Sino Clean Energy Inc
Form 10-Q
November 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the quarterly period ended: September 30, 2008

Or

[__] Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from ______________ to _______________

Commission File Number: 000-51753

SINO CLEAN ENERGY INC.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation of origination)	75-2882833 (I.R.S. Employer Identification Number)
Room 2205, Suite A, Zhengxin Building No. 5 Gaoxin 1st Road, Gao Xin District Xi'an, Shaanxi Province People's Republic of China (Address of principal executive offices)	N/A (Zip code)

(029) 8209-1099
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [__]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each issuer's classes of common stock, as of the latest practicable date: 94,514,750 issued and outstanding as of November 12, 2008.

Transitional Small Business Disclosure Form (Check one): Yes [ ] No [X]

Table of Contents

TABLE OF CONTENTS
TO QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED SEPTEMBER 30, 2008

Table of Contents

CAUTION REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this Quarterly Report on Form 10-Q (“Form 10-Q”) for Sino Clean Energy Inc., other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words “believe,” “anticipate,” “expect” and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties that may cause actual results to differ materially.

Such risks include, among others, the following: national and local general economic and market conditions: our ability to sustain, manage or forecast our growth; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations. As used in this Form 10-Q, unless the context requires otherwise, “we” or “us” or “Registrant” or the “Company” means Sino Clean Energy Inc. and its subsidiaries.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SINO CLEAN ENERGY INC. AND SUBSIDIARIES

Consolidated Financial Statements
For the Periods Ended September 30, 2008 and 2007

Table of Contents

Sino Clean Energy Inc. and Subsidiaries
Consolidated Balance Sheets
(Amounts expressed in U.S. Dollars)

ASSETS

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Current assets		
Cash and cash equivalent	$ 2,533,999	$ 2,832,132
Accounts receivable, net (Note 2(d))	6,242,716	1,068,303
Deposits and prepayments (Note 6)	732,420	2,542,929
Other receivables	160,829	138,523
Prepaid land use right - current portion (Note 10)	38,845	36,285
Government grant receivable (Note 7)	-	411,000
Assets on discontinued operation		
Other receivable - related (Note 21 (b))	-	141,795
Inventories (Note 8)	293,101	40,959
Total current assets	10,001,910	7,211,926
Deferred debt issuance cost, net (Note 15)	209,519	-
Property, plant and equipment, net (Note 9)	5,915,779	5,435,804
Prepaid land use right - non current portion (Note 10)	1,810,955	1,718,744
Goodwill (Notes 3 and 11)	410,869	-
Intangible assets, net (Note 12)	1,268	1,478
Total assets	$ 18,350,300	$ 14,367,952

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2008	December 31, 2007
Current liabilities		
Accounts payable	$ 47,043	$ 41,827
Accrued expenses and other payables (Note 13)	735,079	893,732
Amount due to a director (Note 21(a))	1,178	8,527
Obligations under capital leases (Note 14)	13,450	-
Taxes payable	150,031	130,332
Deposit on sales of property (Note 21 (c))	-	1,507,000
Total current liabilities	946,781	2,581,418
Non-current liabilities		
Convertible debentures (Note 15)	383,856	-
Obligations under capital leases (Note 14)	4,265	-
Total non-current liabilities	388,121	-

Total liabilities		1,334,902		2,581,418
Minority interest		-		352,789
Commitments and Contingencies (Note 22)				
Shareholders' Equity				
Preferred stock, $0.001 par value,				
50,000,000 shares authorized,				
nil issued and outstanding		-		-
Common stock, $0.001 par value,				
200,000,000 shares authorized,				
92,181,750 and 84,681,750 issued and outstanding				
as of September 30, 2008 and December 31, 2007				
respectively		92,182		84,682
Additional paid-in capital		11,312,205		9,153,174
Retained earnings		3,166,608		686,482
Statutory reserves (Note 18)		348,309		348,309
Accumulated other comprehensive income		2,096,094		1,161,098
Total shareholders' equity		17,015,398		11,433,745
Total liabilities and shareholders' equity	$	18,350,300	$	14,367,952

Table of Contents

Sino Clean Energy Inc. and Subsidiaries
Consolidated Statements of Income (Operations) and Other Comprehensive Income
For the three months and nine months ended September 30, 2008 and 2007
(Amounts expressed in U.S. Dollars)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue	$ 3,419,941	$ 234,639	$ 9,156,293	$ 234,639
Cost of goods sold	(2,297,227)	(181,563)	(6,227,606)	(181,563)
Gross profit	1,122,714	53,076	2,928,687	53,076
Selling expenses	3,106	17,229	7,871	19,009
General and administrative expenses	204,915	197,371	590,719	330,282
Income (loss) from operations	914,693	(161,524)	2,330,097	(296,215)
Other income (expenses)				
Rental income, net of outgoings	230	-	79,843	-
Interest income	8,026	3,449	19,537	13,372
Commission income	80,072	-	224,947	-
Sundry income (expenses)	78	6,471	26,921	(131)
Other income (expenses)	-	(7,601)	-	137,339
Gain on disposal of property (Note 21(c))	95	-	33,095	-
Government grant	141,614	-	141,614	-
Total other income	230,115	2,319	525,957	150,580
Income (loss) before provision for income taxes	1,144,808	(159,205)	2,856,054	(145,635)
Provision for income taxes (Note 19)	71	-	24,779	-
Net income (loss) before minority interest	$ 1,144,737	$ (159,205)	$ 2,831,275	$ (145,635)
Less: Minority interest	-	11,099	(351,149)	21,190
Net income (loss)	1,144,737	(148,106)	2,480,126	(124,445)
Other comprehensive income				
Foreign currency translation adjustment	124,319	116,066	934,996	385,813
Comprehensive income (loss)	$ 1,269,056	$ (32,040)	$ 3,415,122	$ 261,368

Weight average number of shares								
- Basic and diluted		92,181,750		84,681,750		92,181,750		84,681,750
Income (loss) per common share (Note 20)								
- Basic and diluted	$	0.0124	$	(0.0017)	$	0.0269	$	(0.0015)

Table of Contents

Sino Clean Energy Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
(Amount expressed in U.S. Dollars except number of shares)

	Common stock (par value $0.1208) Shares	Amount	Additional paid-in capital	Statutory capital reserves	Statutory welfare reserves	(Accumulated deficits) / Retained earnings	Accumulated other comprehensive income	Total
Balance, January 1, 2007 (audited)	84,681,750	$ 84,682	$ 9,153,174	$ 232,206	$ 116,103	$ (330,456)	$ 432,312	$ 9,688,021
Net loss	-	-	-	-	-	(124,445)	-	(124,445)
Foreign currency translation gain	-	-	-	-	-	-	385,813	385,813
Balance, September 30, 2007 (Unaudited)	84,681,750	$ 84,682	$ 9,153,174	$ 232,206	$ 116,103	$ (454,901)	$ 818,125	$ 9,949,389
Net income	-	-	-	-	-	1,141,383	-	1,141,383
Foreign currency translation gain	-	-	-	-	-	-	342,973	342,973
Balance, December 31, 2007 (audited)	84,681,750	$ 84,682	$ 9,153,174	$ 232,206	$ 116,103	$ 686,482	$ 1,161,098	$ 11,433,745
Issuance of share	7,500,000	7,500	1,141,351	-	-	-	-	1,148,851
Benefical conversion feature of debenture	-	-	986,921	-	-	-	-	986,921
Warrants issued to placement agent	-	-	30,759	-	-	-	-	30,759
Net income	-	-	-	-	-	2,480,126	-	2,480,126
Foreign currency translation gain	-	-	-	-	-	-	934,996	934,996
Balance, September 30, 2008	92,181,750	$ 92,182	$ 11,312,205	$ 232,206	$ 116,103	$ 3,166,608	$ 2,096,094	$ 17,015,398

(Unaudited)

-7-

Table of Contents

Sino Clean Energy Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Amounts expressed in U.S. Dollars)
(Unaudited)

	Period ended September 30, 2008	Period ended September 30, 2007
Cash flows from operating activities:		
Net income	$ 2,480,126	$ (124,445)
Adjustments to reconcile net income to cash provided by operating activities:		
Minority interest	351,149	(21,190)
Net income from discontinued operations	-	(137,339)
Amortization of deferred debenture expenses	8,399	-
Discount on debenture	35,127	-
Depreciation and amortization	175,399	40,607
Gain on disposal of property	(33,095)	-
(Increase) decrease in assets:		
Accounts receivable	(4,923,476)	(248,645)
Deposits and prepayments	1,921,371	(2,633,573)
Other receivables	(14,227)	207,656
Prepaid land use rights	28,031	-
Receipt from government grant	411,000	-
Other receivables - discontinued operations	141,795	-
Inventories	(240,670)	(28,160)
Increase (decrease) in liabilities:		
Accounts payable	2,187	148,429
Advance from customers	-	602,864
Accrued expenses and other payable	(198,852)	105,435
Taxes payables	10,143	37,730
Net cash provided by discontinued operations	-	69,729
Net cash provided from (used in) operating activities	154,407	(1,980,902)
Cash flows from investing activities:		
Amount due from a director	-	133,255
Purchase of property, plant and equipment	(2,791,475)	(1,187,120)
Net cash used in investing activities	(2,791,475)	(1,053,865)
Cash flows from financing activities:		
(Payment to) advance from a director	(7,427)	74,515
Proceeds from disposal of property	1,025,437	-
Issuance of convertible debenture	1,148,491	-
Capital element of capital lease	44,423	-
Obligations under capital leases	(27,318)	-
Net cash provided by financing activities	2,183,606	74,515
Effect of foreign currency translation	155,329	120,880

Net decrease in cash and cash equivalents	(298,133)	(2,839,372)
Cash and cash equivalents, beginning of period	2,832,132	4,450,557
Cash and cash equivalents, end of period	$ 2,533,999	$ 1,611,185
Supplemental Disclosure Information		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Major non-cash transaction		
Issuance of share in exchange of equity interest (Note 3)		
	$ 1,500,000	$ -

Table of Contents

1. CORPORATION REORGANZATION AND BUSINESS ACTIVITIES

Sino Clean Energy Inc. (the "Company") was originally incorporated in Texas as "Discount Mortgage Services, Inc." on July 11, 2000. In November 2001, the Company changed its name to Endo Networks, Inc. and was redomiciled to the State of Nevada in December 2002. On January 4, 2007, the Company changed its name to "China West Coal Energy Inc." Further on August 15, 2007, the Company changed its name to "Sino Clean Energy Inc".

Prior to December 2006, the Company had principally been engaged in production and sales of coal-polymer ("COPO") resin products. In December 2006, the Company decided to cease its operations in manufacturing COPO products and shift all its resources towards the production and sale of "coal-water mixture" products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation and consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

The consolidated financial statements include the financial statements of the Company, its wholly owned subsidiary Hangson Ltd. ("Hangson"), its variable interest entity (VIE) Shaanxi Suo'ang Biological Science & Technology Co., Ltd. ("Suo'ang Biological") and Suo'ang Biological's subsidiary, Shaanxi Suo'ang New Energy Enterprise Co., Ltd. ("Suo'ang New Energy"). All significant inter-company transactions and balances among the Company, Hangson, Suo'ang Biological and Suo'ang New Energy are eliminated upon consolidation.

b. Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues 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. Significant estimates include estimates of accruals and determination of fair values for assets disposed.

c. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and deposit in an escrow account. Deposit in the escrow account was $885,057 as of September 30, 2008. The fund held in the escrow account was released to the Company in late October 2008.

d. Accounts receivable

Accounts receivables are recognized and carried at original invoiced amount less an allowance for any uncollectible accounts.

The Company uses 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 period. As of September 30, 2008 and December 31, 2007, accounts receivable were net of allowances of $5,747 and $5,368, respectively.

Table of Contents

e. Inventories

Inventories are stated at the lower of cost, as determined on a weighted average basis, or net realizable value. Costs of inventories include purchase and related costs incurred in bringing the products to their present location and condition.

f. Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and amortization. Gains or losses on disposals are reflected as gain or loss in the year of disposal. The cost of improvements that extend the life of plant, property and equipment are capitalized. These capitalized costs may include structural improvements, equipment and fixtures. All ordinary repair and maintenance costs are expensed as incurred.

Depreciation or amortization for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	the shorter of the useful life or the lease term
Leasehold improvements	the shorter of the useful life or the lease term
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	3 years

g. Construction in progress

Construction in progress includes direct costs of factory buildings. Construction in progress is not depreciated until such time as the assets are completed and put into operational use.

h. Prepaid land use rights

Prepaid land use right is expensed over the term of 50 years.

i. Goodwill

The Company accounts for acquisitions of business in accordance with SFAS No. 141 “Business Combinations”, which may result in the recognition of goodwill. Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method. Goodwill is not subject to amortization but will be subject to periodic evaluation for impairment. Goodwill is stated in the consolidated balance sheet at cost less accumulated impairment loss.

j. Impairment

(i) Long-lived Assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets, including goodwill, if any. An impairment loss is measured and recorded based on discounted estimated future cash flows. In estimating future cash flows, assets are grouped at the lowest level for which there is identifiable cash flows that are largely independent of future cash flows from other asset groups.

Table of Contents

(ii) Goodwill

Impairment of goodwill is tested at least annually at the reporting unit. The test consists of two steps. Firstly, the Company identifies potential impairment by comparing the fair value of the reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired. Secondly, if there is impairment identified in the first step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No 141, "Business Combinations". If the carrying value of a reporting unit exceeds its estimated fair value, the Company compares the implied fair value of the reporting unit's goodwill to its carrying amount, and any excess of the carrying value over the fair value is charged to earnings. The Company's fair value estimates are based on numerous assumptions and it is possible that actual fair value will be significantly different than the estimates.

k. Comprehensive income

SFAS No. 130, Reporting Comprehensive Income, requires disclosure of all components of comprehensive income and loss on an annual and interim basis. Comprehensive income and loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company had other comprehensive income of $934,996 and $385,813 for the periods ended September 30, 2008 and 2007, respectively. The other comprehensive income arose from the changes in foreign currency exchange rate.

l. Fair value of financial instruments

The Company believes that the carrying values of its cash and cash equivalents, accounts receivable, accounts payable, other receivables and other payables as of September 30, 2008 and December 31, 2007 approximate to their respective fair values due to the short-term nature of those instruments.

m. Revenue recognition

Revenues of the Company arising from sales of coal water mixture.

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 collectibility is reasonably assured. Revenues are presented net of value added tax (VAT). No return allowance is made as products are normally not returnable upon acceptance by the customers.

n. Income (loss) per common share

Income (loss) per common share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the periods.

o. Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

Table of Contents

p. Foreign currency translation

The reporting currency of the Company is the United States Dollars. All assets and liabilities accounts have been translated into United States Dollars using the current exchange rate at the balance sheet date. Capital stock is recorded at historical rates. Revenue and expenses are translated using the average exchange rate in the period. The resulting gain and loss has been reported as other comprehensive income within the shareholder's equity.

q. Related parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or which has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

r. Recently issued accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (“SFAS 157”), to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles and expand disclosures about fair value measurements. SFAS 157 requires quantitative disclosures using a tabular format in all periods (interim and annual) and qualitative disclosures about the valuation techniques used to measure fair value in all annual periods. The provisions of this Statement shall be effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is required to adopt the provisions of this statement as of January 1, 2008. The Company determined that the adoption of this standard had no material effect on its financial statements.

In September 2006, the FASB issued Statement No. 158, “Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An amendment of FASB Statements No. 87, 88, 106, and 132(R)” (“SFAS 158”). This Statement enhances disclosure regarding the funded status of an employer's defined benefit postretirement plan by (a) requiring companies to include the funding status in comprehensive income, (b) recognize transactions and events that affect the funded status in the financial statements in the year in which they occur, and (c) at a measurement date of the employer's fiscal year-end. Statement No. 158 effective for fiscal year ending after December 15, 2008, and is not expected to apply to the Company.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair values. SFAS 159 is effective for fiscal years after November 15, 2007. The Company determined that the adoption of this standard had no material effect on its financial statements.

Table of Contents

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("FAS 141R"). FAS 141R replaces Statement of Financial Accounting Standards No. 141, "Business Combinations" ("FAS 141"). Although it retains the fundamental requirement in FAS 141 that the acquisition method of accounting be used for all business combinations, FAS 141R establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures the assets acquired, liabilities assumed and any noncontrolling ("minority") interest in the acquiree, (b) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase and (c) determines what information to disclose regarding the business combination. FAS 141R applies prospectively to business combinations for which the acquisition date is on or after the
beginning of the Company's 2009 fiscal year. The Company is currently assessing the potential effect of FAS 141R on its financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling ("minority") Interests in Consolidated Financial Statements" ("FAS 160"). FAS 160 establishes accounting and reporting standards for the noncontrolling ("minority") interest in a subsidiary, commonly referred to as minority interest. Among other matters, FAS 160 requires (a) the noncontrolling ("minority") interest be reported within equity in the balance sheet and (b) the amount of consolidated net income attributable to the parent and to the noncontrolling ("minority") interest to be clearly presented in the statement of income. FAS 160 is effective for the Company's 2009 fiscal year. FAS 160 is to be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods presented. The Company is currently assessing the potential effect of FAS 160 on its financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133" ("SFAS No. 161"), which changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement will be effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (that is, fiscal 2009 for the Company). The Company does not expect that this Statement will have an effect on the Company's consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not expect that this Statement will have an effect on the Company's consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60". This Statement interprets Statement 60, "Accounting and Reporting by Insurance Enterprises" and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of this Statement. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008 (that is, fiscal 2009 for the Company), and all interim periods within those fiscal years. The Company does not expect that this Statement will have an effect on the Company’s consolidated financial statements.

Table of Contents

3. ACQUISITION

On June 30, 2008, the Company and its wholly owned subsidiary, Hangson, entered into a Securities Purchase Agreement (the “Agreement”) with the minority shareholder of Suo’ang New Energy. Pursuant to the Agreement, the minority shareholder transferred his 20% ownership of Suo’ang New Energy to Hangson in exchange for 7,500,000 shares (the “Shares”) of the Company’s restricted common stock. Suo’ang Biological, the Company’s VIE, owns 80% of Suo’ang New Energy. Pursuant to the terms of the Agreement, the minority shareholder agreed to waive any and all rights that he may have to any distributions and or payments from Suo’ang New Energy beginning January 1, 2008. On June 30, 2008, the transaction contemplated under the Agreement was completed upon approval by the Chinese local government authorities. As a result, Suo’ang New Energy is now 100% controlled by the Company.

The total purchase price was $1,148,851, by issuance of the Company’s restricted common stock based on the per share value on the acquisition date.

The acquisition was accounted for using the purchase method of accounting. The allocation of the purchase price for this acquisition, as of the date of acquisition, is as follows:

Cash acquired	$ 3,712,020
Accounts receivable, net of allowance	3,459,196
Property, plant and equipment	3,100,935
Inventory	76,443
Prepaid land use right	1,848,416
Goodwill	410,869
Other assets acquired	2,422,836
Total assets acquired	15,030,715
Liabilities assumed	(10,929,937)
	4,100,778
Less: Interest held by Suo'ang by way of initial contribution	(2,951,927)
	$ 1,148,851

At the date of acquisition of the minority interest of Suo’ang New Energy, management made its best estimate of the allocations of the fair value assigned to assets and has categorized the value of $410,869 attributed to goodwill for the acquisition. A final analysis and determination will be made during year ending December 31, 2008.

The following table sets forth the unaudited pro forma results of operations of the Company as if the additional acquisition of the 20% interest in Suo’ang New Energy had occurred at the beginning of the year. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented or that not be obtained in the future.

Unaudited Pro Forma Results		
Net income attributable to shareholders	$	1,686,538

Table of Contents

4. CONCENTRATION OF CREDIT RISK

a. Financial instruments that potentially expose the Company to concentrations of credit risk, consist of cash and cash equivalents and accounts receivable. The Company performs ongoing evaluations of their cash position and credit evaluations to ensure collections and minimize losses.

b. As of September 30, 2008 and 2007, the Company's bank deposits were all placed with banks in the PRC where there is currently no rule or regulation in place for obligatory insurance of bank accounts.

c. For the periods ended September 30, 2008 and 2007, all of the Company's sales arose in the PRC. All accounts receivable as of September 30, 2008 and 2007 also arose in the PRC.

d. Details of the customers accounting for 10% or more of the Company's total sales for the periods ended September 30, 2008 and 2007 are as follows:

	Periods ended September 30,	
	2008	2007
Company A	$ 1,370,151	$ 196,384
Company B	-	52,990
Company C	1,197,573	-
Company D	1,144,546	-

The accounts receivable from the customers accounting for 10% or more of the Company's total sales represent 49.43% of the balance of the account at September 30, 2008. Accounts receivable at September 30, 2008 originated from the coal water mixture business. None of the accounts receivable originating from the COPO resin business accounted for 10% or more of the Company total sales.

5. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Company's operations are all carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy.

The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

6. DEPOSITS AND PREPAYMENTS

Deposits and prepayments consist of the following:

	September 30, 2008	December 31, 2007
Prepayment for construction in progress and machinery purchases	$ 720,229	$ 908,561
Purchase security deposit	4,400	1,609,750
Prepaid expenses	5,632	22,600

Other	2,159	2,018
	$ 732,420	$ 2,542,929

-15-

Table of Contents

7. GOVERNMENT GRANT RECEIVABLE

The amount represents a subsidy from the Shaanxi Provincial Government. The subsidy is unconditional and was received in the first quarter of 2008.

8. INVENTORIES

Inventories consist of the following,

	September 30, 2008	December 31, 2007
Raw materials	$ 245,555	$ 22,615
Packing materials	987	1,751
Work in progress	2,213	-
Finished goods	44,346	16,593
	$ 293,101	$ 40,959

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	September 30, 2008	December 31, 2007
Construction in progress	$ 2,682,282	$ 119,169
Buildings	1,692,118	3,806,628
Leasehold improvements	-	232,900
Plant and machinery	1,708,749	1,596,161
Office equipment	70,028	65,414
Motor vehicles	179,948	127,935
	6,333,125	5,948,207
Less: Accumulated depreciation and amortization	417,346	512,403
	$ 5,915,779	$ 5,435,804

Construction in progress included above was the construction of buildings, production lines and machinery for the coal-water mixture business.

The depreciation expenses on property, plant and equipment for the nine months ended September 30, 2008 and 2007 were $175,095 and $35,966, respectively.

10. PREPAID LAND USE RIGHT