Sino Clean Energy Inc
Form 424B4
December 22, 2010

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-167560

SINO CLEAN ENERGY, INC.

5,465,000 Shares of Common Stock

We are offering 5,465,000 shares of our common stock. As of June 14, 2010, our common stock was listed on the NASDAQ Global Market and commenced trading under the symbol "SCEI." Previously, our common stock was quoted on the Over the Counter Bulletin Board under the symbol "SCLX."

The last reported market price of our shares of common stock on December 21, 2010 was $5.67.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 11 for certain factors relating to an investment in our securities. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$ 5.2500	$ 28,691,250.00
Underwriting discounts and commissions(1)	$ 0.3675	$ 2,008,387.50
Proceeds to us, before expenses	$ 4.8825	$ 26,682,862.50

(1) See "Underwriting" for a description of compensation payable to the underwriters.

We have granted a 45 day option to Rodman & Renshaw, LLC and Axiom Capital Management, Inc., the underwriters, to purchase up to an additional 819,750 shares of common stock from us on the same terms as set forth above. If the underwriters exercise their right to purchase all of such additional shares of common stock, such shares will be purchased at the public offering price less the underwriting discount. The shares issuable upon exercise of the underwriter option are identical to those offered by this prospectus and have been registered under the registration statement of which this prospectus forms a part.

The underwriters expect to deliver the shares of common stock to purchasers in the offering against payment in New York, New York on or about December 28, 2010.

Rodman & Renshaw, LLC **Axiom Capital Management, Inc.**

The date of this prospectus is December 21, 2010

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You should rely only on the information contained in this prospectus. Neither we nor the underwriters have authorized anyone to provide you with information different from that contained in this prospectus. We and the underwriters are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where such offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.

We own, have rights to or have applied for the trademarks and trade names that we use in conjunction with our business, including our logo. All other trademarks and trade names appearing in this prospectus are the property of their respective holders.

In this prospectus we rely on and refer to information and statistics regarding our industry. We obtained this market data from independent industry reports or other publicly available information. Some data is also based on our good faith estimates, which are derived from our review of internal surveys and studies, as well as independent industry reports.

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PROSPECTUS SUMMARY

The following summary highlights information contained in this prospectus and should be read in conjunction with the more detailed information contained in this prospectus and the consolidated financial statements and related notes appearing elsewhere in this prospectus. Before you decide to invest in our common stock, you should read the entire prospectus carefully, including the "Risk Factors" section in this prospectus.

Unless otherwise specified or required by the context, references to "we," "our," "us" and the "Company" refer collectively to Sino Clean Energy Inc., a Nevada corporation, and its subsidiaries (i) Wiscon Holdings Limited, a Hong Kong company ("Wiscon"), (ii) Tongchuan Suoke Clean Energy Co., Ltd., a PRC limited liability company ("Suoke Clean Energy"), (iii) Shaanxi Suo'ang New Energy Enterprise Co., Ltd., a PRC limited liability company ("Suo'ang New Energy"), and (iv) Shenyang Suo'ang Energy Co., Ltd., a PRC limited liability company ("Shenyang Energy").

For convenience, certain amounts in Chinese Renminbi ("RMB") have been converted to United States dollars. Assets and liabilities are converted at the exchange rate as of the balance sheet date. Income and expenses are converted at the average exchange rate for the period.

Unless the context requires otherwise or we specifically indicate otherwise, the information in this prospectus assumes that the underwriters do not exercise their over-allotment option. Unless otherwise indicated, all share and per share numbers in the prospectus have been retroactively adjusted to reflect a 1-for-10 reverse stock split of our common stock, which was effective on May 7, 2010.

Our Company

We produce and distribute coal-water slurry fuel ("CWSF") in the People's Republic of China (the "PRC" or "China"), which is a fuel substitute for oil, natural gas and coal briquettes. CWSF is a clean fuel that consists of fine coal particles suspended in water, and mixed with chemical additives. Our CWSF products are mainly used to fuel boilers and furnaces to generate steam and heat for both residential/commercial heating and industrial applications.

We operate our business through five production lines and currently have in place CWSF production capacity of 850,000 metric tons. The first production line commenced operations in July 2007 in Tongchuan, Shaanxi Province, with 100,000 metric tons of capacity. The second production line commenced operations in February 2009 in Tongchuan with 250,000 metric tons of capacity. The third and fourth production lines commenced operations in October 2009 in Shenyang, Liaoning Province, with the combined capacity of 300,000 metric tons. The fifth production line commenced operations in January 2010 in Tongchuan with 200,000 metric tons of capacity. In 2009, we sold approximately 456,000 metric tons of CWSF.

Our Industry

China's economic growth over the past four decades has led to a rapid increase in energy consumption. According to Frost & Sullivan, China accounted for 17.7% of global energy consumption in 2008 and according to the International Energy Agency, has overtaken the United States as the world's largest energy consumer. As the country's demand for energy has increased, China has relied heavily on its substantial coal reserves, which represent 94% of China's proven fossil fuel reserves. According to Frost & Sullivan, coal is expected to be used in approximately 67% of total energy production in China in 2010.

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Coal infrastructure is firmly established in China and coal, as a source of energy, is very well positioned relative to other energy sources due to its abundance, broad geographic distribution, low cost, and stable price. As such, the Chinese government is strongly focused on improving coal's environmental shortcomings, as opposed to replacing coal as an energy source. China continues to commit resources to clean energy and, according to China's Report on Central and Local Budgets, has budgeted approximately US$12 billion in 2010 for energy conservation and pollution reduction. CWSF has been listed as a key scientific and technological project in each of China's Five-Year Plans since 1981 and in several other major sustainable development policy initiatives.

According to Frost & Sullivan, market demand of CWSF in China reached 15.9 million metric tons in 2008, with approximately 59% of the demand being met by in-house producers, 28% by imports and only 13% by third-party producers such as us. Third party CWSF producers do not include entities that produce CWSF in-house for their own consumption or parties that import CWSF for sale. According to Frost & Sullivan, CWSF is used in fuel-burning furnaces in 700 industrial furnaces and hundreds of industrial kilns as a replacement for oil, natural gas and coal briquettes. According to Zhongjing Zongheng Economy Research, there are approximately 600,000 traditional fossil fuel burning industrial boilers and kilns currently installed in China, with approximately 100,000 requiring replacement or major repairs each year. The conversion of conventional fossil fuel boilers to CWSF boilers is expected to drive demand for CWSF, with Frost & Sullivan estimating a compound annual growth rate of 24.7% from 2008 to 2014. Although there are approximately 40 to 50 active CWSF suppliers in China, most have third party sales volumes of less than 100,000 metric tons, according to Frost & Sullivan. Markets for CWSF are highly regionalized given the high cost of transportation, with most suppliers typically targeting customers that are within 200 kilometers of their production facilities. As such, suppliers typically compete on a very localized level and lack the capability to expand to a more regional or national scale. Our track record for high quality products and service, our ability to expand selectively into new regions, and our strategic partnerships have enabled us to become the largest third-party CWSF producer in China, as measured by CWSF sales volumes for the first half of 2010.

Company Strengths

We believe the following strengths provide our company with significant competitive advantages in our industry:

Exclusive focus on CWSF, which has significant advantages over coal briquettes and other traditional fossil fuels. CWSF has several advantages over coal briquettes and other traditional fossil fuels, including:

- it is more energy efficient;
- it creates significantly less pollution;
- it is a cheaper source of energy;
- it is cleaner to transport and store; and
- it is safer to handle.

The CWSF industry is growing rapidly due to strong government support. Overall CWSF demand is expected to grow at a CAGR of 24.7% from 2008 to 2014 due to central and local government support for low carbon technologies and the conversion of older coal briquette burning boilers that are being phased out by legislation and obsolescence.

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Dominant market position with a proven product and technology that is in full scale commercial production. We are the largest third-party CWSF producer in China, as measured by third party CWSF sales volume for the first half of 2010, and we currently have in-place production capacity of 850,000 metric tons. We aim to increase our production capacity to 1,850,000 metric tons through the expansion of production capacity at existing facilities and the development of new facilities throughout China. For the year ended December 31, 2009, we had revenue and income from operations of approximately US$46 million and US$14 million, respectively.

Agreements with Select Strategic Partners. We have entered into key agreements to supply CWSF in Shaanxi and Liaoning provinces:

Exclusive sales agency agreement with Qingdao Haizhong Enterprise Co., Ltd. ("Haizhong Boiler"), a CWSF boiler vender with an estimated 78% share of the CWSF boiler market (according to Beijing Zhongjing Zhongheng Information and Consulting Center, Haizhong Boiler's market share was determined on December 30, 2009 and was valid until October 31, 2010), to distribute CWSF boilers in Xian and Tongchuan, Shaanxi Province, and an exclusive nationwide strategic partnership agreement with Haizhong Boiler to supply CWSF in the markets where it sells CWSF boilers and operates heat supply plants;

Exclusive agreement with Shenyang Haizhong Heat Resource Co., Ltd. to supply CWSF for residential and commercial heating in Shenyang, Liaoning Province; and

Agreement with Tongchuan City Investment and Development Co., Ltd. to develop and supply CWSF to 15 heat supply plants in Tongchuan, Shaanxi Province.

Established relationships with customers and suppliers which provide visibility on long term cash flows. As of September 30, 2010, our customer base was comprised of 43 residential heating and industrial users, most of which are subject to long term framework agreements. Since commencing commercial operations in 2007, we have achieved a 100% customer retention rate.

Experienced management team with a proven track record. We have a well seasoned and experienced senior management team with significant CWSF industry expertise that we believe will enable us to execute on our expansion strategy. Our management team has demonstrated the ability to rapidly increase production capacity.

Growth Strategy

Our objective is to become the leading CWSF provider in China. Key elements of our growth strategy include:

Pursue organic growth in existing markets. In 2009, we sold approximately 456,000 metric tons of CWSF, representing substantially all of our production in that year. We currently have annual production capacity of 850,000 metric tons of CWSF. We believe that there is significant organic growth potential within our current operations as we continue to bring new production capacity on-line in both of our existing markets.

Leverage our strategic partnership with Haizhong Boiler. We have established a nationwide strategic partnership agreement with Haizhong Boiler, which is the largest CWSF boiler vendor in China with an estimated 78% share of the CWSF boiler market. According to

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Beijing Zhongjing Zhongheng Information and Consulting Center, Haizhong Boiler's market share was determined on December 30, 2009 and was valid until October 31, 2010. We believe this strategic partnership will give us the ability to market our CWSF products to prospective customers more effectively in new and existing markets.

Capitalize on strong government support for CWSF. As China has low-cost, abundant and geographically distributed coal reserves and a mature coal-to-energy conversion infrastructure, it is expected that coal will continue to be one of the most important sources of energy for China in the foreseeable future. The Chinese government has listed CWSF as a key scientific and technological project in each of the Five-Year Plans since 1981. Many provincial and municipal governments across China have adopted plans, policies and incentives with specific and quantifiable targets to mandate or promote the usage of CWSF.

Grow through expansion and acquisitions in other regional markets. We plan to increase our CWSF production capacity through the construction of new facilities and the acquisition of existing CWSF production facilities in new geographic regions. We expect that such external growth initiatives will increase our aggregate annual CWSF production capacity to 1,850,000 metric tons. Our geographic expansion plans will initially focus on Guangxi Province and Guangdong Province.

Risk Factors

Our business is subject to numerous risks which are highlighted in the section entitled "Risk Factors" immediately following this prospectus summary. Principal risks of our business include:

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

The commercial success of CWSF depends on the degree of its market acceptance among industrial and residential customers, and if CWSF does not attain wide market acceptance, our operations and profitability could be adversely affected.

Competitors may develop and market products that are less expensive, more effective or safer, making CWSF obsolete or uncompetitive.

Existing regulations and changes to such regulations may present technical, regulatory and economic barriers to the purchase and use of CWSF, which may significantly affect the demand for our products.

The downturn in the global economy, or adverse changes in political and economic policies of the PRC government, could slow overall domestic economic growth of China, which could materially and adversely affect our business.

The failure to comply with PRC regulations relating to mergers and acquisitions of domestic enterprises by offshore special purpose vehicles may subject us to severe fines or penalties, and create other regulatory uncertainties regarding our corporate structure.

The market price for our stock may be volatile and our common stock is thinly traded, therefore you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

If we require additional financing to execute our business plan, we may not be able to find such financing on satisfactory terms or at all, and financing involving the sale of additional

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common stock or other equity securities could result in additional dilution to our stockholders.

If we fail to develop and maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

Corporate History and Structure

Our current corporate structure is the result of a number of complex corporate restructurings through which we acquired control of our CWSF business in the PRC. We entered into this series of corporate restructurings in part because certain rules and regulations in the PRC restrict the ability of non-PRC companies that are controlled by PRC residents to acquire PRC companies.

On October 20, 2006, we acquired control of Hangson Limited, a British Virgin Islands company ("Hangson") pursuant to a Share Exchange Agreement, dated October 18, 2006 (the "Exchange Agreement"). Hangson was a holding company that controlled Shaanxi Suo'ang Biological Science & Technology Co., Ltd., a PRC company ("Suo'ang BST") and Suo'ang BST's 80%-owned subsidiary at the time, Suo'ang New Energy, through a series of contractual arrangements. Sou'ang BST, through Suo'ang New Energy, commenced CWSF production in July 2007.

As part of a process to ultimately directly control 100% ownership of Suo'ang New Energy, we began to reorganize our corporate structure in June 2009. In June 2009, we acquired 100% of Wiscon, which established Suoke Clean Energy, the Company's wholly foreign owned enterprise, in Tongchuan, Shaanxi Province. We subsequently entered into a series of agreements transferring all of the rights and obligations of Hangson under the contractual arrangements with Suo'ang BST to Suoke Clean Energy.

On November 12, 2009, Suo'ang New Energy received a new business license from the Tongchuan Administration for Industry and Commerce, which reflected that the acquisition of 100% of the equity of Suo'ang New Energy by Suoke Clean Energy had been completed. As a result, our CWSF business is now conducted primarily through Suo'ang New Energy, which is a 100% wholly owned subsidiary of Suoke Clean Energy, under applicable PRC laws and we are now able to directly control Suo'ang New Energy through our 100% ownership of Suoke Clean Energy. On May 14, 2010, Suoke Clean Energy's acquisition of Suo'ang New Energy was recorded with the Tongchuan Bureau of Commerce.

On October 12, 2009, Suo'ang New Energy established a wholly-owned subsidiary, Shenyang Energy, to conduct business in Shenyang, Liaoning Province.

On December 31, 2009, Suoke Clean Energy terminated all of its contractual arrangements with Suo'ang BST. In connection with this termination, certain assets held by Suo'ang BST, such as office equipment, vehicles, bank deposits and accounts receivable, were transferred to Suoke Clean Energy. Employees of Suo'ang BST signed new employment contracts with Suoke Clean Energy and rights and obligations under certain remaining business operation agreements, and research and development contracts between Suo'ang BST and third parties, were assigned to Suo'ang New Energy. Hangson transferred all of its equity interests in Wiscon to us.

Although the equity transfers in the PRC described above were approved by local governmental agencies, they were not approved by the PRC Ministry of Commerce ("MOFCOM") or the China Securities and Regulatory Commission (the "CSRC"). For a discussion of the risks and uncertainties arising from these PRC rules and regulations, see "Risk Factors The failure to comply with PRC regulations relating to mergers and acquisitions of domestic enterprises by offshore special purpose vehicles may subject us to severe fines or penalties, and create other regulatory uncertainties regarding our corporate structure." For a more detailed description of our corporate history and structure, see "Management's Discussion and Analysis of Financial Condition and Results of Operation Corporate Organization and History."

The following chart shows our current corporate structure:

Corporate Information

Our executive offices are located at Room 1502, Building D, Wangzuo International City Building No. 3 Tangyuan Road, Gaoxin District Xi'an, Shaanxi Province, P.R.C. and our telephone number is: (011) 86-29-8844-7960. Our corporate website is *www.sinocei.com*. Information contained on or accessed through our website is not intended to constitute and shall not be deemed to constitute part of this prospectus.

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The Offering

Common stock we are offering	5,465,000 shares
Over-allotment option	819,750 shares
Common stock to be outstanding after this offering	22,257,239 shares (or 23,076,989 if the over-allotment is exercised in full)
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately $25,575,000 based on the offering price of $5.25 per share and after deducting the underwriting discounts and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to expand our CWSF production capacity at new and existing facilities. We intend to use any remaining net proceeds for working capital and general corporate purposes. See "Use of Proceeds" on page 33.
NASDAQ Global Market symbol	"SCEI"
Risk factors	Investing in our common stock involves a high degree of risk. Please see the section entitled "Risk Factors" starting on page 10 of this prospectus to read about risks that you should consider carefully before buying shares of our common stock.

Unless otherwise indicated, the number of shares of our common stock to be outstanding after this offering is based on 16,792,239 shares of our common stock outstanding as of September 30, 2010 and excludes:

3,633,535 shares of our common stock issuable upon exercise of warrants with a weighted average exercise price of $2.56 per share; and

65,000 shares of our common stock issuable upon exercise of options with a weighted average exercise price of $7.25 per share.

Unless otherwise indicated, the share information in this prospectus is as of September 30, 2010 and reflects or assumes:

our 1-for-10 reverse stock split that we effected on May 7, 2010; and

the underwriters do not exercise their over-allotment option to purchase up to an additional 819,750 shares of our common stock from us.

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Summary Consolidated Financial Information

The following tables present our summary consolidated financial information for the periods indicated and should be read in conjunction with the information contained in "Selected Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing elsewhere in this prospectus. Historical operating information may not be indicative of our future performance. The consolidated financial statements are reported in United States dollar amounts and have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). The consolidated financial statements for the years ending December 31, 2009 and 2008 have been audited by Weinberg & Company, P.A., an independent registered public accounting firm.

	Nine Months Ended September 30,		Year Ended December 31,	
	2010 (unaudited)	2009 (unaudited)	2009	2008
Income Statement Data:				
Revenue	$ 73,571,899	$ 26,982,573	$ 46,012,353	$ 14,253,989
Cost of goods sold	(44,448,913)	(17,695,505)	(28,922,846)	(9,266,832)
Gross profit	29,122,986	9,287,068	17,089,507	4,987,157
Selling expenses	3,203,245	422,405	1,125,884	13,128
General and administrative expenses	1,925,072	1,452,975	1,796,032	554,766
Income from operations	23,994,669	7,411,688	14,167,591	4,419,263
Other income (expense), net	15,658,614	(35,163,733)	(46,749,191)	(962,560)
Income (loss) before income taxes and non-controlling interest	39,653,283	(27,752,045)	(32,581,600)	3,456,703
Provision for income taxes	4,640,556	1,055,718	2,243,088	105,249
Net income (loss)	35,012,727	(28,807,763)	(34,824,688)	3,351,454
Net income allocable to non-controlling interest				(351,849)
Net income (loss) allocable to Sino Clean Energy Inc.	$ 35,012,727	$ (28,807,763)	$ (34,824,688)	$ 2,999,605
Basic earnings (loss) per share	$ 2.28	$ (3.00)	$ (3.56)	$ 0.34
Diluted earnings (loss) per share	$ 1.88	$ (3.00)	$ (3.56)	$ 0.34
Basic weighted average shares outstanding	15,385,062	9,609,130	9,792,922	8,716,962
Diluted weighted average shares outstanding	18,668,856	9,609,130	9,792,922	8,816,208

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Reconciliation of Net Income (Loss) to Unaudited Non-GAAP Adjusted Earnings

The following table includes a reconciliation of our Net Income (Loss) to unaudited non-GAAP Adjusted Earnings for the nine months ended September 30, 2010 and 2009 and for the years ended December 31, 2009 and 2008:

	For Nine Months Ended September 30,		For Years Ended December 31,	
	2010 (unaudited)	2009 (unaudited)	2009	2008
Net income (loss)	$ 35,012,727	$ (28,807,763)	$ (34,824,688)	$ 2,999,605
Amortization of discount on convertible notes	8,601,975	3,873,979	3,942,185	
Value of shares issued for bonus interest	1,864,701			
Expenses related to escrow shares		1,294,881	11,125,071	676,466
Gain on extinguishment of derivative liabilities	(28,404,181)	(3,370,593)	(7,046,556)	
Change in fair value of derivative liabilities	2,348,479	8,236,238	12,770,113	
Cost of private placement		24,794,842	24,977,114	
Non-GAAP Adjusted earnings (unaudited)	$ 19,423,701	$ 6,021,584	$ 10,943,239	$ 3,676,071
Non-GAAP Adjusted earnings per share basic (unaudited)	$ 1.02	$ 0.30	$ 0.57	$ 0.36
Non-GAAP Adjusted earnings per share diluted (unaudited)	$ 1.02	$ 0.30	$ 0.57	$ 0.36
Reconciliation of GAAP basic shares outstanding to Non-GAAP basic shares outstanding				
GAAP Basic Shares outstanding	15,385,062	9,609,130	9,792,922	8,716,962
Assumed conversion of convertible debentures		6,101,053	5,377,368	890,433
Assumed exercise of warrants	3,633,534	4,116,614	4,116,614	639,013
Non-GAAP Basic Shares outstanding	19,018,596	19,826,797	19,286,904	10,246,408
Reconciliation of GAAP diluted shares outstanding to Non-GAAP diluted shares outstanding				
GAAP Diluted shares outstanding	18,668,856	9,609,130	9,792,922	8,816,208
Assumed conversion of convertible debentures		6,101,053	5,377,368	890,433
Assumed exercise of warrants	349,740	4,116,614	4,116,614	539,767
Non-GAAP Diluted shares outstanding	19,018,596	19,826,797	19,286,904	10,246,408

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Non-GAAP Financial Measure

Non-GAAP adjusted earnings and non-GAAP adjusted earnings per share are not measures of financial performance under U.S. GAAP, and should not be considered in isolation or as an alternative to net income (loss) and earnings per share. We define non-GAAP adjusted earnings as net income (loss) excluding charges for the change in derivatives, gains on the extinguishment of derivatives, cost of private placements, which represents the excess of the fair value of the derivative liability created upon issuance of the notes over the amounts received, shares issued for bonus interest, expenses related to escrow shares, and other non-cash financing costs. We believe non-GAAP adjusted earnings is an important measure of operating performance because it allows management, securities analysts, investors and others to evaluate and compare our core operating results to other companies in our industry, including our return on capital and operating efficiencies, from period to period by removing the impact of our costs of private placements, derivative liabilities and other non-cash financing costs. Non-GAAP basic and diluted shares reflects the potential dilution that could occur if convertible debentures and warrants that represent derivatives and note discount were exercised or converted into common stock. Other companies may calculate non-GAAP adjusted earnings differently, and therefore our non-GAAP adjusted earnings and non-GAAP adjusted earnings per share may not be comparable to similarly titled measures of other companies.

	As of September 30, 2010		As of December 31,	
	Actual (unaudited)	As Adjusted(1) (unaudited)	2009	2008
Balance Sheet Data:				
Cash and cash equivalents	$ 34,348,096	$ 59,923,096	$ 18,302,558	$ 3,914,306
Working capital	20,173,642	45,748,642	7,730,396	5,716,968
Total assets	66,239,056	91,114,056	44,633,779	21,105,793
Derivative liabilities	19,101,337	19,101,337	45,157,039	
Total liabilities	24,959,466	24,259,466	51,094,990	2,159,441
Stockholders' equity	41,279,590	66,854,590	(6,461,211)	18,946,352
Total liabilities and stockholders' equity	66,239,056	91,114,056	44,633,779	21,105,793

(1) Reflects the results of the sale by us of 5,465,000 shares of common stock in this offering at the public offering price of $5.25 per share and our receipt of approximately $25,575,000 of the estimated net proceeds of the offering, after deducting underwriting discounts and estimated offering expenses payable by us.

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RISK FACTORS

Any investment in our common stock involves a high degree of risk. You should consider carefully the specific risk factors described below in addition to the other information contained in this prospectus, including our consolidated financial statements and related notes included elsewhere in the prospectus, before making a decision to invest in our common stock. If any of these risks actually occurs, our business, financial condition, results of operations or prospects could be materially and adversely affected. This could cause the trading price of our common stock to decline and a loss of all or part of your investment.

Risks Associated With Our Business

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We have a relatively limited operating history. We commenced operations of our CWSF business in 2007. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving industries such as the coal products and alternative energy industries in China. Our limited history for producing CWSF may not serve as an adequate basis to judge our future prospects and results of operations. Our operations are subject to all of the risks, challenges, complications and delays frequently encountered in connection with the operation of any new business, as well as those risks that are specific to the CWSF industry. Investors should evaluate us in light of the problems and uncertainties frequently encountered by companies attempting to develop markets for new products and technologies. Despite our best efforts, we may never overcome these obstacles.

If we require additional financing to execute our business plan, we may not be able to find such financing on satisfactory terms or at all.

Income generated from our business may not be adequate to support the expansion of our business. We may still need substantial additional funds to build new production facilities, maintain and expand existing facilities, pursue research and development activities, obtain necessary regulatory approvals and market our business. While we may seek additional funds through public or private equity or debt financing, strategic transactions and/or from other sources, there are no assurances that future funding will be available on favorable terms or at all. If additional funding is not obtained, we may need to reduce, defer or cancel any planned expansion, including overhead expenditures, to the extent necessary. Furthermore, the failure to fund our capital requirements as they arise would have a material adverse effect on our business, financial condition and results of operations.

Our business and results of operations are dependent on the PRC coal markets, which may be cyclical.

As our revenue is substantially derived from the sale of CWSF, our business and operating results are substantially dependent on the domestic supply of coal, especially washed coal. The PRC coal market is cyclical and exhibits fluctuation in supply and demand from year to year and is subject to numerous factors beyond our control, including, but not limited to, economic conditions in the PRC, global economic conditions, and fluctuations in industries with high demand for coal, such as the utilities and steel industries. Fluctuations in supply and demand for coal affects coal prices which, in turn, may have an adverse effect on our operating and financial performance. The demand for coal is primarily affected by overall economic development and the demand for coal from the electricity generation, steel and construction industries. The supply of coal, on the other hand, is primarily affected by the geographic location of the coal supplies, the volume of coal produced by domestic and international coal suppliers, and the quality and price of competing sources of coal. Alternative fuels such as natural gas and oil, alternative energy sources such as hydroelectric power and nuclear power, and international shipping costs also impact the market demand for coal. Excess demand for coal may increase coal prices, which would have an adverse effect on our cost of goods sold which would, in turn, cause a short-term decline in our profitability if we are unable to increase the price of our CWSF to our customers.

The consumption of CWSF is seasonal in nature, and we may experience fluctuation in our sales of CWSF over the course of the year.

The demand for CWSF from residential heating customers tends to be seasonal in nature, with peak demand occurring between the months of October through March, which are the peak heating periods in the markets which the Company currently serves. Demand for CWSF during peak periods is approximately 30% to 40% higher than during non-peak periods. Demand for CWSF from industrial customers tends to be fairly stable throughout the year, as their application of CWSF is often unrelated to heating. We may experience fluctuations in our sales of CWSF over the course of the year if the demand for CWSF from residential heating customers decreases due to unexpected warmer temperatures during the winter months.

We place significant reliance on one major supplier and the loss of such supplier could have a material adverse effect on our operations.

We are dependent upon our relationships with local third parties for our supply of coal. Five suppliers provided 100% of the coal we used to produce CWSF in 2008 and 2009 and our single largest supplier provided 85%, and 87%, respectively. While we expect to increase the number of suppliers we use as our business expands, if any of these suppliers, and in particular our largest supplier, terminate their supply relationship with us, we may be unable to procure sufficient amounts of coal to fulfill our demand. If we are unable to obtain adequate quantities of coal to meet the demand for our CWSF product, our customers could seek to purchase products from other suppliers, which could have a material adverse effect on our revenue.

In the past, we have derived a significant portion of our sales from a few large customers. If we were to lose any such customers, our business, operating results and financial condition could be materially and adversely affected.

Historically, our customer base has been highly concentrated. As of September 30, 2010 we had a total of 43 customers, 38 of which were located in Shaanxi Province, and 5 of which were located in Liaoning Province. In 2008 and 2009, our five largest customers contributed 57% and 37% of our total revenue, respectively, while our largest customer contributed 14% and 14% of our total revenue, respectively. Our customers are still relatively concentrated, and any adverse developments to any one of their business operations and demand for CWSF could have an adverse impact on our business, operating results and financial condition.

Our business and prospects will be adversely affected if we are not able to compete effectively.

We face competition in all areas of our business. While we have no direct competitor for CWSF in our largest market in Shaanxi Province, there are other CWSF producers in other areas of China that may look to expand their business into our markets. Additionally, we must compete against producers of other forms of energy such as coal, natural gas and oil, which may have broader market acceptance. We expect to enter the South China market in Guangdong Province and Nanning City located in Guangxi Province. We may be required to compete with other CWSF producers operating in these regions who may have greater financial, marketing, distribution and technological resources than we have, and more well-known brand names in the marketplace. If we are unable to compete

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effectively against our competitors, it may have a material adverse impact on our expansion plans and on our results of operations.

We depend on our key executives, and our business and growth may be severely disrupted if we lose their services.

Our future success depends substantially on the continued services of our key executives. In particular, we are highly dependent upon Mr. Baowen Ren, our chairman and chief executive officer, who has established relationships within the CWSF industry, Mr. Peng Zhou, a member of our board of directors, and Ms. Wen (Wendy) Fu, our chief financial officer. If we lose the services of these executives, we may not be able to replace them readily, if at all, with suitable or qualified candidates, and may incur additional expenses to recruit and retain qualified candidates with industry experience similar to our current key executives, which could severely disrupt our business and growth. In addition, if any of our key executives joins a competitor or forms a competing company, we may lose some of our suppliers or customers. Furthermore, as we expect to continue to expand our operations and develop new products, we will need to continue attracting and retaining experienced management and key research and development personnel.

We face competition from other companies, universities, public and private research institutions, government entities and other organizations. Competition for qualified candidates for executive positions could cause us to offer higher compensation and other benefits in order to attract and retain them, which could have a material adverse effect on our financial condition and results of operations. We may also be unable to attract or retain the personnel necessary to achieve our business objectives, and any failure in this regard could severely disrupt our business and growth.

Our business will suffer if we cannot obtain, maintain or renew necessary licenses.

All PRC enterprises in the coal trading industry are required to obtain from various PRC governmental authorities certain licenses, including, without limitation, a Certificate of Coal Business and a business license. On July 5, 2010, we received the Certificate of Coal Business for Suo'ang New Energy, and on July 15, 2010, we received the Certificate of Coal Business for Shenyang Energy, both of which expire in 2013. Any failure to timely renew the required Certificates of Coal Business prior to expiration may subject us to various penalties, such as fines up to five times the illegal profits, confiscation of profits, or we may be required to cease our business operations.

These licenses are subject to periodic renewal and/or reassessment by the relevant PRC government authorities and the standards of compliance required in relation thereto may from time to time be subject to change. We have such permits and licenses, however, we cannot be certain that we can obtain, maintain or renew the permits and licenses or in the future, accomplish the reassessment of such permits and licenses in a timely manner. Any changes in compliance standards, or any new laws or regulations may prohibit or render it more restrictive for us to conduct our business or increase our compliance costs, which may adversely affect our operations or profitability. Any failure by us to obtain, maintain or renew the licenses, permits and approvals, may have a material adverse effect on the operation of our business. In addition, we may not be able to carry on business without such permits and licenses being obtained, renewed and/or reassessed.

We may suffer losses resulting from industry-related accidents and lack of insurance.

Our manufacturing facilities may be affected by water, gas, fire or structural problems. As a result, we, like other coal-based products companies, may experience accidents that could cause property damage and personal injuries. Although we have implemented safety measures for our

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production facilities and provided on-the-job training for our employees, there can be no assurance that accidents will not occur in the future. Additionally, the risk of accidental contamination or injury from handling and disposing of our product cannot be completely eliminated. In the event of an accident, we could be held liable for resulting damages.

Although we currently maintain fire, casualty and property insurance covering our two production lines in Shenyang and three production lines in Tongchuan, we do not maintain any business interruption insurance or any third party liability insurance to cover claims related to personal injury, property or environmental damage arising from accidents on our properties, other than third party liability insurance with respect to vehicles. Any uninsured losses and liabilities incurred by us could exceed our resources and have a material adverse effect on our financial condition and results of operations.

Competitors may develop and market products that are less expensive, more effective or safer, making CWSF obsolete or uncompetitive.

Some of our competitors and potential competitors may have greater product development capabilities and financial, scientific, marketing and human resources than we do. Technological competition from other alternative energy companies is intense and is expected to increase. Other companies have developed technologies that could be the basis for competitive products. Some of these products may be more effective and less costly than CWSF. Over time, CWSF may become obsolete or uncompetitive, which would have a material adverse effect on our business and results of operations.

The revenue of our business may be adversely effected if power generators switch to sources of fuel with lower carbon dioxide emissions.

China is a signatory to the 1992 United Nations Framework Convention on Climate Change and the 1997 Kyoto Protocol, which are intended to limit emissions of greenhouse gases. Efforts to control greenhouse gas emission in China could result in reduced use of coal if power generators switch to sources of fuel with lower carbon dioxide emissions, which in turn could reduce the revenue of our business and have a material adverse effect on our results of operations.

The commercial success of CWSF depends on the degree of its market acceptance among industrial and residential heating customers and if CWSF does not attain wide market acceptance, our operations and profitability could be adversely affected.

Despite the central government's push for clean-coal technology and the support for CWSF amongst a number of municipal governments, CWSF ultimately may not gain wide market acceptance in the PRC. The degree of market acceptance of any product depends on a number of factors, including establishment and demonstration of its efficacy and safety, cost-effectiveness, advantages over alternative products, and marketing and distribution support for the product. Currently, there is limited information regarding these factors in connection with CWSF or competitive products. We believe that our customers need to continue to purchase and install CWSF boilers in order to give us the ability to market our CWSF products more broadly.

The market for CWSF is emerging and rapidly evolving, and its future success remains uncertain. If CWSF is not suitable for widespread adoption or sufficient demand for CWSF does not develop or takes longer to develop than we anticipate, our sales would not significantly increase and we may be unable to sustain profitability. In addition, demand for CWSF in the markets and geographic regions

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where we operate may not develop or may develop more slowly than we anticipate. Many factors will influence the widespread adoption of CWSF and demand for our products, including:

- cost-effectiveness of CWSF as compared with conventional and other alternative energy products and technologies;
- performance and reliability of CWSF as compared with conventional and other alternative energy products and technologies;
- fluctuations in capital expenditures by customers in the installation of CWSF boilers; and
- availability of government subsidies and incentives for customers.

Furthermore, to establish wide market acceptance of CWSF, we will require a marketing and sales force with appropriate technical expertise and supporting distribution capabilities, as well as continuing governmental support for the use of CWSF. We may not be able to establish sales, marketing and distribution capabilities or enter into arrangements with third parties on acceptable terms, and our ability to influence governmental support is limited. If CWSF does not gain wide market acceptance, our ability to continue to grow may be limited.

If we were unsuccessful in defending a product liability claim, we could face substantial liabilities that may exceed our resources.

We may be held liable if our product causes injury or is found unsuitable during product testing, manufacturing, marketing, sale or use. We currently do not have product liability insurance. If we choose to obtain product liability insurance but cannot obtain sufficient coverage at an acceptable cost or otherwise protect against potential product liability claims, the commercialization of our product may be prevented or inhibited. If we are sued for any injury caused by our product, our liability could exceed our total assets. In addition, successful product liability claims against us may materially disrupt the conduct of our business.

The downturn in the global economy may slow domestic growth in China, which, in turn, may affect our business.

China may not be able to maintain its recent growth rates mainly due to the decreased demand for China's exported goods in countries experiencing recessions. As we do not presently export any of our products, our earnings may become unstable if China's domestic growth slows significantly and the domestic demand for energy declines.

We are exposed to various types of market risks, including changes in foreign exchange rates, commodity prices and inflation in the normal course of business.

We are subject to risks resulting from fluctuations in interest rates on our bank balances. A substantial portion of our cash is held in China in interest bearing bank deposits and is denominated in RMB. To the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt. We do not currently use any derivative instruments to manage our interest rate risk.

Certain raw materials used by us are subject to price volatility caused by supply conditions, political and economic variables and other unpredictable factors. The primary purpose of our commodity price management activities is to manage the volatility associated with purchases of commodities in the normal course of business. We do not speculate on commodity prices. We are primarily exposed to price risk related to our purchase of coal used in manufacturing products. We

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purchase most of our raw materials at prevailing market prices. We do not have formal long-term purchase contracts with our suppliers and, therefore, we are exposed to the risk of fluctuating raw material prices. Our raw material price risk increases in the short term if we are unable to increase the price of CWSF. We did not have any commodity price derivatives or hedging arrangements outstanding at September 30, 2010.

We carry out all of our transactions in Renminbi. Therefore, we have limited exposure to foreign exchange fluctuations. A substantial portion of our cash is held in China in interest bearing bank deposits and is denominated in RMB. The Renminbi is not a freely convertible currency. The PRC government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value of any dividends we declare.

In recent years, China has not experienced significant inflation or deflation and thus inflation and deflation have not had a significant effect on our business during the past three years. According to the National Bureau of Statistics of China, the inflation rate as measured by the consumer price index in China was 4.8% and 5.9% in 2007 and 2008, respectively.

We were late in filing tax returns and information reports as required under U.S. laws, and may ultimately be held liable for significant taxes, interest and penalties.

We were late in filing our (1) U.S. federal income tax returns for our taxable years ended September 30, 2007 and 2008, including, without limitation, information returns on Internal Revenue Service ("IRS") Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, and (2) information reports for the years ended December 31, 2006, 2007 and 2008 concerning our interests in foreign bank accounts on TD F 90-22.1, Report of Foreign Bank and Financial Accounts ("FBARs"). Late filings of the IRS Forms 5471 subjects us to civil penalties of $10,000 for each of our three foreign subsidiaries with respect to each of the taxable years at issue (for an aggregate of $60,000). In addition, we are subject to civil penalties for the untimely filing of the FBARs of at least $10,000 for each of our five foreign bank accounts over the three year period at issue (for an aggregate of $50,000). Although we do not believe that our failure to timely file the FBARs was "willful," if the IRS were to prove that our failure to file an FBAR was "willful," we ultimately could be held liable for a civil penalty for each such failure equal to the greater of $100,000 or 50% of the balance in the unreported foreign bank account. During the years at issue, our total foreign bank account balances have been as high as about $5.8 million. We have provided an accrual for what we believe would be the potential liabilities for the untimely filing of the IRS Forms 5471 and the FBARs in our financial statements for our year ended December 31, 2009. However, as indicated above, these potential liabilities could be substantially greater than the amounts we have accrued.

In addition, because we did not generate any income in the United States or otherwise have any U.S. taxable income, we do not believe that we owe U.S. federal income taxes for the taxable years ended September 30, 2007 and 2008, or in respect to any transactions that we or any of our subsidiaries may have engaged in through our financial year end December 31, 2009. However, there can be no assurance that the IRS will agree with this position, and therefore we ultimately could be held liable for U.S. federal income taxes, interest and penalties.

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Risks Related to the Alternative Energy Industry

A drop in the retail price of conventional energy or other alternative energy may have a negative effect on our business.

A customer's decision to purchase CWSF will be primarily driven by the return on investment resulting from the energy savings from CWSF over time. Any fluctuations in economic and market conditions that impact the viability of conventional and other alternative energy sources, such as decreases in the prices of oil and other fossil fuels could cause the demand for CWSF to decline and have a material adverse effect on our business and results of operations. Although we believe that current levels of retail energy prices support a reasonable return on investment for CWSF, there can be no assurance that future retail pricing of conventional energy and other alternative energies will remain at such levels.

Existing regulations and changes to such regulations may present technical, regulatory and economic barriers to the purchase and use of CWSF, which may significantly affect the demand for our products.

CWSF is subject to oversight and regulations in accordance with national and local ordinances and regulations relating to safety, environmental protection, and related matters. We are responsible for knowing such ordinances and regulations, and must comply with these varying standards. Any new government regulations or utility policies pertaining to our product may result in significant additional expenses to us and our customers and, as a result, could cause a significant reduction in demand for our product.

Risks Related to Doing Business in China

Our business operations are conducted entirely in the PRC. Because China's economy and its laws, regulations and policies are different from those typically found in western countries and are continually changing, we face risks specific to operating in China, including those summarized below.

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could materially and adversely affect our business.

All of our operations are conducted in China and all of our sales are made in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most western countries in many respects, including:

- the amount of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange; and
- the government's role in allocating resources.

While the PRC economy has grown significantly since the late 1970s, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

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The PRC economy has been transitioning from a planned economy to a more market-oriented economy and is expected to continue to reform its economic system. Many of the reforms are unprecedented or experimental, and are expected to be refined and improved. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Efforts by the PRC government to slow the pace of growth of the PRC economy could result in decreased capital expenditure by energy users, which in turn could reduce demand for our products.

Other political, economic and social factors can also lead to further readjustment of reform measures, which may not always have a positive effect on our operations. Any adverse change in the economic conditions or government policies in China, such as changes in laws and regulations (or the interpretation thereof), imposition of additional restrictions on currency conversion could have a material adverse effect on the overall economic growth and the level of energy investments and expenditures in China, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our business and prospects.

The PRC economic cycle may negatively impact our operating results.

The rapid growth of the PRC economy before 2008 generally led to higher levels of inflation. The PRC economy has more recently experienced a slowing of its growth rate. A number of factors have contributed to this slow-down, including appreciation of RMB, the currency of China, which has adversely affected China's exports. In addition, the slow-down has been exacerbated by the recent global crisis in the financial services and credit markets, which has resulted in significant volatility and dislocation in the global capital markets. It is uncertain how long the global crisis in the financial services and credit markets will continue and the significance of the adverse impact it may have on the global economy in general, or the Chinese economy in particular. Slowing economic growth in China could result in slowing growth and demand for our products which could reduce our revenue. In the event of a recovery in the PRC, renewed high growth levels may again lead to inflation. Government attempts to control inflation may adversely affect the business climate and growth of private enterprise. In addition, our profitability may be adversely affected if prices for our products rise at a rate that is insufficient to compensate for the rise in inflation.

Uncertainties with respect to the PRC legal system could adversely affect us.

Our operations in China are governed by PRC laws and regulations. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, many new laws and regulations covering general economic matters have been promulgated in the PRC. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. Even where adequate law exists, enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by

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a court of another jurisdiction. The relative inexperience of the PRC's judiciary in many cases creates additional uncertainty as to the outcome of any litigation, and interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of any such policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

The application of PRC laws regarding the regulation of monopolies may adversely affect us.

We have a nationwide strategic partnership agreement with Qingdao Haizhong Enterprise Co., Ltd. ("Haizhong Boiler"), a CWSF boiler manufacturer with an estimated 78% share of the national CWSF boiler market. According to Beijing Zhongjing Zhongheng Information and Consulting Center, Haizhong Boiler's market share was determined on December 30, 2009 and was valid until October 31, 2010. In accordance with this partnership agreement, we and Haizhong Boiler have each agreed to recommend to our respective customers the other party's products during the course of selling our own products. Under the PRC Anti-monopoly Law promulgated on August 30, 2007 and effective as of August 1, 2008, business operators with a dominant market position are prohibited from certain behavior that abuses their dominant market position, including among other things, (i) limiting another party to the transaction to trade exclusively with them or with their designated business operators without justification and (ii) implementing tie-in sales without justification, or imposing other supplementary unreasonable trading conditions in the transaction. If our strategic partnership agreement with Haizhong Boiler or the implementation of such agreement is deemed a violation of the anti-monopoly law, the anti-monopoly administration authority may order us to cease the conduct, confiscate our proceeds and impose a fine of 1% to 10% of the sales volume for the previous year. As a result, our business, results of operation and financial condition could be adversely affected.

The failure to comply with PRC regulations relating to mergers and acquisitions of domestic enterprises by offshore special purpose vehicles may subject us to severe fines or penalties and create other regulatory uncertainties regarding our corporate structure.

On August 8, 2006, the PRC Ministry of Commerce ("MOFCOM"), joined by the China Securities Regulatory Commission (the "CSRC"), the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"), the State Administration of Taxation (the "SAT"), the State Administration for Industry and Commerce (the "SAIC"), and the State Administration of Foreign Exchange ("SAFE"), jointly promulgated regulations entitled the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the "M&A Rules"), which took effect as of September 8, 2006. This regulation, among other things, has certain provisions that require offshore special purpose vehicles ("SPVs") formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of MOFCOM prior to engaging in such acquisitions and to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock market. On September 21, 2006, the CSRC published on its official website a notice specifying the documents and materials that are required to be submitted for obtaining CSRC approval.

The application of the M&A Rules with respect to our corporate structure and to this offering remains unclear, with no current consensus existing among leading PRC law firms regarding the scope and applicability of the M&A Rules. We believe that the MOFCOM and CSRC approvals under the

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M&A Rules were not required in the context of our share exchange transaction because at such time the share exchange was a foreign related transaction governed by foreign laws, not subject to the jurisdiction of PRC laws and regulations. However, we cannot be certain that the relevant PRC government agencies, including the CSRC and MOFCOM, would reach the same conclusion, and we cannot be certain that MOFCOM or the CSRC may deem that the transactions effected by the share exchange circumvented the M&A Rules, and other rules and notices, and that prior MOFCOM or CSRC approval is required for this offering. Further, we cannot rule out the possibility that the relevant PRC government agencies, including MOFCOM, would deem that the M&A Rules required us or our entities in China to obtain approval from MOFCOM or other PRC regulatory agencies in connection with (i) the equity transfer agreements, which were completed by and among Suoke Clean Energy, Peng Zhou and Suo'ang BST in November 2009, pursuant to which Suo'ang New Energy was acquired by Suoke Clean Energy and (ii) Hangson's control of Suo'ang New Energy during the period from June 2006 to September 2009 through contractual arrangements with Suo'ang BST and Peng Zhou's holding of a 20% equity interest in Suo'ang New Energy.

If the CSRC, MOFCOM, or another PRC regulatory agency subsequently determines that CSRC, MOFCOM or other approval was required for the share exchange transaction and/ or the acquisition of Suo'ang New Energy, or if prior CSRC approval for this offering is required and not obtained, we may face severe regulatory actions or other sanctions from MOFCOM, the CSRC or other PRC regulatory agencies. In such event, these regulatory agencies may impose fines or other penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from this offering into the PRC, restrict or prohibit payment or remittance of dividends to us or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common stock. The CSRC or other PRC regulatory agencies may also take actions requiring us, or making it advisable for us, to delay or cancel this offering, to restructure our current corporate structure, or to seek regulatory approvals that may be difficult or costly to obtain.

The M&A Rules, along with certain foreign exchange regulations discussed below, will be interpreted or implemented by the relevant government authorities in connection with our future offshore financings or acquisitions, and we cannot predict how they will affect our acquisition strategy. For example, our operating companies' ability to remit dividends to us, or to engage in foreign-currency-denominated borrowings, may be conditioned upon compliance with the SAFE registration requirements by such Chinese domestic residents, over whom we may have no control.

SAFE regulations relating to offshore investment activities by PRC residents may increase our administrative burdens and restrict our overseas and cross-border investment activity. If our shareholders and beneficial owners who are PRC residents fail to make any required applications, registrations and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

SAFE has promulgated several regulations, including Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Oversea Special Purpose Vehicles, or "Circular No. 75," issued on October 21, 2005 and effective as of November 1, 2005 and certain implementation rules issued in recent years, requiring registrations with, and approvals from, PRC government authorities in connection with direct or indirect offshore investment activities by PRC residents and PRC corporate entities. These regulations apply to our shareholders and beneficial owners who are PRC residents, and may affect any offshore acquisitions that we make in the future.

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SAFE Circular No. 75 requires PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an "offshore special purpose company." In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to update his registration with the relevant SAFE branches, with respect to that offshore company, in connection with any material change involving an increase or decrease of capital, transfer or swap of shares, merger, division, equity or debt investment or creation of any security interest. Moreover, the PRC subsidiaries of that offshore company are required to coordinate and supervise the filing of SAFE registrations by the offshore company's shareholders who are PRC residents in a timely manner. If a PRC shareholder with a direct or indirect stake in an offshore parent company fails to make the required SAFE registration, the PRC subsidiaries of such offshore parent company may be prohibited from making distributions of profit to the offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries, and the offshore parent company may also be prohibited from injecting additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above may result in liability for the PRC shareholders and the PRC subsidiaries under PRC law for foreign exchange registration evasion.

Although we have requested our PRC shareholders and beneficial owners to complete the SAFE Circular No. 75 registration, we cannot be certain that all of our PRC resident beneficial owners will comply with the SAFE regulations. The failure or inability of our PRC shareholders and beneficial owners to receive any required approvals or make any required registrations may subject us to fines and legal sanctions, restrict our overseas or cross-border investment activities, prevent us from transferring the net proceeds of this offering or making other capital injection into our PRC subsidiaries, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, as a result of which our acquisition strategy and business operations and our ability to distribute profits to you could be materially and adversely affected.

Under Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and Share Option Schemes of Overseas Listed Companies, issued and effective as of March 28, 2007 by the State Administration of Foreign Exchange, or "SAFE" ("Circular No. 78"), PRC residents who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required to obtain approval from and register with the SAFE or its local branches and complete certain other procedures related to the share option or other share incentive plan through the PRC subsidiary of such overseas listed company or any other qualified PRC agent before such grants are made. We believe that all of our PRC employees who are granted share options are subject to SAFE No. 78. As of September 30, 2010, we had granted options to purchase up to 15,000 shares of common stock to two PRC residents. We have requested our PRC management, personnel, directors, employees and consultants who have been granted or are to be granted stock options to register them with local SAFE pursuant to Circular No. 78. However, we cannot assure you that each of these individuals has carried out or will carry out all the required procedures above. If we or our PRC option holders fail to comply with these regulations, we or our PRC option holders may be subject to fines and legal sanctions. Further, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion and we may become subject to a more stringent review and approval process with respect to our foreign exchange activities.

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We must comply with the Foreign Corrupt Practices Act.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Certain of our customers are PRC government entities and our dealings with them are likely to be considered to be with government officials for these purposes. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. We could suffer severe penalties if our employees or other agents were found to have engaged in such practices.

Under the PRC EIT Law, we and/or Wiscon may be classified as a "resident enterprise" of the PRC. Such classification could result in tax consequences to us, our non-PRC resident investors and/or Wiscon.

On March 16, 2007, the National People's Congress approved and promulgated a new tax law, the PRC Enterprise Income Tax Law (the "EIT Law") which took effect on January 1, 2008. Under the EIT Law, enterprises are classified as resident enterprises and non-resident enterprises. An enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define "de facto management bodies" as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise; however, it remains unclear whether the PRC tax authorities would deem our de facto managing body as being located within China. Due to the short history of the EIT Law and lack of applicable legal precedents, the PRC tax authorities determine the PRC tax resident treatment of a foreign (non-PRC) company on a case-by-case basis.

If the PRC tax authorities determine that we and/or Wiscon are a "resident enterprise" for PRC enterprise income tax purposes, a number of PRC tax consequences could follow. First, we and/or Wiscon may be subject to the enterprise income tax at a rate of 25% on our and/or Wiscon's worldwide taxable income, in addition to our PRC enterprise income tax reporting obligations. Second, under the EIT Law and its implementing rules, dividends paid between "qualified resident enterprises" are exempt from enterprise income tax. As a result, if we and Wiscon are treated as PRC "qualified resident enterprises," all dividends from Suoke Clean Energy to us (through Wiscon) should be exempt from PRC tax.

If Wiscon were treated as a PRC "non-resident enterprise" under the EIT Law, then dividends that Wiscon receives from Suoke Clean Energy (assuming such dividends were considered sourced within the PRC) (i) may be subject to a 5% PRC withholding tax, provided that Wiscon owns more than 25% of the registered capital of Suoke Clean Energy continuously within 12 months immediately prior to obtaining such dividend from Suoke Clean Energy, and the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "PRC-Hong Kong Tax Treaty") were otherwise applicable, or (ii) if such treaty does not apply (i.e. because the PRC tax authorities may deem Wiscon to be a conduit not entitled to treaty benefits), may be subject to a 10% PRC withholding tax. Similarly, if we were treated as a PRC "non-resident enterprise" under the EIT Law and Wiscon were treated as a PRC "resident enterprise" under the EIT Law,

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then dividends that we receive from Wiscon (assuming such dividends were considered sourced within the PRC) may be subject to a 10% PRC withholding tax. Any such taxes on dividends could materially reduce the amount of dividends, if any, we could pay to our shareholders.

Finally, if we are determined to be a "resident enterprise" under the EIT law, this could result in a situation in which (i) a 10% PRC enterprise income tax is imposed on dividends we pay to our investors that are not tax residents of the PRC ("non-resident investors") and that are enterprises (but not individuals) and gains derived by them from transferring our common stock, or (ii) up to a 20% PRC individual income tax is imposed on dividends that we pay to our non-resident investors who are individuals and gains derived by them from transferring our common stock, in each case if such income or gain is considered PRC-sourced income by the relevant PRC authorities. In such event, we may be required to withhold the applicable PRC tax on any dividends paid to our non-resident investors. Our non-resident investors also may be responsible for paying the applicable PRC tax on any gains realized from the sale or transfer of our common stock in certain circumstances. We would not, however, have an obligation to withhold PRC tax with respect to such gain under the PRC tax laws.

The SAT released Circular Guoshuihan No. 698 ("Circular 698") on December 10, 2009, which reinforces the taxation of certain equity transfers by non-resident investors through overseas holding vehicles. Circular 698 addresses indirect equity transfers as well as other issues. Circular 698 is retroactively effective from January 1, 2008. According to Circular 698, where a non-resident investor who indirectly holds an equity interest in a PRC resident enterprise through a non-PRC offshore holding company indirectly transfers an equity interest in a PRC resident enterprise by selling the equity interest in the offshore holding company, and the latter is located in a country or jurisdiction where the actual tax burden is less than 12.5 percent or where the offshore income of its residents is not taxable, the non-resident investor is required to provide the PRC tax authority in charge of that PRC resident enterprise with certain relevant information within 30 days from the date of execution of the transfer agreements. The responsible tax authorities will evaluate the offshore transaction for tax purposes. In the event that the PRC tax authorities determine that such transfer is an abuse of forms of business organization and a reasonable commercial purpose for the offshore holding company other than the avoidance of PRC income tax liability is lacking, the PRC tax authorities will have the power to re-assess the nature of the equity transfer under the doctrine of substance over form. If the SAT's challenge of a transfer is successful, it may deny the existence of the offshore holding company that is used for tax planning purposes and subject the non-resident investor to PRC tax on the capital gain from such transfer. Since Circular 698 has a short history, there is uncertainty as to its application. We (or a non-resident investor) may become at risk of being taxed under Circular 698 and may be required to expend valuable resources to comply with Circular 698 or to establish that we (or such non-resident investor) should not be taxed under Circular 698, which could have a material adverse effect on our financial condition and results of operations (or such non-resident investor's investment in us).

If any such PRC income tax applies to a non-resident investor, the non-resident investor may be entitled to a reduced rate of PRC tax under an applicable income tax treaty and/or a deduction for such PRC tax against such investor's domestic taxable income or a foreign tax credit in respect of such PRC tax against such investor's domestic income tax liability (subject to applicable conditions and limitations). Prospective investors should consult with their own tax advisors regarding the applicability of any such taxes, the effects of any applicable income tax treaties, and any available deductions or foreign tax credits.

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For a further discussion of these issues, see the section of this prospectus captioned "PRC Income Tax Considerations."

The payment of dividends in the PRC is subject to limitations. We may not be able to pay dividends to our stockholders.

We conduct all of our business through our subsidiaries incorporated in the PRC. We rely on dividends paid by these consolidated subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our stockholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in the PRC is subject to limitations. Regulations in the PRC currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC, subject to certain statutory procedural requirements. Each of our PRC subsidiaries, including wholly foreign owned enterprises, is also required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their general reserves or statutory reserve fund until the aggregate amount of such reserves reaches 50% of their respective registered capital. Our statutory reserves are not distributable as loans, advances or cash dividends. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us and our management.

All of the assets of Suoke Clean Energy, Suo'ang New Energy and Shenyang Energy are located in, and all of our executive officers and our directors reside within, China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers and directors who do not reside in the United States, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result, our public stockholders may have substantial difficulty in protecting their interests through actions against our management or directors that stockholders of a corporation with assets and management members located in the United States would not experience.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive all of our revenue in RMB. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, dividend payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

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Fluctuation in the value of RMB may have a material adverse effect on your investment.

Since 1994, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China ("PBOC"), which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of RMB to U.S. dollars has generally been stable. On July 21, 2005, however, PBOC announced a reform of its exchange rate system. Under the reform, RMB is no longer effectively linked to U.S. dollars but instead is allowed to trade in a tight 0.3% band against a basket of foreign currencies.

The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Our revenues and costs are mostly denominated in RMB. Any significant fluctuation in value of RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our stock in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes.

We have not made statutory contributions to the public housing fund for our employees in accordance with applicable regulations, and this could subject us to fines and other penalties.

Although the PRC State Council has regulations governing a company's contribution to the public housing fund for its employees, we had not been expressly required by our local government authority in charge of this matter to make such contribution due to lack of implementing rules. In 2009, the Tongchuan Public Housing Fund Management Center, the local government department in charge of public housing fund matters, issued a notification which requires companies like us to make contributions to the local public housing fund for our employees. We are in the process of establishing a public housing fund account with the Tongchuan Public Housing Fund Management Center, and will begin to make statutory contributions for our employees to such account once it is open. However, we cannot assure you that the Tongchuan Public Housing Fund Management Center will not penalize us for non-compliance with the regulation promulgated by the State Council prior to 2010. If the relevant local public housing fund administrative centre takes any legal action against us for our non-compliance with such regulation, such as fines, or the requirement of making up contributions to the public housing fund for our employees, our financial conditions and results of operations may be adversely affected.

We currently operate our business in buildings we have constructed on land where we own or lease the land use right. Failure to have the legitimate and sustainable right to own or lease the buildings or the land use right could have a material adverse effect on our operations.

We own the land use right to a total of 43,956 square meters of land for our existing site in Tongchuan for a period of 50 years, expiring on December 8, 2057. However, we have not yet paid the required land grant fees and other taxes and fees. If we fail to pay the land grant fees and other requisite taxes and fees, the applicable land administration authority may rescind our land grant contract, ask for compensation for the violation of the contract, or revoke our Land Use Right Certificate. Any penalty or revocation of the Land Use Right Certificate could have a material adverse effect on our business, results of operation and financial condition.

For the operation of Suo'ang New Energy, on the land for which we lease the Land Use Right Certificate, we constructed a building according to our construction land use planning permit; however, we did not obtain other required construction project permits and other documents,

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including construction project planning permits, construction commencement permits and fire prevention design and inspection related documents. Upon completion of construction, we did not apply for the required inspection and acceptance examination of the building, and consequently, we did not obtain the Property Ownership Certificate. If we fail to obtain the required construction related permits and other documents, complete the inspection and acceptance examination of the building and obtain the Property Ownership Certificate, the applicable construction authority may impose a fine of up to 10% of the construction costs, or in limited circumstances, order the demolition of the building. Any penalty or request to demolish the building could have a material adverse effect on our business, results of operation and financial condition.

For the operation of the Shenyang Energy operation, we constructed our buildings on land on which we leased the land use right from a third party. We cannot be certain that the lessor has full power and authorization to lease the land use right to us. If our lessor has no legitimate power and authorization to lease the land use right to us, our lease of the land use right may be void. As a result, our business, results of operations and financial condition could be materially and adversely affected. In addition, as a lessee of the land use right, we are not entitled to apply for the construction related permits and documents, and consequently, we do not own the title of the buildings constructed on the leased land. On June 11, 2010, we entered into a Transfer Agreement with the lessor in connection with the CWSF Construction Project at the Shenyang site. Pursuant to the agreement, we have the contractual right to request the lessor to transfer ownership of buildings constructed by us on the site after the lessor obtains the Property Ownership Certificate from the Shenyang Property Administration Authority and Construction Administration Authority and we comply with all legal and regulatory requirements in obtaining the ownership of the buildings from the lessor. Although we have made requests to the lessor to obtain the required permits and certificate, as of the date of this prospectus, our lessor has not obtained the required construction related permits, nor the Property Ownership Certificate for the buildings. If our lessor fails to obtain these permits, certificates and other documents, the applicable construction authority may impose a fine of up to 10% of the construction costs, or in limited circumstances, order the demolition of the building. Any penalty or request to demolish the building could have a material adverse effect on our business, results of operation and financial condition.

In August 2010, through our subsidiary, Suoke Clean Energy, we entered into an agreement to purchase a land use right for approximately 5 acres of land and a production factory in Dongguan, Guandong Province. In addition, in September 2010, we entered into an agreement to purchase two production lines to be operated within the new Guangdong facility. The factory is currently undergoing refurbishment and the production lines are being completed and serviced. We anticipate that all of the work will be done by December 2010. We are in the process of taking the necessary steps to obtain a land use right certificate, which is required for us to obtain the rights to use the land and the title to the buildings. Failure to obtain the land use right certificate could have a material adverse effect on our business, results of operation and financial condition.

Our principal executive and administrative offices are located in Xi'an City, Shaanxi Province, China, with approximately 233 square meters of office space. Through Suoke Clean Energy, we entered into a real property purchase agreement with Xi'an Shengrong Real Estate Co., Ltd., dated January 12, 2010 to purchase this office space, for a purchase price of RMB1,586,798 (approximately $230,000). Xi'an Shengrong Real Estate Co., Ltd. has been granted the land use right to the property on which the building is located until June 19, 2052. We have applied for a transfer of this office's title to Suoke Clean Energy, but the title transfer process has not yet been completed. As a result, Suoke Clean Energy is not a legal owner of this office until title to the office has been duly

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transferred to Suoke Clean Energy. As our registered address is not in Xi'an City, we are required to register as a branch office in Xi'an City. We have submitted to the local authorities an application for the establishment and registration as a branch office, however failure to have registered a branch office in Xi'an may subject us to a fine up to RMB 100,000 or we may even be ordered to close our offices in Xi'an. Any penalty or request to close offices could have an adverse effect on our business, results of operation and financial condition.

We currently have not paid sufficient social welfare insurance contributions on behalf of our employees. If we fail to settle unpaid social insurance, we may be subject to a penalty.

Under PRC law, our PRC subsidiaries are obligated to pay social welfare insurance contributions to a public fund on behalf of our employees, including pension, work-related injury insurance, unemployment insurance, medical insurance and maternity insurance, in accordance with the premium rates stipulated by the local PRC government. We are required, but have not yet, registered with and obtained the Social Security Registration Certificate for our PRC subsidiaries from the local labor and social security authority. Since the amount of social insurance due is based on actual payment of salary, our PRC subsidiaries may not adjust their payment of social insurance in a timely manner and may pay below the required premium rates. We intend to settle unpaid social insurance. If we fail to settle unpaid social insurance, an employee may terminate his or her labor contract without prior notice, we may be fined by the local government authorities, and we may be ordered by the local labor and social security authority to make up the unpaid social insurance within a prescribed time limit.

Risks Related to an Investment in Our Securities

The full exercise of our outstanding warrants could result in substantially depressing the prevailing market prices for our common stock.

The full exercise of outstanding warrants could result in the substantial dilution of our common stock in terms of a particular percentage ownership in the company as well as the book value of common stock. The sale of a large amount of common stock received upon the exercise of the warrants on the public market, or the perception that such sales could occur, could substantially depress the prevailing market prices for our common stock.

As of September 30, 2010, there were 3,633,535 warrants outstanding from the financings that closed in September 2008 and July 2009. In the event of the exercise of these warrants, a stockholder will suffer substantial dilution of his, her or its investment in terms of the percentage ownership in us as well as the book value of the shares of common stock held.

To date, we have not paid any cash dividends and no cash dividends are expected to be paid in the foreseeable future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future and we may not have sufficient funds legally available to pay dividends. Even if the funds are legally available for distribution, we may nevertheless decide not to pay any dividends. We currently intend to retain all earnings for our operations.

Our common stock is thinly traded and you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

Our common stock has historically been sporadically or "thinly-traded" on the Over-the-Counter Bulletin Board, meaning that the number of persons interested in purchasing our common stock at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and may be reluctant to follow a newer company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. On June 14, 2010, our common stock was listed on the NASDAQ Global Market. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop on the NASDAQ Global Market or be sustained, or that current trading levels will be sustained.

The market price for our common stock is particularly volatile given our status as a relatively small company with a small and thinly traded "float" that could lead to wide fluctuations in our share price. The price at which you purchase our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you.

The market for our common stock is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than that of a more seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common stock is sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large amount of our common stock are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without an adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our limited operating history and uncertainty of future market acceptance for our current and potential products. As a consequence of this enhanced risk, more risk-adverse investors may be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer.

Many of these factors are beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common stock will be at any time, including as to whether our common stock will sustain its current market price, or as to what effect the sale of shares or the availability of common stock for sale at any time will have on the prevailing market price.

Volatility in our common stock price may subject us to securities litigation.

The market for our common stock is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may, in the future, be the target of similar litigation, which could result in substantial costs and liabilities and could divert management's attention and resources.

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Our corporate actions are substantially controlled by our principal stockholders and affiliated entities.

As of the date of this prospectus, our management, directors and their affiliated entities own approximately 4,042,875 of our outstanding common stock, representing approximately 24% of our voting power. These stockholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions. In addition, because of the percentage of ownership and voting concentration in these principal stockholders and their affiliated entities, elections of our board of directors will generally be within the control of these stockholders and their affiliated entities. While all of our stockholders are entitled to vote on matters submitted to our stockholders for approval, the concentration of shares and voting control presently lies with these principal stockholders and their affiliated entities. As such, it would be difficult for stockholders to propose and have approved proposals not supported by management. There can be no assurances that matters voted upon by our officers and directors in their capacity as stockholders will be viewed favorably by all stockholders of the company.

The elimination of liability of our directors, officers and employees under Nevada law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by our company and may discourage lawsuits against our directors, officers and employees.

Our articles of incorporation contains a provision that eliminates the liability of our directors to our company and stockholders to the extent allowed under Nevada law, and we are prepared to give such indemnification to our directors and officers to the extent provided by Nevada law. We also have contractual indemnification obligations under our agreements with some of our directors. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and stockholders.

Past company activities prior to the reverse merger may lead to future liability for the Company.

Prior to the closing of the reverse merger transaction on October 20, 2006, we were engaged in businesses unrelated to our current operations. Although certain prior Company stockholders have provided certain indemnifications against any loss, liability, claim, damage or expense arising out of or based on any breach of or inaccuracy in any of their representations and warranties made in connection with the Exchange Agreement, any liabilities relating to such prior business against which we are not completely indemnified may have a material adverse effect on the Company.

The market price for our stock may be volatile.

The market price for our stock may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in alternative energy and coal-based product markets;
- changes in the economic performance or market valuations of other alternative energy and coal-based products companies;

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- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- intellectual property litigation; and
- general economic or political conditions in China.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

We may need additional capital, and the sale of additional common stock or other equity securities could result in additional dilution to our stockholders.

We believe that our current cash and cash equivalents, net proceeds from this offering and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources due to our business expansion plans, changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell equity or debt securities or obtain a credit facility. The sale of equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), subject to certain limitations. In general, pursuant to amended Rule 144, non-affiliate stockholders may freely sell their shares after six months subject only to the current public information requirement (which disappears after one year). Affiliates may freely sell their shares after six months subject to the Rule 144 volume, manner of sale (for equity securities), current public information and notice requirements. Of 16,792,239 shares of our common stock outstanding as of the date of this prospectus, 3,820,849 shares are freely tradable without restriction. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our common stock.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, as amended, adopted rules requiring every public company to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal

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controls over financial reporting. In our annual report on Form 10-K for the year ended December 31, 2009, we reported certain material weaknesses involving control activities, specifically:

1. Although we have hired additional accounting and operations personnel, we are still in the progress of developing proper financial reporting procedures and policies for (i) accounting for complex and non-routine transactions, (ii) closing our financial statements at the end of a period, (iii) disclosure requirements and processes for SEC reporting.

2. As a small company, we do not have sufficient personnel to set up adequate review functions at each reporting level.

3. As of December 31, 2009, we have not kept a complete set of ledgers of the parent, shell company. The parent company has no physical operation and has been mainly functioning as a pass-through legal entity for financing subsidiary companies that are operating overseas.

Our management has undertaken steps to address these issues, including the engagement of a new chief financial officer whom management believes has the requisite financial reporting experience, skills and knowledge to complement our existing personnel. Additionally, four independent directors now sit on our board of directors, including a member who is appropriately credentialed as a financial expert. The independent directors have been tasked to establish certain internal audit functions within our company, and we have also established audit and compensation committees comprised entirely of independent directors. We have also hired additional accounting and operational personnel and in April 2010, we engaged the Shanghai office of Ernst & Young as an outside consultant to assist with evaluating and improving our accounting system and working process (including internal audit and material transaction review and verification process) to strengthen the timeliness and efficiency of our disclosure and internal controls and procedures. However, there is no assurance that additional remedial measures will not be necessary, or that after the remediation our management will be able to conclude that our internal controls over our financial reporting are effective.

Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements (as defined in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). To the extent that any statements made in this prospectus contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements may be identified by the use of words such as "expects," "plans," "may," "anticipates," "believes," "should," "intends," "estimates" and other words or phrases of similar meaning. Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, these statements are subject to a number of risks and uncertainties discussed under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this prospectus. All forward-looking statements attributable to us are expressly qualified by these and other factors. We cannot assure you that actual results will be consistent with these forward-looking statements.

Information regarding market and industry statistics contained in this prospectus is included based on information available to us that we believe is accurate. Forecasts and other forward-looking information obtained from this available information is subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We do not undertake any obligation to publicly update any forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements.

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USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $25,575,000 based on the offering price of $5.25 per share and after deducting the underwriting discounts and estimated offering expenses payable by us. The underwriters have an option to purchase an additional 819,750 shares from us. Assuming the over-allotment option is exercised in full by the underwriters and satisfied in full by us, we will receive an additional estimated $4,000,000 in net proceeds, after deducting underwriting discounts.

We intend to use the net proceeds from this offering to expand our CWSF production capacity at new and existing facilities throughout China and to pay approximately $8,755,000, which represents the remainder of the purchase price under an agreement to purchase land use rights and a production factory in Dongguan, Guangdong Province. We intend to use any remaining net proceeds for working capital and general corporate purposes. Additionally, to the extent permitted by applicable laws, we may choose to expand our current business through acquisitions of other complementary businesses. We currently have no agreements, understandings or commitments with respect to any acquisitions. Management will have significant discretion in applying the net proceeds from this offering. Pending specific application of the net proceeds, to the extent permitted by applicable laws, we plan to invest our net proceeds in short-term bank deposits.

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DIVIDEND POLICY

We have not paid, and do not currently intend to pay cash dividends on our common stock in the foreseeable future. Our policy is to retain all earnings, if any, to provide funds for operation and expansion of our business. We are a holding company incorporated in the State of Nevada and do not have any assets or conduct any business operations other than our investments in our subsidiaries. As a result of our holding company structure, we rely entirely on dividend payments from our PRC subsidiaries. PRC accounting standards and regulations currently permit payment of dividends only out of accumulated profits, a portion of which is required to be set aside for certain reserve funds. Our inability to receive all of the revenues from our PRC subsidiaries' operations may provide an additional obstacle to our ability to pay dividends if we so decide in the future. The declaration of dividends, if any, will be subject to the discretion of our board of directors, which may consider such factors as our results of operations, financial condition, capital needs and acquisition strategy, among others.

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MARKET FOR OUR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock has been listed on the NASDAQ Global Market under the symbol "SCEI" since June 14, 2010. From January 1, 2008 until May 7, 2010, our common stock was quoted on the Over-the-Counter Bulletin Board ("OTCBB") under the symbol "SCLX." After we effectuated a 1-for-10 reverse split on May 7, 2010, our symbol changed to "SCLXD" for a period of 20 business days until June 7, 2010, and then resumed trading under the symbol "SCLX." The following table sets forth the high and low closing prices for our common stock for the periods indicated as reported by the NASDAQ Global Market and the OTCBB, as adjusted for the reverse stock split:

Quarter Ended	High	Low
2010:		
First Quarter	$ 8.50	$ 3.70
Second Quarter	9.40	6.11
Third Quarter	6.35	5.08
Fourth Quarter (through December 21, 2010)	8.85	5.67
2009:		
First Quarter	2.40	1.40
Second Quarter	4.50	1.60
Third Quarter	5.60	3.10
Fourth Quarter	6.80	4.10
2008:		
First Quarter	3.30	1.10
Second Quarter	2.50	1.10
Third Quarter	3.50	2.00
Fourth Quarter	2.70	1.40

Based upon information furnished by our transfer agent, as of September 30, 2010, we had 2,977 holders of record of our common stock. This number does not include beneficial owners of our common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

Equity Compensation Plan Information

As of December 31, 2009, we did not have any equity compensation plans in effect, although our board of directors may approve from time to time the issuance of equity compensation to our employees as additional compensation outside of an equity compensation plan.

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CAPITALIZATION

The following table summarizes our cash and cash equivalents and our consolidated capitalization as of September 30, 2010, on an actual basis and as of September 30, 2010 on an as adjusted basis to reflect our receipt of the estimated net proceeds from this offering.

You should read this table in conjunction with the sections of this prospectus entitled "Use of Proceeds," "Selected Consolidated Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	September 30, 2010 (unaudited)	
	Actual	**As Adjusted(1)**
Cash and cash equivalents	$ 34,348,096	$ 59,923,096
Shareholders' equity:		
Common stock, $0.001 par value, 30,000,000 shares authorized, 16,792,239 issued shares outstanding at September 30, 2010, and 21,292,239 on an as adjusted basis	$ 16,792	22,257
Preferred stock, $0.001 par value, 50,000,000 shares authorized, none issued and outstanding at September 30, 2010		
Additional paid-in capital	37,805,971	63,375,506
Statutory reserves	1,758,553	1,758,553
Accumulated other comprehensive income	2,488,534	2,488,534
Accumulated deficit	(790,260)	(790,260)
Total shareholders' equity	41,279,590	66,854,590
Total capitalization	41,279,590	66,854,590

(1) Reflects the results of the sale by us of 5,465,000 shares of common stock in this offering at the public offering price of $5.25 per share and our receipt of approximately $25,575,000 of the estimated net proceeds of the offering, after deducting underwriting discounts and estimated offering expenses payable by us.

The table above excludes as of September 30, 2010.

- 3,633,535 shares of our common stock issuable upon the exercise of warrants with a weighted average exercise price of $2.56 per share; and
- 65,000 shares of our common stock issuable upon exercise of options outstanding with a weighted average exercise price of $7.25 per share.
- 819,750 shares of our common stock issuable upon exercise of the underwriters' over-allotment option, if any.

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EXCHANGE RATE INFORMATION

Our financial statements and other financial data included in this prospectus are presented in U.S. dollars. Our business and operations are primarily conducted in China through our PRC subsidiaries. The functional currency of our PRC subsidiaries is RMB and their revenues and expenses are denominated in that currency. The conversion of RMB into U.S. dollars in this prospectus is based on the noon buying rate in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. For convenience, certain amounts in RMB have been converted to United States dollars. Assets and liabilities are converted at the exchange rate as of the balance sheet date. Income and expenses are converted at the average exchange rate for the period. We make no representation that any RMB or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all.

The following table sets forth, for each of the periods indicated, the average, high, low and period-end noon buying rates in New York City for cable transfers, in RMB per U.S. dollar, as certified for customs purposes by the Federal Reserve Bank of New York. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus or will use in the preparation of our periodic reports or any other information to be provided to you.

Renminbi per U.S. Dollar Noon Buying Rate

	Average(1)	High	Low	Period-End
Year ended December 31, 2008	6.8532	6.9870	6.7899	6.8329
Year ended December 31, 2009	6.8286	6.8470	6.8176	6.8259
2010				
January	6.8269	6.8295	6.8258	6.8268
February	6.8292	6.8346	6.8260	6.8260
March	6.8263	6.8270	6.8255	6.8258
April	6.8256	6.8275	6.8229	6.8247
May	6.8275	6.8310	6.8245	6.8305
June	6.8184	6.8323	6.7815	6.7815
July	6.7762	6.7807	6.7709	6.7735
August	6.7873	6.8069	6.7670	6.8069
September	6.7396	6.8102	6.6869	6.6905
October	6.6675	6.6912	6.6397	6.6705
November (through November 26)	6.6526	6.6906	6.6233	6.6675

(1) Annual averages are calculated from month-end rates. Monthly and interim period averages are calculated using the average of the daily rates during the relevant period.

Source: Federal Reserve Bank of New York

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information for the years ended December 31, 2009 and December 31, 2008, and as of December 31, 2009 and December 31, 2008, is derived from our historical consolidated financial statements, which were audited by Weinberg & Company, P.A., an independent registered public accounting firm. The selected consolidated financial information for the nine months ended September 30, 2010 and September 30, 2009, and as of September 30, 2010, is derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements. In the opinion of management, the unaudited consolidated financial information reflects all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. Results for interim periods are not necessarily indicative of results that may be expected for a full year. Historical results are not necessarily indicative of the results expected in the future. The selected consolidated financial information should be read in conjunction with, and is qualified by reference to, "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated audited and unaudited financial statements and the related notes appearing elsewhere in this prospectus.

	Nine Months Ended September 30,		Year Ended December 31,	
	2010 (unaudited)	2009 (unaudited)	2009	2008
Income Statement Data:				
Revenue	$ 73,571,899	$ 26,982,573	$ 46,012,353	$ 14,253,989
Cost of goods sold	(44,448,913)	(17,695,505)	(28,922,846)	(9,266,832)
Gross profit	29,122,986	9,287,068	17,089,507	4,987,157
Selling expenses	3,203,245	422,405	1,125,884	13,128
General and administrative expenses	1,925,072	1,452,975	1,796,032	554,766
Income from operations	23,994,669	7,411,688	14,167,591	4,419,263
Other income (expense), net	15,658,614	(35,163,733)	(46,749,191)	(962,560)
Income (loss) before income taxes and non-controlling interest	39,653,283	(27,752,045)	(32,581,600)	3,456,703
Provision for income taxes	4,640,556	1,055,718	2,243,088	105,249
Net income (loss)	35,012,727	(28,807,763)	(34,824,688)	3,351,454
Net income allocable to non-controlling interest				(351,849)
Net income (loss) allocable to Sino Clean Energy Inc.	$ 35,012,727	$ (28,807,763)	$ (34,824,688)	$ 2,999,605
Basic earnings (loss) per share	$ 2.28	$ (3.00)	$ (3.56)	$ 0.34
Diluted earnings (loss) per share	$ 1.88	$ (3.00)	$ (3.56)	$ 0.34
Basic weighted average shares outstanding	15,385,062	9,609,130	9,792,922	8,716,962
Diluted weighted average shares outstanding	18,668,856	9,609,130	9,792,922	8,816,208

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Reconciliation of Net Income (Loss) to unaudited Non-GAAP Adjusted Earnings

The following table includes a reconciliation of our Net Income (Loss) to unaudited Non-GAAP Adjusted Earnings for the nine months ended September 30, 2010 and 2009 and for the years ended December 31, 2009 and 2008:

	For Nine Months Ended September 30,		For Years Ended December 31,	
	2010 (unaudited)	2009 (unaudited)	2009	2008
Net income (loss)	$ 35,012,727	$ (28,807,763)	$ (34,824,688)	$ 2,999,605
Amortization of discount on convertible notes	8,601,975	3,873,979	3,942,185	
Value of shares issued for bonus interest	1,864,701			
Expenses related to escrow shares		1,294,881	11,125,071	676,466
Gain on extinguishment of derivative liabilities	(28,404,181)	(3,370,593)	(7,046,556)	
Change in fair value of derivative liabilities	2,348,479	8,236,238	12,770,113	
Cost of private placement		24,794,842	24,977,114	
Non-GAAP Adjusted earnings (unaudited)	$ 19,423,701	$ 6,021,584	$ 10,943,239	$ 3,676,071
Non-GAAP Adjusted earnings per share Basic (unaudited)	$ 1.02	$ 0.30	$ 0.57	$ 0.36
Non-GAAP Adjusted earnings per share Diluted (unaudited)	$ 1.02	$ 0.30	$ 0.57	$ 0.36
Reconciliation of GAAP basic shares outstanding to Non-GAAP basic shares outstanding				
GAAP Basic Shares outstanding	15,385,062	9,609,130	9,792,922	8,716,962
Assumed conversion of convertible debentures		6,101,053	5,377,368	890,433
Assumed exercise of warrants	3,633,534	4,116,614	4,116,614	639,013
Non-GAAP Basic Shares outstanding	19,018,596	19,826,797	19,286,904	10,246,408
Reconciliation of GAAP diluted shares outstanding to Non-GAAP diluted shares outstanding				
GAAP Diluted shares outstanding	18,668,856	9,609,130	9,792,922	8,816,208
Assumed conversion of convertible debentures		6,101,053	5,377,368	890,433
Assumed exercise of warrants	349,740	4,116,614	4,116,614	539,767
Non-GAAP Diluted shares outstanding	19,018,596	19,826,797	19,286,904	10,246,408

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	September 30, 2010		As of December 31,	
	Actual (unaudited)	As Adjusted[(1)] (unaudited)	2009	2008
Balance Sheet Data:				
Cash and cash equivalents	$ 34,348,096	$ 59,923,096	$ 18,302,558	$ 3,914,306
Working capital	20,173,642	45,748,642	7,730,396	5,716,968
Total assets	66,239,056	91,114,056	44,633,779	21,105,793
Derivative liabilities	19,101,337	19,101,337	45,157,039	
Total liabilities	24,959,466	24,259,466	51,094,990	2,159,441
Stockholders' equity	41,279,590	66,854,590	(6,461,211)	18,946,352
Total liabilities and stockholders' equity	66,239,056	91,114,056	44,633,779	21,105,793

(1) Reflects the results of the sale by us of 5,465,000 shares of common stock in this offering at the public offering price of $5.25 per share and our receipt of approximately $25,575,000 of the estimated net proceeds of the offering, after deducting underwriting discounts and estimated offering expenses payable by us.

Non-GAAP Financial Measure

Non-GAAP Adjusted earnings and non-GAAP adjusted earnings per share are not measures of financial performance under U.S. GAAP, and should not be considered in isolation or as an alternative to net income (loss) and earnings per share. We define non-GAAP adjusted earnings as net income (loss) excluding charges for the change in derivatives, gains on the extinguishment of derivatives, cost of private placements, which represents the excess of the fair value of the derivative liability created upon issuance of the notes over the amounts received, shares issued for bonus interest, expenses related to escrow shares, and other non-cash financing costs. We believe non-GAAP adjusted earnings is an important measure of operating performance because it allows management, securities analysts, investors and others to evaluate and compare our core operating results to other companies in our industry, including our return on capital and operating efficiencies, from period to period by removing the impact of our costs of private placements, derivative liabilities and other non-cash financing costs. Non-GAAP basic and diluted shares reflects the potential dilution that could occur if convertible debentures and warrants that represent derivatives and note discount were exercised or converted into common stock. Other companies may calculate non-GAAP adjusted earnings differently, and therefore our non-GAAP adjusted earnings and non-GAAP adjusted earnings per share may not be comparable to similarly titled measures of other companies.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our results of operations and financial condition is based upon, and should be read in conjunction with, our consolidated financial statements and accompanying notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements. Actual results could differ materially from the results discussed in the forward-looking statements. Please see "Risk Factors" and "Forward-Looking Statements" for a discussion of some of the uncertainties, risks and assumptions associated with these statements.

Our financial statements are prepared in U.S. Dollars and in accordance with accounting principles generally accepted in the United States. See "Exchange Rates" above for information concerning the exchange rates at which Renminbi were translated into U.S. Dollars at various pertinent dates and for pertinent periods.

Overview

Sino Clean Energy Inc. is a holding company that, through its wholly-owned PRC operating subsidiaries, based upon total third party sales revenue in China, is a leading producer and distributor of coal-water slurry fuel ("CWSF") in China. CWSF is a clean fuel that consists of fine coal particles suspended in water and mixed with chemical additives. Our CWSF products are mainly used to fuel boilers and furnaces to generate steam and heat for residential and industrial use. We sell our products in China and our customers include industrial, commercial, residential and government organizations. Our strong reputation in the CWSF industry in China, together with our established track record for consistently delivering high quality products in large quantities, has enabled us to expand our customer base since establishing commercial operations in 2007 to become the largest third-party CWSF producer in China, as measured by CWSF sales volumes for the first half of 2010. Third party CWSF producers do not include entities that produce CWSF in-house for their own consumption or, parties that import CWSF for sale.

Corporate Organization and History

Our current corporate structure is the result of a number of complex corporate restructurings through which we acquired control of our CWSF business in the PRC. We entered into this series of corporate restructurings in part because certain rules and regulations in the PRC restrict the ability of non-PRC companies that are controlled by PRC residents to acquire PRC companies.

We were originally incorporated in Texas as "Discount Mortgage Services, Inc." on July 11, 2000. In September 2001, we purchased Endo Networks, Inc., a Canadian software developer, and on November 5, 2001, changed our name to "Endo Networks, Inc." We re-domiciled to the State of Nevada on December 13, 2001.

On October 20, 2006 we consummated a share exchange transaction with Hangson, a British Virgin Islands company, the stockholders of Hangson and stockholders who held a majority of the shares of our common stock. We issued a total of 2,600,000 shares of our common stock to the Hangson stockholders and a consultant in the transaction, in exchange for 100% of the common stock of Hangson. As a result of the transaction we became engaged in the CWSF business in China, through the operations of Suo'ang BST and Suo'ang New Energy. On January 4, 2007, we changed our name from "Endo Networks, Inc." to "China West Coal Energy Inc.," and then on August 15, 2007, we changed to our present name, "Sino Clean Energy Inc." to better reflect the direction and business of the Company.

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Hangson was a holding company that controlled Suo'ang BST and Suo'ang BST's 80%-owned subsidiary Suo'ang New Energy, through a series of contractual arrangements. The remaining 20% of Suo'ang New Energy was owned by Mr. Peng Zhou, a member of our board of directors and, at that time, the chief operating officer of Suo'ang BST. Suo'ang BST, through Suo'ang New Energy, commenced CWSF production in July 2007. Although Hangson was entitled to acquire the remaining 20% of Suo'ang New Energy from Mr. Zhou, Mr. Zhou remained as the record shareholder of Suo'ang New Energy.

In 2009, we effected a reorganization of our corporate structure in order to make Suo'ang New Energy a wholly-owned subsidiary (the "2009 Reorganization"), which included entering into a series of agreements transferring the contractual arrangements, through which Hangson controlled Suo'ang BST, to Suoke Clean Energy.

On September 15, 2009, Suo'ang BST and Hangson entered into a share transfer agreement with Suoke Clean Energy pursuant to which Suo'ang BST and Hangson agreed to transfer 100% of the equity interests in Suo'ang New Energy to Suoke Clean Energy. However, since Mr. Zhou still owned 20% of Suo'ang New Energy, on November 10, 2009, Suo'ang BST and Hangson entered into a subsequent share transfer agreement with Suoke Clean Energy to transfer 80% of Suo'ang New Energy's equity interests to Suoke Clean Energy and, Mr. Zhou, with Hangson's consent, entered into a share transfer agreement with Suoke Clean Energy to transfer the remaining 20% equity interest of Suo'ang New Energy. On November 12, 2009, Suo'ang New Energy received a new business license from the Tongchuan Administration for Industry and Commerce, which reflected that the acquisition of 100% of the equity of Suo'ang New Energy by Suoke Clean Energy had been completed. As a result we were able, through Suoke Clean Energy to own 100% of the equity interests of Suo'ang New Energy. On October 12, 2009, Suo'ang New Energy established a wholly-owned subsidiary to conduct the CWSF business in Shenyang, Liaoning Province.

On December 31, 2009, we entered into a series of termination agreements to terminate the contractual arrangements by and among Suoke Clean Energy, Suo'ang BST and certain stockholders of Suo'ang BST. We no longer needed to keep such contractual arrangements in place due to the fact that Suo'ang BST was no longer engaged in any substantial business operations. In connection with the termination agreements, certain assets held by Suo'ang BST, such as office equipment, vehicles, bank deposits, and accounts receivable, were transferred to Suoke Clean Energy. Employees of Suo'ang BST signed new employment contracts with Suoke Clean Energy. All rights and obligations under certain business operation agreements and research and development contracts between Suo'ang BST and third parties were assigned to Suo'ang New Energy. Hangson has had no substantive operations of its own after the transfer and termination of the contractual arrangements.

On June 30, 2009, Hangson acquired all of the outstanding shares of Wiscon, a limited liability company incorporated in Hong Kong under the Companies Ordinance. On December 31, 2009, Hangson transferred all of the outstanding shares of Wiscon to Sino Clean Energy Inc. As a result, Wiscon became a direct wholly-owned subsidiary of Sino Clean Energy Inc.

Although the equity transfers in the PRC described above were approved by local governmental agencies, they were not approved by the PRC Ministry of Commerce ("MOFCOM") or the China Securities and Regulatory Commission (the "CSRC"). For a discussion of the risks and uncertainties arising from these PRC rules and regulations, see "Risk Factors The failure to comply with PRC regulations relating to mergers and acquisitions of domestic enterprises by offshore special purpose

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vehicles may subject us to severe fines or penalties, and create other regulatory uncertainties regarding our corporate structure."

Important Factors Affecting our Results of Operations

We believe that the most significant factors that affect our financial condition and results of operations are:

Economic conditions in China

We operate our manufacturing facilities in China and derive all of our revenue from sales to customers in China. As such, economic conditions in China will affect virtually all aspects of our operations, including the demand for our products, the availability and prices of our raw materials and our other expenses. China has experienced significant economic growth, achieving a compounded annual growth rate of 10% in gross domestic product from 1989 through 2008. We believe that economic conditions in China will continue to have a positive effect on our business and results of operations.

Supply and costs of coal as the principal raw material

Our ability to manage our costs depends significantly on our ability to secure affordable and steady supplies of coal, our primary raw material. We currently procure coal from three suppliers in Tongchuan, and two suppliers in Shenyang. We have historically been able to secure a sufficient supply of coal.

The cost of our primary raw material is subject to fluctuating market prices. For example, between December 31, 2008 and 2009, we experienced an increase in the average cost per metric ton of coal of 7.8%, from RMB 510 to RMB 550. Our operating costs may increase significantly if the price of our raw materials increases due to changes in consumption patterns or as a result of price fluctuations in the local coal market, which may be caused by numerous economic and regulatory factors. To the extent that we pass on the raw material cost increases to our customers, our revenue may also increase significantly as coal prices rise in the PRC market.

Market price for coal, oil and natural gas

We price our CWSF based on the market price of coal for two reasons: (1) past experiences indicate that we are able to sell CWSF at a slight discount to local retail coal prices; (2) because coal accounts for over 80% of our production costs, we are generally able to pass on a majority of the raw material cost increases to our customers.

Additionally, CWSF is a replacement fuel for oil and natural gas, and thus our business activities are affected by the price of, as well as the demand and supply of oil and natural gas. Changes in prices of oil or natural gas, any interruption in the supply of oil or natural gas, or any governmental regulation of the price of oil or natural gas may affect the adoption of CWSF as an alternative fuel in China. During recent years, oil and natural gas prices have fluctuated significantly.

The pricing of refined oil products is heavily regulated by the PRC government. The government periodically adjusts the price to reflect the international crude oil price movements. Any material change or delay in these guidance prices may affect the demand and the selling prices for our CWSF products.

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Demand for, and market awareness of, CWSF

We believe that Chinese companies are realizing the potential advantages of using CWSF as a replacement for coal briquettes, oil and natural gas. Our principal customers are industrial, commercial, government and residential users. These users select CWSF as a fossil fuel to create steam and heat in furnaces or boilers. Since January 2008, the average selling price of our CWSF exclusive of value added tax, increased by 16% from RMB 620 to RMB 720 per metric ton.

The CWSF industry is still in an early stage of development. We believe demand for our products will continue to grow as market awareness of CWSF as a substitute for coal briquettes, oil and natural gas increases. PRC law and government policies promote the development and utilization of clean energy, as well as the improved utilization of coal including CWSF.

Production capacity

In order to capture market share for our products, we have expanded, and plan to continue to expand, our production capacity. Increased capacity has had, and could continue to have, a significant effect on our results of operations, by allowing us to produce and sell more CWSF to generate higher revenues. Our annual production capacity increased from 100,000 metric tons in 2007 to 350,000 metric tons in February 2009, all based at our Tongchuan production facility, and to 650,000 metric tons as of October 2009 as we brought our Shenyang production facility online and finally to 850,000 metric tons by January 2010. We sold approximately 31,000 metric tons, approximately 137,000 metric tons and approximately 456,000 metric tons of CWSF in 2007, 2008, and 2009, respectively. During the first nine months of 2010, we sold approximately 685,000 metric tons of CWSF.

The demand for CWSF from residential heating customers tends to be seasonal in nature, with peak demand occurring between the months of October through March as these are the peak heating periods in the markets which the Company currently serves. Demand for CWSF during peak periods is approximately 30% to 40% higher than during low periods. Demand for CWSF from industrial customers tends to be fairly stable throughout the year, as their application of CWSF is often unrelated to heating. The volume demand of CWSF tends to follow seasonal variations. The price of CWSF tends to follow the price of coal as opposed to seasonal variations.

Gross Profit and Gross Margin

For the years ended December 31, 2009 and 2008, our gross margin was 37.1% and 35.0%, respectively. The primary reason for the fluctuations in our gross margin is related to changes in the price of washed coal, which is a key input in the production of CWSF. The increase in our gross margin in 2009 is also due to the commencement of CWSF production at the Company's Shenyang facility in October 2009, which sells CWSF at a higher margin than the Company's Tongchuan facility.

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Results of Operations

Comparison of Quarterly Periods Ended September 30, 2010 and 2009

The following tables set forth key components of our results of operations for the periods indicated.

	Three months ended September 30, (Unaudited)	
	2010	**2009**
Revenue	$ 24,913,134	$ 10,889,796
Cost of goods sold	(15,269,720)	(6,812,469)
Gross profit	9,643,414	4,077,327
Selling expenses	1,156,147	416,585
General and administrative expenses	579,837	471,644
Income from operations	7,907,430	3,189,078
Other income (expenses)		
Interest and finance costs	(1,047)	(3,149,499)
Expense related to escrow shares		(1,054,548)
Interest income	29,889	11,708
Change in fair value of derivative liabilities	(970,813)	(7,035,248)
Gain on extinguishment of derivative liability		2,381,333
Cost of private placement		(24,794,842)
Sundry expenses	(4,688)	
Total other income (expenses)	(946,659)	(33,641,096)
Income(loss) before provision for income taxes	6,960,771	(30,452,018)
Provision for income taxes	1,349,424	463,050
Net income	$ 5,611,347	$ (30,915,068)

Revenue. During the three-month period ended September 30, 2010, we had revenues from sales of our coal-water slurry fuel of $24,913,134 as compared to revenues of $10,889,796 during the three-month period ended September 30, 2009, an increase of 129%. This significant increase is primarily attributable to the increased production from the production line added in late 2009, which led to an increase in sales to existing customers. The annual production capacity as at September 30, 2010 was 850,000 tons after the commencement of our new CWSF production plant in Shenyang with annual output capacity of 300,000 tons and 200,000 production line added in Tongchuan, as compared to 350,000 tons as at September 30 2009. At September 30, 2010 we had 43 customers under CWSF supply agreements totaling approximately 900,000 tons per year, as compared to 23 customers totaling approximately 400,000 tons of CWSF per year as at September 30, 2009. We believe that our sales and number of customers in 2010 as compared to 2009 are indicative of the growing market acceptance of CWSF.

Cost of Goods Sold. Cost of goods sold, consisting of raw materials, direct labor and manufacturing overhead and depreciation of plant and machinery, was $15,269,720 for the three-month period ended September 30, 2010, as compared to $6,812,469 for the same period of 2009, an increase of 124%. The increase in cost of goods sold is in line with our increase in sales. However, gross profit margin improved from 37% in 2009 to 39% in 2010 mainly as a result of better pricing of CWSF in Shenyang.

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Selling Expenses. Selling expenses totaled $1,156,147 for the three-month period ended September 30, 2010, as compared to $416,585 for the three-month period ended September 30, 2009. This increase is mainly in transportation cost as a result of the growth of our business in 2010.

General and Administrative Expenses. General and administrative expenses totaled $579,837 for the three-month period ended September 30, 2010, as compared to $471,664 for the three-month period ended September 30, 2009, an increase of 24%. This increase was primarily caused by our professional expenses related to preparation of registration statements in 2010.

Income from Operations. Our income from operations for the three months ended September 30, 2010 was $7,907,430, an increase of 148% as compared to $3,189,078 for the same period in 2009, in line with the increase in sales in 2010.

Other Income (expense). Other expense totaled $(946,659) for the three-month period ended September 30, 2010, mainly as the result of the change in fair value of the derivative liabilities of $(970,813) as compared to other expense of $(33,641,096) for the three-month period ended September 30, 2009, primarily caused by the loss on change in fair value of derivative liabilities of $(7,035,248) and cost of private placement of $(24,794,842) which was partially set off by the gain on extinguishment of derivative liability of $2,381,333 in 2009.

Provision for income taxes. For the three-month period ended September 30, 2010 and 2009, our provision for income taxes was $1,349,424 and $463,050, respectively. The increase in income taxes reflects the increase in taxable income from our operations in China. For the three months ended September 30, 2010 and 2009, our effective tax rate was 19% and (1%), respectively, of income before provision for income taxes. In 2010 and 2009, our effective tax rate was increased by 5% and 37%, respectively, due to expenses related to financings and derivatives that are classified as permanent differences. Additionally, in 2010 and 2009, our effective tax rate was reduced by 9% and 1%, respectively, for certain tax holidays we enjoy in the PRC.

Net Income (loss). We had net income of $5,611,437 for the three-month period ended September 30, 2010, as compared to net loss of $30,915,068 for the same period in 2009. The increase in net income is primarily attributable to the increase in sales in 2010.

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Nine month period ended September 30, 2010 compared to nine month period ended September 30, 2009

The following tables set forth key components of our results of operations for the periods indicated.

	Nine months ended September 30, (Unaudited)	
	2010	**2009**
Revenue	$ 73,571,899	$ 26,982,573
Cost of goods sold	(44,448,913)	(17,695,505)
Gross profit	29,122,986	9,287,068
Selling expenses	3,203,245	422,405
General and administrative expenses	1,925,072	1,452,975
Income from operations	23,994,669	7,411,688
Other income (expenses)		
Interest and finance costs	(10,459,201)	(4,231,344)
Expense related to escrow shares		(1,294,881)
Interest income	62,113	22,979
Gain on extinguishment of derivative liability	28,404,181	3,370,593
Change in fair value of derivative liabilities	(2,348,479)	(8,236,238)
Cost of private placement		(24,794,842)
Total other income (expenses)	15,658,614	(35,163,733)
Income (loss) before provision for income taxes	39,653,283	(27,752,045)
Provision for income taxes	4,640,556	1,055,718
Net income (loss)	$ 35,012,727	$ (28,807,763)

Revenue. During the nine-month period ended September 30, 2010, we had revenues from sales of our coal water mixture of $73,571,899 as compared to revenues of $26,982,573 during the nine-month period ended September 30, 2009, an increase of 173%. This significant increase is primarily attributable to the increased production from the production line added in late 2009, which led to an increase in sales to existing customers. The annual production capacity as at September 30, 2010 was 850,000 tons after the commencement of our new CWSF production plant in Shenyang with annual output capacity of 300,000 tons and 200,000 production line added in Tongchuan , as compared to 350,000 tons as at September 30 2009 . At September 30, 2010 we had 43 customers under CWSF supply agreements totaling approximately 900,000 tons per year, as compared to 23 customers totaling approximately 400,000 tons of CWSF per year as at September 30, 2009. We believe that our sales and number of customers in 2010 as compared to 2009 are indicative of the growing market acceptance of CWSF.

Cost of Goods Sold. Cost of goods sold, consisting of raw materials, direct labor and manufacturing overhead and depreciation of plant and machinery, was $44,448,913 for the nine-month period ended September 30, 2010, as compared to $17,695,505 for the same period of 2009, an increase of 151%. The increase in cost of sales sold is in line with the increase in sales. However, gross profit margin improved from 34% in 2009 to 40% in 2010 mainly as a result of better pricing of CWSF in Shenyang.

Selling Expenses. Selling expenses totaled $3,203,245 for the nine-month period ended September 30, 2010, as compared to $422,405 for the nine-month period ended September 30, 2009.

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This increase in selling expenses is mainly due to increase in transportation cost as a result of the growth of our business in 2010.

General and Administrative Expenses. General and administrative expenses totaled $1,925,072 for the nine-month period ended September 30, 2010, as compared to $1,452,975 for the nine-month period ended September 30, 2009, an increase of 32%. This increase was primarily caused by our expansion in operations and the expenses related to being a public company.

Income from Operations. Our income from operations for the nine-month period ended September 30, 2010 was $23,994,669, an increase of 224% as compared to income from operations of $7,411,688 for the same period in 2009, in line with the increase in sales and expenses.

Other Income (Expense). Other income totaled $15,658,614 for the nine-month period ended September 30, 2010, as compared to other expense of $35,163,733 for the nine-month period ended September 30, 2009, primarily caused by the gain on extinguishment of derivative liability of $28,404,181 which was partially set off by the interest expense of $10,459,201 in 2010.

Provision for income taxes. For the nine-month period ended September 30, 2010 and 2009, our provision for income taxes was $4,640,556 and $1,055,718, respectively. The increase in income taxes reflects the increase in taxable income from our operations in China. For the nine-month period ended September 30, 2010 and 2009, our effective tax rate was 12% and (4)%, respectively, of income before provision for income taxes, due to expenses related to financings and derivatives that are classified as permanent differences. Additionally, in 2010 and 2009, our effective tax rate was reduced by 3%, for certain tax holidays we enjoy in the PRC.

Net Income (loss). We had net income of $35,012,727 for the nine-month period ended September 30, 2010, as compared to net loss of $28,807,763 for the same period in 2009. The increase in net income is primarily attributable to the increase in sales in the first nine months of 2010 and gain on extinguishment of derivative liability.

Comparison of Fiscal Years Ended December 31, 2009 and 2008

The following tables set forth key components of our results of operations for the periods indicated.

	For the Years Ended December 31,	
	2009	**2008**
	USD	**USD**
Revenue	$ 46,012,353	$ 14,253,989
Cost of goods sold	(28,922,846)	(9,266,832)
Gross profit	17,089,507	4,987,157
Selling expenses	(1,125,884)	(13,128)
General and administrative expenses	(1,796,032)	(554,766)
Income from operations	14,167,591	4,419,263
Other income and (expense)	(46,749,191)	(962,560)
Income (loss) before income taxes and non-controlling interest	(32,581,600)	3,456,703
Provision for income tax	(2,243,088)	(105,249)
Net income (loss)	(34,824,688)	3,351,454
Net income attributable to non-controlling interest		(351,849)
Net Income (loss) attributable to Sino Clean Energy Inc.	$ (34,824,688)	$ 2,999,605

Revenues. Our revenue is derived from the sale of CWSF. For the year ended December 31, 2009, we had revenues of $46,012,353 as compared to revenues of $14,253,989 for the year ended December 31, 2008, an increase of 222%. This significant increase is primarily attributable to the increased output from the new production lines added throughout 2009, which led to an increase in sales to existing and new customers. The annual production capacity as of December 31, 2009 was 650,000 metric tons, as compared to 100,000 metric tons as of December 31, 2008. As of December 31, 2009, we had 30 customers under CWSF supply agreements totaling approximately 600,000 metric tons per year, as compared to 27 customers totaling approximately 400,000 metric tons per year as of December 31, 2008. We believe that our sales and number of customers in 2009 as compared to 2008 are indicative of the growing market acceptance of CWSF.

Cost of Goods Sold. Cost of goods sold, consisting of raw materials, direct labor and manufacturing overhead, and depreciation of plant and machinery, were $28,922,846 for the year ended December 31, 2009, as compared to $9,266,832 for the year ended December 31, 2008, an increase of 212%. The large increase in cost of goods sold is in line with the increase in sales. Gross profit margin improved from 35% in 2008 to 37% in 2009 as a result of higher selling prices for our CWSF and a lower average cost per metric ton of coal. As a result of the new production line added in 2009, depreciation of plant and machinery for the year 2009 was $1,504,559, as compared to $207,674 in 2008.

Selling Expenses. Selling expenses totaled $1,125,884 for the year ended December 31, 2009, as compared to $13,128 for the year ended December 31, 2008, an increase of 8,476%. This increase is mainly due to an increase in transportation costs resulting from the growth of our business which amounted to $1,071,046. For the year ended December 31, 2008, the transportation cost of CWSF was paid by our customers and for the majority of the year ended December 31, 2009, we included the transportation cost of CWSF in our selling price.

General and Administrative Expenses. General and administrative expenses totaled $1,796,032 for the year ended December 31, 2009, as compared to $554,766 for the year ended December 31, 2008, an increase of approximately 224%. This increase is primarily attributable to the expansion of our operations and increased public company expenses.

Other Income (Expenses). Other income (expenses) consists primarily of rental income, interest income and is net of the stock-based cost of our private placement, changes in the fair value and the extinguishment of certain derivative liabilities, and expenses related to the shares of common stock held by our chief executive officer and placed in escrow in connection with our September 2008 financing transaction. For the year ended December 31, 2009, other expenses were $46,749,191, as compared to $962,560 for the year ended December 31, 2008, an increase of 4,756%. The increase in other expenses is attributable to the derivative liabilities of convertible notes and warrants and the cost of private placement of $37,747,227 related to our July 2009 financing transaction.

Provision for income taxes. For the years ended December 31, 2009 and 2008, our provision for income taxes was $2,243,088 and $105,249, respectively. The increase in income taxes reflects the increase in taxable income from our operations in China. For the years ended December 31, 2009 and 2008, our effective tax rate was 7% and 3%, respectively, of income (loss) before provision for income taxes. In 2009 and 2008, our effective tax rate was increased by 48% and 12%, respectively, due to expenses related to financings and derivatives that are classified as permanent differences. Additionally, in 2009 and 2008, our effective tax rate was reduced by 3% and 31%, respectively, for certain tax holidays we enjoy in the PRC.

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Net Income (Loss). We had net a net loss of $34,824,688 for the year ended December 31, 2009, as compared to net income of $2,999,605 for the year ended December 31, 2008. The decrease in net income is primarily attributable to incurring of derivative liabilities in other expenses related to our July 2009 financing transaction.

Recent Financing Transactions

2008 Financings

In September 2008, we issued an aggregate of $1,335,650 of 18% unsecured convertible debentures (the "Debentures") and issued warrants to purchase up to 890,433 shares of our common stock (the "Series A Warrants") in two private placements. The Debentures bore interest at 18% per annum and matured in one year. The holders of the Debentures had the right at any time to convert all or part of the outstanding principal amount of the Debentures and any accrued and unpaid interest into shares of our common stock at the initial conversion price of $1.50 per share. In 2009, all of the Debentures were converted. The Series A Warrants are exercisable until October 31, 2011 at the initial exercise price of $1.50 per share, subject to adjustments and limited to no lower than $0.50 per share.

2009 Financings

In July 2009, we issued an aggregate of $11,592,000 of 10% senior secured convertible notes (the "Notes") and issued warrants to purchase up to 3,050,526 shares of our common stock (the "Series B Warrants"). The Notes bore interest at a rate of 10% per annum with a three year maturity date. The holders of the Notes had the right at any time to convert all or part of the outstanding principal amount of the Notes and any accrued and unpaid interest into shares of our common stock at the initial conversion price of $1.90 per share. In the first quarter of 2010, all of the Notes were converted into 5,377,368 shares of our common stock.

The Series B Warrants are exercisable at the initial exercise price of $2.85 per share, subject to a full ratchet anti-dilution adjustment in the event that we issue additional equity, equity linked securities or securities convertible into equity, at a purchase price less than the then applicable conversion price or the exercise price.

Quarterly Results of Operations

We have consistently expanded production capacity since commencing production in 2007 in order to increase production volume to meet demand in our current markets. During the period of the eight quarters from October 1, 2008 to September 30, 2010, our production capacity increased from 100,000 metric tons to 850,000 metric tons per year. As a result of increased production volume, our revenue, growth margin and adjusted earnings have increased with compound quarterly growth rate of 22.6%, 23.1% and 19.9%, respectively.

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Sino Clean Energy Inc. and Subsidiaries
Consolidated Statements of Income and Other Comprehensive Income
(Amounts expressed in U.S. Dollars)
(Unaudited)

	Three Months ended							
	September 30, 2010	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**	**December 31, 2008**
Revenue	$ 24,913,134	$ 24,149,761	$ 24,509,004	$ 19,029,780	$ 10,889,796	$ 8,314,500	$ 7,778,277	$ 4,872,749
Cost of goods sold	(15,269,720)	(14,779,016)	(14,400,177)	(11,227,341)	(6,812,469)	(5,534,929)	(5,348,107)	(3,039,226)
Gross profit	9,643,414	9,370,745	10,108,827	7,802,439	4,077,327	2,779,571	2,430,170	1,833,523
Selling expenses	1,156,147	1,136,019	911,079	703,479	416,585	2,261	3,559	5,257
General and administrative expenses	579,837	626,053	719,182	343,057	471,664	432,412	548,899	22,840
Income from operations	7,907,430	7,608,673	8,478,566	6,755,903	3,189,078	2,344,898	1,877,712	1,805,426
Other income (expenses)								
Total other income (expenses)	(946,659)	2,872,713	13,732,560	(11,585,458)	(33,641,096)	(1,499,687)	(22,950)	(1,204,777)
Income before provision for income taxes	6,960,771	10,481,386	22,211,126	(4,829,555)	(30,452,018)	845,211	1,854,762	600,649
Provision for income taxes	1,349,424	1,540,627	1,750,505	1,187,370	463,050	303,382	289,286	80,470
Net income (loss)	**$ 5,611,347**	**$ 8,940,759**	**$ 20,460,621**	**$ (6,016,925)**	**$ (30,915,068)**	**$ 541,829**	**$ 1,565,476**	**$ 520,179**
Weighted average number of shares								
Basic	16,703,844	16,557,000	12,851,265	10,379,897	10,041,910	9,532,061	9,219,471	9,218,175
Diluted	18,780,537	19,216,041	14,933,797	10,379,897	10,041,910	9,910,926	9,275,123	9,537,106
(Loss) Income per common share								
Basic	$ 0.34	$ 0.54	$ 1.59	$ (0.58)	$ (3.08)	$ 0.06	$ 0.17	$ 0.06
Diluted	$ 0.30	$ 0.47	$ 1.37	$ (0.58)	$ (3.08)	$ 0.05	$ 0.17	$ 0.05
Non-GAAP Adjusted Earnings								
Net Income (loss)	$ 5,611,347	$ 8,940,759	$ 20,460,621	$ (6,016,925)	$ (30,915,068)	$ 541,829	$ 1,565,476	$ 520,179
Non-GAAP adjustments:								
Amortization of discount on convertible notes			8,601,975	68,206	3,120,954	423,687	329,338	348,363
Value of shares issued for bonus interest			1,864,701					
Expense related to escrow shares				9,830,190	1,054,548	120,166	120,167	676,466
Gain on extinguishment of derivative liability			(28,404,181)	(3,675,963)	(2,381,333)	(989,260)		
Change in fair value of derivative liabilities	970,813	(2,862,263)	4,239,929	4,533,875	7,035,248	1,779,968	(578,978)	
Cost of private placement				182,272	24,794,842			
	$ 6,582,160	**$ 6,078,496**	**$ 6,763,045**	**$ 4,921,655**	**$ 2,709,191**	**$ 1,876,390**	**$ 1,436,003**	**$ 1,545,008**

Non-GAAP Adjusted Earnings (unaudited)

Non-GAAP Financial Measure

Non-GAAP adjusted earnings are not a measure of financial performance under U.S. GAAP, and should not be considered in isolation or as an alternative to net income (loss). We define non-GAAP adjusted earnings as net income (loss) excluding charges for the change in derivatives, gains on the extinguishment of derivatives, cost of private placements, which represents the excess of the fair value of the derivative liability created upon issuance of the notes over the amounts received, shares issued for bonus interest, expenses related to escrow shares and other non-cash financing costs. We believe non-GAAP adjusted earnings is an important measure of operating performance because it allows management, securities analysts, investors and others to evaluate and compare our core operating results to other companies in our industry, including our return on capital and operating efficiencies, from period to period by removing the impact of our costs of private placements, derivative liabilities and other non-cash financing costs. Other companies may calculate non-GAAP adjusted earnings differently, and therefore our non-GAAP adjusted earnings may not be comparable to similarly titled measures of other companies.

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Liquidity and Capital Resources

For the nine-month period ended September 30, 2010, we generated $21,277,585 from operating activities, as compared to $5,103,069 that we generated from operating activities for the nine-month period ended September 30, 2009. This increase is primarily due to the increase in sales proceeds.

For the nine-month period ended September 30, 2010, we used $4,861,342 in investing activities, of which $2,621,605 was used in the purchase of property, plant and equipment, as compared to the net cash used in investing activities of $4,303,540 for the nine-month period ended September 30, 2009.

For the nine-month period ended September 30, 2010, we used $227,701 in financing activities, primarily due to prepayment of deferred offering cost.

As of September 30, 2010, we had cash and cash equivalents of $34,348,096. Our total current assets were $44,974,816 and our total current liabilities were $24,801,174 which resulted in a net working capital of $20,173,642.

As of September 30, 2010, we had made an initial deposit of approximately $555,000 to purchase approximately 5 acres of land and a production factory for approximately $5,550,000 (RMB 37,200,000). The balance of the purchase price will be due when refurbishment of the factory is complete which is expected to occur by the end of December 2010. At September 30, 2010, we had made an initial deposit of approximately $1,612,000 for the purchase of two production lines with capacity for processing 300,000 tons of CWSF annually in Guangdong costing a total of approximately $5,372,000 (RMB 36,000,000). The balance of the purchase price will be due when the productions lines are completed and in service, which is expected to occur by the end of December 2010.

We believe that we have sufficient cash flow to meet our obligations on a timely basis in the foreseeable future.

For the year ended December 31, 2009, we generated cash of $9,691,888 from operating activities, as compared to $4,795,905 that we generated from operating activities for the year ended December 31, 2008. This increase is primarily due to the increase in revenue.

For the year ended December 31, 2009, we used $4,389,843 in investing activities, as compared to $5,319,546 that we used in investing activities for the year ended December 31, 2008. This decrease of cash used in investing activities is mainly due to the fact that most of the payments for purchases of equipment and machinery for our new production lines were made in 2008.

For the year ended December 31, 2009, we generated $9,082,787 from financing activities, as compared to $1,418,375 that we generated in financing activities during the year ended December 31, 2008. This increase is due mainly to the proceeds raised from the issuance of convertible notes.

As of December 31, 2009, we had cash of $18,302,558. Our total current assets were $28,806,180 and our total current liabilities were $21,075,784, which resulted in net working capital of $7,730,396. We had capital expenditure commitments outstanding as of December 31, 2009 in the amount of $4,071,351 in relation to the purchase of machinery. We believe that we have sufficient cash flow to meet our obligations on a timely basis in the foreseeable future.

As of December 31, 2009, we had outstanding $10,217,000 of principal amount of our convertible notes. Subsequent to December 31, 2009, all the convertible noteholders converted these notes into

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5,377,368 shares of our common stock pursuant to the original securities purchase agreement and note.

Capital Expenditures

We believe that our existing cash, cash equivalents, cash flows from operations, and the proceeds from this offering will be sufficient to meet our presently anticipated future cash needs and to meet our capital expenditure plans. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

We intend to expand our operations as quickly as reasonably practicable to capitalize on the demand for our products. We intend to expand our annual capacity to 1,850,000 metric tons by developing new production capacity in Guangxi and Guangdong Provinces. We estimate that we will require $34.5 million to meet our capital expenditure program over the next twelve months. We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations and public or private financings. We believe that we can continue to meet our cash funding requirements for our business in this manner over the next twelve months.

We had capital expenditure commitments outstanding as of September 30, 2010 in the amount of $10,922,000 in relation to the purchase of machinery.

Contractual Obligations

We have certain commitments as of September 30, 2010 that include future payments. We have presented below a summary in order to assist in the review of this information within the context of our consolidated financial position, results of operations, and cash flows.

Payments Due by Period

	Total	**Less than 1 year**	**1 3 Years**	**3 5 Years**	**5 Years +**
Contractual obligations:					
Capital expenditure commitment[(1)]	$ 10,922,000	$ 10,922,000	$	$	$
Operating leases[(2)]	320,389	35,272	70,544	70,544	144,029
Coal inventory purchase agreement	12,105,045	12,105,045			
Debt repayment and interest on debt[(3)]					
Total contractual obligations:	$ 23,347,434	$ 23,062,317	$ 70,544	$ 70,544	$ 144,029

(1) Capital expenditure commitments include the purchase of machinery for our production of CWSF.

(2) Operating lease amounts include minimum lease payments under our non-cancelable operating leases for office premises and production plants. The amounts presented are consistent with contractual terms and are not expected to differ significantly, unless a substantial change in our headcount requires us to exit an office facility early or expand our occupied space.

(3) We have excluded from this table $10,217,000 of convertible notes that were outstanding as of December 31, 2009 and have been subsequently converted into 5,377,368 shares of our common stock.

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Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our investors.

Inflation

We believe that inflation has not had a material effect on our operations to date.

Critical Accounting Policies and Estimates

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Revenue Recognition

Sales are recognized when the following four revenue criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, and collectability is reasonably assured. Revenue is presented net of value added tax ("VAT"). In our revenue arrangements, physical delivery is the point in time when customer acceptance occurs since title and risk of loss are transferred to the customer. No return allowance is made as products are normally not returnable upon acceptance by the customers.

Accounts receivable

Accounts receivables are recognized and carried at original invoiced amount less an allowance for any uncollectible accounts. We use the aging method to estimate the valuation allowance for anticipated uncollectible receivable balances. Under the aging method, bad debts determined by management are based on historical experience as well as the current economic climate and are applied to customers' balances categorized by the number of months the underlying invoices have remained outstanding. The valuation allowance balance is adjusted to the amount computed as a result of the aging method. When facts subsequently become available to indicate that an adjustment to the allowance should be made, this is recorded as a change in estimate in the current year. As of September 30, 2010, accounts receivable were net of zero allowances.

Derivative Financial Instruments

We evaluate all of our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, we use a Monte-Carlo simulation model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified on the balance sheet as current or non-current based on whether or not

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net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Stock-based Compensation

We periodically issue stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period. Options vest and expire according to terms established at the grant date. As of September 30, 2010, we did not have any equity compensation plans in effect, although our board of directors may approve from time to time the issuance of equity compensation to our employees as additional compensation outside an equity compensation plan.

We estimate the fair value of stock options and warrants using the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of options that have no vesting restrictions and are fully transferable. This model requires the input of subjective assumptions, including the expected price volatility of the underlying stock and the expected life of stock options. Projected data related to the expected volatility of stock options is based on the average volatility of the trading prices of comparable companies and the expected life of stock options is based upon the average term and vesting schedules of the options. Changes in these subjective assumptions can materially affect the fair value of the estimates, and therefore the existing valuation models do not provide a precise measure of the fair value of our employee stock options.

We estimate the fair value of shares of common stock issued for services based on the closing price of our common stock on the date shares are granted. For periods prior to the consummation of our 2006 share exchange transaction, there was no readily available market quotations for our shares of common stock and, as such, we used alternative methods to value shares of our common stock including valuations based upon the conversion price per share of common stock of our convertible notes and the sale price of units consisting of one share of our common stock and warrants to purchase one share of common stock, which management believes were the best indicators of the fair value of our common stock.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On December 5, 2008, we dismissed AGCA, Inc. (formerly known as Yu & Associates CPA Corporation), as our independent registered public accounting firm. The reports of AGCA on our financial statements for the year ended December 31, 2007 contained no adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The decision to change independent accountants was approved by our board of directors.

We had no disagreements with AGCA on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which if not resolved to the satisfaction of AGCA, would have caused AGCA to make reference to the subject matter of such disagreements in its report on our financial statements for such period. During the fiscal year end December 31, 2007, there were no reportable events as defined under Item 304(a)(1)(v) of Regulation S-K adopted by the SEC.

AGCA provided us with a letter addressed to the SEC stating that it agreed with the above statements. This letter was filed as an exhibit to our Current Report on Form 8-K, which was filed with the SEC on December 9, 2008.

On December 5, 2008, we appointed Weinberg & Company, P.A. as our independent registered accounting firm. The appointment of Weinberg & Co. was approved by our board of directors.

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BUSINESS

Company Overview

We are a leading producer of clean coal heating and energy solutions for residential, commercial and industrial uses in China. We produce and distribute coal water slurry fuel ("CWSF"), which is a liquid fuel that consists of fine coal particles suspended in water, mixed with chemical additives, and is primarily used to fuel boilers and furnaces to generate steam and heat for both residential / commercial heating and industrial applications. CWSF is an economic and environmentally friendly alternative to oil and natural gas and provides many benefits over coal briquettes, including increased burn-off rates, improved thermal efficiency, and reduced emissions. We believe that the combination of China's heavy reliance on coal for heat and energy, its extensive coal reserves, and increased government attention to clean coal technologies, make CWSF an ideal alternative for cleaner heat and energy production in China.

China's economic growth over the last four decades has led to a rapid increase in energy demand. According to Frost & Sullivan, China accounted for 17.7% of global primary energy demand in 2008 and will overtake the United States as the world's largest consumer of energy in 2011. China is the largest producer and consumer of coal in the world, making it much more reliant on coal than other developed nations, as it is used extensively not only for power generation, but also for industrial applications and residential heating. Coal is the most widely used energy source in China for heating and electric power generation due to its abundance, broad geographic distribution, and mature power conversion infrastructure. According to the National Bureau of Statistics of China, coal is expected to be used for approximately 67% of total energy consumption in China in 2010 and represents more than 90% of estimated domestic fossil fuel reserves. Although significant progress has been made by Chinese central and provincial governments to utilize alternative sources of energy such as hydro, nuclear, solar and wind power, significant obstacles remain in establishing alternative energy to satisfy a significant portion of China's energy requirements primarily due to their relatively prohibitive capital costs, especially in light of the well established coal power conversion infrastructure that is already in place in China. According to Frost & Sullivan, overall CWSF demand in China is expected to grow at a compounded annual growth rate ("CAGR") of 24.7% from 2008 to 2014.

Our business was originally established in August 2002 to focus on the production and distribution of copolymer resin products. In 2004, we identified an attractive opportunity to enter the CWSF market due to the strong government push for clean coal technologies and the resulting market demand for more efficient and cleaner uses of coal. In April 2006, we decided to focus solely on the research, development, production, marketing and sale of CWSF and accordingly phased out our copolymer resin business in January 2007. We obtained our first sales contracts for CWSF in early 2007, completed the installation of our first 100,000 metric ton CWSF production line in June 2007, and commenced mass production and distribution of CWSF in July 2007. We have grown substantially in recent years by adding production capacity at existing and new locations, and are currently fully utilizing our in-place annual production capacity of 850,000 metric tons of CWSF.

We primarily use washed coal to produce CWSF, which we procure from local coal mines. We have established strong relationships with our suppliers and our ability to purchase large quantities of raw materials has allowed us to achieve favorable pricing and delivery terms. We sell our CWSF exclusively in China to residential complex development management companies, commercial businesses, industrial users, and government organizations that use CWSF predominantly for residential/commercial heating and industrial applications. Our customers adopt CWSF as a substitute for oil, natural gas and coal briquettes in their furnaces or boilers. We typically enter into three to five year framework agreements with our customers that provide guidance on CWSF sales volumes

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and prices. We have framework agreements in place with approximately 90% of our customers. Based on our experience, the CWSF consumption volume of any given boiler does not change materially from year to year. Once established, the customer base for CWSF is very stable, as consumption patterns are highly predictable, and the cost to switch CWSF boilers to other fuels is prohibitively expensive. Our strong reputation in the CWSF industry in China, together with our established track record for consistently delivering high quality products in large quantities, has enabled us to expand our customer base over time. As of September 30, 2010, we were servicing a total of 43 customers in Shaanxi and Liaoning Provinces.

Company Strengths

Exclusive focus on CWSF, which has significant advantages over coal briquettes and other traditional fossil fuels

CWSF has several advantages over coal briquettes and other traditional fossil fuels, including:

- it is more energy efficient;
- it creates significantly less pollution;
- it is a cheaper source of energy;
- it is cleaner to transport and store; and
- it is safer to handle.

Compared to coal briquettes, CWSF has a higher burn-off rate (the percentage of combustible mass in a given unit of solid fuel mass) and thermal efficiency (the percentage of useful work in the output of total energy), which reduces carbon discharge and increases the utilization of the coal input. According to Frost & Sullivan, CWSF emits 80% less sulfur dioxide than coal briquettes and 49% less sulfur dioxide than oil. Depending on the geographic area, we believe CWSF may be approximately 50% cheaper than oil and approximately 30% cheaper than natural gas on a per-unit-of-energy basis. Compared to coal briquettes, CWSF is cleaner to transport and store, as it can be transmitted by tank trucks and through pipelines and can be stored for up to one year. CWSF is safer to handle than other traditional fossil fuels, as CWSF's relatively high burning point of over 800 degrees Celsius makes it more resistant to explosion.

The CWSF industry has strong government support and is growing rapidly

In China's 2010 Report on Central and Local Budgets, the Chinese government states that it has budgeted approximately US$12 billion for energy conservation and pollution reduction and to promote the development of low-carbon technologies. Since China began pursuing the development of CWSF technology in the 1980's, demand for CWSF has increased, logistics costs have been reduced, and suppliers have implemented better quality controls to ensure a more consistent product. According to Frost & Sullivan, in 2008, China's annual CWSF demand was 15.9 million metric tons, and CWSF was being used in 700 industrial furnaces and in hundreds of industrial kilns as a replacement for oil, natural gas and coal briquettes. According to Zhongjing Zongheng Economy Research, there are approximately 600,000 traditional fossil fuel burning industrial boilers and kilns currently installed in China, with approximately 100,000 requiring replacement or major repairs each year. We believe there is significant opportunity for the CWSF industry to fill the void left by older coal briquette burning boilers that are being phased out by legislation and obsolescence. According to Frost & Sullivan, overall CWSF demand is expected to grow at a CAGR of 24.7% from 2008 to 2014. Furthermore, we believe that a significant opportunity exists for third-party CWSF producers, which are expected to increase their market share from 13% in 2008 to 24% in 2011.

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Dominant market position with a proven product and technology that is in full scale commercial production

Having commenced operations in 2006, we have established a first mover advantage as one of the first commercial CWSF producers in China and, to our knowledge, the only pure-play publicly listed CWSF producer in the world. We obtained our first sales contracts for CWSF in early 2007, completed the installation of our first CWSF production line in June 2007, and commenced mass production and distribution of CWSF in July 2007. We believe that there are currently 40 to 50 active CWSF suppliers in China, however, most are much smaller than us, with third party sales volumes of less than 100,000 metric tons. We are the largest third-party CWSF producer in China as measured by third party sales volume for the first half of 2010, and we currently have in-place CWSF production capacity of 850,000 metric tons. Third party CWSF producers do not include entities that produce CWSF in-house for their own consumption or, parties that import CWSF for sale. We aim to increase our annual production capacity to 1,850,000 metric tons through the expansion of production capacity at existing facilities and the development of new facilities throughout China. For the year ended December 31, 2009, we had revenue and income from operations of approximately US$46 million and US$14 million, respectively.

Exclusive Agreements with Select Strategic Partners

We have agreements in place with strategic partners who we believe are highly complementary to our CWSF production business. We have a sales agency agreement with Qingdao Haizhong Enterprise Co., Ltd. ("Haizhong Boiler"), a CWSF boiler manufacturer with an estimated 78% share of the Chinese CWSF boiler market (according to Beijing Zhongjing Zhongheng Information and Consulting Center, Haizhong Boiler's market share was determined on December 30, 2009 and was valid until October 31, 2010), whereby we act as the exclusive distributor for Haizhong Boiler's CWSF boilers in Shaanxi Province. Following the success of the sales agency agreement in Shaanxi Province, we entered into an exclusive nationwide strategic partnership agreement with Haizhong Boiler pursuant to which Haizhong Boiler focuses on selling CWSF boilers and in some markets operating heat supply plants, while we focus on supplying the requisite CWSF. We have an exclusive agreement with Shenyang Haizhong Heat Resource Co., Ltd, an unrelated third-party municipal heat supplier, to supply CWSF for residential and commercial heating in Shenyang. The current amount of CWSF required is approximately 300,000 metric tons and is estimated to increase to 850,000 metric tons by the end of 2012. We also have an agreement with Tongchuan City Investment and Development Co., Ltd. to develop a new heat supply company for the purpose of providing heating for the new district of Tongchuan. It is expected that 15 heat supply plants will need to be built and the requisite CWSF will be supplied by us. Suo'ang New Energy is expected to retain a 15% stake in the Tongchuan heat supply company.

Established relationships with customers and suppliers which provide visibility on long term cash flows

Since obtaining our first sales contracts for CWSF in January 2007, we have expanded our customer base to a point where we were serving a total of 43 customers as of September 30, 2010. We have developed a strong reputation in the CWSF industry in China, which, together with our established track record for consistently delivering high quality products in large quantities, has enabled us to maintain and expand our customer base. As the only CWSF producer in Shaanxi Province, we are greatly insulated from the risk of customer attrition to competing suppliers in that area. Since commencing commercial operations in 2007, we have achieved a 100% customer retention rate. Our customers include residential developers, commercial customers, industrial customers, and government organizations that use CWSF primarily for industrial uses and residential/commercial heating applications as a substitute for oil, natural gas or coal briquettes. We have entered into long

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term framework agreements with approximately 90% of our customers, which set out guidance on quantities and prices for CWSF, typically with a term of three to five years. We have established strong relationships with our suppliers, and our ability to purchase large quantities of raw materials has allowed us to achieve favorable pricing and delivery terms.

Experienced management team with a proven track record

We have a well seasoned and experienced senior management team with significant CWSF industry experience that we believe will enable us to execute on our expansion strategy. Our CEO, Mr. Baowen Ren, is a prominent figure in China's CWSF industry with over seven years' experience in CWSF research, development and sales. As a member of the China CWSF Research Center, the China Association of Environmental Protection Industry, and the China Association of Low-Carbon Economy, Mr. Ren is very familiar with China's clean energy policies, regulations, and directions, and the role that CWSF plays within China's clean coal technology plan. Since 2005, Mr. Ren has built the largest CWSF production base in northwest China. In 2008, Mr. Ren issued the paper "The Development of CWSF under the Movement of National Energy Conservation and Emission Reduction", which was adopted by the National CWSF Promotion Work Conference Paper Collection. Mr. Ren has received numerous accolades and acknowledgements for his achievements and success, including a designation as "Shaanxi Top 100 Entrepreneur". Mr. Peng Zhou, the chief operating officer of Shenyang Energy, brings strong operational expertise in CWSF industry. He is an expert in coal resources in west China, and has substantial knowledge of CWSF technologies and markets in China. He has managed operations in multiple industries for more than 10 years. His expertise and dedication to CWSF has significantly contributed to our strong growth. Our CFO, Ms. Wendy Fu brings more than twenty years of professional financial and accounting experience with public companies and accounting firms, including former roles as the CFO of China Shenghuo Pharmaceutical Holdings Inc. (AMEX: KUN), Vice President of Finance at Shengdatech, Inc. (Nasdaq: SDTH) and Assistant Finance Controller at Wal-Mart China.

Growth Strategy

Our objective is to be the leading supplier of CWSF in China. Key elements of our growth strategy include:

Pursue organic growth in existing markets

At the beginning of 2009, we had in-place CWSF production capacity of 350,000 metric tons, 100% of which was from our Tongchuan facility. In October 2009, we brought our 300,000 metric ton per annum Shenyang facility on-line, bringing aggregate annual in-place production capacity to 650,000 metric tons. Having added an additional 200,000 metric tons of capacity at our Tongchuan facility in January 2010, our run-rate production capacity increased to 850,000 metric tons per annum. For the year ended December 31, 2009, we sold approximately 456,000 metric tons of CWSF, representing substantially all of our production in that year. During the first nine months of 2010, we sold approximately 685,000 metric tons of CWSF. We believe that there is significant organic growth potential embedded within our current operations as we continue to bring new production capacity on-line in both of our existing markets. Our sales and marketing team consists of 12 in-house personnel which sell our CWSF to customers located mainly within a radius of 200 kilometers of our production facilities. We plan to further expand our customer base and market share by increasing our sales and service personnel.

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Leverage strategic partnership with Haizhong Boiler

In order to increase the adoption of CWSF technology, we have established collaborative market development programs with Haizhong Boiler, which is China's largest CWSF boiler and furnace equipment manufacturer, which we believe will give us the ability to effectively market our CWSF products to prospective customers. We have established a sales agency agreement with Haizhong Boiler, pursuant to which we act as the exclusive distributor for Haizhong Boiler's CWSF boilers in Xi'an and Tongchuan in Shaanxi Province, and receive a referral fee of approximately 20% of each boiler sold by us within the province. Following the success of the sales agency agreement in Shaanxi province, we entered into an exclusive nationwide strategic partnership agreement with Haizhong Boiler pursuant to which Haizhong Boiler focuses on selling CWSF boilers, and in some markets operating heat supply plants, while we focus on supplying the requisite CWSF.

Capitalize on strong government support for CWSF

As China's economy continues to grow at a rapid pace, the demand for energy will continue to increase, placing further strain on China's energy infrastructure. Increasing urbanization rates and improved living standards are expected to increase the consumption of energy as the demand for residential heating continues to rise. Coal is the largest fuel source for heating and electric power generation in China, comprising approximately 67% of overall energy production. As China has low-cost, abundant and geographically distributed coal reserves and a mature coal-to-energy conversion infrastructure, it is expected that coal will continue to be one of the most important sources of energy for China in the foreseeable future and as a result, we believe that any solution to China's pollution problems must include clean coal technologies, such as CWSF. We believe that China's increased focus on the environment and its extensive coal reserves make CWSF an attractive alternative for cleaner energy production, which would drive demand for CWSF products over time. CWSF has been listed as a key scientific and technological project in each of China's Five-Year Plans since 1981, and in several other major sustainable development policy initiatives. Many provinces and cities across China have adopted specific and quantifiable targets, plans, policies and incentives to promote the usage of CWSF, including financial subsidies to CWSF consumers relating to boiler installations and incentives for attaining threshold levels of CWSF consumption. We have entered into an agreement with the Tongchuan municipal government to develop a network of 15 new residential heat supply plants over the next five to seven years that utilize our CWSF as a fuel source.

Grow through expansion and acquisitions in other regional markets

We plan to increase our CWSF production capacity through the construction of new facilities and the acquisition of existing CWSF production facilities in new geographic regions. Our geographic expansion plans will initially focus on Nanning, Guangxi Province and Guangdong Province. In addition, we plan to expand the production capacity at our current location in Shenyang, Liaoning Province. We expect that such growth initiatives will increase our aggregate annual CWSF production capacity to 1,850,000 metric tons.

Coal-Water Slurry Fuel

CWSF is a fuel that consists of fine coal particles suspended in water, mixed with chemical additives. By mass, CWSF is typically comprised of 70% fine dispersed coal particles, 29% water and 1% chemical additives. The presence of water in CWSF reduces harmful emissions into the atmosphere during the combustion process, as CWSF's water content can be turned into water vapor, which decreases the temperature within the boiler, thereby inhibiting the production of oxynitride. CWSF is burned in a liquid state within a boiler which is specifically designed for the combustion of

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CWSF. When burned, CWSF is pumped from a storage chamber into a duct which carries the fuel to an atomizer. The atomizer injects a fine spray into the combustion chamber in a manner similar to that used in oil boilers. This method of injection increases the burn-off rate and thermal efficiency of CWSF, making it much more efficient than traditional coal briquettes.

Coal particles in CWSF typically have a size of less than 200 to 300 microns and can be used in several different applications. Smaller-particle CWSF is more versatile in a broader range of potential applications, however, smaller CWSF is more difficult to manufacture. CWSF particles as small as 20 microns have been demonstrated to be viable substitutes for oil and natural gas in power plants. In the largest particle form, CWSF is a viable substitute for oils used to produce steam in boilers. At 80 microns or less, CWSF can be used as a co-fuel or substitute fuel in diesel engines. Currently, we are capable of producing CWSF with a particle size that is as fine as 20 to 30 microns. Although smaller particle CWSF has a broader range of applications, there is currently no significant price difference compared to larger particle CWSF.

CWSF can be stored for up to a year. By converting the coal into a liquid form, the delivery and dispensation of the fuel can be simplified. It is stored in tanks and can be transported by tank trucks and pipes similar to oil or natural gas, which is an advantage over coal briquettes. Furthermore, CWSF's water content increases its burning point which makes it safer to store and cleaner to transport than coal briquettes.

Benefits of CWSF

As CWSF's primary raw material is coal, it is a very competitive alternative to oil and natural gas on a per unit of energy basis, primarily because of the relatively low cost of coal in China. Depending on the geographic area, CWSF may be approximately 50% cheaper than oil and approximately 30% cheaper than natural gas on a per unit of energy basis. According to Frost & Sullivan, in 2009, the cost for oil in China was RMB 426 per billion calories and the price of natural gas was RMB 312 per billion calories, whereas the cost of CWSF was RMB 211 per billion calories. Due to China's ongoing support for research and development of CWSF and its abundant coal resources, CWSF is expected to maintain a price advantage over oil and natural gas.

Compared to coal briquettes, CWSF is significantly less harmful to the environment. CWSF has a higher burn-off rate and thermal efficiency than coal briquettes, thereby increasing the utilization of the input coal, which reduces sulfur dioxide, nitrogen oxide and soot. Sulfur dioxide is predominately captured by CWSF boilers and furnaces during the combustion process. Based on data from Frost & Sullivan, the use of CWSF reduces sulfur dioxide emissions by over 80% compared to burning coal briquettes and 49% compared to burning oil while generating the same amount of energy. As China's environmental regulations become more stringent, CWSF is expected to gradually replace coal briquettes in many industrial applications. The following charts illustrate the differences between coal briquettes, oil, natural gas and CWSF on an efficiency and emissions basis.

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Fuel Performance Comparison

		Coal Briquette	Oil	Natural Gas	CWSF
Operating assumptions					
Energy per unit (kcal/t)		6.5 M	10.0 M	9,000/m3	4.5 M
Burn-off rate		65%	99%	99%	98%
Thermal efficiency		65%	90%	90%	86%
Energy generated (kcal/t)		2,746,250	8,910,000	8,019 per m3	3,792,600
Economics					
Market price of fuel (RMB/t)		680	3,800	2.5 (RMB/m^3)	800
End user cost (RMB/Bcal)		248	426	312	211
Emissions					
SO_2	Emissions (kg)	20.00	26.00	0.00	5.60
	Emission Index*	7.28	2.92	0.00	1.48
NO_x	Emissions (kg)	7.64	2.31	0.27	n/a
	Emission Index*	2.78	0.26	0.03	n/a
Soot	Emissions (kg)	68.53			48.00
	Emission Index*	24.95			12.66

* "Emission Index" is "Emissions" / "Energy generated". Source Frost & Sullivan

CWSF is burned in boilers that are specially designed for its combustion. Although it is possible to retrofit oil burning boilers to be CWSF compliant, most adopters of CWSF elect to install new CWSF boilers due to their superior operating efficiency and lower on-going maintenance costs relative to retrofitted boilers. Based on previous experience, management believes that the cost to purchase and install a new CWSF boiler ranges from approximately $150,000 to $750,000, depending on output capacity, which is approximately 15% to 20% higher than the capital costs for purchasing and installing traditional coal briquette boilers. It is typically not economical to retrofit coal briquette or natural gas burning boilers.

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Industry Overview

Energy and Coal

China's economic growth over the past four decades has led to a rapid increase in energy demand. According to Frost & Sullivan, China accounted for 17.7% of global energy consumption in 2008, and is expected to overtake the United States as the world's largest energy consumer in 2011.

Energy Consumption by Region (Global), 2008

Source: Frost & Sullivan, BP Statistical Review of World Energy (June 2009)

(1) Other Americas include Canada, Mexico, Argentina, Brazil, Chile, Colombia, Peru, Venezuela, and so on.

(2) Other Asia Pacific include Australia, Bangladesh, China Hong Kong, China Taiwan, India, Indonesia, Japan, Malaysia, New Zealand, and so on.

Globally, coal accounted for approximately 29% of total energy consumption in 2008. China is the largest producer and consumer of coal in the world, as it uses coal extensively not only for power generation, but also for industrial applications and residential heating. According to the BP Statistical Review of World Energy, China has become the world's largest emitter of carbon dioxide. Coal is the most widely used energy source in China for heating and electric power generation due to its abundance, broad geographic distribution, mature power conversion infrastructure, and low and stable delivery cost. In 2010, coal is expected to account for approximately 67% of overall energy consumption in China.

Energy Structure Forecasts (China), 1980 2010E

Source: Natural Bureau of Statistics of China, Frost & Sullivan

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China has abundant deposits of coal. With proven coal reserves estimated at 114.5 billion metric tons, coal comprises 94.0% of China's proven fossil fuel reserves, while oil and natural gas represent only 5.4% and 0.6%, respectively. Assuming China's fossil fuel reserves continue to be extracted at current rates, China's coal reserves are likely to last another 90 years, whereas oil is expected to be depleted in only 21 years and natural gas in 39 years.

China's Proven Fossil Fuel Reserves, 2008

Source: Frost & Sullivan

Map of China's Coal Resources

Source: Barlow and Jonker (2001)

China's existing energy infrastructure is a major source of the country's pollution and may hinder the country's future economic growth as the increased reliance on coal continues to negatively impact the environment and public health. Pollutants created from the production, transportation and combustion of coal include sulphur dioxide, nitrogen oxide, soot, dust and ash. The World Bank estimates that around 400,000 people in China die each year from pollution-related illnesses. Sulfur dioxide has resulted in acid rain falling on more than 30% of China's total land, ruining croplands, threatening food chains and water systems, and leading to other negative environmental impacts.

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Climate change has already produced visible adverse effects on China's air quality, agriculture, livestock, forests, fresh water resources and coastal regions.

Total Sulfur Dioxide Emissions by Country (1980 2000)

Source: Frost & Sullivan

Alternative Energy and Clean Coal Technologies

Although alternative energies such as hydro, solar and wind power have begun to gain traction as increasingly important components of China's energy infrastructure, they are not expected to replace coal as China's core source of energy. Compared to coal, alternative energy sources generally have longer lead times, higher capital costs, and lower returns on investment relative to coal. Coal is expected to remain an attractive and important component of China's energy infrastructure due to its relative abundance, broad geographic distribution, mature power conversion infrastructure and low and stable delivery cost.

Comparative Assessment of Different Power Sources

Source: Frost & Sullivan

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Developing and utilizing clean coal technology in order to overcome the lower energy efficiency and higher pollution properties of coal briquettes is essential to China's social and economic development. China has stressed the importance of the development of clean coal technology and established the Clean Coal Technology Plan ("CCTP") in 1997, with the objective of improving coal consumption efficiency and reducing environmental pollution. China's CCTP includes four major areas: (i) coal processing (which includes CWSF), (ii) high-efficiency clean combustion of coal, (iii) coal transformation, and (iv) pollution emission control and the disposal of waste materials. China has budgeted approximately US$12 billion in 2010 for energy conservation and pollution reduction. The following table outlines the framework of China's CCTP, which includes 14 major technologies, including CWSF:

Coal Processing	High Efficiency Clean Combustion and Power Generation	Coal Transformation	Pollution Emission Control and Waste Disposal
Coal Preparation	Advanced Burners	Coal Gasification	Flue Gas Cleaning (Desulfuration and Denitration)
Briquettes	Fluid Bed Combustion (FBC)	Coal Liquefaction	Development and Utilization of Coal-Bed Methane
Coal Blending	Integrated Gasification Combined Cycle (IGCC)	Fuel Cells	Comprehensive Utilization of Coal Gangue, Fly Ash and Coal Slurry
Coal Water Slurry Fuel			Industrial Boilers and Furnace

Source: Frost & Sullivan

CWSF Market Development

CWSF originated in the Soviet Union in the 1950's, where experiments were conducted to develop new ways of utilizing coal sludges for power generation. The United States conducted further research into CWSF during the 1973 oil crisis, as it searched for alternatives to crude oil. China started pursuing the development of CWSF technology in the 1980s after CWSF had successfully been developed by the Bayi Coal Mine. After developing local CWSF production capabilities, China's central government set out to promote the increased use of CWSF, where it was used on a trial basis in key national projects and plants and was listed in several key national policy initiatives, including the *"Current Catalogue of Key Industries, Products, and Technologies to be Encouraged"* from 1991 to 1995. China's *"9th Five Year Plan (1996 2000)"* set out a research scope for CWSF and a demonstrative 220 t/h CWSF furnace was built to replace oil burning boilers in power plants. CWSF's prominence was enhanced in China's *"10th Five Year Plan (2001 2005)"*, where the central government released a stand-alone report entitled "2010 Outline for Development of CWSF in China." Following the successful promotion of CWSF, the government has now moved on to encourage its wider application, and has been working with provincial and municipal governments to create local policies and incentives to encourage the use of CWSF. By 2008, China was leading the world in the technological development, production and consumption of CWSF. China's commitment to CWSF has allowed it to overcome issues such as cost (transportation and specialty CWSF furnaces), product quality and a customer base that initially inhibited commercial production.

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Furthermore, demand has increased as a result of government subsidies that are being provided to encourage the installation of CWSF boilers and the usage of CWSF as a fuel, and suppliers have implemented better quality controls to ensure a more consistent product.

According to Frost & Sullivan, approximately 13% of CWSF demand was fulfilled by domestic third-party producers in 2008, which is expected to grow to approximately 24% by 2011. Third-party sales are provided by dedicated producers that supply energy producers with CWSF. Given that the in-house market is not externally focused, we expect that increased demand for CWSF will be met through thirty-party sales by dedicated producers such as us. The following charts indicate the breakdown of CWSF by source of supply in 2008 and 2011 respectively. In-house production consists primarily of state-owned coal manufacturers and/or electricity generators that produce CWSF for their own use.

CWSF Market: Breakdown by Source of Supply (China), 2008

CWSF Market: Breakdown by Source of Supply (China), 2011E

Source: Frost & Sullivan

The market demand for CWSF in China in 2008 was 15.9 million metric tons. CWSF is used in 700 industrial furnaces and in hundreds of industrial kilns as a replacement for oil, natural gas and coal briquettes. According to Beijing Zhongjing Zongheng Information and Consulting Center, there are approximately 600,000 traditional fossil fuel burning industrial boilers and kilns currently installed in China, with approximately 100,000 requiring replacement or major repairs each year. According to Frost & Sullivan, overall CWSF demand is expected to grow at a CAGR of 24.7% from 2008 to 2014.

CWSF Market: Total Demand Breakdown (China), 2006 2014E

Source: Frost & Sullivan

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Government Support for CWSF

Government policy mandates for the use of clean coal, and financial subsidies from central, provincial and municipal governments are expected to continue to drive demand for CWSF in the residential heating market, as well as for industrial applications in the metallurgy, ceramics and chemical industries. CWSF is an evolving technology, and future developments are expected to broaden the applications of CWSF, further expanding the size of the market. CWSF has been listed as a key scientific and technological project in each of China's Five-Year Plans since 1981, and in several other major sustainable development policy initiatives. Many provinces and cities across China have adopted specific and quantifiable targets, policies and regulations to promote the usage of CWSF, including financial subsidies to CWSF consumers relating to boiler installations and incentives for attaining threshold levels of CWSF consumption.

Local Chinese Government CWSF Policies and Incentives

Region	**Policies and Plans**	**Incentives**
Tongchuan, Shaanxi	Environmental-protection departments are required to strengthen comprehensive CWSF policies to save energy, reduce emissions and promote the application of CWSF and other new clean energies Convert all coal heating boilers to CWSF boilers or other clean energy sources by 2012 Starting in 2008, all new heating facilities must use CWSF or other clean energy sources Develop 20 central heating stations using CWSF	2008 2012: Government allocated RMB 3.0 million each year as a subsidy for promoting CWSF boilers Newly-built CWSF boilers: 10.0% of the total investment Upgrading coal boilers to CWSF boilers: subsidizing 20.0% of the total investment Upgrading oil boilers to CWSF boilers: RMB 100,000 subsidy Centralized heat supply using CWSF: RMB 300,000 to RMB 500,000 subsidy depending on scale

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Region	Policies and Plans	Incentives
Shenyang, Liaoning	Planned to build 56 CWSF boilers from 2000 2003	Favorable loan terms Selected tax exemptions
Nanning, Guangxi	CWSF production of 1.5 million metric tons by 2010 Convert all coal-burning boilers under 35mt/h to CWSF boilers or other clean energies by 2012	2007 2010: Government allocated RMB 3.0 million each year as a subsidy for promoting CWSF boilers Newly-built CWSF boilers: Subsidy of up to RMB 200,000 Centralized heat supply using CWSF: RMB 150,000 to RMB 500,000 subsidy depending on scale
Dongguan, Guangdong	50 boiler users selected to use CWSF	Qualified users: one-time subsidy of 20% of the cost of equipment for upgrade, capped at RMB 1.0 million

Source: Frost & Sullivan

Regional Market Size

We presently have CWSF production operations in the provinces of Shaanxi (at our Tongchuan facility) and Liaoning (at our Shenyang facility) and are planning to expand into the provinces of Guangxi and Guangdong. We believe the regional market size of our current and target markets to be as follows:

Province	Potential Addressable Market Size (metric tons/annum)	Sino Clean Energy's In-place Capacity (metric tons/annum)	# of Suppliers (including Sino Clean Energy)
Shaanxi	5,000,000	550,000	1
Liaoning	6,000,000	300,000	3
Guangxi	9,000,000	0	3
Guangdong	61,000,000	0	7

Source: Beijing Zhongjing Zongheng Information and Consulting Center

Competition

We are the largest third-party CWSF producer in China, as measured by CWSF sales volume for the first half of 2010. The CWSF industry is still at an early stage in China and we have thus far experienced limited competition from domestic CWSF producers. We believe that there are currently no foreign competitors with a material presence in the CWSF industry in China. Currently there are approximately 40 to 50 active CWSF suppliers in China, although most have commercialized sales volumes of less than 100,000 metric tons. Competition is mainly based on establishing a large and stable local customer base in order to gain increased market share. CWSF producers in China compete on a localized level and often lack the capability to expand to a more regional or national scale. Establishing production capacity on a regional basis, typically within 200 kilometers of large customers, is of critical importance in the CWSF industry, as deliveries beyond this radius typically become uneconomical. The table below depicts the top

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five CWSF suppliers in China, as measured by third-party sales volume (i.e. excluding in-house production and consumption).

Rank	Supplier	Primary Geography	Domestic Third Party Sales Volume Q1 to Q2, 2010 (Thousand MT)	Market Share
1	Sino Clean Energy	Xian, Shaanxi	440	15.9%
2	Dongguan Power Fuel	Dongguan, Guangdong	383	13.8%
3	Shandong Bayi	Zoazhuang, Shandong	220	7.9%
4	Datong Huihai	Datong, Shanxi	125	4.5%
5	Gansu Lvtianyuan	Lanzhou, Gansu	110	4.0%
	Others		1,491	53.9%
	Total		**2,769**	**100.0%**

Source: Frost & Sullivan

Our Business Model

Based upon total third party sales revenue in China, we are a leading CWSF producer in China with current annual production capacity of 850,000 metric tons. We are aiming to increase our annual production capacity to approximately 1,850,000 metric tons through the expansion of our existing production facilities in Shenyang and the planned expansion into the provinces of Guangxi and Guangdong. We believe we were among the first companies in China to produce CWSF on a commercial scale, and our first-mover advantage, combined with our reputation for high quality products has allowed us to establish strong customer and supplier relationships. We believe we are well positioned to leverage our increasing scale in order to expand our customer base to meet China's growing demand for CWSF.

We launched our first CWSF plant in the city of Tongchuan, north of Xi'an, the provincial capital of Shaanxi Province in 2007. The Tongchuan plant presently has an annual production capacity of 550,000 metric tons and supplies our customers in Shaanxi Province. In October 2009, we commenced operations at our new CWSF production plant located in Shenyang, the capital of Liaoning Province in northeastern China. The Shenyang plant has an annual output capacity of 300,000 metric tons, increasing our total annual CWSF production capacity to 850,000 metric tons.

Our strong growth has been evidenced by our financial performance. Our revenue increased from $2.8 million in 2007 to $14.3 million in 2008 to $46.0 million in 2009, as a result of our success in expanding our production capacity and increasing our market penetration. During the same period, our income from operations increased from $0.4 million to $4.4 million to $14.2 million, respectively. We intend to grow our business by expanding production capacity at new and existing locations throughout China.

Raw Materials

CWSF is made from coal, water, and chemical additives. Input coal must have a grade of at least 4,500 kc/kg in order to qualify for the production of CWSF. Water does not need to be pre-processed prior to mixing with coal and depending on the source and its content, industrial waste water may be used directly in the production of CWSF. Chemical additives are used in absolving and stabilizing different qualities and sizes of coal with the water. By weight, CWSF is typically comprised of approximately 70% washed coal, 29% water and less than 1% chemical additives.

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Sino Clean Energy Cost of Good Sold Breakdown
for the year ended December 31, 2009

Input	**% of COGS**
Washed coal	80.29%
Chemical additives	7.06%
Electricity	5.63%
Depreciation	5.47%
Wages	1.05%
Water	0.26%
Employee benefits	0.15%
Miscellaneous	0.09%
Total	**100.00%**

Coal is the primary raw material used to produce CWSF and accounted for approximately 80% of our cost of goods sold during the year ended December 31, 2009. We source coal from nearby coal mines for each of our production facilities. Coal is widely available in China and we maintain long-term relationships with our key suppliers, although alternative suppliers are available if necessary. Our suppliers provide us with washed coal at prevailing market prices, with volumes renegotiated each year. We determine raw material prices based on arm's-length negotiations with our suppliers shortly prior to delivery, with reference to market prices. Our reputation as a dependable counterparty enables us to obtain a stable and low-cost supply of raw material coal for our production facilities. Our long-standing supplier relationships provide us with a competitive advantage in China, and we intend to broaden these relationships to parallel our efforts to increase the scale of our production facilities, thereby maintaining a diverse supplier network while leveraging our purchasing power to obtain favorable pricing and delivery terms. Water and chemical additives are readily available and do not require supply contracts.

For 2008 and 2009, our single largest supplier, Tongchuan Zhaojin Xinyuan Coal Mine, accounted for 85%, and 87% of our total cost of goods sold, respectively. We typically pay for our coal supplies in advance, with a level of deposit that can range up to two months, as this helps to ensure that our coal requirements will be fulfilled.

The price of CWSF varies with the price of coal, and we typically have been able to increase our CWSF prices in response to increased coal prices. Our ability to adjust our selling prices has enabled us to maintain very stable gross margins, typically in the range of 30% to 40%.

Sino Clean Energy Historical Gross Margin

Source: Company reports

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The demand for CWSF for residential heating tends to be seasonal in nature, with peak demand occurring between the months of October through March, as these are the peak heating periods in the markets which we currently serve. Demand for CWSF during peak periods is approximately 30% to 40% higher than during low periods. Demand for CWSF for industrial applications tends to be fairly stable throughout the year, as industrial applications are typically unrelated to heating. The price of CWSF tends to follow the price of coal, which does not necessarily follow seasonal fluctuations.

Processing

We use two methods to produce our CWSF: (i) the High Concentration Preparation with Mixed Grinding ("HCPMG," or grinding process) as illustrated below, and (ii) the Supersonic Fluid Dynamics Atomizer process ("SFDA," or atomizer process). HCPMG is the conventional CWSF production process and is comprised of four major steps: coal pulverization, water mixing, quality control and delivery. The SFDA process differs from the HCPMG process in that it uses a series of ultrasonic chambers to break coal briquettes down into smaller particle form, where it is then mixed with water to create CWSF, while the HCPMG process uses a mechanical pulverization process to mix coal briquettes and water in order to create a finely ground CWSF mixture. The SFDA process requires less electricity and is able to produce finer particle CWSF. The HCPMG production lines can produce coal particles as fine as 50 to 80 microns, while the SFDA production lines can rapidly break coal into particles as fine as 20 to 30 microns. Depending on the capacity and the type of production process, the cost to purchase and install a CWSF production line typically ranges from approximately US$10 to US$30 per metric ton, with higher capacity and more technologically advanced production lines being closer to the high end of this range. In order to reduce production costs, our plants are run primarily at nighttime when electricity costs have been approximately 1/3 of daytime rates.

High Concentration Preparation with Mixed Grinding process

Source: Frost & Sullivan

Inventory

Although coal is not subject to spoilage, we typically limit storage of coal in inventory to a maximum of two months. On average, we maintain a minimum coal reserve of approximately 5,000

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metric tons in Tonghcuan and 3,000 metric tons in Shenyang. Shipments of approximately 3,600 metric tons and approximately 2,000 metric tons are typically delivered every 3 days to the Tongchuan and Shenyang locations, respectively. Production of CWSF is scheduled based substantially on customer orders, which allows us to minimize working capital requirements and to ensure that substantially no inventory is wasted or unusable. CWSF can be stored for up to one year (versus the national standard of one month), but we typically only hold the finished product in inventory for a maximum of two to three days. We currently have capacity to hold up to three days of finished product inventory on-site at each location. Storage and transportation of CWSF is very safe, as the presence of water in CWSF reduces its risk of explosion. As CWSF must be stored above freezing temperature, we use storage tanks that are specially designed to handle fluctuations in external temperatures. To date, we have shipped CWSF inventory using bulk liquid tanker trucks, however, transportation by train has been utilized by other CWSF producers in China. Transportation of CWSF by pipeline is currently under investigation by China's CWSF Research Center. Currently, third-party logistics providers transport approximately 70% of our finished products, with the balance shipped by our own fleet of trucks.

Quality Control

We apply rigorous quality control standards and safety procedures at each of our production facilities. Our manufacturing process is controlled and monitored by a centralized computer control system, which measures and dispenses the precise amount of water and chemical additives required for each production cycle to ensure that each batch of CWSF is consistent with all other batches that we produce. Our quality control technicians regularly test our CWSF production and measure it for condensate, viscosity, evaporation rate, energy content, particle size, sulfur content and ash content.

Although there is no mandatory national standard in China for CWSF quality, the General Administration of Quality Supervision, Inspection and Quarantine of China and the committee of the Standardization Administration of China implemented recommended standards for CWSF in 2002. Our own CWSF production standard exceeds the recommended national standard. We are in the process of obtaining ISO9001:2000 international quality management standard certification for our Tongchuan plant. We plan to obtain a similar certification for our Shenyang facility in the future.

Facilities

We have several production lines at each of our facilities, which are shown in the table below. To minimize technology risk, we have relied primarily on conventional HCPMG technology for CWSF production. In February 2009, we added a production line at our Tongchuan facility that employs SFDA technology, which consumes 10% less electricity than the conventional grinder method, and is able to produce smaller particle CWSF.

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Sino Clean Energy Production Capacity

Production line	Method	Location	Start date	Capacity (metric tons/yr)
In Place				
Line 1	Grinder	Tongchuan	Jul-07	100,000
Line 2	Atomizer	Tongchuan	Feb-09	250,000
Line 3	Grinder	Shenyang	Oct-09	150,000
Line 4	Grinder	Shenyang	Oct-09	150,000
Line 5	Grinder	Tongchuan	Jan-10	200,000
Sub total				**850,000**
Planned development				
Line 6	Grinder	Guangdong	Dec-10	300,000
Line 7	Grinder	Nanning		500,000
Line 8	Grinder	Shenyang		200,000
Sub total				**1,000,000**
Grand total				**1,850,000**

We intend to expand our CWSF production capacity by up to an additional 1,000,000 metric tons by expanding the production capacity at our existing locations and by establishing facilities in new geographic regions. We intend to increase capacity at our Shenyang facility by 200,000 metric tons and we intend to establish CWSF production facilities in the provinces of Guangxi and Guangdong, beginning with 500,000 metric tons in the city of Nanning, Guangxi and 300,000 metric tons in Guangdong.

In August 2010, through our subsidiary, Suoke Clean Energy, we entered into an agreement to purchase a land use right for approximately 5 acres of land and a production factory in Dongguan, Guandong Province. In addition, in September 2010, we entered into an agreement to purchase two production lines to be operated within the new Guangdong facility. The factory is currently undergoing refurbishment and the production lines are being completed and serviced. We anticipate that all of the work will be done by December 2010. We are in the process of taking the necessary steps to obtain a land use right certificate, which is required for us to obtain the rights to use the land and the title to the buildings. The new facility is expected to have an annual production capacity of 300,000 metric tons and is expected to expand our total annual production capacity to 1,150,000 metric tons by the end of 2010.

The additional 1,000,000 metric tons of capacity is expected to require capital expenditures of approximately $34.5 million, which include $16.5 million for land and the construction of production facilities, and $18 million for new production equipments. The land and facilities to be constructed are intended to allow for capacity expansion in the future. In addition, our planned expansion is expected to require additional net working capital of approximately $15 million in order to run the production lines at full capacity. We intend to complete the new production lines, and reach total capacity of 1,850,000 metric tons in the first half of 2011. As of September 30, 2010, we have made initial deposits of $555,000 for the new Guangdong facility and in the amount of $1,612,000 for the purchase of two production lines.

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We occupy both owned and leased properties for our operations. We own the land use right to a total of 43,956 square meters of land for our existing site in Tongchuan for a period of 50 years, expiring on December 8, 2057. The buildings and facilities at our Tongchuan location constructed by us are used for the purposes of production, research and development and employee housing. At our Shenyang facility, we have entered into a 10-year lease agreement for the land use right to a total of 7,400 square meters of land, which expires on August 1, 2019. Our principal executive and administrative offices are located in Xi'an, China in approximately 233 square meters of purchased office space.

Customers

Currently all of our customers are based in China and use our CWSF for either industrial purposes or for heating in residential and commercial buildings. As industrial users use the steam generated by CWSF boilers for power and heat in manufacturing processes, there is little seasonality in their consumption of CWSF. Currently, our industrial customers encompass a diverse range of industries such as wineries, paperboard manufacturing, food processing, and ceramic manufacturing. Residential and commercial heating customers experience peak heating demand for approximately 150 days between October and March, and their consumption of CWSF fluctuates accordingly. The following table sets forth the percentage of our revenues by our two principal groups of CWSF customers for the periods indicated:

Sino Clean Energy Customer Breakdown (2007 2009)

As of September 30, 2010, we had 43 customers, 38 of which were located within Shaanxi Province (which are being serviced by the Tongchuan facility), and five of which were located in Liaoning Province (which are being serviced by the Shenyang facility). In order minimize logistics costs, we typically sell our CWSF to customers within a 200 kilometer radius of our production facilities. We sell and distribute CWSF directly to our customers. In 2009, our ten largest customers

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represented 62.0% of total volume sold, while the single largest customer represented 11.5% of total volume sold. During 2009, our ten largest customers by tonnage sold were as follows:

2009 Top Ten Customers

Customer	Type	Sales Volume (metric tons)	%
Shenyang Haizhong Heating	Residential Heating	52,242	11.5%
Shaanxi Dade Property	Residential Heating	28,649	6.3%
Shaanxi Tongchuan Yitong	Industrial Products	27,947	6.1%
Shaanxi Urban Development	Integrated Industrial	26,531	5.8%
Lihua Winery	Industrial Products	25,573	5.6%
Xi'an Institute of Architecture	Integrated Industrial	25,505	5.6%
Shaanxi Baidu Industries	Industrial Products	24,916	5.5%
Shaanxi Huayuan Paper	Industrial Products	24,587	5.4%
Qinling Cement Property	Residential Heating	23,680	5.2%
Tongchuan Minerals Board	Integrated Industrial	23,085	5.1%
Subtotal		**282,715**	**62.0%**
Other		173,482	38.0%
Total		**456,197**	**100.0%**

We are the dominant CWSF producer in both of our present markets: Shannxi province and Liaoning province. We believe that we are able to differentiate ourselves from our competitors by building a track record and reputation for high quality products and service, by securing long-term customer contracts in each of the target markets, and by selectively expanding into new regional markets. We believe that our CWSF products' high quality gives us a competitive advantage in attracting new customers and retaining existing customers. The emerging growth of the CWSF industry in China, and the market opportunity require that CWSF suppliers have certain skills to work across the value chain. We believe that our management's vision and expertise enables us to forge the necessary partnerships with CWSF industry participants, including boiler vendors, local governments, coal suppliers, and CWSF consumers, allowing us to replicate our model in other geographic regions in order to expand more rapidly than our competitors.

Customer & Supply Contracts

Sales

Our sales contracts outline total sales volume, price, product specifications, delivery schedule, and method of delivery. We have entered into three to five year framework agreements with the majority of our customers whereby we provide CWSF at prevailing market prices, and volumes are renegotiated each year. We have framework agreements in place with approximately 90% of our customers. Typically, the CWSF consumption volume of any given boiler does not fluctuate significantly from year to year. Once established, the customer base for CWSF is very stable,