

**Sino Clean Energy, Inc.**  
**Energy / Clean Coal**  
**SCLX: OTC/BB**

**April 14, 2009**

**PROFILE**

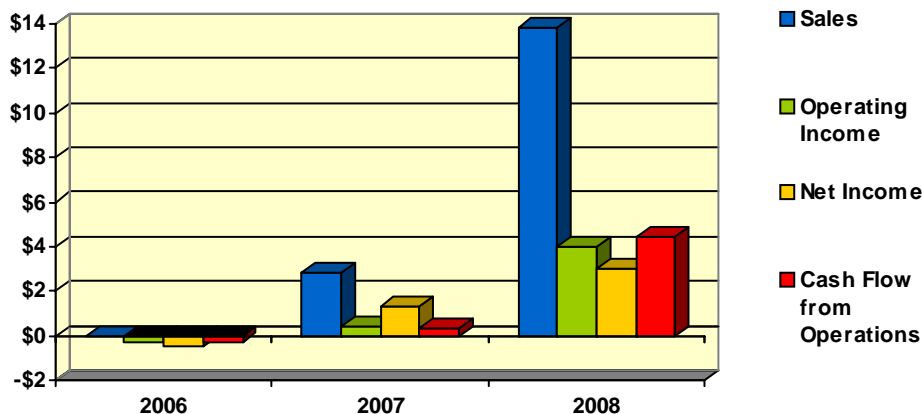
Sino Clean Energy, Inc. is a China-based producer of Coal Water Mixture (CWM) used as a substitute for oil, gas or coal fuels in industrial, heating and power generation boilers. The Company sells its CWM product to customers in its home region of Shaanxi Province in north-central China. The Company maintains an Internet presence at [www.sinocei.net](http://www.sinocei.net).



In response to the pressing need for energy and the need to better utilize valuable natural resources while reducing environmental harm, China is encouraging all forms of alternative renewable fuels and improved fossil fuels. The abundance of coal resources in the Asian continent and a dearth of oil reserves has made coal China's fuel source of choice. Even with advances in renewable energy sources, coal is likely to remain China's primary electrical power and industrial fuel source. We believe Sino Clean Energy is well positioned to capitalize on government policies with its Coal Water Mixture fuel product.

While Sino Clean Energy has a limited operating history in its present business model, the Company has achieved profitability and positive cash flow. In fiscal year 2008, the first full year of operation as a producer of CWM, the Company recorded revenue of \$13.8 million, providing \$3.0 million in net income or 21.7% of sales. China's tax break for technology companies helps boost the bottom line. Recent capital investments expanded production capacity by 230% to 350,000 tons per year, signaling the potential for significant top-line growth beginning early 2009. Economies of scale could also drive profit margin expansion. We believe good working capital reserves and low debt on the Company's balance sheet provide a foundation for more aggressive market penetration.

**FINANCIAL PERFORMANCE**



Dollars in millions; fiscal year ends December.

Source: Company Reports

**MARKET DATA**

Price: \$0.17 (4/13/09)  
 52 Wk Hi-Lo: \$0.40 - \$0.11  
 Ave. Volume: 17 K  
 Short Interest: <1%  
 Beta: na

**VALUATION**

Price/Sales: 1.2 X  
 Price/CFO: 6.4 X  
 Price/EPS: 5.7 X  
 Price/Book Value: 1.0 X

Based on TTM ending 12/31/08

Consensus EPS 2008: NA  
 Forward PE: NA  
 Consensus EPS 2009: NA  
 Forward PE: NA

**EQUITY SECURITIES**

Common Shares Out: 94.5 M  
 Insiders: 37.6%  
 Float: 59.0 M  
 Institutional: <5%  
 5% Holders: NA  
 Common Dividend: Nil  
 Warrants and Options Out: 9.3 M  
 Shares underlying Convertible notes: 8.9 M  
 Preferred Shares Out: -0-  
 Preferred Stock: -0-  
 Preferred Dividend: Nil

As of 12/31/08

## INVESTMENT HIGHLIGHTS

### Positives

- Large market opportunity for heating fuel with numerous end users in the immediate region as well as potential for geographic expansion
- Environmental regulatory and governmental policy trends that favor non-conventional fuel sources offering efficiency
- Highly fragmented coal processing industry with opportunities for expansion through acquisition
- Government-sponsored restructuring of China's coal industry presents opportunity for backward integration into coal production, the primary input for the CWM product, that could lead to input cost reduction
- Output increases resulting from the recent 230% capacity expansion could lead to profit margin expansion through economies of scale
- Highly qualified management team with lengthy experience in coal industry and fossil fuel boilers; knowledge of U.S. accounting and capital
- Strong balance sheet with low-debt and good working capital reserves

### Negatives

- Potential for quarterly earnings variance in the event of an interruption in production due to equipment failure, accidents or disruption in raw material supplies
- Production of the primary input, coal, is highly regulated and may be subject to price controls by China central government authorities
- A few customers account for significant portion of total sales
- Shares of SCLX have a limited trading history and are therefore, in our view, relatively unseasoned. The stock is subject to price volatility and wide spreads between bid and ask prices
- All of the Company's operations are located outside the U.S. and business is conducted primarily in the Chinese language, adding additional complexity to investors' due diligence efforts
- Changes in exchange rates between China's renminbi (functional currency) and the U.S. dollar (reporting currency) may negatively impact reported earnings and balance sheet values
- Potential dilutive effects from the exercise of outstanding options, warrants and convertible debentures totaling 18.2 million shares

## OPERATING RESULTS

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b><u>Estimate</u></b>
Sales	\$-0-	\$2.8	\$13.8	\$20.0
Gross Profit	\$-0-	\$1.0	\$ 4.5	
Margin	nm	35.7%	32.8%	35%
Oper. Inc.	(\$0.3)	\$0.4	\$ 4.0	
Net Inc.	(\$0.5)	\$1.3	\$ 3.0	
CFO	(\$0.3)	\$0.3	\$ 4.4	\$ 6.0
EPS	(\$0.00)	\$0.12	\$0.03	
ROE	Neg	11.4%	15.9%	
ROA	Neg	9.0%	14.2%	

Dollars in millions except EPS/LPS; Fiscal year ends December.

Source: Company Reports and Crystal Equity Research Estimates

## OUTLOOK

In our view, SCLX shares present an interesting opportunity to realize the gains expected in China's power generation and industrial complex as the country moves to more efficient and lower polluting fuel sources.

A recent expansion of production capacity puts Sino Clean Energy in a good position to grow its top-line and expand margins. Accordingly, we expect favorable year-over-year comparisons in 2009, which could attract investor interest and trigger higher valuation multiples for the stock.

Anticipation of capital raising efforts to support growth could discourage some investors wary of dilution. However, we believe that a capital infusion could drive stock price appreciation if the use of proceeds included a strategic acquisition or further augmentation of capacity.

In our view, SCLX shares are most appropriate for the risk-oriented investor with a long-term investment horizon and tolerance for price volatility and limited liquidity.

## BALANCES

	<b>2007</b>	<b>2008</b>
Cash	\$ 3.9	\$ 2.8
Current assets	\$ 8.9	\$ 7.2
PP&E, net	\$ 9.4	\$ 5.4
Total assets	\$21.1	\$14.4
Accts. Payable	\$ 1.0	\$ 0.9
Cur. Liabilities	\$ 2.2	\$ 2.6
Long-term debt	-0-	-0-
Equity	\$18.9	\$11.4

Dollars in millions

Source: Company Reports

## BUSINESS DESCRIPTION

Sino Clean Energy's primary source of revenue is the sale of Coal Water Mixture (CWM) that is sold directly to industrial and commercial customers. The Company's production facility is located near the City of Tongchuan in the coal-rich Shaanxi Province in north-central China where it easily sources raw coal. Production capacity was recently expanded to 350,000 tons with the installation a new processing system that reduces raw material requirements and provides for long-distance pipeline distribution of the finished product.



## COMPANY HISTORY

**May 2006** - Suo'ang New Energy subsidiary established to develop and produce CWM

**Oct. 2006** - Reverse merger of parent with U.S. public shell

**Jan. 2007** - first CWM sales contract negotiated

**July 2007** - initial production of CWM by Suo'ang New Energy

**Aug. 2007** - Name change to Sino Clean Energy, Inc.

**June 2008** - Exchange of stock for remaining 20% ownership of Suo'ang New Energy

**Sept. 2008** - sale of \$1.3 million in convertible debentures

**Feb. 2009** - Installation of new processing system; capacity expansion to 350,000 tons/year

## RELATIONSHIPS

- ♦ **Xin Juan Coal Mine** - washed coal supplier
- ♦ **Qingdoa Haizhon Industry, Inc.** - CWM-compatible boiler manufacturer
- ♦ **Zhejiang Jingong Group** - production equipment supplier
- ♦ **Weinberg & Company** - independent auditor

## PRODUCTS

The *Coal Water Mixture (CWM)* produced by Sino Clean Energy is a coal-based fuel that has many of the operational characteristics of oil or coal aggregate. Typically bituminous coal of medium- to high-volatility and low ash and sulfur content is ground into a powder of large and small particles. The pulverized coal is then mixed with water. Dispersants and stabilizers are added to keep the coal particles from settling in the water mixture. Thus it can serve as a replacement fuel in conventional boilers.

Yet until recently CWM received little attention by big coal users such as power generators and industry. Since the bulk of coal is burned directly, or with only modest treatment to remove ash and sulfur, there had been little or no benefit in using significantly more costly clean coal alternatives. That is until environmental concerns shifted the fuel cost equation in favor of CWM and other coal innovations. Advances in fine-coal cleaning have contributed to the economies of CWM production and quality other improvements have helped put CWM on par with conventional fossil fuels. CWM also offers other benefits such as reduced transmission costs, higher efficiency at smaller scale, and lower ash and sulfur emissions compared to the direct burn of coal.



The competitive position of CWM as a fuel source has also been elevated by technology advances in the boilers used for power generation, industrial and heating applications. Such advances include relatively inexpensive retrofit modifications to boilers and new boiler designs. Oxygen enrichment and a hotter pilot flame in the combustion chamber, among other upgrades, increase CWM efficiency. The Company is the exclusive supplier of *CWM-Compatible Boilers* produced by Qingdoa Haizhon Industry. Sino Clean Energy sales representatives market the boilers directly to customers along with CWM supplies.

In addition to perfecting water-coal proportions, CWM producers have gained expertise in mixing additives and fine-tuning storage, handling and transport equipment. Sino Clean Energy recently installed a *Fluid Acoustic Energy CWM System* that reduces the amount of water required, prevents clogging in long-distance distribution pipes, and lengthens storage time for the Company's CWM product. The new system also enabled a significant increase in production capacity to 350,000 tons per year.

## GROWTH DRIVERS

- ♦ Global warming concerns
- ♦ New air particulates standards
- ♦ Local prohibitions against conventional coal-fired boilers
- ♦ Relative prices of fuel substitutes

## TARGET MARKETS

- ♦ Power plant boilers
- ♦ Industrial kilns
- ♦ Central heating boilers
  - Government buildings
  - Schools
  - Military barracks
  - Multi-family residences

## COMPETITION

- ♦ Coal Water Mixture Producers
  - Tai 'an Liangda CWM Co.
  - Datong Huihai CWM Co.
  - Daqing Shenhai Clean Coal Co
  - Ningbo Hongyuan CWM Co.
- ♦ Fuel Substitutes
  - Heavy Oil
  - Natural Gas
  - Gasified Coal
  - Coal Aggregate

## SUPPLIERS

The principal raw materials for Sino Clean Energy's CWM product are coal and water. The Company recently entered into a purchase agreement with Xin Juan Coal Mine, also located in Shaanxi Province, for 200,000 tons of washed coal at 510 RMB (US\$75.00) per ton. The relationship with Xin Juan is non-exclusive. There are numerous coal mines and water sources in the area, providing the Company with ample coal and water supply alternatives.

## MARKET OPPORTUNITY

Since China does not have significant proven oil reserves, but has abundant coal supplies, it is the latter fuel source that drives China's industrial complex. Coal provides over two-thirds of China's electricity needs and is the foundation of the country's thriving steel industry. Indeed, China is the largest producer of coal in the world, mining over 2.5 billion tons of coal in 2007, or 46% of world production.

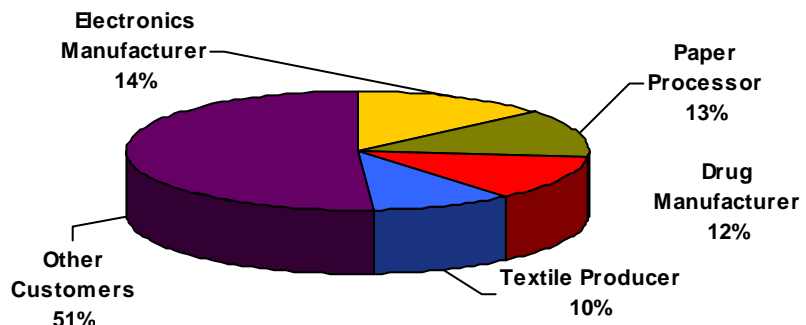
However, growing environmental concerns are driving the adoption of both renewable fuels and efficiency innovations in fossil fuels. In China as much as 90% of air pollution can be attributed to direct combustion of coal aggregate. China's central government authorities have mandated reduction in harmful gases and particulates and some local authorities are limiting new direct coal combustion. CWM is gaining credibility as a high efficiency, lower polluting fossil fuel innovation.

CWM has been produced commercially in China for over thirty years. Interest in the U.S. and Europe for Coal Water Fuels (CWF) or Coal Water Slurry Mixture (CWSM), as it is known in those markets, has risen and fallen with the price of oil. However, China has continued to support research and development coal processing alternatives. The National Engineering Research Center for Coal Water Mixture was established in 1999 by China's Ministry of Science and Technology. The Center has supported thirteen test facilities to develop and refine coal water mixture technologies. Early findings suggested that generally 2.2 tons of CWM was equal to 1.0 ton of heavy fuel oil.

China's coal industry is still highly fragmented by geographical region and the type of coal produced. So also goes ancillary industries such as CWM production. Consequently, CWM producers tend to serve localized customer bases and experience limited direct competition. Today there are at least twenty CWM producers in China. Sino Clean Energy, which produced 150,000 tons in 2008, is recognized as one of the five largest CWM producers in the country. With a recent capacity expansion we believe the Company could become the dominant CWM player in China.

A key source of competition for Sino Clean Energy's products arises from conventional and renewable fuel sources available in its market. We expect the relative price of heavy oil to remain a deciding factor for some customers, particularly owners of oil-compatible boilers. As with coal aggregate, China sets guidance for CWM prices. The current range is US\$100 to US\$132 per ton (RMB 700 to RMB 900). At the 1.0 ton oil to 2.2 tons CWM equivalency noted above and top end of the guided price range, we estimate the CWM alternative (US\$132 X 2.2) is competitive to heavy oil down to a price of US\$41 per barrel (US\$41 X 7.2 barrels /ton).

## CUSTOMER MIX



Source: Company Reports

## ORGANIZATION

Sino Clean Energy is a U.S. company doing business in China through its wholly owned subsidiary, Hangson Limited. Hangson in turn has contractual control over Suo'ang BST and its operating subsidiary Suo'ang New Energy that produces the Company's CWM product. The term of the agreements between Hangson and Suo'ang is ten years beginning August 2006. The complexity may deter some investors, but it is necessary to accommodate Chinese restrictions on direct foreign ownership of China operations. We note that creditors to Suo'ang BST and Suo'ang New Energy have no recourse against Sino Clean Energy or its subsidiary Hangson.



## LEADERSHIP

**Baowen Ren, CEO, President and Chairman** - since inception; nationally recognized for leadership and business accomplishments; degree in economic engineering from Hanzhong Normal University; owns 28 million or 43.4% of total outstanding SCLX shares.

**HonWan Chan, Chief Financial Officer** - since December 2008; lengthy previous experience in senior finance positions in trading and media companies; masters degree in accountancy from Hong Kong Polytechnic University and bachelor degree in economics from Macquarie University in Australia; member Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants of Australia.

**Peng Zhou, General Manager of Suo'ang BST and Director** - since May 2005; previously project manager beginning in May 2002; extensive experience in business and executive management; degree from Statistics Department of Shaanxi Institute of Finance; owns 7.5 million shares or 7.9% of total outstanding SCLX shares.

**Bennet Tchaikovsky, Director and Chairman of Audit Committee** - since December 2008; chief financial officer of Skystar Bio-Pharmaceutical Company; director of Ever-Glory International Group.

**Wenjie Zhang, Director** - general manager of Hanzhong Minsheng Guomao Department Store; degree in administration from Xi'an Science Institution.

**Zidon Coa, Director** - since December 2008; Assistant Dean of the School of Energy & Power Engineering and Associate Director of the Research Center for Environmental Science & Engineering at Xi'an Jiaotong University; member of the National Committee of Boiler Standardization; Vice Chairman of the Xi'an Association of Thermal Energy & Dynamics.

## CAPITALIZATION

Recent Price:	\$0.17
Shares Out:	94.5 M
Market Capital:	\$16.1 M
+ Preferred Stock	-0-
+ Debt*	\$ 0.4 M
- Cash	<u>\$ 3.9 M</u>
Enterprise Val:	\$12.6 M
Book Value:	\$18.9 M
Working Capital:	\$ 6.7 M

\*Face value of convertible debentures is \$1.3 million

Balance sheet figures as of 12/31/08

## CAPITAL NEEDS

	<u>Due in One Year</u>
CapEx budget	\$ 279,183
Leases	\$ 37,308
Coal purchases*	\$7,947,000
Debt repayment**	<u>\$1,576,067</u>
Total	\$9,839,558

\*Pursuant to purchase agreement with primary coal supplier

\*\*Includes interest obligation

## INDUSTRY CALENDAR

- ♦ April 20-21, 2009 - **7Th Coal-trans China**, Beijing
- ♦ April 21-23, 2009 - **Carbon Trade China 2009**, Beijing
- ♦ June 15-29, 2009 - **23rd International Coal Supply Contracts and Transport Logistics**, London
- ♦ October 25-29, 2009 - **International Air Quality VII Conference**, Arlington, VA
- ♦ October 27-30, 2009 - **China Coal & Mining 2009**, Beijing



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