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Director of Research: Carson C. Block, Esq.

Company:
RINO International Corp. (Nasdaq: RINO)

Industry:
Environmental Equipment Manufacturing

Recommendation:
Strong Sell

Target Price:
$2.45

Report Date:
November 10, 2010

Price:
$15.52

Market Cap:
$444.0 million

Float:
10.7 million

Avg Volume:
693,461

RINO claims to be the leader in selling desulfurization ("FGD") and other environmental equipment to Chinese steel mills. It reported 2009 revenue of $193 million. In reality its revenue is under $15 million, and its management has diverted tens of millions of dollars for its own use. **We value RINO based on the cash we believe remains in the company after the most recent raise.**

- RINO's FGD sales (60% to 75% of revenue) are much lower than it claims. We found that many of its customer relationships do not exist.
- Chinese regulatory filings show that RINO's consolidated 2009 revenue was only $11 million, or 94.2% lower than it reported in the US. We show that the Chinese numbers are credible.
- RINO's accounting has serious flaws that are clear signs of cooked books.
- RINO's management is draining cash from the company for its own business and personal uses. The management is in flagrant breach of its VIE agreements, which require it to pay income to RINO (as opposed to taking it).
- RINO's balance sheet has an astonishingly small amount of tangible assets for a manufacturer. Rather, it is filled with low quality "paper" assets that balance out the inflated earnings, and likely hide leakage.
- RINO is not the industry leader it claims to be in the steel sinter FGD system market. Rather, it is an obscure company in a crowded field, and is best known for its failed projects. Its reported margins are two to three times what they really are. Its technology is sub-par.
- We are not sanguine about management "borrowing" $3.2 million to purchase a luxury home in Orange County, CA the day that RINO closed its $100.0 million financing.

Valuation

RINO is worth approximately $70 million ($2.45 per share), and falling. In order to fund its own business ("VIE"), management has drained RINO of cash. At the same time, management has failed to make required transfers of VIE's profit to RINO. RINO is therefore a shell company with at most $70 million in cash (raised, not generated) and recently acquired assets.

We believe that RINO's actual consolidated revenue (including VIE) is less than $15 million annually – versus the $192.6 that RINO reports. RINO's actual profitability is marginal at best. Therefore, even if management were transferring value from VIE to RINO (rather than the other way around), it would be a negligible addition to the cash position for valuation purposes.

By most indications, RINO is attempting to make itself into a "real" company with its Changxing Island project. However, we do not ascribe a value to the project because we doubt that it be successful. (We of course have concerns that management will end up owning these assets as well.) RINO's management has not built or run a business of any scale. Making a sizable investment in them seems more like a financial sinkhole than an opportunity for value creation. Hence, the value of RINO decreases at it burns cash to further the project.

Summary and Recommendation:

We rate RINO International Corp. ("RINO") a Strong Sell. Its financial statements show substantially inflated revenues, profits, and assets. Not only has RINO's management failed to make required income transfers to the Company, but they have directed tens of millions of dollars from RINO into their wholly owned company.

We discovered that RINO has fabricated a significant number of its purported flue gas desulfurization ("FGD") system customer relationships. Public domain information corroborates our findings. FGD system sales are RINO's largest revenue component, historically accounting for approximately 60% to 75% of reported revenues.

RINO's 2009 SAIC[1] income statements show consolidated revenue of $11.1 million and a net loss, versus RINO's reported $192.6 million revenue with net income of $56.4 million. While it is plausible RINO understates its SAIC revenue by a small amount, we are confident that it generates no more than $15 million in annual revenue.

[1] China's State Administration of Industry and Commerce, which issues business licenses. Companies registered in China annually report their audited results to SAIC. These results are available for inspection by PRC qualified attorneys. It is not unusual for pre-public companies in China to understate their revenues to SAIC by 20% to 50%, and profits by a greater amount. Because RINO's customers are mostly state-owned enterprises, any revenue understatement to SAIC would be small.

RINO's value added tax ("VAT") payment disclosures in its SEC filings greatly contradict its reported revenues, and are a clear sign of cooked books. The discrepancies also suggest money leakage from the Company.

RINO's claim that it had no PRC income tax expense in 2008 and 2009 cannot be true, which also shows significant misstatements in its financials and lack of diligence by its auditor. RINO's explanations of its tax treatment are inconsistent with one another. However, they are consistent in misstating the PRC tax code. (RINO's auditor, Frazer Frost, has been involved in other high profile problem Chinese micro cap companies.)

Because management is abusing the VIE structure. We believe that RINO's shareholders own only a shell company that still has some of the cash they contributed. RINO's CEO and chairwoman (the married couple who founded the business) are blatantly violating the VIE agreements by failing to make any required transfers of income to RINO. Instead, they have pulled out at least $35 million from the Company.

RINO's balance sheet has an astonishingly small amount of tangible assets for a manufacturer. Rather, it is filled with low quality "paper" assets that we doubt exist.

RINO is not the industry leader it claims to be in the steel sinter FGD system industry. Rather, it is an obscure company in a crowded market, and seems best known for one to two failed projects. Yet it claims gross margins of 35% to 40% on FGD projects, which are far in excess of those of the leading companies in the industry (generally less than 20%). Its circulating fluidized bed ("CFB") FGD technology is sub-standard in the China FGD industry.

While immaterial compared to their other sins, RINO management's "borrowing" $3.5 million to purchase a luxury home in Orange County gives insight to their character, as well as a window into the dynamics between management, RINO's independent directors, and the Company's auditor.

Company Description

RINO designs, sells, manufactures, installs, and services environmental protection equipment for China's iron and steel producers. Its products include flue gas desulfurization ("FGD") systems, wastewater treatment systems, and anti-oxidation systems for hot rolled steel production.

Because FGD systems historically have accounted for 60% to 75% of RINO's revenue, we focus specifically on this line of business.

RINO has Fabricated FGD Customer Relationships and Significantly Overstated Revenue.

RINO has fabricated FGD customer relationships, and therefore significantly overstated revenue. We spoke with knowledgeable people at nine of RINO's purported customers.

Five of the nine deny having purchased FGD systems from RINO. It is likely that RINO fabricated a sixth customer relationship (Bao Steel) from this group as well. Only three customers from the group confirm having purchased FGD systems from RINO. (However, as discussed in *RINO's Gross Margins are Improbable Relative to the Rest of the Industry – Particularly Because RINO is a Minor Player, has a damaged reputation, and Uses an Inferior Technology. RINO's Characterizations of its Position Within the Industry are Misleading*, there are issues with one to two of these systems). Because FGD historically represents approximately 60% - 75% of RINO's reported revenue, these fabrications show that RINO is significantly overstating its revenue.

The purported FGD customers we found that have not actually purchased RINO FGD systems are the Yueyufeng Steel Group ("Yueyufeng"), Yuhua Steel Co. Ltd ("Yuhua"), the Lai Steel Group ("Lai"), Chongqing Iron & Steel ("Chongqing"), Nanchang Changli Iron & Steel ("Changli), and most likely Bao Steel ("Bao").

Yueyufeng relationship is fabricated

We confirmed that Yueyufeng is not an FGD customer, which means that 2009 revenue is at least $12.7 million lower than reported. A RINO March 2010 investor presentation ("Investor Presentation") claims that Yueyufeng is a significant FGD customer.[2] However, when we spoke with Yueyufeng, our contact stated that it has only one FGD system, and that RINO was not the vendor. The corporate website of Zhuhai Guangjing Environmental Co. Ltd. claims that it designed the FGD system.[3] According to a local newspaper report, the Yueyufeng system uses a technology (wet, double alkali) that is different from those RINO provides.[4] The China Construction Project Bidding website shows that the contract had an initial value of RMB 26.5 million ($3.9 million), which means that the actual vendors that worked on the project received substantially less than RINO claims to have ($12.7 million).[5]

Yuhua relationship is fabricated

We confirmed that Yuhua is not an FGD customer. RINO disclosed in its 2008 10-K (filed March 31, 2009) that it had installed an FGD system at Yuhua.[6] However, our contact reported that Yuhua only has one FGD system, and that RINO was not the vendor. Publicly available information on the project also contradicts RINO's claim that Yuhua is an FGD customer. According to the local government of Wuan's record of environmental related projects, the expected completion date of the Yuhua FGD system is December 2009.[7] (We believe but were unable to confirm that the project was not

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[2] See Appendix A.
[3] See Appendix B.
[4] http://www.cnr.cn/zhfw/xwzx/zhxw/200908/t20090811_505427307.html
[5] See Appendix C – we obtained the bid information from www.zhaobiao.gov.cn.
[6] RINO International Corp. December 31, 2008 Form 10-K (filed March 31, 2009), p. 19.
[7] Source: Environmental project construction record from Wuan municipal government (武安市人民政府) website: http://www.wuan.gov.cn/zwgk/64953.html

completed until this year.) Therefore, at the time RINO falsely claimed to have installed the FGD system, it was close to one year away from completion (by another vendor).

Lai relationship is fabricated

We confirmed that Lai is not an FGD customer. The Investor Presentation claims that Lai is an FGD customer.[8] However, Lai has two FGD systems, and no work was contracted or sub-contracted to RINO. Our contact at Lai is familiar with RINO because he heard that the FGD system RINO built for Jinan Iron & Steel was taken off line. He stated, "[RINO's] technology has no advantage beside not producing wastewater."

Chongqing relationship is fabricated

We confirmed that Chongqing is not an FGD customer. RINO's 2009 Form 10-K states that RINO has installed an FGD system at Chongqing.[9] However, our contact stated that Chongqing is currently building its first FGD system. The vendors are Shanghai Liyi Environmental Protection Co., two Chongqing subsidiaries, and China Coal International Group. Specifically, RINO is not a vendor.

Changli relationship is fabricated

We confirmed that Changli is not currently an FGD customer. However, RINO's 2009 Form 10-K states that RINO had installed an FGD system at Changli.[10] Changli is presently soliciting bids for its first FGD system, and RINO is among the companies that have presented proposals.

Bao relationship is likely fabricated

We think it is probable that RINO did not work on any FGD projects for Bao or its subsidiaries, despite its claim in the Investor Presentation to have done so. We spoke with a senior Bao executive who was responsible for installing FGD systems on three of Bao's sinters (including at a subsidiary). The executive had never heard of RINO. Moreover, the technical opinion from a Bao engineer that the International Financial Research & Analysis Group[11] provided (in *RINO's Gross Margins are Improbable Relative to the Rest of the Industry – Particularly Because RINO is a Minor Player, has a damaged reputation, and Uses an Inferior Technology. RINO's Characterizations of its Position Within the Industry are Misleading,*) states that Bao never engaged RINO, nor would Bao consider using RINO's CFB technology.

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[8] See Appendix A.
[9] RINO International Corp. December 31, 2009 Form 10-K (filed March 31, 2010), p. 11.
[10] Id.
[11] www.ifragroup.com.

Confirmed FGD Customers

Panzhihua Iron & Steel ("Pan Steel") confirmed that RINO had built an FGD system for its smallest (180 m2) sinter, but that the system did not perform to expectations. Our contact stated, "We are not satisfied with the technology because the desulfurization rate is lower than what we want." It is unlikely to engage RINO in the future. It should be noted that Pan has formed a joint venture to produce FGD systems for other steel mills, and thus is a competitor.

Jinan Iron & Steel Group ("Jinan") confirmed that RINO built an FGD system in 2005. Our contact would not comment on the report that Jinan took the system off line because it was not performing well (see *Lai relationship is fabricated*).

Hunan Lianyuan Iron & Steel Co. confirmed that RINO built a CFB system in 2009 for a 360 m2 sinter. RINO is building an ammonia FGD system (280 m2 sinter) for it now.

We attempted, but were unable, to speak with knowledgeable people at the other 15 FGD customers RINO has disclosed in its 2008 and 2009 10-Ks and March 10, 2010 investor presentation. [12]

RINO's SAIC Financial Statements Show 2009 Revenue of $11 million.

We believe that RINO's SAIC financial statements are largely reliable. The SAIC income statement (below) shows consolidated 2009 revenue of $11.1 million, versus $192.6 million in its SEC filings.

SAIC 2009 Income Statements USD (000's)					
	Rino ("VIE")	Innomind	Construction	Design	**Consolidated**
Revenue	11,097	-	-	-	**11,097**
COGS	6,704	-	-	-	**6,704**
Gross Profit	4,392	-	-	-	**4,392**
Business Taxes and Other	98	-	-	-	**98**
SG&A	3,644	830	41	-	**4,515**
Finance Expense	687	-	-	-	**687**
Subsidy Income	225	-	-	-	**225**
Net Non-Operating Income	(34)	-	-	-	**(34)**
Pre-tax Income	155	(830)	(41)	-	**(716)**
Income Tax	73	-	-	-	**73**
Rate	47.2%	0.0%	0.0%	N/A	**-10.2%**
Net Income	82	(830)	(41)	-	**(789)**

We obtained the above income statements[13] of the four entities[14] that operated throughout 2009 from a well-reputed credit bureau. (The two entities that RINO established at the

[12] Yueyufeng Steel Group and Zhuhai Yueyufeng Iron & Steel are the same company; Hulingnianyuan Iron & Steel and Hunan Lianyuan Iron & Steel are the same company.

end of 2009 did not report to SAIC). However, we did not view photocopies of the actual financial statements in the SAIC files.

For more detail on the RINO entities, see *RINO's Founders Have Failed to Transfer Income to the Company, and to Let the Company Operate out of the Facilities it Supposedly Leases. What do RINO Shareholders Actually Own?*

[13] The amounts were converted to US$ at a rate of RMB 6.83:$1.
[14] "Rino" / "VIE" is Dalian Rino Environmental Engineering Science and Technology Co. Ltd; "Innomind" is Dalian Innomind Environmental Engineering Co., Ltd.; "Construction" is Dalian Rino Environmental Construction & Installation Project Co., Ltd.; "Design" is Dalian Rino Environmental Engineering Project Design Co., Ltd.

RINO's Disclosures of the Value Added Tax ("VAT") it Pays Greatly Contradict its Reported Revenues.

The inconsistency between VAT and reported revenues highlights the accounting strains resulting from significantly cooking the books. It may also disguise cash leakage from the Company. RINO discloses in the notes to its financial statements the VAT it supposedly paid. The VAT it pays implies that RINO revenues are significantly *greater* than what it actually reports. However, the body of evidence does not suggest that RINO's reporting is conservative. Rather, RINO is overstating revenue. In the PRC, almost all sales of goods are subject to VAT. As RINO explains, it pays VAT of 17% on its sales.[15] By dividing the VAT amounts from the notes by 17%, we arrived at the implied sales numbers. The implied sales are significantly greater than reported sales quarter after quarter.

	FYE 12/31/07	3/31/08	6/30/08	9/30/08	12/31/08	FYE 12/31/08	3/31/09	6/30/09	9/30/09	12/31/09	FYE 12/31/09	3/31/10	6/30/10
VAT paid on sales (disclosed in filings)	12,583,662	5,056,817	10,673,689	13,642,041	7,762,595	37,135,142	11,561,292	12,376,832	17,375,881	11,752,220	53,066,225	11,585,981	14,284,498
Implied sales @ 17%	74,021,541	29,745,982	62,786,406	80,247,300	45,662,324	218,442,012	68,007,600	72,804,894	102,211,065	69,130,706	312,154,265	68,152,829	84,026,459
Reported sales*	63,386,808	19,045,425	34,617,114	44,881,136	40,799,722	139,343,397	35,608,119	40,722,250	63,302,203	53,009,934	192,642,506	47,859,247	65,383,668
Difference over reported (raw)	**10,634,733**	**10,700,557**	**28,169,292**	**35,366,164**	**4,862,602**	**79,098,615**	**32,399,481**	**32,082,644**	**38,908,862**	**16,120,772**	**119,511,759**	**20,293,582**	**18,642,791**
Difference over reported (%)	**16.8%**	**56.2%**	**81.4%**	**78.8%**	**11.9%**	**56.8%**	**91.0%**	**78.8%**	**61.5%**	**30.4%**	**62.0%**	**42.4%**	**28.5%**

* This numer is total net sales, which includes service sales.

[15] RINO International Corp. December 31, 2009 Form 10-K (filed March 31, 2010), p. F-30.

No Income Tax in 2008 and 2009? Something's Cooking

As we detail on the next page, RINO's SEC filings showing that it had no income tax expense in 2008 and 2009 cannot be correct. (RINO should have paid income taxes of at least 15% in 2008 and 2009.) We cannot comment on the exact implications of RINO's misstatement. In a general sense though, RINO is committing a complicated accounting fraud with a lot of moving parts. When the difference between reality and reported numbers is great, it is easy to make mistakes. Claiming zero income taxes in 2008 and 2009 is one such mistake. RINO has had four CFOs in three years, which increases the challenge of committing the fraud.

There are two principal entities involved in the tax analysis: Dalian Rino Environmental Engineering Science and Technology Co. Ltd. ("VIE"), and Dalian Innomind Environment Engineering Co., Ltd. ("Innomind"). VIE is RINO's operating entity, but is owned by the Company's CEO, Mr. Dejun Zou, and chairwoman, Ms. Jianping Qiu. (Mr. Zou and Ms. Qiu are married.) Innomind is owned by RINO (i.e., the public company), and its purpose is purportedly to provide management services to VIE in return for 100% of VIE's pre-tax income. (See *RINO's Founders Have Failed to Transfer Income to the Company, and to Let the Company Operate out of the Facilities it Supposedly Leases. What do RINO Shareholders Actually Own?* for an in-depth discussion of the relationship between VIE and Innomind.) Recall that according to the 2009 SAIC income statements, VIE is the only RINO entity booking any revenue.

The key takeaways from the following table analyzing RINO's claimed tax treatment are 1) Innomind has no applicable exemptions to its income in 2008 and 2009, 2) Even if VIE transferred income to Innomind via a management fee, VIE cannot deduct this expense from income; and, thus RINO (through VIE) would have paid income taxes. (Any income transfer other than a management fee would have to be conducted according to PRC "arms length" transfer pricing principles, which would also not allow VIE to reduce its taxable income to zero.)

Entity	Claimed Tax Treatment	RINO's Explanation	Date / Form	Problems with Explanation
Innomind	2-year complete exemption, 3-year 50% exemption	Standard exemption for newly-formed Wholly-foreign owned enterprises ("WFOE") under 1991 tax law	2007 10-K & S-1	This is a misstatement of PRC tax law. No such treatment applied to Innomind. As of March 16, 2007, this treatment was no longer available to new WFOEs due to the new tax law being enacted. Innomind was formed on Jul. 9, 2007 and thus ineligible. Even if it were available, to qualify, at least 50% of income must come from production. Management fees received from VIE would not qualify as production income.
VIE	(no discussion)			
Innomind	3-year complete exemption, 3-year 50% exemption	Qualified under new tax law as environmental protection industry company.	Q1 2008 10-Q through 2008 10-K	This is a misstatement of PRC tax law. Under the new law, income related to certain environmental protection projects would have a 3-year / 3-year holiday. This is not a company-wide exemption. However, the projects and qualifying criteria were not stated until a Dec. 31, 2009 circular (Cai Shui [2009] 166). Therefore, there was no way to obtain project exemptions at the times of these filings.
VIE	3-year complete exemption, 3-year 50% exemption	Qualified under new tax law as environmental protection industry company.		This is a misstatement of PRC tax law. Under the new law, income related to certain environmental protection projects would have a 3-year / 3-year holiday. This is not a company-wide exemption. However, the projects and qualifying criteria were not stated until a Dec. 31, 2009 circular (Cai Shui [2009] 166). Therefore, there was no way to obtain project exemptions at the times of these filings.
Innomind	2-year complete exemption, 3-year 50% exemption	Qualified under new tax law as environmental protection industry company.	Q1 2009 10-Q through Q2 2009 10-Q	An odd switch to 2-year / 3-year. Again, a misstatement of PRC tax law because it was unavailable at the time of the filings. As of Dec. 31, 2009, applicable only to income from specified projects.
VIE	25% tax rate, no exemption	Taxed according to the new tax law. No exemptions applicable.		
Innomind	2-year complete exemption, 3-year 50% exemption	Qualified under new tax law as environmental protection industry company.	Q3 2009 10-Q	This is a misstatement of PRC tax law. Under the new law, income related to certain environmental protection projects would have a 3-year / 3-year holiday. This is not a company-wide exemption. Therefore, there was no such applicable exemption covering 2009 income.
VIE	15% tax rate	Reduction approved Dec. 10, 2008		
	However, taxable income reduced to zero	All net income paid as management fees Innomind per the "Entrusted Management Agreement" dated Oct. 3, 2007		Impossible under PRC tax law. Per Article 49 of the Implementation Regulations of the Enterprise Income Tax Law, management fees (管理) are not deductible. Thus, VIE would have paid taxes because the management fee is not deductible.
Innomind	2-year complete exemption, 3-year 50% exemption	Qualified under new tax law as environmental protection industry company.	2009 10-K - Present	This is a misstatement of PRC tax law. Under the new law, income related to certain environmental protection projects would have a 3-year / 3-year holiday. This is not a company-wide exemption. Therefore, there was no such applicable exemption covering 2009 income.
VIE	15% tax rate	Reduction approved Dec. 10, 2008		
	However, taxable income reduced to zero	All net income paid as management fees Innomind per the "Entrusted Management Agreement" dated Oct. 3, 2007		Impossible under PRC tax law. Per Article 49 of the Implementation Regulations of the Enterprise Income Tax Law, management fees (管理) are not deductible. Thus, VIE would have paid taxes because the management fee is not deductible.

One interesting item is that when RINO claims in its more recent filings it is transferring VIE's income to Innomind via a management fee, it states that it transfers 100% of VIE's net income. However, the agreement under which VIE is supposed to make these payments calls for payments of 100% of VIE's pretax income.[16] We suppose this is an easy mistake to make if one is not actually making any transfers, while simultaneously inventing tax treatments to further accounting fraud.

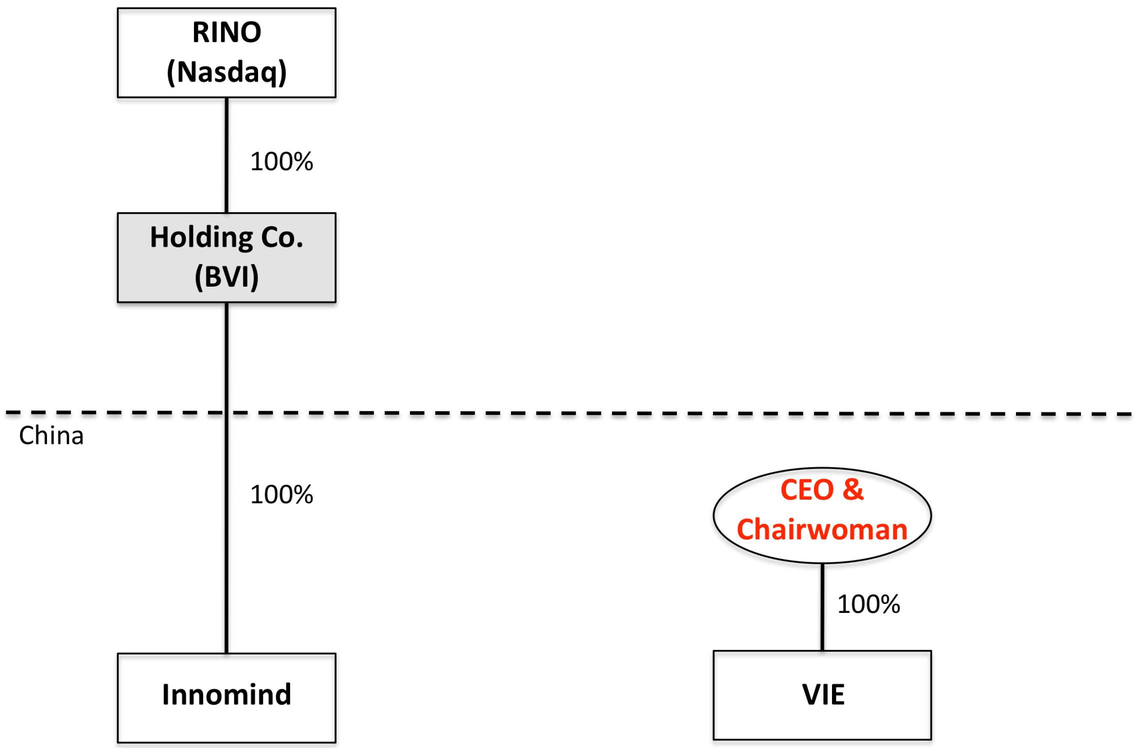
RINO's Founders Have Failed to Transfer Income to the Company, and to Let the Company Operate out of the Facilities it Supposedly Leases. What do RINO Shareholders Actually Own? (About $2.45 per Share and Falling)

Excluding the funds raised in December 2009 and possibly assets acquired for the Changxing Island project, RINO's shareholders own little to no productive assets and have received no benefit from the profits VIE purportedly generates. RINO's founders have failed to transfer $120 million in pretax income to the Company. At the same time, the Company is supposed to be leasing production facilities from the founders' company so that the Company can generate its own revenue. The founders' company however continues to generate substantially all business. Accounting fraud issues aside, it appears that RINO shareholders own far less of value than they had assumed.

RINO's operating company did not go public directly. Instead, RINO has an indirect form of ownership in the operating company. RINO owns a PRC company ("Innomind") that has a series of contracts with the operating company. The operating company is a Variable Interest Entity ("VIE").

[16] See Section 1.4 of the Entrusted Management Agreement, exhibit 10.3 to Jade Mountain Corp. Form 8-K filed on October 12, 2007 (http://www.sec.gov/Archives/edgar/data/1394220/000114420407054026/v090023_ex10-3.htm).

This is diagram of the ownership relationship between RINO, Innomind, and VIE. Note that VIE's owners are RINO's CEO (Mr. Dejun Zou) and chairwoman (Ms. Jianping Qiu). Mr. Zou and Ms. Qiu are married. RINO's shareholders own 100% of Innomind by way of a holding company.



When RINO went public via reverse merger in October 2007, VIE had been carrying out all operations. Innomind only came into existence in July 2007 in preparation for the reverse merger transaction. On October 3, 2007, Innomind entered into a series of contracts that were designed to transfer all of the benefits of owning VIE to Innomind without actually transferring ownership. Under the agreements, VIE and its owners (Mr. Zou and Ms. Qiu) agreed to:

- Sell to Innomind substantially all of VIE's manufacturing equipment and tangible assets for RMB 2,250,343;
- Lease to Innomind substantially all of RINO's manufacturing plant and land at an annual rent of RMB 612,000; and
- Pay to Innomind on a monthly basis whatever pretax profit VIE generates.

Despite selling and leasing all of these assets to Innomind, Mr. Zou and Ms. Qiu's company, VIE, is still carrying out all of RINO's operations. And it has not made any management fee payments to Innomind. <u>Thus, excluding the funds raised in December 2009 and possibly assets acquired for the Chang Xing Island project with such funds, RINO's shareholders own little to no productive assets and have received no benefit from the profits VIE purportedly generates</u>.

The table below shows the VIE account balances.[17] In order to determine the amounts in the rest of the company ("ROC"), we subtracted the VIE balances from those in the consolidated balance sheet. We have highlighted the key operating accounts in yellow. Note also the VIE account in red font, the Payable to Rino International to be eliminated of $156.5 million.

VIE / Rest of Company
Balance Sheet as of June 30, 2010

	VIE	Rest of Company	Consolidated
Current assets	169,064,701	99,828,809	268,893,510
Plant and equipment	11,048,140	1,972,696	13,020,836
Other non current assets	22,301,543	(3,340,998)	18,960,545
Total assets	202,414,384	98,460,507	300,874,891
AP	7,019,623	182,569	7,202,192
ST loan	3,682,500	-	3,682,500
Payable to Rino International to be eliminated	156,541,384	N/A	N/A
Billing in excess of costs & earnings	3,385,163	-	3,385,163
Customer deposits	351,630	-	351,630
Other payable and accrued liabilities	410,144	98,420	508,564
Notes payable	3,241,092	147,300	3,388,392
Due to shareholder	85,523	450,372	535,895
Deferred revenue	1,333,127	-	1,333,127
Tax payable	407,395	2,854,404	3,261,799
LT loan	8,101,500	-	8,101,500
Total liabilities	184,559,081	3,733,065	31,750,762

The current asset balance for ROC should largely consist of cash RINO raised on December 7, 2009. (It raised a gross amount of $100 million.) The preponderance of operating liabilities in VIE shows that VIE continues to carry on almost all of RINO's operations.

The most problematic account is the $156.5 million Payable to Rino International to be eliminated. RINO's reported cumulative pretax income from September 30, 2007 onward is $120.0 million. This payable shows that VIE never made the required payments under the Entrusted Management Agreement. Refer to *RINO's SAIC Financial Statements Show 2009 Revenue of $11 million* in which we show the 2009 SAIC income statement for Innomind, which shows no 2009 revenue. Had Innomind received the 2009 management fees, it would have booked them as revenue.

[17] RINO International Corp. June 30, 2010 Form 10-Q (filed May 15, 2010), p. 8.

There are two reasons why VIE has never made these payments. The first is that the money simply is not there. As this report shows, RINO has significantly inflated its revenue and profits. The second reason is that to the extent VIE is profitable, Mr. Zou and Ms. Qiu want to keep the profits in the company of which they own 100%, rather than sharing with the shareholders.

Even Worse, Innomind Appears to Have Provided VIE $35 - $40 million of Shareholders' Money. Because We are Skeptical of Much of the "Paper" in RINO's Balance Sheet, These Funds Could Have Been Misappropriated.

Because RINO does not own VIE, it has agreements with VIE designed to transfer money and value to RINO. Beyond not honoring those agreements, the management is causing money to flow the wrong way – into VIE. Innomind is lending money to VIE, which is highly improper and alarming because it would mean that VIE is actually taking money directly from RINO's shareholders. Approximately $40 million in raised funds have been paid into Innomind,[18] yet according to SAIC financials, Innomind is nearly devoid of cash or any tangible assets. Clearly, were VIE sitting on $120.0 million it owes Innomind, it would not need to pull $35 - $40 million more out of Innomind.

The $36.5 million difference between the payable and the cumulative pretax income (discussed in the prior section) is likely due to VIE borrowing money from Innomind.

The SAIC balance sheets we obtained through a reputable credit bureau show VIE's Other Accounts Payable approximate Innomind's Accounts Receivable plus Other Accounts Receivable.[19] As of December 31, 2009, the approximate amount of these totals is $40 million. Given the $36.5 million difference between US GAAP cumulative pretax income and VIE's payable to Rino International, it is clear that roughly $35 million to $40 million has improperly flowed from Innomind to VIE.

The money that went into Innomind came directly from RINO's equity raises. Innomind was originally incorporated with $20 million in paid-in-capital,[20] which RINO paid in following its $21.3 million (net) raise in October 2007. Almost all of the money paid in had become receivables by December 31, 2008. In late 2009, Innomind applied to increase its capital to $80 million; and, has contributed a total of $40 million to date. (The additional $20 million would have had to come from the December 2009 equity raise. By law, VIE would not have been able to contribute equity capital to Innomind.) Note below that Innomind ended the year with $40.7 million in receivables. The December 2009 raise funded the increase in Innomind's receivables.

[18] RINO International Corp. December 31, 2009 Form 10-K (filed March 31, 2010), p. 29.
[19] All balance sheet numbers converted at RMB 6.83:$1.
[20] RINO International Corp. December 31, 2009 Form 10-K (filed March 31, 2010), p. 29.

SAIC Balance Sheets
USD (000's)

	VIE		Innomind	
	12/31/08	**12/31/09**	**12/31/08**	**12/31/09**
Cash	1,669	9,329	142	873
Notes Receivable	397	439	-	-
Inventory	1,186	6,675	41	218
Accounts Receivable	10,531	9,334	5,357	5,357
Advances to Suppliers	11,531	9,479	-	-
Other Accounts Receivable	1,783	2,277	16,952	35,356
Other Current Assets	1	-	7	7
Current Assets	27,100	37,533	22,499	41,811
Fixed Assets, net	10,020	10,514	1,034	840
Projects Under Construction	1,764	1,764	-	-
Long-term Investments	293	293	-	-
Intangible Assets	1,053	1,354	22	16
Long-term Deferred Expenses	32	158	-	-
Other Assets	-	-	-	-
Total Assets	40,262	51,616	23,555	42,668
Short-term Loans	8,785	1,464	-	-
Accounts Payable	312	1,881	-	-
Advances from Customers	1,322	7	-	-
Accrued Wages	82	107	-	-
Taxes Payable	(85)	275	-	(1)
Other Accounts Payable	22,344	40,697	110	86
Other Current Liabilities	-	-	35	7
Current Liabilities	32,760	44,432	145	92
Long-term Liabilities	-	-	-	-
Shareholders' Equity	7,502	7,184	23,410	42,575
Total Liabilities & Equity	40,262	51,616	23,555	42,668

The Amount of "Paper" Assets on RINO's Balance Sheet is Implausible for its Business.

For RINO, the problem with balance sheets is that they need to balance. As RINO manufactures profits that inflate the equity side of its balance sheet, it needs to show corresponding increases in assets. In China, determined companies are able to find ways of making fraudulent invoices, sales contracts, receipts, etc. relatively easily. Buying forged paper is obviously less costly than investing in tangible assets.

Auditors vary in their diligence in confirming the authenticity of the aforementioned documents. There is an ongoing shareholder lawsuit against RINO's current auditor, Frazer Frost LLP (formerly known as Moore, Stephens Wurth Frazer and Torbet, LLP), regarding accounting fraud with another Chinese company.[21] Frazer Frost also failed to detect a material amount of unauthorized loans taken by the management of China Natural Gas, Inc (CHNG), despite the auditor having previously stated in CHNG's Form 10-K that CHNG had successfully implemented effective internal controls.[22]

RINO manufactures custom products in production times measured in months, with the main input being steel. It is a slow moving, asset and labor-intensive production process. Yet, quarter in and quarter out, RINO's tangible operating assets are a small percentage of its overall operating assets. The table below shows our calculations of RINO's tangible operating assets over its total operating asset base.[23]

RINO	**12/31/09**	**3/31/10**	**6/30/10**
Tangible operating assets	17,671,255	15,098,819	17,422,064
Total operating assets	121,582,243	193,519,601	209,007,991
%	*14.5%*	*7.8%*	*8.3%*

[21] Source: China Sky One Medical Inc. shareholder lawsuit website: http://www.asensio.com/Reports/ReportView.aspx?ReportId=1035&CompanyId=165&CompanyName=China%20Sky%20One%20Medical,%20Inc.&IsArchived=false

[22] http://www.sec.gov/Archives/edgar/data/1120830/000114420410045581/v194648_8k.htm

[23] Note that we excluded cash because RINO recently completed a fund raise. We also excluded intangible assets, which would include RINO's land use rights, for comparison purposes.

We compared these numbers to two public companies that manufacture FGD systems, Fujian Long King Co. Ltd. (600388:CH) ("Long King") and Zhejiang Fei Da Environmental Science and Technology Co. Ltd (600526:CH) ("Fei Da"). FGD only accounted for 34.4% of Long King and 9.5% of Fei Da's 2009 revenues, respectively. However, both companies are in the environmental protection equipment industry, and the majority of their products involve longer manufacturing times and a good deal of steel input. Moreover, they each have a large number of customers that are state-owned enterprises, which would create similar payment delay issues.

	12/31/09	**12/31/08**
Long King (USD)		
Tangible operating assets	324,857,954	339,568,465
Total operating assets	537,125,502	538,448,181
%	60.5%	63.1%
Fei Da (USD)		
Tangible operating assets	193,613,812	153,303,172
Total operating assets	256,770,377	227,722,470
%	75.4%	67.3%

RINO's raw material balances have not grown in line with sales. Raw materials are one of the best – if not the best – ways of gauging a manufacturer's output. Below is a table showing fiscal 2007 – 2009 contract revenues and year-end raw material balances.

RINO	**FYE 12/31/07**	**FYE 12/31/08**	**FYE 12/31/09**
Contract revenue	42,073,308	119,920,874	187,473,072
YOY Increase		*185.0%*	*56.3%*
Raw material	178,480	223,168	246,798
YOY Increase		*25.0%*	*10.6%*
Rev / raw material	*235.73x*	*537.36x*	*759.62x*

We observe that even the 2007 raw material balance seems quite low for a company that generated $42.1 million dollars through a slow moving, asset and labor-intensive production process making custom built products. Common sense dictates that a factory such as this could not run a just in time system. The 2007 number becomes even more implausible by 2009. In contrast, Long King and Fei Da generated 2008 and 2009 sales no more than 21x raw materials (versus RINO's 2009 figure of 760x).

	FYE 12/31/08	**FYE 12/31/09**
Long King (USD)		
Total revenue*	425,788,149	446,592,904
YOY Increase		*4.9%*
Raw material	20,438,957	33,268,451
YOY Increase		*62.8%*
Rev / raw material	*20.83x*	*13.42x*
Fei Da (USD)		
Total revenue	248,066,517	224,630,085
YOY Increase		*-9.4%*
Raw material	20,438,957	15,457,753
YOY Increase		*-24.4%*
Rev / raw material	*12.14x*	*14.53x*

* Excludes revenue from property sales, leasing, and managmeent.

Given the Flow of Funds from Shareholders to VIE, We Suspect that a Portion of the Paper Assets are Covering Up Misappropriation.

Below is the asset portion of RINO's balance sheet over the prior three quarters. Note how cash (much of which RINO raised in a $100 million offering on December 7, 2009) has declined by $46.5 million in six months. During this time, certain paper assets have ballooned – notably costs and estimated earnings in excess of billings on uncompleted contracts (+$35.6 million), advances for inventory (+$30.3 million), and accounts receivable (+$10.6 million).

	12/31/09	3/31/10	6/30/10
Cash and equivalents	134,487,611	97,659,037	88,036,608
Restricted cash	-	3,806,131	3,388,392
Notes receivable	440,100	539,929	469,960
Due from shareholders	3,005,386	3,074,748	-
Accounts receivable	57,811,171	52,257,896	68,389,279
Excess costs and earnings	3,258,806	24,417,688	38,902,971
Raw material	246,798	237,609	247,401
Work in process	5,101,685	1,922,420	4,096,186
Low consumption supplies	57,383	57,383	57,641
Inventories	5,405,866	2,217,412	4,401,228
Advances for inventory	34,056,231	84,358,237	64,425,996
Other current and prepaid	629,506	1,457,815	879,076
Total current	239,094,677	269,788,893	268,893,510
Net PP&E	12,265,389	12,881,407	13,020,836
Investment in unconsol affiliate		440,100	441,900
Advances	6,570,378	14,257,458	9,492,531
Net intangible assets	1,144,796	1,131,759	9,026,114
Total other	7,715,174	15,829,317	18,960,545
Total assets	**259,075,240**	**298,499,617**	**300,874,891**

The least believable account balance above is advances for inventory. The advances for inventory are far too many times the raw material balance to be taken seriously.

RINO	12/31/09	3/31/10	6/30/10
Advances for inventory	34,056,231	84,358,237	64,425,996
Raw material	246,798	237,609	247,401
Days advanced @ 1 day processing time	138	355	260
Days advanced @ 2 days processing time	276	710	521

If RINO keeps only one day of raw materials on hand (highly unlikely given the customized nature of its production), it would have effectively prepaid 138 to 355 days worth of raw materials during the periods shown above. If RINO keeps two days on hand, the number of days it prepays range from 276 to 710. RINO claims to purchase 93% of its raw materials from only two suppliers.[24] With such onerous payment terms, we suggest it look for other steel suppliers. There seem to be more than a few in China.

[24] RINO International Corp. December 31, 2009 Form 10-K (filed March 31, 2010), p. 11.

RINO's Gross Margins are Improbable Relative to the Rest of the Industry – Particularly Because RINO is a Minor Player, has a damaged reputation, and Uses an Inferior Technology. RINO's Characterizations of its Position Within the Industry are Misleading.

Based on RINO's obscure position in the highly competitive steel sinter FGD production industry, its tarnished reputation, and sub-par FGD technology, it is a virtual certainty that RINO has been significantly overstating its margins. RINO's portrayal of the industry, and its position within it, are far from the reality we discovered.

In conducting our industry research, we spoke with four producers of FGD systems for the steel industry,[25] reviewed a 2009 report on the desulphurization industry in China,[26] spoke with an academic who works for the China Iron and Steel Association and is familiar with the steel industry FGD market, reviewed a third party-provided report by a Bao Steel engineer on RINO's CFB FGD system, reviewed seven articles on the market for steel sinter FGD systems in China, and spoke with nine steel mills that RINO states are customers.

RINO's gross margins are far in excess of those of the industry leader.

RINO historically claims 35% to 40% gross margins on its FGD systems. This is out of line with the industry. Most producers generate 10% to 15% gross margins – Long King, which is one of the market leaders, recently reached 20% in the first half of 2010. The table below shows the gross margin calculation for the FGD divisions of Fei Da and market leader Long King.

	FYE 12/31/2008	FYE 12/31/2009	6/30/10
Long King FGD			
Revenue (USD)	200,398,556	172,169,721	48,209,591
COGS (USD)	169,734,932	144,514,898	38,512,457
Gross Profit	30,663,624	27,654,823	9,697,134
Margin	15.30%	16.06%	20.11%
	FYE 12/31/2008	**FYE 12/31/2009**	**6/30/10**
Fei Da FGD			
Revenue (USD)	19,794,479	21,253,137	10,043,909
COGS (USD)	17,582,620	18,604,929	8,885,012
Gross Profit	2,211,859	2,648,208	1,158,897
Margin	11.17%	12.46%	11.54%

In one meeting with three FGD executives from an FGD producer, we mentioned that RINO generates 35% gross margins. The result was comical. Each face registered palpable surprise (not quite shock), which then became expressions of confusion as they turned to each other while asking "35?" After a couple of seconds, the confusion subsided and was replaced with slight nods and barely perceptible grins.

[25] Fujian Long King Co. Ltd. (600388:CH), Beijing Guodian Longyuan Environmental Engineering Co., Zhejiang Fei Da Environmental Science and Technology Co. Ltd (600526:CH), and Wuhan Kai Di Electric Power Co. Fei Da is a smaller player, and has acted as a subcontractor for steel sinter FGD systems.
[26] Research in China (www.researchinchina.com), China Desulphurization Industry Report, 2008-2009 (July 2009).

RINO is an obscure company in its industry

RINO is an obscure player in the steel sinter FGD system industry. The FGD producers (i.e., RINO's competition) with which we spoke were either unfamiliar with RINO, or stated that it is a small company. At one meeting with an FGD producer, only one of the three division executives had previously heard of RINO.

In contrast, the producers gave the same two names when asked to discuss the market leaders: Long King, and China City Environment Protection Engineering Limited Company. Long King generated about $172 million in desulphurization system revenue in 2009[27] (most of which was in the power generation industry). Each producer mentioned other apparently formidable players in the industry; however, there was no consensus among the producers on these names. However, RINO was not among any names they gave. Were RINO to have really generated the $116.4 million in steel sinter FGD sales it claims for 2009, it is improbable that it would have such a low profile among its competitors. (It likely would have been far and away the highest profile and most successful company in the industry.)

A senior executive for Bao Steel (which RINO claims is a FGD customer) who oversaw installation of three FGD systems at Bao is quite familiar with Long King. Long King worked on one of the systems he oversaw. The executive had never heard RINO's name before.

There are dozens of Chinese companies (possibly over 50) vying to produce FGD systems for steel sinters. Most of these companies have pedigrees from the coal fired power generation industry, which started adopting FGD systems on a large scale in 1999. Many competitors have licensed their FGD technologies from Japanese and European companies. Other competitors have licensed their technologies from Chinese universities. In other words, RINO's license from the Chinese Academy of Science is not unique or particularly advantageous.

RINO: obscuring obscurity

Investors can be forgiven for not understanding that RINO is an obscure company in the steel sinter FGD industry. RINO has not been forthcoming about being in the middle of a crowded field. One example of RINO's lack of forthrightness is a March 31, 2010 statement that it believes it is the only company producing FGD systems for steel sinters, and that it has a two to three-year lead over potential competitors.[28] Eight months earlier (August 9, 2009), Long King announced that it completed one of the largest steel sinter FGD projects ever in the world. (It is for a 400 square meter sinter owned by a subsidiary of Bao Steel).[29] Further, approximately 35 steel sinter FGD systems had been installed by the end of 2009[30] with RINO having been involved in few of them.

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[27] http://www.longking.com.cn/Investor.asp?MID=51&NID=424, p. 19
[28] RINO International Corp. December 31, 2009 Form 10-K (filed March, 31, 2010), p. 13.
[29] http://www.longking.com.cn/News.asp?MID=8&NID=278
[30] http://www.miit.gov.cn/n11293472/n11293832/n11293907/n11368223/12484645.html

While RINO's obscurity may have escaped RINO, there seems to be growing awareness of this issue within the mainstream investment community. Two recently released equity research reports highlight greater than anticipated competition as reasons for downgrades.[31]

To the extent RINO has a reputation among steel mills, it is poor

We received negative feedback on RINO's work from one confirmed client and one fabricated client. Panzhihua Steel confirmed that RINO built the smallest of its FGD systems (for a 180 square meter sinter). The Panzhihua employee stated, "We are not satisfied with [RINO's] technology because the desulphurization rate is lower than what we want." He further stated that Panzhihua is unlikely to engage RINO in the future for FGD projects.

An employee from fabricated client Lai Steel Group stated "I've heard that the sinter built by RINO in Jinan has stopped running. Their technology has no advantage beside not producing wastewater." We confirmed that RINO built one FGD system for Jinan Iron & Steel Group in 2005. Jinan Iron & Steel Group refused to comment on RINO's work.

RINO's technology is inferior to competing semi-dry technologies in the China market

We reviewed a report provided by the International Financial Research & Analysis Group[32] on an interview with a Bao Steel engineer who is familiar with RINO's circulating fluidized bed ("CFB") technology. Based on our own work, we believe that the following report is accurate:

> Introduction
>
> The FGD industry expert (from here on referred to as "the expert") is an engineer at Baosteel Group's in-house research institute. We have kept the identity of the engineer anonymous per his request. With over 20 years of experience in the Chinese steel industry and close to 10 years of experience dealing with desulphurization related research and projects, he is an expert. He personally participated in the development of Baosteel's proprietary Jet Cyclone Tower desulphurization technology, which has been successfully utilized in three of Baosteel group's completed FGD projects and stably operating for almost three years. He was also actively involved in the planning, design and implementation of the three FGD projects. The same technology is currently being implemented in two more FGD systems currently under construction at Baosteel.
>
> With intimate knowledge of the CFB method developed by the Chinese Academy of Science (CAS), the expert claims he is quite familiar with RINO's CFB desulphurization method. We showed him a description of RINO's technology and flow-chart in the 10K

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[31] Deng, Michael and Chen, Honghua, *RINO International Corp.: Increasing Competition May Undermine Profitability*, Cannacord Genuity (October 29, 2010)
Shapiro, Dmitriy, *RINO International Corporation*, Global Hunter Securities, LLC (November 2, 2010).
[32] www.ifragroup.com.

and were told this was the exact same technology from CAS. He then showed us a detailed document about the CFB method received directly from CAS and claimed that this was a more updated version of RINO's CFB.

Specific issues with RINO's CFB technology

The expert assured us Baosteel has NEVER used RINO's CFB method in any of its FGD projects and is very unlikely to use it in the future due to the following problems in their technology:

1. Low sulfur reduction rate – RINO's CFB method has a low sulfur reduction rate compared to the wet method, although the rate is already high among all other semi-dry methods. With relatively high Calcium to Sulfur ratio of 1.4/1, the sulfur reduction rate can reach approximately 81%, greatly increasing the operating cost of the FGD. It is also unclear how such technology performs on flue gas with very high sulfur content.
2. High operating cost
    a. The required time for the CFB technology's circulation process is long compared to the wet method. This is because it takes longer for the chemical reaction to take place under a semi-dry environment. The result of a longer circulation process is the limited units (cubic meters) of flue gas desulfurized in a given time (an hour), in other words, the CFB method does not work well on a large size sinter with high flue gas output, such as Sinter #3 at Baosteel.
    b. In addition to the high calcium to sulfur ratio mentioned above, the desulphurization chemical agent used in the CFB method is CaO (a much more expensive chemical agent when compared to the limestone used in Baosteel's Jet Cyclone Tower method) plus the utilization rate of CaO under this method is quite low. Both factors lead to a higher operating cost of the system.
    c. The byproducts of the FGD system using RINO's CFB method include $CaSO_3$, $CaSO_4$, CaO and coal ash in dust form and are all of little to no economic value. In contrast, Baosteel's own desulphurization method produces gypsum as a byproduct, which can be sold to reduce overall operating cost.
3. Upfront investment required is not necessarily low as claimed.
    a. Since the end byproducts are in dust form and hard to handle, separate dust reducing equipment is required as part of the overall system, increasing the total construction cost.
    b. The overall footprint of the FGD system is not necessarily small.
4. Lack of a stable operational history – the expert stated that the Jet Cyclone Tower method based FGD had a three year history of stable operation. He has yet to hear of any RINO technology based FGD system operating stably for that amount of time. One notable failure is the RINO installed FGD system at Jinan Iron and Steel Company (Jinan Steel) which was using CFB technology. The lack of a stable operational history creates uncertainty with regard to RINO's FGD system.

An engineer from a competitor who is familiar in a general sense with the Chinese Academy of Science CFB system stated that the system is problematic because it creates too much pressure. He was not familiar with RINO.

While immaterial compared to their other sins, RINO management's "borrowing" $3.5 million to purchase a luxury home in Orange County gives insight to their character, as well as a window into the dynamics between management, RINO's independent directors, and the Company's auditor.

Mr. Zou and Ms. Qiu borrowed "approximately $3.5 million" on December 7, 2009.[33] This is the same day that RINO closed its $100.0 million financing.[34] Two days later the couple bought a luxury home in Orange County, CA assessed at $3.2 million.[35] (The couple currently has it on the market for $4.0 million: http://www.redfin.com/CA/Coto-De-Caza/31232-Via-Colinas-92679/home/5054824) RINO disclosed the "loan" for the first time in its 2009 Form 10-K, filed on March 31, 2010. The home purchase is less well known.

Some have publicly stated that the couple took the loan out of naïveté about the complicated restrictions of being a public company. We doubt that. Based on the timeline of events and haphazard means of accounting for this loan, we wonder whether the couple volunteered that they had taken this money; or, whether the auditor uncovered it just before the filing deadline.

If the latter, it begs questions of whether involved parties met their fiduciary duties. Further to that, the manner in which the home was used to secure the loan presents questions. Finally, RINO claimed that the couple repaid the loan by May 10, 2010; however, the home title was not re-granted to the couple by RINO until sometime between May 28, 2010 and August 18, 2010.

We doubt that the couple was unaware it was improper to borrow / take money from RINO. PRC Company Law article 149 clearly prohibits this action.[36] Might they have been unaware of this prohibition? We find that unlikely – stories of minority shareholders getting screwed by management borrowing / taking money from their companies abound in China's newspapers and business circles. We are comfortable that they understood their duty not to take money from the company. They just didn't care.

The couple transferred ownership of the home to RINO International Corp. as security for the loan on March 22nd, 2010.[37] This was just before the filing deadline, and makes us think that because they could have transferred it in the three and one-half months prior, it

[33] RINO International Corp. December 31, 2009 Form 10-K (filed March 31, 2010) p. 19.
[34] RINO International Corp. December 31, 2009 Form 10-K (filed March 31, 2010) p. 29.
[35] http://cr.ocgov.com/grantorgrantee/searchBusinessName.asp (enter "Rino" into the search box)
[36] http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=50878
[37] The effective transfer deed is dated March 23rd, 2010. The March 22nd deed erroneously states that RINO International Corp. is a California corporation (it is a Nevada corporation). The March 23rd deed seems to be an effort to correct the error.

was part of a rushed process. We therefore infer that the loan was first disclosed / discovered just prior to the home transfer.

The inconsistent manner in which the loan is discussed and accounted for in the Form 10-K adds to our belief that the disclosure / discovery was shortly before the filing deadline.

The notes to the 10-K state that Zou and Qiu borrowed "approximately" $3.5 million, and had repaid $300,000 by the time of filing. However, the balance sheet netted the $3.5 million against $494,614 RINO owed to the couple as of December 31, 2009[38], showing a "due from shareholders" balance of $3,005,386. On the other hand, the cash flow statement shows that during 2009, RINO made a "payment to shareholder" of $5,093,486, while showing "proceeds from shareholder" of $1,532,372, which produces a net amount of $3,561,114. These inconsistencies indicate that there was a rushed effort to account for the funds.

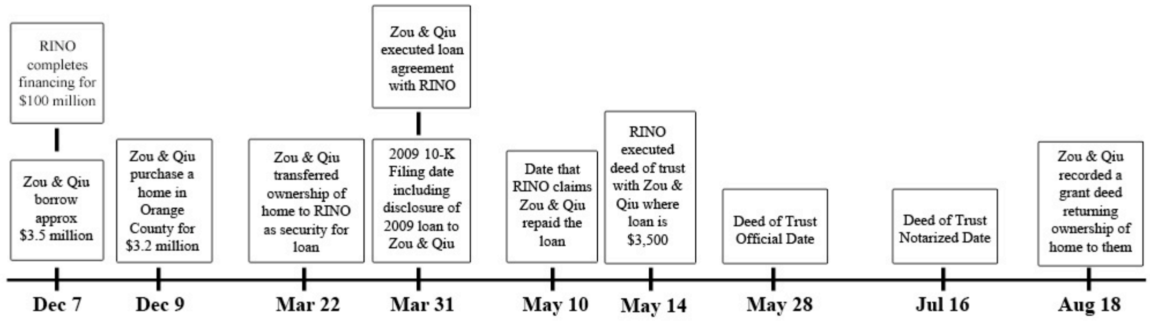
If the disclosure / discovery came over three months after the money had been taken, a key question is whether the independent directors believed that taking the money was a mistake made in good faith. We may never know the answer, but the manner in which the couple secured the loan is unusual. Rather than RINO merely recording a lien on the home, the couple actually transferred it by grant deed (without consideration) to RINO. We wonder whether the transfer was viewed as a way to mitigate the risk that the couple would sell the home before repaying the loan.

Another peculiarity in the series of events is that RINO claimed the couple repaid the loan on May 10, 2010; however, RINO did not return full ownership of the home to them until later – and how much later is unclear. The couple executed a loan agreement with RINO on March 31, 2010 in which they agreed to repay the loan in full on or by May 10, 2010. RINO agreed to return the home within three business days of receiving repayment. RINO's 10-Q states that the couple did in fact repay the loan by this date. However, on May 14, 2010, RINO executed a deed of trust with the couple, which means they mortgaged the home (with RINO as the lender). Oddly, the deed of trust states that the loan amount is $3,500 (three thousand five hundred dollars). If they had repaid the loan at that point, why did RINO refrain from outright granting the home back to them?

On August 18, 2010, the couple recorded a grant deed that returned unencumbered ownership of the home to them. The conveyance to them was notarized on July 16, 2010, but the date on the deed is May 28, 2010. These differing dates again make us wonder whether the loan was actually repaid when RINO claims it was.

As we wrote, the amount of money involved in the home transaction is relatively immaterial, but we wonder whether shareholders were denied an earlier opportunity to gain a better understanding of the people running RINO.

[38] RINO International Corp. December 31, 2009 Form 10-K (filed March 31, 2010), p. 35.


RINO completes financing for $100 million
Zou & Qiu borrow approx $3.5 million
Zou & Qiu purchase a home in Orange County for $3.2 million
Zou & Qiu transferred ownership of home to RINO as security for loan
Zou & Qiu executed loan agreement with RINO
2009 10-K Filing date including disclosure of 2009 loan to Zou & Qiu
Date that RINO claims Zou & Qiu repaid the loan
RINO executed deed of trust with Zou & Qiu where loan is $3,500
Deed of Trust Official Date
Deed of Trust Notarized Date
Zou & Qiu recorded a grant deed returning ownership of home to them
Dec 7
Dec 9
Mar 22
Mar 31
May 10
May 14
May 28
Jul 16
Aug 18

Diversified Customers with Cross-Selling Opportunities

RINO

- RINO has successfully sold its suite of environmental products to top customers in the iron & steel industry and continues to diversify its customer base
  - As of September 2009, top 5 customers account for [36%] of its total revenues, dramatically down from 88% in 2007

Selective Top Customers for Each Year

Customers	Equipment Installed	% of Sales		
		2007	2008	9M09
Panzhihua Iron & Steel Group	FGD, Wastewater and Anti-oxidation	24.0%	3.9%	0.8%
Jinan Iron & Steel Group	FGD, Wastewater and Anti-oxidation	19.0%	0.0%	NA
Handan Iron & Steel Group	FGD, Wastewater and Anti-oxidation	15.0%	12.7%	1.6%
Benxi Iron & Steel Group	FGD, Wastewater and Anti-oxidation	10.0%	NA	NA
BaoGang Group	FGD and Anti-oxidation	NA	5.8%	1.1%
Lai Steel Group	FGD and Anti-oxidation	8.9%	4.0%	1.0%
Yueyufeng Steel Group	FGD	NA	NA	9.1%
Tangshan Bei Steel Group	FGD and Wastewater	NA	NA	6.2%


工程
实例
珠海粤裕丰钢铁有限公司烧结烟气78万风量脱硫治理工程

招商拟建详情

烧结烟气脱硫项目

- 发布日期：2009年4月27日
- 地区：广东
- 投资总额：2650万元
- 进展阶段：备案
- 详细内容： 项目名称：烧结烟气脱硫项目
- 进展阶段：备案
- 新建介绍：
- 该项目建设位于地点：珠海高栏港经济区粤裕丰钢铁有限公司烧结厂内，项目股东： 珠海粤裕丰钢铁有限公司，项目性质 新建，项目建筑物：水泵房、电控室、压滤机房、堆料间 。占地面 830.0 平方米，建设规模(或建筑面积)：217.00 平方米，主要生产能力：1万吨/年石膏，总投资2650万元，土建投资284.0 万元，设备投资1761.0 万元；其中进口设备用汇：0.0万元(美金) ，计划开工时间2009-03，计划竣工时间2009-12 。
- 建设单位：珠海粤裕丰钢铁有限公司
- 地 址：珠海高栏港经济区粤裕丰钢铁有限公司内
- 邮 编：519050
- 项目联系人：李明蛟
- 电 话：0756-7715678
- 传 真：0756-7715989
- 本条信息来自 - 中国建设招标网 www.zhaobiao.gov.cn 建设行业专业招投标网站 【 打印 】 【 收藏此文 】 【 我要纠错 】
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- 招商拟建详情 年产1万吨石膏项目
- 发布日期：2009年4月1日
- 地区：广东
- 投资总额：2650万元
- 进展阶段：备案
- 详细内容： 项目名称：年产1万吨石膏项目
- 进展阶段：备案
- 新建介绍：

- 该项目建设地点：珠海高栏港经济区粤裕丰钢铁有限公司烧结厂内，
  项目股东：珠海粤裕丰钢铁有限公司，项目性质 新建，
  项目建筑物：水泵房、电控室、压滤机房、堆料间，占地面
  830.0
  平方米，建设规模(或建筑面积)：217平方米，主要生产能力：1
  万吨/年石膏，总投资2650万元，土建投资 284.0
  万元，设备投资1761.0
  万元；其中进口设备用汇：0.0万元(美金)，
  计划开工时间2009-03，计划竣工时间2009-12。
- 建设单位：珠海粤裕丰钢铁有限公司
- 地 址：珠海高栏港经济区粤裕丰钢铁有限公司内
- 邮 编：519050
- 项目联系人：李明蛟
- 电 话：0756-7715678
- 传 真：0756-7715989
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- 如有任何问题或建议，请与我联系！
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- 顺祝
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