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SinoTech Energy Limited's questionable dealings with Premium Sino Finance and Ernest Cheung

In October 2007, Ernest Cheung acquired 100% of SinoTech Energy Limited, Inc. (NASDAQ: CTE $2.80) for approximately US$4.7 million. In May 2009, Mr. Cheung (Click <a href= http://www.asensio.com/Reports/ReportView.aspx?ReportId=1161&CompanyId=173&CompanyName=SinoTech+Energy here to see a report on Mr. Cheung) reportedly sold CTE to Premium Sino Finance Chairman Qingzeng Liu, who later became CTE's current Chairman; and Wise Worldwide Limited for RMB50 million or approximately $7.3 million.

Seven months later in November 2009, Premium Sino Finance and Wise Worldwide Limited agreed to pay Mr. Cheung, and one of the individuals that sold CTE to him, US$58 million in additional consideration based on "certain oral agreements." Click here to see those oral agreements. Click <a href=http://www.asensio.com/CTE/analysis/AnalysisofTNH2007and2009acquisitionsandsubsequentfinancings.pdf>here</ to see the analysis of the $58 million additional consideration. CTE provides no disclosures pertaining to Premium Sino Finance Limited's ability to make the initial or additional payments related to its CTE acquisition or the "certain oral agreements."

Some of our concerns regarding SinoTech Energy Limited include but are not limited to whether Premium Sino Finance had sufficient funds to pay the additional consideration to Ernest Cheung. The 2007 and 2009 acquisitions involved a purported oral agreement to pay additional consideration to both Xin and Cheung; CTE does not disclose the source of funds for this additional consideration.

Ernest Cheung may still be of significant importance in SinoTech Energy Limited's activities. To read about Mr. Cheung's transactions in CTE's prospectus, click here.

CTE's year 2010 Form 20-F states that "we may not be fully informed of the identities of all our beneficial owners," and cannot compel them "to comply with the SAFE Circular 75 requirement" and that "SAFE Circular 75 states that PRC citizens or residents must register with the relevant local SAFE branch or central SAFE in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a roundtrip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by the PRC citizens or the residents." According to SinoTech, if it cannot "compel" its own shareholders to comply with policies in PRC, then it may be "subject to fines or legal sanctions, restrict" their "overseas or cross-border investment activities, limit" their "subsidiaries' ability to make distributions or pay dividends or affect" their "ownership structure, which coul adversely affect" their "business and prospects." To read the statement, click here.

CTE's prospectus states that it's required to, "Under the M&A Regulations, the acquisition of a domestic enterprise by a foreign investor must be approved by the Ministry of Commerce, or MOFCOM, or its authorized local branch, and an asset appraisal report issued by an independent asset appraiser must be presented to the approving authority as a basis for determination of the price for such acquisition." CTE did not obtain an asset appraisal report issued by an independent asset appraiser. To read the full statement by CTE related to this, click here.

SinoTech's Income Statement for quarter ended December 31, 2010 includes a "write-off bank loan discount" for the amount of $36,976,800. Premium Sino Finance funded the cost for the 2007 and 2009 acquisitions, not SinoTech. To see the write off on CTE's income statement, click here.

SinoTech's Deutsche Bank loan agreement was apparently predicated on Premium Sino Finance issuing warrants on shares of SinoTech Energy Limited's stock that it obtained through the 2009 transaction.

(1) Using a HK corporation called International Petroleum Services Corporation Limited; Mr. Cheung acquired Tianjin New Highland Technology Development Co., Ltd. that ultimately became CTE. CTE provides no disclosure that indicates International Petroleum had any operations prior to its having acquiring CTE.