC filings indicate.

M-Score

UTG's Beneish M-Score calculated from year 2008 to 2011 are listed below. The 2011 figures are unaudited. From the calculation, probabilities for earnings manipulation of UTG are quite high, especially for the year 2008 and 2010.

		2008		2009		2010		2011	
Variable	**Coefficient**	**Variable**	**Value**	**Variable**	**Value**	**Variable**	**Value**	**Variable**	**Value**
	-4.840		-4.840		-4.840		-4.840		-4.840
DSRI	0.920	0.823	0.757	1.323	1.218	1.395	1.283	1.260	1.159
GMI	0.528	1.073	0.567	1.123	0.593	1.136	0.600	0.988	0.522
AQI	0.404	0.620	0.250	0.426	0.172	1.651	0.667	0.733	0.296
SGI	0.892	2.022	1.803	1.455	1.298	1.600	1.428	1.014	0.904
DEPI	0.115	1.932	0.222	1.448	0.167	0.292	0.034	1.120	0.129
SAI	-0.172	0.829	-0.143	0.748	-0.129	1.473	-0.253	0.894	-0.154
LEVI	-0.327	0.368	-0.120	0.720	-0.235	1.019	-0.333	0.912	-0.298
TATA	4.679	0.162	0.759	-0.009	-0.042	0.064	0.301	0.017	0.077
M-Score			-0.744		-1.799		-1.114		-2.205
Manipulation Probability			22.8%		3.6%		13.3%		1.4%

Operating expenses

Unlike the manufacturing and construction industry, the service industry usually has high gross margin. However, since more manpower costs are incurred as selling and marketing expenses, operating margin for service companies will be significantly lower than their gross margin. Compared to those of Ctrip and eLong, the two leaders and UTG's competitors in the online service industry, which are also listed on the U.S. markets, UTG's reported operating expenses were disproportionate. Operating expenses accounted for at least 40% of total revenue for both Ctrip and eLong from 2008 to 2011, with eLong having even higher percentage of more than 60%, while the operating expenses percentages for UTG were far below 10%.

Operating Expenses/Sales	2008	2009	2010	2011
Ctrip	46.84%	42.76%	41.71%	46.51%
eLong	83.10%	66.98%	61.83%	65.16%
UTA	6.98%	5.22%	7.65%	8.64%

Furthermore, looking into the breakdown of operating expenses, an important expenditure for online travel service companies is sales and marketing expenses. Marketing is extremely important for such companies since the online travel service industry in China is very competitive. Ctrip and eLong spent significant sums on marketing. However, marketing expenses for UTG were extremely small. Below is the comparison of the percentage of marketing expenses among Ctrip, eLong and UTG from 2008 to 2010. The extremely low percentage suggests two possible explanations: 1) UTG is very good at sales and marketing and can obtain tremendous sales results with little spending on marketing; 2) the company overstated its revenue. The first explanation could hardly be true. As UTG's rivals in China and the market leaders, Ctrip and eLong, both spent more than 15% on marketing from 2008 to 2010 to maintain customers. Given more and more competitors entering the market and customers being able to switch to other suppliers almost at no cost, marketing is essential to keep an online travel service company's business successful. Thus, it is highly possible that UTG fabricated its revenue figures.

Marketing Expenses/Sales	2008	2009	2010
Ctrip	19.34%	17.37%	15.73%
eLong	49.96%	37.22%	34.72%
UTA (Reported marketing expenses)	0.23%	0.33%	0.24%
UTA (with marketing salary + commission)	4.23%	3.75%	1.32%

Cash and Accounts Receivable

According to annual reports from 2008 to 2011, UTG had large and increasing amounts of cash and accounts receivable balances. UTG also had large short term investment balances as of December 31, 2010 and 2011, respectively. UTG claimed that these short term investments were "primarily of money market accounts with maturities ranging from one month to three months."[49] Based on this claim, the short term investments could also be viewed as substantial bank deposits. The combined amount of cash and short term investments balance increased by $22.9 million, $22.9 million and $20.9 million in 2011, 2010 and 2009, respectively. Accounts receivable increased by $10.7 million, $21.3 million and $8.3 million in 2011, 2010 and 2009, respectively. Such changes suggest possible accounting fraudulent activities related to overstated revenue and profit that are similar to RINO. The company first overstated revenue and cost of sales simultaneously to obtain higher profit. Then it overstated account balances of cash (including short term investments for 2010 and 2011) and accounts receivable to complete the whole cash flow process.

Two facts could be evidence that might support this conclusion. First, one of UTG's auditors, Windes, stated in their resignation letter that they had lost confidence in the reliability of confirmations during their audit process (See more in next section of Auditor). Although it is not clear which kind of confirmation was questioned (either bank confirmation or AR confirmation or both), the auditor's argument provided hints on possible fabrication in cash and AR balances.

Second, if the cash amount stated in the books was real, UTG should have had ample cash on hand. However, UTG had behaved as a serial capital raiser and repeatedly returned to investors for cash, which was contradicted with what they should have on hand. In December 2009, UTG raised $19 million in the market. The company claimed to use the fund for acquisitions in 2010. However, as at September 30, 2009, the Company already held $23.5 million cash. In fact, total cash demand for acquisitions in 2010 was $21 million, which could have been covered even if the company did not raise the additional $19 million. Again in June 2010, UTG raised another $19 million in the market. However, as at March 31, 2010, there was already $37.8 million on the company's books. It makes no sense for a company that is still growing to hold huge amounts of cash on hand and go to the market again and again. One possible explanation is that the company did not have what they should have on hand and overstated its cash balance.

Acquisitions

In the Claucus' report, UTG was pointed out as having another issue of destroying shareholder value through a series of dilutive acquisitions. Claucus stated that "The pre-acquisition net income and revenue of UTG's acquisition targets are nowhere near what the company claimed them to be. UTG is either wasting money or self-dealing".[50] According to Claucus research (Exhibit 16), UTG paid 134x to 1233x net income for its acquisition of five companies in 2010.

Another company, Shenzhen Speedy Dragon Enterprise Limited ("SSD"), was acquired by UTG in April 2007. SSD was sold back by UTG to its original owner in June 2009. SSD was acquired at the price of 238,095 shares of UTG's common stock and $3 million cash. However, the selling price of SSD was only 238,095 shares of UTG's common stock and $0.5 million of cash. This deal clearly destroyed UTG shareholder value.

Auditor

From 2006 to 2011, UTG changed its auditors five times. The first independent auditor of UTG after its listing in 2006 was Morgenstern, Svoboda & Baer, CPA's, P.C., who issued clean audit opinions for fiscal years from 2006 to 2008. Morgenstern resigned on June 30, 2009 and on the same day, Acquavella, Chiarelli, Shuster, Berkower & Co., LLP (ACSB) was appointed as the company's new auditor. ACSB issued a clean audit opinion on UTG's 2009 financial statements. However, ACSB pointed out UTG's internal control deficiencies in their report.

ACSB was dismissed by UTG on September 1, 2010. On the same day, UTG appointed Goldman Kurland Mohidin ("GKM") as its auditor. However, GKM resigned within one month with no reason given as to the cause for their resignation. The abrupt resignation of an independent audit firm is a very suspicious event, which may indicate potential adverse facts towards the Company. On September 30, 2010, UTG appointed Windes & McClaughry Accountancy Corporation ("Windes") as its new auditor.

Windes resigned as independent auditor of UTG on April 9, 2011. In its resignation letter, Windes stated that it was no longer able to complete the audit process. Windes questioned authenticity of audit confirmations and lack of evidence of certain tour package contracts and related cash payments. UTG did not agree with these arguments. See Exhibit 15 for an excerpt from UTG's 2010 Annual Report. Windes did not issue any opinion on UTG's financial statements. UTG then appointed EFP Rotenberg & Co., LLP ("Rotenberg") as its new auditor on April 11, 2011. Rotenberg issued a clean audit opinion on UTG's 2010 financial statements.

According to the Claucus research report on UTG, a 2009 PCAOB report concluded that Morgenstern's system of quality control for detecting fraud was inadequate.[51] It was also reasonable to suspect management's real intention to dismiss ACSB after ACSB pointed out UTG's internal control issues. GKM and Windes' resignations indicated more clearly on the high possibility of management's fraud and low quality accounting information at the company.

Ongoing Lawsuit and Delisting

UTG was sued by investors on April 15, 2011. Plaintiffs alleged UTG's misstatement of the nature and quality of the companies it acquired and the adequacy of the company's internal controls. The lawsuit is still ongoing.

On September 27, 2013, the SEC filed fraud and related charges against UTG, its former CEO and Chairwoman, Jiangping Jiang (who resigned on April 1, 2013), and its former Director, Secretary and Interim CFO, Jing Xie (who resigned on February 9, 2013). The charges included failing to disclose cash transfers to unknown entities, failing to disclose further risks arising from

UTG's receipt and usages of cash revenues, and from its inadequate controls over cash and its failure properly to document cash transactions, materially overstating its revenues and profits and failing to obtain an auditor's attestation to its assessment of internal controls.[52]

On the same day, the SEC also revoked registration of each class of UTG's securities because of UTG's failure to file any required periodic reports with the Commission since the period ended September 30, 2011.[53]

4. ShengdaTech, Inc.

ShengdaTech, Inc. ("ShengdaTech" or the "Company") is engaged in developing, manufacturing and marketing nano precipitated calcium carbonate ("NPCC") products in China. The company sells its products mainly through a direct sales force, primarily in Shandong and Shaanxi province in China.[54] ShengdaTech entered the OTCBB market in March 2006 through a reverse merger with Zeolite Exploration Company, a Nevada registered corporation. It then transferred to NASDAQ in May 2007.

ShengdaTech entered the market with a price of $5 and the closing price of ShengdaTech's stock hit $14.45 on December 31, 2007 (See Exhibit 17 for its historical stock price from 2006 to 2011). ShengdaTech's stock was halted on March 15, 2011 when the company announced the commencement of an internal investigation of "potentially serious discrepancies and unexplained issues relating to the Company and its subsidiaries' financial records identified by the Company's auditors in the course of their audit of the consolidated financial statements for the fiscal year ended December 31, 2010"[55] and delay of filing its 2010 annual report. The SEC suspended ShengdaTech's stock from trading on the NASDAQ on June 8, 2011. On December 15, 2011, ShengdaTech was delisted from NASDAQ.

The NPCC Market in China[56]

NPCC refers to ultrafine nano precipitated calcium carbonate, a synthetic industrial material made from limestone, which has an average particle diameter of less than 100 nanometers or 0.1 micron. NPCC is an emerging product in the functional filler and additive industry with numerous possibilities of new applications, many of which are yet to be developed. Due to its low cost and special chemical properties, NPCC has been widely used in the rubber, plastic, paint, ink, paper and adhesive manufacturing industries to improve product quality while maintaining or reducing costs.

While research into and manufacturing of NPCC in China began in the early 1980s, the NPCC industry only recently experienced strong growth, resulting from increased awareness of its ability to replace more expensive materials and its functionality to enhance the performance of various end products. In 2006, being in the higher end of calcium carbonate market, NPCC products and the Chinese NPCC technology attracted great attention in the market. NPCC became a popular concept at that time. However, the bubble burst on NPCC products and the average price of NPCC products fell from more than RMB 9,000 in 2006 to less than RMB 3,000 in 2010. In addition, aggregate market demand has yet to materialize as expected. According to a research report of the Chinese calcium carbonate market in 2011[57], three reasons contributed to lack of market demand. First, compared to those of middle to lower end calcium carbonate products, prices of NPCC products were still higher by RMB 1,000 to 2,000, greatly limiting the usage of NPCC products. Second, the critical technology for NPCC products application was still under development, greatly impacting the spread of NPCC products to more areas. Third, counterfeit products influenced the market order and ruined the reputation of Chinese domestic NPCC suppliers. Therefore, starting from 2010, Chinese domestic NPCC companies faced a difficult situation in product sales, causing some of these companies to turn to manufacture middle to low end calcium carbonate products.

ShengdaTech's Business

As a market leader of high-grade NPCC products, ShengdaTech deployed advanced processing technology to convert limestone into high quality NPCC products, which were sold to customers in the tire, polyvinyl chloride ("PVC") building materials, polypropylene ("PP") building materials, ink, paint, latex, adhesive, paper and polyethylene ("PE") industries.[58] In 2009, ShengdaTech increased its total annual NPCC production capacity to 250,000 metric tons and was regarded as the largest Chinese manufacturer of NPCC products in terms of net sales for the year ended December 31, 2009. The Company also jointly owned a patent with Tsinghua University in China for an advanced NPCC particle production technology based on membrane-dispersion techniques.[59]

Prior to November 2008, ShengdaTech also manufactured, marketed and sold coal-based chemical products. However, due to the Chinese government's strengthening of environmental law enforcement reform, the company ceased operation of its chemical segment in 2009 and operated only the NPCC segment thereafter. For the year ended December 31, 2009, sales to ShengdaTech's top five NPCC customers collectively accounted for 10.5% of total NPCC sales. For the same period, approximately 7.0% of NPCC sales were contributed by overseas markets.[60]

Historically, chemical products accounted for a greater sales portion than NPCC products did. But NPCC products increased significantly. See below chart for ShengdaTech's sales segmentation from 2006 to 2009. During the first nine months of 2010, the Company reported NPCC sales increased by 35.8% (amounted to $25,814,840) compared to the same period of

2009.[61]

	2006		2007		2008		2009		2007 vs 2006		2008 vs 2007		2009 vs 2008	
	Amount ($)	%	Amount ($)	%	Amount ($)	%	Amount ($)	%	Amount ($)	%	Amount ($)	%	Amount ($)	%
NPCC	22,007,814	30%	46,721,673	46%	82,419,689	55%	102,121,804	100%	24,713,859	112%	35,698,016	76%	19,702,115	24%
Chemical	50,592,217	70%	53,933,120	54%	67,007,450	45%	-	0%	3,340,903	7%	13,074,330	24%		
Net sales	72,600,031	100%	100,654,793	100%	149,427,139	100%	102,121,804	100%	28,054,762	39%	48,772,346	48%	(47,305,335)	-32%

Reverse Merger

Similar as RINO and UTG, ShengdaTech chose to enter the U.S. markets through a reverse merger with Zeolite Exploration Company ("ZEC") in 2006. ZEC was a shell company with only a small balance of cash and accounts payable when the merger took place. ZEC first acquired all stock of Faith Bloom Limited, a company registered in British Virgin Islands. Faith Bloom held 100% of Shandong Haize Nanomaterials Co., Ltd, Shandong Bangsheng Chemical Co., Ltd. and Shaanxi Haize Nanomaterials Co., Ltd., three Chinese companies that manufactured and sold a variety of NPCC products and coal-based chemicals. In 2007, ZEC changed its name to ShengdaTech. In 2008, Faith Bloom formed a new subsidiary, Zibo Jiaze Nanomaterials Co., Ltd. In 2009, Faith Bloom acquired Anhui Chaodong Nanomaterials Science and Technology Co., Ltd. See Exhibit 18 for ShengdaTech's corporate structure in 2009. Because of the Chinese environmental regulations, production of Shandong Bangsheng Chemical Co., Ltd. was required to be ceased so ShengdaTech discontinued operations in Shandong Bangsheng and sold all its operating assets and inventory in December 2009. Compared to RINO and UTG, ShengdaTech's corporate structure is relatively simple and does not involve any VIE structures.

ShengdaTech's Management

ShengdaTech's management remained quite stable from 2006 to 2011. Xiangzhi Chen served as President and CEO since the company listed in 2006. Most of the other directors and executive officers also served in the company for this entire period as well. However, there was one change of CFO. In April 2009, Andrew Weiwen Chen replaced the former CFO, Ms. Anhui Guo, who had served since 2006. ShengdaTech stated that the new CFO had senior management experience in accounting, auditing, financial analysis and reporting for both public and private companies in China and the U.S., especially experience in Sarbanes Oxley ("SOX") implementation and maintenance, SEC reporting and disclosure. However, on September 30, 2010, the CFO resigned and ShengdaTech appointed the previous CFO current Chief Operating Officer, to serve as acting CFO.

In 2008, KPMG, ShengdaTech's independent auditor, pointed out internal control deficiencies in their audit report, stating that "Material weaknesses have been identified and included in management's assessment related to the lack of adequate policies, procedures and personnel to address the accounting for and disclosures of non-routine transactions and the Company's internal control over the accounting for income taxes."[62] However, except for fiscal year 2008, neither of ShengdaTech's independent auditors, KPMG nor Hansen, issued qualified opinions on the effectiveness of the company's internal control over financial reporting in fiscal years 2006, 2007 and 2009. ShengdaTech's management also reported no internal control deficiency any in those three years.

Auditor and Accounting Issues

Auditors played an extremely important role in the case of ShengdaTech. From 2006 to 2011, ShengdaTech had three independent auditors. Hansen, Barnett & Maxwell ("Hansen") was appointed to be the company's independent registered public accounting firm on May 11, 2006.

On November 11, 2008, KPMG Hong Kong was appointed as the independent auditor of the Company. KPMG and Hansen, Barnett & Maxwell, P.C., ("Hansen") audited ShengdaTech's financial statements for the 2009, 2008, 2007 fiscal years, respectively. KPMG issued opinions on the company's internal control effectiveness. Hansen reviewed the company's quarterly reports. After KPMG's resignation, the company engaged Marcum Bernstein & Pinchuk ("MBP") as the company's new independent accountants on June 8, 2011.

The collapse of ShengdaTech's stock was largely triggered by a letter issued by KPMG to ShengdaTech on March, 3, 2011. In this letter, KPMG stated that it were unable to confirm sales amounts, sales terms and accounts receivable balances to third party customers. On March 15, 2011, ShengdaTech announced the appointment of a special committee to investigate these audit issues. Trading in the company's stock was halted. Because of being unable to obtain adequate explanations to the audit issues and management's failure to take remedial action, KPMG resigned on April 29, 2011.

The Beneish M-Score for fiscal years 2008 to 2010 could give us hints on ShengdaTech's earnings quality. Since ShengdaTech disposed of all the assets of one of its subsidiaries, Shandong Bangsheng Chemical in 2009, financial statements for 2008 and 2007 were restated due to discontinued operations. For comparison purpose, I use the audited figures before restatement of 2007 and 2008 to calculate the M-Score of 2008, and use the restated figures of 2008 to calculate the M-Score of 2009. Since ShengdaTech did not provide a 2010 annual report, I use the balance sheet figures as at September 30, 2010 and prorate income statement figures to calculate the 2010 M-Score.

The abnormally high AQI score in 2008 is due to the fact that almost the entire assets were composed of current assets and PPE, resulting in a very small denominator when AQI is calculated. Were AQI for 2008 set to 1, the M-Score would be -3.415, indicating a manipulation probability of only 0.03%. This result suggests that this fraud signal needs to be interpreted cautiously. However, the increasing M-score from 2008 to 2010 still provides some red flags. The score for 2010 was slightly higher than -2.22, the score for an average non-manipulator.

		2008		2009		2010	
Variable	**Coefficient**	**Variable**	**Value**	**Variable**	**Value**	**Variable**	**Value**
	-4.840		-4.840		-4.840		-4.840
DSRI	0.920	0.581	0.535	0.546	0.502	1.045	0.962
GMI	0.528	0.931	0.491	1.008	0.532	0.996	0.526
AQI	0.404	65.998	26.663	0.762	0.308	1.613	0.652
SGI	0.892	1.485	1.324	1.239	1.105	1.278	1.140
DEPI	0.115	0.916	0.105	0.946	0.109	0.774	0.089
SAI	-0.172	1.464	-0.252	1.138	-0.196	0.893	-0.154
LEVI	-0.327	3.702	-1.210	0.934	-0.305	0.940	-0.307
TATA	4.679	0.005	0.022	-0.018	-0.084	-0.048	-0.227
M-Score			22.839		-2.869		-2.159
Manipulation Probability			100.0%		0.2%		1.5%

ShengdaTech's cash balances had grown significantly, from $26.3 million in 2007 to $114.3 million in 2008 (increased by 333%). Huge growth in cash balances could be viewed as a red flag for a company's accounting fraud, which ultimately proved to be true in case of ShengdaTech. In an additional report dated March 17, 2011, KPMG informed the company's Audit Committee that 1) ShengdaTech submitted false account payables balances for two of its major suppliers and more important; 2) bank account balances of ShengdaTech were overstated; and 3) the company submitted false chops for two of its bank accounts. It seemed possible that ShengdaTech had conducted similar fraud actions to RINO and UTG.

A special committee investigated the company's audit issues by appointing O'Melveny & Myers LLP ("OMM") and PricewaterhouseCoopers, LLP ("PwC") as independent outside counsels. The special committee's investigation revealed that:[63] ShengdaTech's bank accounts held substantially less cash in 2007-2009 than was reported in the company's financial statements. In fact, these accounts contained less than $69 million as of the year ending 2008, and less than $36 million as of year ending 2009, significantly less than the over $114 million and $116 million reported in the company's financial statements, respectively. The company's 2010 quarterly financial statements overstated its reported cash balances in excess of $110 million. The special committee also found out the company fabricated six customers with sales amount of RMB 190 million (around $28 million) and significantly overstated sales transaction amounts of over ten customers.

Furthermore, the investigation revealed that management had engaged in undisclosed related party transactions and reported different financial results between SEC filings in the U.S. and SAIC filings in China. For example, for 2008, ShengdaTech reported $82.4 million in NPCC net sales and $36.03 million in net income to the SEC in its Form 10-K, but reported only $9.5 million in net sales, and an approximately $2 million net loss to the SAIC. Also, for the year 2009, the company reported net sales of $102.1 million and net income of $23.1 million to the SEC as compared to net income of $6.07 million and a net loss of $6.2 million with the SAIC.[64]

After the Investigation

On May 5, 2011, ShengdaTech announced the resignation of KPMG and that the financial statements of 2008 and 2009 could not be relied upon anymore. Because of serious accounting and operational issues uncovered by KPMG, failure to make prompt public disclosure of material developments relating to the investigation, and failure to file the required SEC documents, NASDAQ decided to suspend ShengdaTech's stock from trading from June 8, 2011 and delisted ShengdaTech from NASDAQ on December 15, 2011.

On August 19, 2011, ShengdaTech filed a petition for bankruptcy and is now in the process of liquidation.

5. Conclusion

Although different companies may have different fraudulent behaviors and accounting issues, from the analysis of the above three cases, together with evidence and clues from other companies, I identify three major sets of characteristics that emerged in my study of these companies involved in accounting fraud. These themes include 1) management and corporate governance issues, 2) suspicious corporate transactions and mechanics of how fraud was committed and 3) external signals.

1. Management and corporate governance issues

Nearly all fraudulent companies have serious issues with management and corporate governance. The weakness in management and corporate governance can easily cause fraudulent behaviors and leave space for management manipulations. When such issues are identified, strong signals are released on the low accounting information quality of these companies. We need to pay more attention to those Chinese companies listed in U.S. markets through a reverse merger, as well as companies having material internal control deficiencies and low integrity of higher management.

Reverse merger

During recent years, a large number of Chinese companies sought opportunities to go public in the U.S. security markets through a reverse merger. Those companies are usually relatively small companies that are not willing to go through the complex procedures of an initial public offering and pay for the high cost of IPO. Thus, they choose a reverse merger as a simpler way to go public, without having to face complicated filing requirements. All three cases analyzed above were listed in the U.S. markets through a reverse merger. However, such reverse mergers left potential issues about the quality of these listed companies. Compared to those companies listed through an IPO, the reverse merger companies, not having experienced strict examination before being listed, might have lower earnings quality or less formal corporate governance, leaving greater future possibilities for accounting fraud.

Internal control deficiencies

Ineffectiveness in internal control is one important reason why those companies could easily conduct fraudulent behaviors. Lack of effective internal control systems provides space for management's fraud. RINO, UTG and ShengdaTech all admitted or were pointed out by auditors to have internal control deficiencies.

Low integrity of higher management

All the above analyzed companies have a history of changing CFOs, especially RINO and UTG, both of which changed their CFOs four times during a period of three to five years. The frequent change of CFOs suggests serious financial issues in these companies. A strict scrutiny of changes in a company's directors and officers, especially those in charge of finance and the audit committee, will be a useful indicator of the company's financial reliability. Moreover, RINO's CEO and chairwoman couple, who actually fully controlled the company, was sued for using company funds for personal purposes.

2. Suspicious corporate transactions and mechanics of how fraud was committed

Companies conduct fraudulent behaviors in various ways and through different accounts. However, some accounts are relatively easy to manipulate and are used widely by companies when fraud is committed. Thus, it is worthwhile to pay attention to a number of specific accounts and transactions, including revenues, cash and bank balances, accounts receivable, gross profit margins and expenses and related party transactions.

Overstated revenues

Quite a few companies choose to overstate revenues to show good operating results to the public. Revenue is one of the most important factors that investors focus on. RINO, UTG, and ShengdaTech all manipulated their earnings by overstating revenues. Companies usually fabricate customers and sales contracts to overstate their revenue. Inflated revenues are not easy to identify, especially for outside users of financial statements. However, abnormal sales growth between years and compared to companies in the same industry could be a warning for investors to pay more attention to the accuracy and existence of revenues.

Suspicious cash and bank balances

RINO, UTG and ShengdaTech all choose to inflate their cash and bank balances as one way to complete the fictitious sales and receivables process. It is relatively easy to find out overstated revenues if accounts receivable increase at a much higher rate than sales growth. However, traditionally, cash balances are considered hard to manipulate and financial statements end users will have difficulties in finding out whether cash balances are inflated, especially when there is an audit opinion stating that the company's financial statements are in accordance with GAAP in all material aspects. Companies take advantage of this point and complete their overstatement by greatly inflating cash balances, just as RINO, UTG and ShengdaTech had done.

High accounts receivable

Even though companies may choose to use fabricated cash to complete the process of overstating revenues, it is still worthwhile to keep an eye on the accounts receivable balances, especially the balances during periods after when cash was significantly increased. Like in the case of RINO, accounts receivable increased dramatically in the subsequent periods, suggesting doubtful cash balances during the reporting periods. In fact, companies tend to inflate both cash and accounts receivable when they overstate their revenues. RINO, UTG and ShengdaTech all had unconfirmed accounts receivable balances along with overstated revenues.

Higher gross profit margin or lower expenses

Besides inflated revenues, RINO also had abnormal gross profit margin, which was much higher than comparable companies. UTG's gross profit margin seemed to be normal, but its operating expenses were far below the industry average. These abnormalities may suggest inflated revenues, gross margins and operating profits.

Undisclosed related party transactions

Failure to disclose related party transactions is another commonly seen phenomenon in these Chinese companies. RINO and ShengdaTech both had material undisclosed related party transactions. If disclosed, these transactions may involve an adverse impact on the earnings quality of these companies, especially when large amounts of sales and purchases were from related parties. It may also become a clue or indication of other fraudulent behaviors.

3. External signals

Besides those warning signals arising from within companies, external signals could also shed light on accounting fraud. One important external signal comes from the watchman of a company's financial statements, the independent auditor. The other external signal that emerged from the fraudulent Chinese companies is the inconsistency in filings submitted to SEC and Chinese regulators.

Different numbers between SEC filings and filings to Chinese regulators

Because of differences between U.S. and P.R.C. GAAP, it is reasonable to find discrepancies in the financial statements filed with the SEC and Chinese regulators. Nevertheless, tremendous differences are not expected, especially in revenues, where revenue recognitions in both GAAPs do not include material inconsistences. Financial statement end users should be careful when huge discrepancies are found between different filings. RINO and ShengdaTech both were found to have such an issue.

Auditors

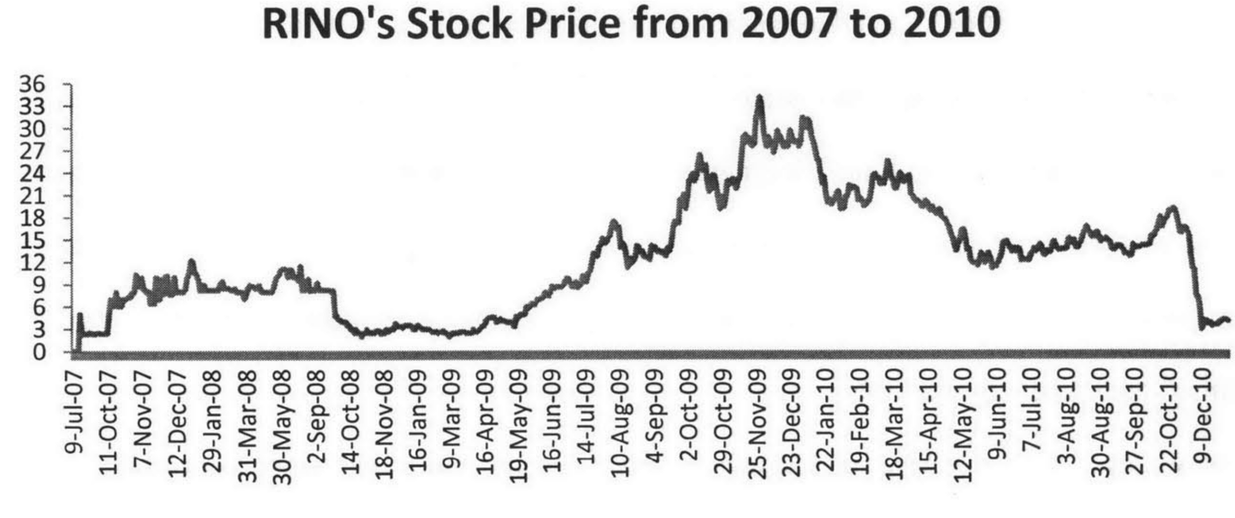
Auditors play the role of watchman for the financial information quality of a company. Reasons for changing of auditors are various and acceptable. However, overly frequent changes of independent auditors may indicate potential financial problems at a company. RINO and ShengdaTech changed auditors three times in three years, while UTG changed its auditors five times in five years. Moreover, ShengdaTech's issues were actually revealed by its former auditor, KPMG. Compared to outsiders, a company's independent public accountant has more access to the company's financial information, thus has a better and deeper understanding of the company's financial situation. A clean audit opinion does not necessarily mean that the company did not conduct fraudulent behaviors. However, it is almost certain that the company is involved in accounting fraud if the auditor resigned and makes adverse statements about the company. In addition, the quality of the accounting firms can also be referred to judge accounting information quality of a company. The credibility of an auditor's report usually declines when the accounting firm has a poor reputation, just as in the case of RINO and UTG.

According to the database of Securities Class Action Clearinghouse from Stanford Law School, during the five year period from 2009 to 2013, 848 federal securities class action litigations occurred in the U.S.[65] Among these litigations, 76 cases involved with 71 Chinese companies. Based on rough statistics, these companies were sued for more than 20 kinds of allegations. See Exhibit 21 for a summary of these allegations. Among these allegations, 25 companies were charged for improper revenue recognition, mostly overstated revenues. The second highest allegation is internal control deficiencies, which was included in 17 companies' litigation. Auditors' findings also contributed to the lawsuits. Twelve companies were sued partially according to the auditors' findings. Other highly cited allegations include: related party transactions, different numbers in filings to SEC and to Chinese regulators, business acquisitions, management fraud, cash and bank balances, no timely disclosure, accounts receivable balances, auditors' fault, and expense issues.

Nowadays, both the SEC and investors have become more and more concerned about accounting information quality of Chinese companies listed in U.S. security markets. The conclusions drawn in this paper are mainly from analysis of three typical Chinese companies that were involved in accounting fraud, but traits from these three companies were reflected in information from other fraudulent companies. Therefore, I hope the concluded common characteristics of those fraudulent companies discussed in detail in this paper can provide some hints to both regulators and investors on detecting other potential frauds in advance. Furthermore, more cooperation between the SEC and Chinese regulators may be another effective way to increase accounting information quality of those U.S.-listed Chinese companies.

Appendix

Exhibit 1



Source: Google Finance, http://www.google.com/finance/historical?q=OTCMKTS%3ARINO&ei=NyIeU4meA_Sg6wGg rgE, accessed April 2014.

Exhibit 2

RINO Sales Segmentation from 2007 to 2009

	2009		2008		2007			
	Net Sales (in $'000)	% to Total	Net Sales (in $'000)	% to Total	Net Sales (in $'000)	% to Total	09 vs 08 % Increase	08 vs 07 % Increase
Wastewater treatment equipment	45,979	23.9%	14,444	10.4%	6,968	11.0%	218.3%	107.3%
Flue gas desulphurization	116,403	60.4%	105,288	75.6%	33,140	52.3%	10.6%	217.7%
Anti-oxidation equipment and coatings	25,092	13.0%	5,747	4.1%	1,966	3.1%	336.6%	192.3%
Machining services	5,169	2.7%	13,864	9.9%	11,859	18.7%	-62.7%	16.9%
Other services	-	0.0%	-	0.0%	9,454	14.9%	-	-100.0%
Total Net Sales	192,643	100.0%	139,343	100.0%	63,387	100.0%	38.3%	119.8%

Source: RINO 2009 Annual Report p. 31 and 2008 Annual Report p. 50.

Exhibit 3
RINO Sales Segmentation from 2005 to 2006

	2006		2005		
	Net Sales (in $'000)	% to Total	Net Sales (in $'000)	% to Total	06 vs 05 % Increase
Wastewater treatment equipment	5,499	53.3%	3,485	97.2%	57.8%
Machining service contracts	3,136	30.4%	100	2.8%	3036.0%
Technical support services	1,673	16.2%	-	0.0%	-
Total Net Sales	10,308	100.0%	3,585	100.0%	187.5%

Source: RINO 2007 8-K Report, October 5, 2007, p. 46, http://www.sec.gov/Archives/edgar/data/1394220/000114420407054026/v090023_8k.htm , accessed April 2014.

Exhibit 4

RINO INTERNATIONAL CORPORATION

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, 2007, 2006 AND 2005

(In $)	2009	2008	2007	2006	2005
NET SALES					
Contracts	187,473,072	119,920,874	53,935,016	8,635,094	3,585,299
Services	5,169,434	19,422,523	9,452,292	1,672,536	-
Government grant	-	-	228,430	448,515	52,418
	192,642,506	139,343,397	63,615,738	10,756,145	3,637,717
COST OF SALES					
Cost of contracts	116,716,424	74,247,181	30,984,925	4,874,851	2,626,882
Cost of services	2,858,119	10,099,616	1,364,752	190,213	-
Depreciation	754,688	662,436	571,267	279,880	146,944
	120,329,231	85,009,233	32,920,944	5,344,944	2,773,826
GROSS PROFIT	72,313,275	54,334,164	30,694,794	5,411,201	863,891
OPERATING EXPENSES					
Selling, general and administrative expenses	16,939,558	13,883,023	7,375,916	789,493	376,635
Stock compensation expense	47,385	17,678,080	7,499,520	-	-
Total Operating Expenses	16,986,943	31,561,103	14,875,436	789,493	376,635
INCOME FROM OPERATIONS	55,326,332	22,773,061	15,819,358	4,621,708	487,256
OTHER INCOME (EXPENSES)					
Other income (expenses), net	241,313	490,601	(43,491)	5,648	(30,981)
Change in fair value of warrants	(831,185)	-	-	-	-
Interest expense, net	(90,830)	(383,649)	(532,288)	(322,930)	(99,886)
Gain (expenses) on liquidated damage	1,746,120	(1,598,289)	-	-	-
Total Other Income (Expenses)	1,065,418	(1,491,337)	(575,779)	(317,282)	(130,867)
INCOME FROM OPERATIONS BEFORE TAXES	56,391,750	21,281,724	15,243,579	4,304,426	356,389
INCOME TAX EXPENSE	-	-	(5,024,774)	(1,151,300)	(85,390)
NET INCOME	56,391,750	21,281,724	10,218,805	3,153,126	270,999
OTHER COMPREHENSIVE INCOME					
Foreign currency translation gain	69,286	4,234,671	1,789,994	174,303	22,975
COMPREHENSIVE INCOME	56,461,036	25,516,395	12,008,799	3,327,429	293,974

Source: RINO 2005-2009 Annual Report.

Exhibit 5

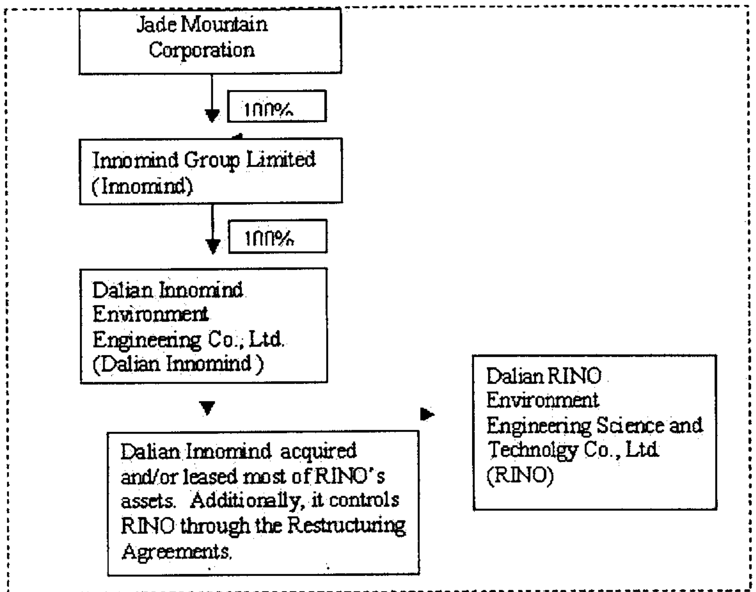
RINO INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(UNAUDITED)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
REVENUES				
Contracts	$ 52,083,757	$ 62,194,946	$ 164,347,447	$ 138,030,264
Services	640,803	1,107,257	1,620,028	1,602,308
	52,724,560	63,302,203	165,967,475	139,632,572
COST OF SALES				
Contracts	35,987,267	36,452,495	108,600,440	81,701,500
Services	242,423	531,440	737,072	1,124,270
Depreciation	211,379	185,201	566,821	555,528
	36,441,069	37,169,136	109,904,333	83,381,298
GROSS PROFIT	16,283,491	26,133,067	56,063,142	56,251,274
OPERATING EXPENSES				
Selling, general and administrative expenses	6,031,527	6,553,607	17,802,865	14,079,888
Stock compensation expense	325,937	-	391,469	-
TOTAL OPERATING EXPENSES	6,357,464	6,553,607	18,194,334	14,079,888
INCOME FROM OPERATIONS	9,926,027	19,579,460	37,868,808	42,171,386
OTHER INCOME (EXPENSES), NET				
Other expense, net	(13,772)	(3,144)	(127,651)	(8,923)
Change in fair value of warrants	97,620	(2,592,201)	15,172,534	(4,402,335)
Interest income (expense), net	323,898	101,785	464,342	(90,148)
Gain on liquidated damage settlement	-	-	-	1,746,120
TOTAL OTHER INCOME (EXPENSES), NET	407,746	(2,493,560)	15,509,225	(2,755,286)
INCOME BEFORE PROVISION FOR INCOME TAXES	10,333,773	17,085,900	53,378,033	39,416,100
PROVISION FOR INCOME TAXES	1,494,553	-	5,446,059	-
NET INCOME	8,839,220	17,085,900	47,931,974	39,416,100
OTHER COMPREHENSIVE INCOME:				
Foreign currency translation adjustment	4,419,255	169,559	5,618,046	31,920
COMPREHENSIVE INCOME	$ 13,258,475	$ 17,255,459	$ 53,550,020	$ 39,448,020
WEIGHTED AVERAGE NUMBER OF SHARES:				
Basic	28,604,061	25,204,199	28,605,321	25,104,972
Diluted	28,610,990	25,220,159	28,610,560	25,112,087
EARNINGS PER SHARE:				
Basic	$ 0.31	$ 0.68	$ 1.68	$ 1.57
Diluted	$ 0.31	$ 0.68	$ 1.68	$ 1.57

Source: RINO Q3 2010 Quarterly Report.

Exhibit 6

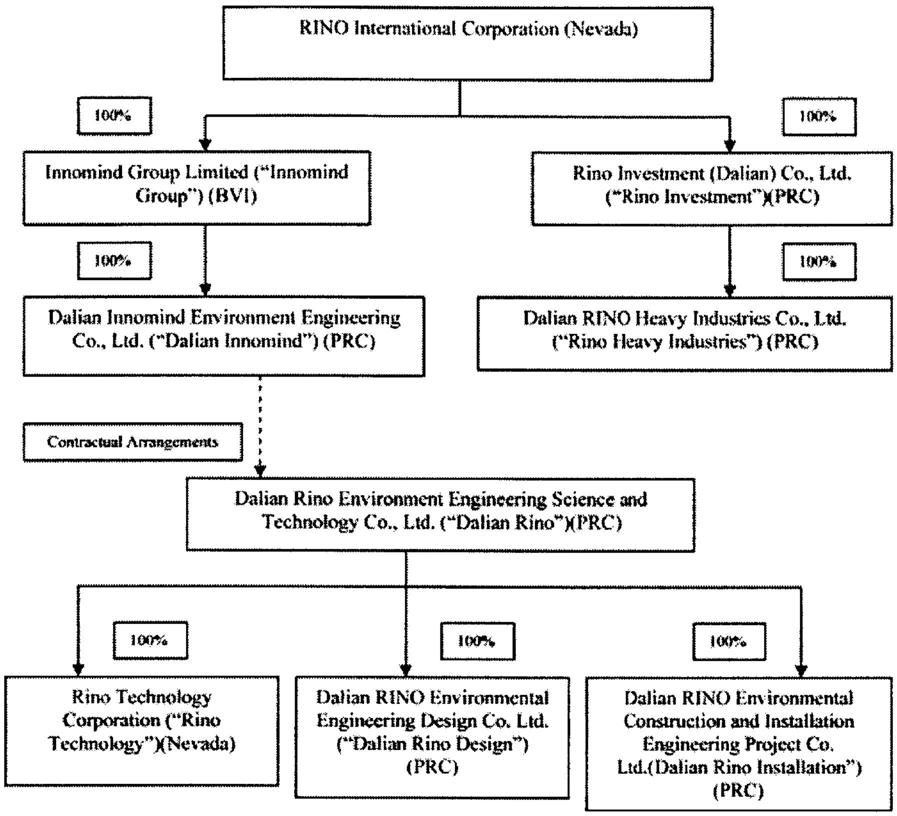
RINO's Corporate Structure after Reverse Merger in October 2007



Source: RINO 2007 8-K Report, October 5, 2007, p. 12, http://www.sec.gov/Archives/edgar/data/1394220/000114420407054026/v090023_8k.htm , accessed April 2014.

Exhibit 7

RINO's Corporate Structure in 2009



Source: RINO 2009 Annual Report, p. 4.

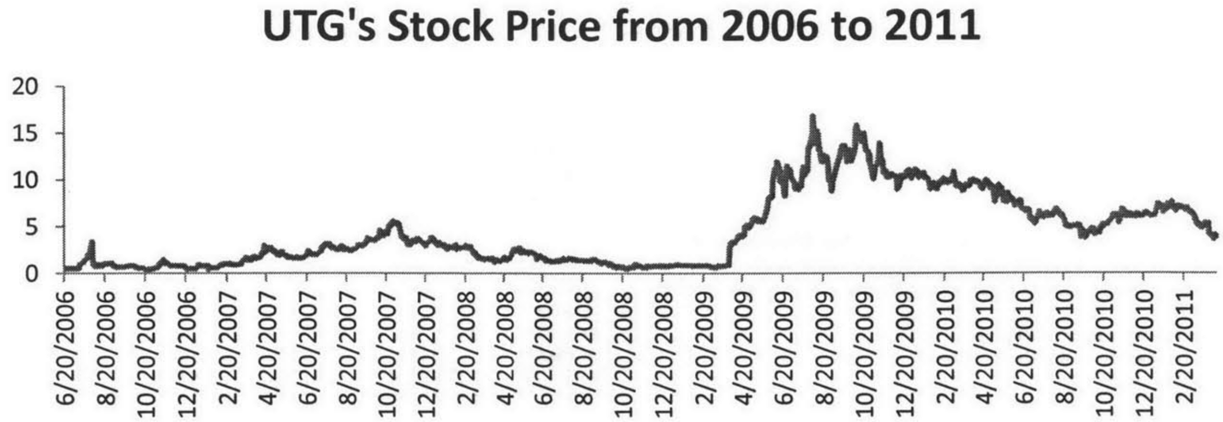
Exhibit 8

RINO INTERNATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND DECEMBER 31, 2009, 2008, 2007, 2006

(In $)	2010	2009	2008	2007	2006
ASSETS	Unaudited				
CURRENT ASSETS					
Cash and cash equivalents	56,123,490	134,487,611	19,741,982	7,390,631	3,604,350
Restricted cash	9,520,921	-	1,030,317	1,000,000	-
Notes receivable	209,580	440,100	2,157,957	202,670	-
Due from shareholders	-	3,005,386	-	-	-
Accounts receivable, trade, net of allowance for doubtful accounts of $273,446 and $0 as of December 31, 2009 and 2008, respectively	112,012,814	57,811,171	51,503,245	19,222,133	5,622,219
Costs and estimated earnings in excess of billings on uncompleted contracts	41,440,413	3,258,806	-	2,818,122	-
Inventories	5,546,475	5,405,866	1,203,448	178,480	111,321
Advances for inventory purchases	57,244,722	34,056,231	21,981,669	12,092,202	801,246
Other current assets and prepaid expenses	3,306,592	629,506	517,847	1,174,464	171,772
Total current assets	285,405,007	239,094,677	98,136,465	44,078,702	10,310,908
PROPERTY, PLANT AND EQUIPMENT, NET	24,516,034	12,265,389	13,197,119	11,000,581	10,460,727
OTHER ASSETS					
Investment in unconsolidated affiliate	449,100	-	-	-	-
Advances for non current assets	11,745,655	6,570,378	6,082,608	5,893,553	-
Intangible assets, net	9,115,669	1,144,796	1,211,608	1,190,289	796,712
Total other assets	21,310,424	7,715,174	7,294,216	7,083,842	796,712
Total assets	331,231,465	259,075,240	118,627,800	62,163,125	21,568,347
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Accounts payable	9,796,423	4,281,353	5,816,714	2,534,858	3,858,078
Notes payable	9,520,824	-	-	-	4,221,298
Short-term bank loans	3,742,500	1,467,000	8,802,000	-	-
Billings in excess of costs and estimated earnings on uncompleted contracts	8,125,883	-	-	-	-
Customer deposits	232,894	4,984,801	3,609,407	116,214	-
Deferred revenue	3,229,242	-	-	-	-
Liquidated damages payable	20,147	20,147	2,598,289	1,000,000	-
Other payables and accrued liabilities	512,862	496,411	746,267	686,031	885,674
Due to shareholder	498,598	-	596,023	106,963	451,921
Taxes Payable	4,727,815	4,003,709	5,062,901	9,541,603	748,469
Total current liabilities	40,407,188	15,253,421	27,231,601	13,985,669	10,165,440
Warrant Liabilities	178	15,172,712	-	-	-
LONG-TERM LIABILITIES					
Notes payable - long term	-	-	-	-	3,453,790
Long term loan	8,233,500	-	-	-	-
Deferred tax liabilities	-	-	-	-	655,705
TOTAL LIABILITIES	48,640,866	30,426,133	27,231,601	13,985,669	14,274,935
REDEEMABLE COMMON STOCK ($0.0001 par value, 5,464,357 shares issued with conditions for redemption outside the control of the company)	24,480,319	24,480,319	24,480,319	24,480,319	-
COMMITMENTS AND CONTINGENCIES	-	-	-	-	-
SHAREHOLDERS' EQUITY					
Preferred Stock ($0.0001 par value, 50,000,000 shares authorized, none issued and outstanding)	-	-	-	-	-
Common Stock ($0.0001 par value, 10,000,000,000 shares authorized, 28,603,321 shares and 25,040,000 shares issued and outstanding as of December 31, 2009 and 2008)	2,860	2,860	2,504	2,500	1,790
Additional paid-in capital	107,527,065	107,135,593	25,924,007	8,221,663	3,827,447
Retained earnings	123,344,860	78,983,794	28,570,948	11,376,163	2,940,341
Statutory reserves	15,326,220	11,755,312	6,196,478	2,109,539	326,556
Accumulated other comprehensive income	11,909,275	6,291,229	6,221,943	1,987,272	197,278
Total shareholders' equity	258,110,280	204,168,788	66,915,880	23,697,137	7,293,412
Total liabilities and shareholders' equity	331,231,465	259,075,240	118,627,800	62,163,125	21,568,347

Source: RINO 2006-2010 Annual Report.

Exhibit 9

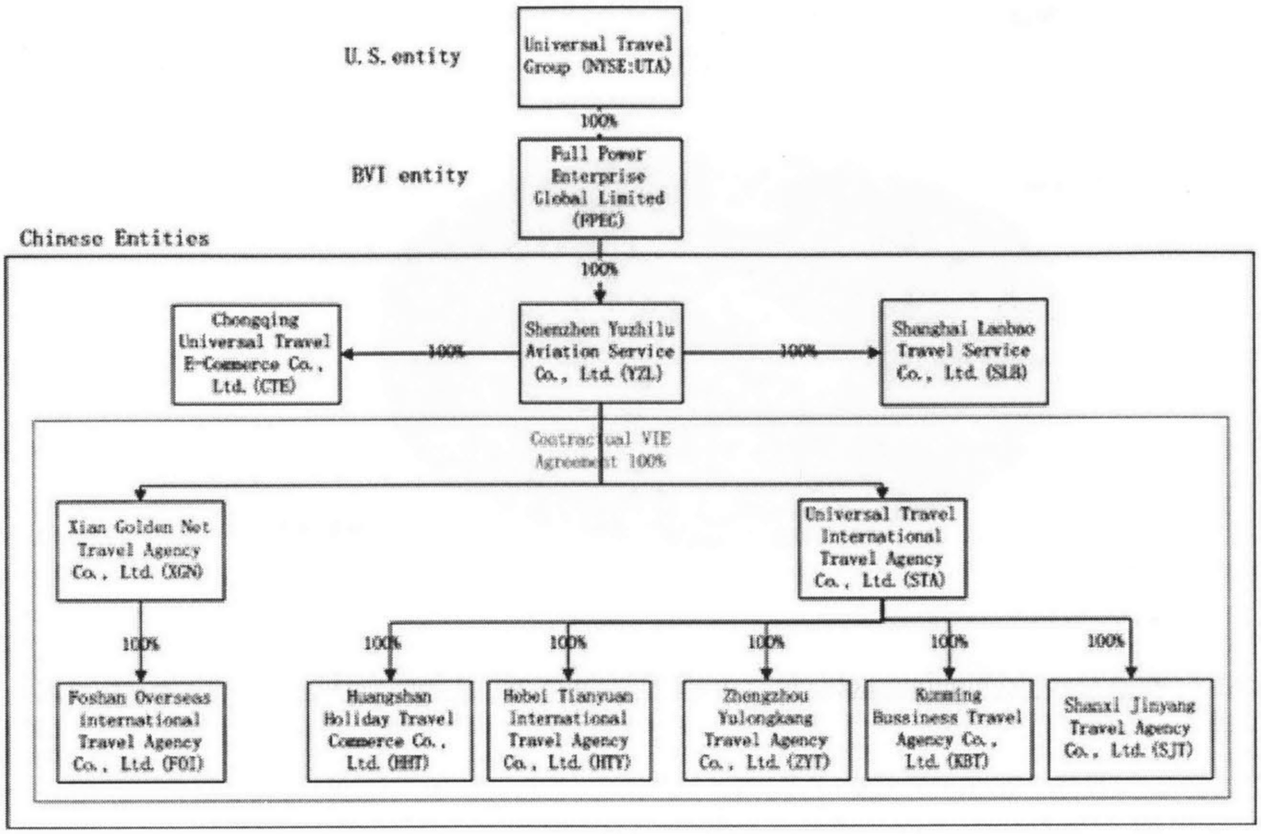


Source: Yahoo Finance, http://finance.yahoo.com/q/hp?s=UTRA+Historical+Prices, accessed April 2014.

Exhibit 10

Source: http://www.chinainternetwatch.com/1033/china-online-travel-q1-2011/, accessed April 2014.

Exhibit 11
UTG's Corporate Structure in 2010



Source: UTG 2010 Annual Report, p. 8.

Exhibit 12

UNIVERSAL TRAVEL GROUP
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In $)	2011	2010	2009	2008	2007	2006
	(unaudited)					
Revenues						
Air ticketing, net	23,639,051	24,189,452	16,634,872			
Hotel reservation, net	13,452,721	14,303,080	12,340,395			
Packaged tours, gross	118,332,077	114,826,414	66,827,207			
	155,423,849	153,318,946	95,802,474	65,821,838	32,555,580	10,013,788
Cost of services						
Air ticketing, net	8,296,788	8,838,496	4,561,236			
Hotel reservation, net	1,742,781	4,659,667	3,638,908			
Packaged tours, gross	103,204,918	98,724,258	58,432,674			
	113,244,487	112,222,421	66,632,818	43,312,826	20,610,777	4,594,376
Gross Profit	42,179,362	41,096,525	29,169,656	22,509,012	11,944,803	5,419,412
Selling, general and administrative expenses	(10,686,344)	(11,790,250)	(5,001,109)	(4,591,903)	(2,740,857)	(2,303,474)
Gain/(Loss) on disposal of fixed assets	(211,037)	65,853	(1,594)	(1,105)	-	
Impairment loss of goodwill	(2,524,705)	-	-	-	-	
Income from operations	28,757,276	29,372,128	24,166,953	17,916,004	9,203,946	3,115,938
Other income (expense)						
Other income (expense)	(122,406)	(28,183)	(76,422)	8,402	25,105	36,383
Gain/(Loss) on change of fair value of derivative liabilities	540,619	1,004,390	(6,832,186)	-	-	
Interest income (expense)	1,050,514	143,102	58,124	(69,064)	(78,462)	9,240
Total other income (expense)	1,468,727	1,119,309	(6,850,484)	(60,662)	(53,357)	45,623
Income before income taxes–continuing operations	30,226,003	30,491,437	17,316,469	17,855,342	9,150,589	3,161,561
Provision for income taxes	9,408,185	8,452,043	5,978,948	4,073,614	1,641,950	603,083
Income from continuing operations	20,817,818	22,039,394	11,337,521	13,781,728	7,508,639	2,558,478
Income from discontinued operations	-	-	177,975	-	-	-
Loss on disposition of discontinued operations	-	-	(770,595)	750,449	1,187,254	-
Loss from discontinued operation	-	-	(592,620)	750,449	1,187,254	-
Net Income	20,817,818	22,039,394	10,744,901	14,532,177	8,695,893	2,558,478
Comprehensive Income						
Net income	20,817,818	22,039,394	10,744,901	14,532,177	8,695,893	2,558,478
Foreign currency translation adjustments	4,393,924	1,780,893	124,967	975,002	441,353	
Total Comprehensive income	25,211,742	23,820,287	10,869,868	15,507,179	9,137,246	2,558,478

Source: UTG 2006-2011 Annual Report.

Exhibit 13

UNIVERSAL TRAVEL GROUP
CONSOLIDATED BALANCE SHEETS

(In $)	Dec 31 2011	Dec 31 2010	Dec 31 2009	Dec 31 2008	Dec 31 2007	Dec 31 2006
	(unaudited)					
ASSETS						
Cash and cash equivalents	9,967,525	39,618,988	36,574,741	15,720,182	2,671,684	1,043,555
Restricted Cash	1,149,432	307,027	102,681	-	-	-
Accounts receivable, net	49,371,404	38,658,011	17,321,174	8,991,849	5,403,820	18,788
Other receivables and deposits, net	616,134	780,400	257,907	62,547	1,297,426	661,158
Trade deposit	8,831,828	8,173,426	9,775,735	6,571,164	2,650,744	993,609
Advances		-	440,063	438,468	616,861	1,831,558
Prepayments	1,360,625	1,216,857	216,727	312,409	713,668	31,842
Short term investments, at cost	71,375,722	19,681,308	-	-	-	-
Note receivable	-	2,314,259	1,711,392	-	-	-
Due from shareholder	-	-	-	-	1,444,818	-
Acquisition Deposits	-	-	4,077,921	-	1,453,050	2,881,823
Current assets held of discontinued operations	-	-	-	2,459,777	-	-
Escrow deposits	-	-	-	762,800	-	-
Total Current Assets	142,672,670	110,750,276	70,478,341	35,319,196	16,252,071	7,462,333
Property & equipment, net	1,667,868	1,692,595	4,992,677	242,648	127,393	51,555
Intangible assets, net	2,397,196	3,110,882	339,240	307,335	18,626	49,938
Goodwill	21,984,204	24,508,909	9,896,270	9,896,270	13,526,809	-
Non-current assets held of discontinued operations	-	-	-	3,661,231	-	-
Total Noncurrent Assets	26,049,268	29,312,386	15,228,187	14,107,484	13,672,828	101,493
Total Assets	168,721,938	140,062,662	85,706,528	49,426,680	29,924,899	7,563,826
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Notes payable – bank	-	-	-	-	1,288,554	-
Note payable – others	-	-	-	-	1,576,750	-
Accounts payable and accrued expenses	5,893,985	5,045,674	2,615,730	1,691,689	3,604,666	3,391,229
Customer deposits	2,045,121	2,203,487	2,000,117	1,039,942	1,132,886	-
Income tax payable	3,527,867	3,189,965	1,654,475	1,731,246	664,995	263,850
Current liabilities held of discontinued operations	-	-	-	562,931	-	-
Total Current Liabilities	11,466,973	10,439,126	6,270,322	5,025,808	8,267,851	3,655,079
Warrants - derivative liability	270,310	810,929	1,815,319	-	-	
Deferred tax liability	259,540	477,397	-	-	-	
Long-term income tax payable	98,476	30,804	-	-	-	
Total Liabilities	12,095,299	11,758,256	8,085,641	5,025,808	8,267,851	3,655,079
Stockholders' Equity						
Common stock, $.001 par value, 70,000,000 shares authorized, 19,898,235 and 16,714,457 issued and outstanding at December 31, 2010 and 2009, respectively	19,898	19,898	16,714	13,873	36,810	30,450
Preferred stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2010 and 2009, respectively.	-	-	-	-	-	-
Additional paid in capital	67,282,046	64,171,555	37,671,645	15,861,116	8,601,534	332,013
Statutory reserve	1,062,741	1,062,741	372,144	372,144	372,144	-
Retained earnings	80,442,004	59,624,186	37,915,251	26,633,573	12,101,396	3,442,473
Accumulated other comprehensive income	7,819,950	3,426,026	1,645,133	1,520,166	545,164	103,811
Total Stockholders' Equity	156,626,639	128,304,406	77,620,887	44,400,872	21,657,048	3,908,747
Total Liabilities and Stockholders' Equity	168,721,938	140,062,662	85,706,528	49,426,680	29,924,899	7,563,826

Source: UTG 2006-2011 Annual Report.

Exhibit 14
UTG Sales Segmentation

For the year ended December 31, 2010:

Revenue Segment in $	Air Ticketing (YZL & CTE)	(%) of sector	Hotel Reservation (SLB)	(%) of sector	Packaged Tours (All others)	(%) of sector	Total
Revenue	24,189,452	15.78%	14,303,080	9.33%	114,826,414	74.89%	153,318,946
Cost of services	8,838,496	7.88%	4,659,667	4.15%	98,724,258	87.97%	112,222,421
Gross profit	15,350,956	37.35%	9,643,413	23.47%	16,102,156	39.18%	41,096,525
Gross margin	63.46%		67.42%		14.02%		26.80%
Segment effect in gross margin (*)	10.01%		6.29%		10.50%		26.80%

(*) "Segment effect in Gross Margin" was calculated by multiplying "the percentage of the segment revenue over the total revenue" with "gross margin of the related sector". This outlines how each segment contributes to the total gross margin.

For the year ended December 31, 2009:

Revenue Segment in $	Air Ticketing (YZL & CTE)	(%) of sector	Hotel Reservation (SLB)	(%) of sector	Packaged Tours (All others)	(%) of sector	Total
Revenue	16,634,872	17.36%	12,340,395	12.88%	66,827,207	69.76%	95,802,474
Cost of services	4,561,236	6.85%	3,638,908	5.46%	58,432,674	87.69%	66,632,818
Gross profit	12,073,636	41.39%	8,701,487	29.83%	8,394,533	28.78%	29,169,656
Gross margin	72.58%		70.51%		12.56%		30.45%
Segment effect in gross margin (*)	12.60%		9.08%		8.76%		30.45%

For the year ended December 31, 2008:

Revenue Segment in $	Air Ticketing (YZL & CTE)	(%) of sector	Hotel Reservation (SLB)	(%) of sector	Packaged Tours (All others)	(%) of sector	Total
Revenue	12,333,527	18.74%	8,340,519	12.67%	45,147,792	68.59%	65,821,838
Cost of services	1,166,155	2.69%	3,209,777	7.41%	38,936,894	89.90%	43,312,826
Gross profit	11,167,372	49.61%	5,130,742	22.79%	6,210,898	27.59%	22,509,012
Gross margin	90.54%		61.52%		13.76%		34.20%
Segment effect in gross margin (*)	16.97%		7.79%		9.44%		34.20%

Source: UTG 2010 Annual Report, p. 32 and 33; UTG 2009 Annual Report, p. 31.

Exhibit 15
Excerpted from UTG's 2010 Annual Report, p. 44:

Windes had informed the Company in its resignation letter that it was no longer able to complete the audit process. Windes stated this was due in part to Management and/or the Audit Committee being non-responsive, unwilling or reluctant to proceed in good faith and imposing scope limitations on Windes' audit procedures. Windes also stated that Windes had lost confidence in the Board of Directors' and the Audit Committee's commitment to sound corporate governance and reliable financial reporting. Windes raised the following issues (some of which may be considered to be disagreements) encountered during the audit, including issues related to the authenticity of confirmations, a loss of confidence in confirmation procedures carried out under circumstances which Windes believed to be suspicious; issues concerning the lack of evidence of certain tour package contracts and related cash payments. As a result, Windes had requested authority to perform additional audit procedures and the above issues to be addressed by an independent Audit Committee investigation.

Exhibit 16

Information of UTG's Acquired Companies in 2010

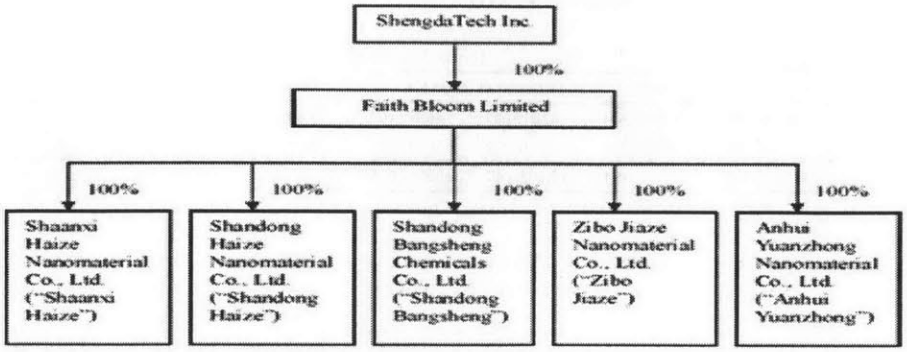
Acquired Companies in 2010		Zhengzhou Yu Long Kang Travel Agency Co (ZYT)	Hebei Tian Yuan International Travel Agency Co (HTT)	Kunming Business Travel Agency Co (KBT)	Shanxi Jin Yang Travel Agency Co (SJT)	Shandong Shi Ji Aviation Development Co
All figures are in USD, using forex rate of $1=6.85 RMB	Date of Acq.	March 2010	March 2010	June 2010	June 2010	June 2010
	Purchase Price	$5,700,000	$4,400,000	$5,700,000	$2,300,000	$5,600,000
UTA Claimed Figures for 2009	Revenue	$10,500,000	n/a	$9,400,000	$5,600,000	$4,400,000
	Net Income	$800,000	n/a	$900,000	$400,000	$800,000
AIC Filings - 2009	Revenue	$58,394	$102,797	$1,671,128	$734,868	$494,755
	Net Income	$4,978	($101,687)	$42,483	$1,866	$16,747
	Assets	$84,433	$336,333	$687,543	n/a	$438,149
UTA Claimed Net Income Multiple paid	Net Income	7.1	n/a	6.3	5.8	7.0
Actual Aquired Multiples Paid	Revenue	97.6	42.8	3.4	3.1	11.3
	Net Income	1145.0	n/a	134.2	1232.6	334.4
	Assets	67.5	13.1	8.3	n/a	12.8

Source: Claucus Research Group, Report on Universal Travel Group, March 8, 2011, p. 12.

Exhibit 17

Source: Yahoo Finance, http://finance.yahoo.com/q/hp?s=SDTHQ+Historical+Prices, accessed April 2014.

Exhibit 18
ShengdaTech's Corporate Structure in 2009



Source: ShengdaTech, 2009 Annual Report, p. 4.

Exhibit 19

SHENGDATECH, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In $)	September 30	For the Years Ended December 31,					
	2010 (Unaudited)	2009	2008 Restated	2007 Restated	2006	2008	2007
Net sales	97,881,755	102,121,804	82,419,689	46,721,673	72,600,031	149,427,139	100,654,793
Cost of goods sold	57,539,986	60,218,310	48,316,242	26,812,587	51,222,569	94,302,741	66,094,838
Gross profit	**40,341,769**	**41,903,494**	**34,103,447**	**19,909,086**	**21,377,462**	**55,124,398**	**34,559,955**
Operating expenses:							
Selling	1,798,490	2,103,822	2,438,908	1,680,259	1,260,647	2,549,721	1,771,168
General and administrative	4,853,287	5,669,923	3,074,051	2,658,806	2,641,474	4,394,896	3,232,911
Impairment of property, plant and equipment	-	-	-	-	-	3,931,253	-
Total operating expenses	**6,651,777**	**7,773,745**	**5,512,959**	**4,339,065**	**3,902,121**	**10,875,870**	**5,004,079**
Operating income	**33,689,992**	**34,129,749**	**28,590,488**	**15,570,021**	**17,475,341**	**44,248,528**	**29,555,876**
Other income (expense):							
Interest income	249,677	685,858	132,423	94,643	140,375	235,219	274,203
Interest expense	(10,207,261)	(10,662,252)	(7,456,418)	-	-	(4,766,681)	-
Gain on extinguishment of long-term convertible notes	-	1,624,844	5,511,487	-	-	9,018,169	-
Gain on bargain purchase	-	619,466	-	-	-	-	-
Other expense, net	(50,622)	(121,976)	(51,604)	(12,094)	(89,068)	(52,833)	(12,094)
Other (expense) income , net	**(10,008,206)**	**(7,854,060)**	**(1,864,112)**	**82,549**	**51,307**	**4,433,874**	**262,109**
Income from continuing operations before income taxes	**23,681,786**	**26,275,689**	**26,726,376**	**15,652,570**	**17,526,648**	**48,682,402**	**29,817,985**
Income tax expense	2,853,863	2,721,532	3,705,669	450,347	-	8,646,951	2,787,640
Income from continuing operations	**20,827,923**	**23,554,157**	**23,020,707**	**15,202,223**	**17,526,648**	**40,035,451**	**27,030,345**
Discontinued operations							
(Loss) income from discontinued operations before income taxes	(179,326)	(449,550)	15,758,189	14,165,415	-	-	-
Income tax expense	-	-	2,750,594	2,337,293	-	-	-
(Loss) income from discontinued operations	(179,326)	(449,550)	13,007,595	11,828,122	-	-	-
Net income	**20,648,597**	**23,104,607**	**36,028,302**	**27,030,345**	**17,526,648**	**40,035,451**	**27,030,345**

Source: ShengdaTech 2006-2010 Annual Report.

According to U.S. GAAP requirements of restating discontinued operations, ShengdaTech restated the 2007 and 2008 figures because of disposal of Shandong Bangsheng Chemical in 2009.

Exhibit 20

SHENGDATECH, INC.
CONSOLIDATED BALANCE SHEETS

(In $)	September 30	December 31				December 31	
	2010 (Unaudited)	2009	2008 Restated	2007 Restated	2006	2008	2007
ASSETS							
Current assets:							
Cash	120,649,206	115,978,763	114,287,073	26,366,568	34,684,142	114,287,073	26,366,568
Accounts receivable	6,146,848	4,600,722	6,806,066	7,889,001	5,588,676	6,806,066	7,889,001
Inventories	2,113,346	2,018,283	2,310,995	1,955,384	2,151,612	2,647,424	1,955,384
Advances to suppliers	-	-	-	2,249,867	872,289	-	2,249,867
Prepaid expenses and other receivables	3,777,795	3,947,086	510,825	13,962	157,352	510,825	13,962
Due from related parties	-	-	-	1,712	1,601	-	1,712
Debt issuance costs	815,639					-	-
Income tax refund receivable	1,455,906	1,455,906	-	-	-	-	-
Current assets of discontinued operations	818,637	801,983	962,942	-	-	-	-
Assets held for sale	1,754,163	1,718,475	-	-	-	-	-
Total current assets	**137,531,540**	**130,521,218**	**124,877,901**	**38,476,494**	**43,455,672**	**124,251,388**	**38,476,494**
Property, plant and equipment, net	127,237,848	123,099,860	98,344,722	62,343,416	23,573,680	99,878,791	62,343,416
Land use rights	30,153,106	15,432,743	15,710,333	124,028	-	15,593,548	124,028
Intangible assets	234,790	280,329	-	-	-	-	-
Debt issuance costs	-	1,720,209	3,096,073	-	-	3,925,157	-
Deposit for mining rights	268,734	-	-	-	-	-	-
Deferred income tax assets	-	-	-	-	-	260,056	-
Non-current assets of discontinued operations	-	-	1,777,800	-	-	-	-
Total assets	**295,426,018**	**271,054,359**	**243,806,829**	**100,943,938**	**67,029,352**	**243,908,940**	**100,943,938**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities:							
Accounts payable	1,719,051	3,998,532	4,493,551	5,239,648	2,957,413	4,493,551	5,239,648
Accrued expenses and other payables	6,586,326	4,737,356	4,342,006	4,851,620	2,235,758	4,227,184	4,851,620
Long-term convertible notes, current portion	84,536,567	-	-	-	-	-	-
Payable for acquisition	-	3,803,060	-	-	-	-	-
Income taxes payable	2,099,079	60,573	1,588,895	728,255	1,237,180	1,092,116	728,255
Due to related parties	773,081	1,572,427	1,737,404	1,121,230	3,349,814	1,737,404	1,121,230
Advances from customers	-	-	-	-	119,923	-	-
Current liabilities of discontinued operations	43,038	42,068	14,912	-	-	-	-
Total current liabilities	**95,757,142**	**14,214,016**	**12,176,768**	**11,940,753**	**9,900,088**	**11,550,255**	**11,940,753**
Long-term convertible notes	-	79,298,539	77,926,310	-	-	95,250,000	-
Non-current income taxes payable	2,137,379	1,598,237	974,131	-	-	1,268,108	-
Note payable to related party	-	601,631	-	-	-	-	-
Deferred income tax liabilities	853,928	4,443,810	5,387,262	-	-	-	-
Non-current liabilities of discontinued operations	300,828	294,708	293,977	-	-	-	-
Total liabilities	**99,049,277**	**100,450,941**	**96,758,448**	**11,940,753**	**9,900,088**	**108,068,363**	**11,940,753**
Shareholders' equity:							
Preferred Stock, par value $0.00001 authorized:10,000,000 outstanding: Nil	-	-	-	-	-	-	-
Common Stock, par value $0.00001 authorized:100,000,000 issued and outstanding: 54,202,036	542	542	542	542	540	542	542
Additional paid-in capital	37,132,442	37,132,442	37,112,269	21,616,468	21,824,121	21,897,316	21,616,468
Statutory reserves	8,455,328	8,455,328	8,130,601	5,642,419	3,301,379	8,130,601	5,642,419
Retained earnings	131,845,642	111,197,045	88,417,165	54,877,045	30,187,740	92,424,314	54,877,045
Accumulated other comprehensive income	18,942,787	13,818,061	13,387,804	6,866,711	1,815,484	13,387,804	6,866,711
Total shareholders' equity	**196,376,741**	**170,603,418**	**147,048,381**	**89,003,185**	**57,129,264**	**135,840,577**	**89,003,185**
Commitments and contingencies	-	-	-	-	-	-	-
Total liabilities and shareholders' equity	**295,426,018**	**271,054,359**	**243,806,829**	**100,943,938**	**67,029,352**	**243,908,940**	**100,943,938**

Source: ShengdaTech 2006-2010 Annual Report.

Exhibit 21
Statistics for Allegations of the 71 Sued Chinese Companies from 2009 to 2013.

Allegations	Number of companies	Companies
Revenue recognition	25	Deer Consumer Products, Inc. Ambow Education Holding Ltd. China MediaExpress Holdings, Inc. China Valves Technology, Inc. ShengdaTech, Inc. Universal Travel Group, Inc. Focus Media Holding Limited RINO International Corporation Longwei Petroleum Investment Holding Limited Subaye, Inc. NQ Mobile, Inc. China Sky One Medical, Inc. China-Biotics, Inc. China Agritech Inc. Silvercorp Metals, Inc. China Integrated Energy, Inc. Sino Clean Energy, Inc. Longtop Financial Technologies Limited Yongye International, Inc. Wonder Auto Technology, Inc. A-Power Energy Generation Systems, Ltd. SinoTech Energy Limited China Medical Technologies, Inc. Orient Paper, Inc. China-Biotics, Inc.
Internal control deficiencies	17	Chinacast Education Corporation Ambow Education Holding Ltd. Sinohub, Inc. ShengdaTech, Inc. Duoyuan Global Water, Inc. RINO International Corporation PetroChina Co. Ltd. China Sky One Medical, Inc. Qiao Xing Mobile Communication Company, Ltd. Tibet Pharmaceuticals, Inc. New Oriental Education & Technology Group Inc. Suntech Power Holdings Co., Ltd

		NIVS Intellimedia Technology Group, Inc. Wonder Auto Technology, Inc. YUHE INTERNATIONAL, INC. China Automotive Systems, Inc. Fuqi International, Inc.
Auditors' findings	12	China Natural Gas Inc. Qiao Xing Mobile Communication Company, Ltd. American Oriental Bioengineering Inc China Agritech Inc. NIVS Intellimedia Technology Group, Inc. China Century Dragon Media., Inc. China Electric Motor, Inc. China Intelligent Lighting and Electronics, Inc. Longtop Financial Technologies Limited YUHE INTERNATIONAL, INC. A-Power Energy Generation Systems, Ltd. Keyuan Petrochemicals Inc
Different filing figures	11	ShengdaTech, Inc. RINO International Corporation China Agritech Inc. Silvercorp Metals, Inc. ZST Digital Networks, Inc. Gulf Resources, Inc. A-Power Energy Generation Systems, Ltd. SinoTech Energy Limited China-Biotics, Inc. China Green Agriculture, Inc. China Education Alliance, Inc.
Related party transcations	11	Longwei Petroleum Investment Holding Limited Subaye, Inc. China Natural Gas Inc. China Agritech Inc. Tongxin International, Ltd. Advanced Battery Technologies, Inc. Skypeople Fruit Juice, Inc. Gulf Resources, Inc. Wonder Auto Technology, Inc. Jiangbo Pharmaceuticals, Inc. Keyuan Petrochemicals Inc
Business acquisition	10	Ambow Education Holding Ltd. China Valves Technology, Inc. Universal Travel Group, Inc.

		Focus Media Holding Limited Advanced Battery Technologies, Inc. Fushi Copperweld, Inc. China Fire & Security Group YUHE INTERNATIONAL, INC. China Security & Surveillance Technology Inc. China Medical Technologies, Inc.
Management fraud	9	Puda Coal, Inc. Chinacast Education Corporation Longwei Petroleum Investment Holding Limited Qiao Xing Universal Resources, Inc. SmartHeat, Inc. Tongxin International, Ltd. Advanced Battery Technologies, Inc. China Security & Surveillance Technology Inc. China North East Petroleum Holdings Limited
Cash and bank	8	Universal Travel Group, Inc. China-Biotics, Inc. NIVS Intellimedia Technology Group, Inc. China Century Dragon Media., Inc. China Electric Motor, Inc. Longtop Financial Technologies Limited Jiangbo Pharmaceuticals, Inc. China-Biotics, Inc.
No timely or failure of disclosure	6	Sinohub, Inc. China MediaExpress Holdings, Inc. Nam Tai Electronics, Inc. Camelot Information Systems Inc. New Energy Systems Group Mindray Medical International Limited
Accounts receivable	5	Ambow Education Holding Ltd. NIVS Intellimedia Technology Group, Inc. China Century Dragon Media., Inc. Jiangbo Pharmaceuticals, Inc. China Medical Technologies, Inc.
Auditors' default	4	Deer Consumer Products, Inc. RINO International Corporation Subaye, Inc. China Natural Gas Inc.
Expenses	4	Sinohub, Inc. ShengdaTech, Inc. Duoyuan Printing, Inc.

		Subaye, Inc.
Non financial issues	3	PetroChina Co. Ltd. CNOOC Limited JinkoSolar Holding Co., Ltd.
Loan	3	China Natural Gas Inc. Suntech Power Holdings Co., Ltd Longtop Financial Technologies Limited
Unreasonable over confidence in operation	3	Tongxin International, Ltd. Mindray Medical International Limited Mecox Lane Limited
Fail to disclose insider transfer	2	Puda Coal, Inc. The9, Ltd.
Understated cost	2	CNinsure Inc. Fuqi International, Inc.
Others	6	Sinohub, Inc. Duoyuan Printing, Inc. Lightinthebox Holding Co., Ltd. China Natural Gas Inc. China Organic Agriculture, Inc. China Automotive Systems, Inc.

Notes

[1] RINO International Corporation, 2009 Annual Report, p. 5.

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