

Sino Clean Energy Inc
Form 10-Q
May 19, 2008

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the quarterly period ended: March 31, 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 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.

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

Large accelerated filer
Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

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:
84,681,750 issued and outstanding as of May 12, 2008.

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

Table of Contents

TABLE OF CONTENTS
TO QUARTERLY REPORT ON FORM 10-Q
FOR QUARTER ENDED MARCH 31, 2008

PART I	FINANCIAL INFORMATION	Page
Item 1.	<u>Financial Statements</u>	1
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	22
Item 4.	<u>Controls and Procedures</u>	22
PART II	OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	23
Item 1A.	<u>Risk Factors</u>	23
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 3.	<u>Defaults Upon Senior Securities</u>	23
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	23
Item 5.	<u>Other Information</u>	23
Item 6.	<u>Exhibits</u>	23
	<u>Signatures</u>	25
	Exhibits	

(REMAINDER OF PAGE INTENTIONALLY LEFT BLANK)

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 Three Months Ended March 31, 2008 and 2007

Table of Contents

SINO CLEAN ENERGY INC. AND SUBSIDIARIES
Consolidated Financial Statements
For the Three Months Ended March 31, 2008 and 2007

	Page(s)
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income (Operations) and Other Comprehensive Income</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	7
<u>Consolidated Statements of Cash Flows</u>	8
<u>Notes to Consolidated Financial Statements</u>	9

The accompanying notes are an integral part of these financial statements.

Table of Contents

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

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Current assets		
Cash and cash equivalent	\$ 4,267,153	\$ 2,832,132
Accounts receivable, net (Note 2(d))	2,299,588	1,068,303
Deposits and prepayments (Note 5)	1,266,391	2,542,929
Other receivables	195,432	138,523
Prepaid land use right - current portion (Note 9)	37,742	36,285
Government grant receivable (Note 6)	-	411,000
Assets on discontinued operation		
Other receivable - related (Note 15(b))	-	141,795
Inventories (Note 7)	75,283	40,959
Total current assets	8,141,589	7,211,926
Property, plant and equipment, net (Note 8)	5,637,959	5,435,804
Prepaid land use right - non current portion (Note 9)	1,778,342	1,718,744
Intangible assets, net (Note 10)	1,420	1,478
Total assets	\$ 15,559,310	\$ 14,367,952

The accompanying notes are an integral part of these financial statements.

Table of Contents

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

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 16,688	\$ 41,827
Accrued expenses and other payables (Note 11)	841,604	893,732
Amount due to a director (Note 15 (a))	-	8,527
Taxes payable	162,455	130,332
Deposit on sales of property (Note 15 (c))	1,567,500	1,507,000
Total current liabilities	2,588,247	2,581,418
Minority interest	525,761	352,789
Commitments and Contingencies (Note 16)		
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, 84,681,750 issued and outstanding (Note 14)	84,682	84,682
Additional paid-in capital	9,153,174	9,153,174
Retained earnings	1,209,981	686,482
Statutory reserves (Note 13)	348,309	348,309
Accumulated other comprehensive income	1,649,156	1,161,098
Total shareholders' equity	12,445,302	11,433,745
Total liabilities and shareholders' equity	\$ 15,559,310	\$ 14,367,952

The accompanying notes are an integral part of these financial statements.

Table of Contents

Sino Clean Energy Inc. and Subsidiaries
 Consolidated Statements of Income (Operations) and Other Comprehensive Income
 For the three months ended March 31, 2008 and 2007
 (Amounts expressed in U.S. Dollars)
 (Unaudited)

	Period ended March 31,	
	2008	2007
Revenue	\$ 2,485,128	\$ -
Cost of goods sold	(1,684,679)	-
Gross profit	800,449	-
Selling expenses	2,405	1,286
General and administrative expenses	163,498	51,662
Income (loss) from operations	634,546	(52,948)
Other income (expenses)		
Rental income, net of outgoings	53,719	-
Interest income	-	6,310
Sundry income(expenses)	-	(41,319)
Other income	37,060	121,843
Total other income (expenses)	90,779	86,834
Income before provision for income taxes and minority interest	725,325	33,886
Provision for income taxes (Note 13)	46,083	-
Net income before minority interest	\$ 679,242	\$ 33,886

The accompanying notes are an integral part of these financial statements.

Table of Contents

Sino Clean Energy Inc. and Subsidiaries
Consolidated Statements of Income (Operations) and Other Comprehensive Income
For the three months ended March 31, 2008 and 2007
(Amounts expressed in U.S. Dollars)
(Unaudited)

	Period ended March 31,	
	2008	2007
Minority interest	(155,743)	4,356
Net income	523,499	38,242
Other comprehensive income		
Foreign currency translation adjustment	488,058	77,487
Comprehensive income	\$ 1,011,557	\$ 115,729
Weight average number of shares		
- Basic and diluted	84,681,750	84,681,750
Income per common share (Note 14)		
- Basic and diluted	\$ 0.0060	\$ 0.0005

The accompanying notes are an integral part of these financial statements.

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 Shares	stock 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 income	-	-	-	-	-	38,242	-	38,242
Foreign currency translation gain	-	-	-	-	-	-	77,487	77,487
Balance, March 31, 2007, (unaudited)	84,681,750	\$ 84,682	\$ 9,153,174	\$ 232,206	\$ 116,103	\$ (292,214)	\$ 509,799	\$ 9,803,750
Net income	-	-	-	-	-	978,696	-	978,696
Foreign currency translation gain	-	-	-	-	-	-	651,299	651,299
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
Net income	-	-	-	-	-	523,499	-	523,499
Foreign currency translation gain	-	-	-	-	-	-	488,058	488,058
Balance, March 31, 2008, (unaudited)	84,681,750	\$ 84,682	\$ 9,153,174	\$ 232,206	\$ 116,103	\$ 1,209,981	\$ 1,649,156	\$ 12,445,302

The accompanying notes are an integral part of these financial statements.

-7-

Table of Contents

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

	Period ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 523,499	\$ 38,242
Adjustments to reconcile net income to cash provided by operating activities:		
Minority Interest	155,743	(4,356)
Depreciation and amortization	72,443	35,338
(Increase) decrease in assets:		
Accounts receivable	(1,165,463)	-
Deposits and prepayments	1,345,638	(2,528,393)
Other receivables	(52,454)	(2,049)
Assets on discontinued operation		
Accounts receivable	-	441,705
Other receivables	141,795	210,606
Inventories	-	13,458
Inventories	(32,049)	-
Increase (decrease) in liabilities:		
Accounts payable	(26,301)	-
Accounts payable - discontinued operation	-	(591,341)
Advance from customers	-	574,581
Accrued expenses and other payable	(71,403)	(57,741)
Taxes payables	26,372	-
Taxes payables - discontinued operation	-	(66,266)
Net cash provided by (used in) operating activities	917,820	(1,936,216)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(40,962)	(29,623)
Net cash used in investing activities	(40,962)	(29,623)
Cash flows from financing activities:		
Repayment from a director	-	18,341
(Repayment to) advance from a director	(8,527)	80,195
Receipt of government grant	411,000	-
Net cash provided by financing activities	402,473	98,536
Effect of foreign currency translation	155,690	(3,786)
Net increase (decrease) in cash and cash equivalents	1,435,021	(1,871,089)
Cash and cash equivalents, beginning of year	2,832,132	4,450,557

Cash and cash equivalents, end of period	\$ 4,267,153	\$ 2,579,468
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

Table of Contents

SINO CLEAN ENERGY INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

1. CORPORATION REORGANIZATION 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.”

In 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 COPO products manufacturing 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, Hangson and its variable interest entities and its controlled subsidiary. All significant inter-company transactions and balances among the Company, Hangson and its variable interest entities 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 and bank deposits.

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 March 31, 2008 and December 31, 2007, accounts receivable were net of allowances of \$5,584 and \$5,368, respectively.

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.

Table of Contents

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. Impairment

The Company accounts for impairment of long-lived assets including property, plant and equipment, and amortizable intangible assets in accordance with SFAS No.144, Accounting for the Impairment or Disposal of Long-Lived Assets, which requires an impairment loss to be recognized when the carrying amount of a long-lived asset or asset group exceeds its fair value and is not recoverable (when carrying amount exceeds the gross, undiscounted cash flows from use and disposition). The impairment loss is measured as the excess of the carrying amount over the asset's (or asset group's) fair value.

j. 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 \$1,649,156 and \$509,799 for the periods ended March 31, 2008 and 2007, respectively. The other comprehensive income arose from the changes in foreign currency exchange rate.

k. 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 March 31, 2008 and December 31, 2007 approximate to their respective fair values due to the short-term nature of those instruments.

1. 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.

-10-

Table of Contents

m. Earnings per share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the periods.

n. 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.

o. 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.

p. 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 if it 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.

q. Recently issued accounting pronouncements

The FASB issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes," in June 2006. This interpretation establishes new standards for the financial statement recognition, measurement and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The new rules will be effective for the Company in the first quarter of 2008. The Company determined that the adoption of this standard had no material effect on its financial statements.

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 will be 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 years ending after December 15, 2008, and is not expected to apply to the Company.

Table of Contents

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.

On March 19, 2008, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. "Use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. This has led to concerns among investors that the existing disclosure requirements in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, do not provide enough information about how these instruments and activities affect the entity's financial position and performance," explained Kevin Stoklosa, project manager. "By requiring additional information about how and why derivative instruments are being used, the new standard gives investors better information upon which to base their decisions." The new standard also improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. FASB Statement No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. Management is currently evaluating the effect of this pronouncement on the Company's financial statements.

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.

3. 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 March 31, 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 March 31, 2008 and 2007, all of the Company's sales arose in the PRC. All accounts receivable as of March 31, 2008 and 2007 also arose in the PRC.

-12-

Table of Contents

d. Details of the customers accounting for 10% or more of the Company's total sales for the periods ended March 31, 2008 and 2007 are as follows:

	Periods ended March 31,	
	2008	2007
Company A	\$ -	\$ 4,850
Company B	606,182	-
Company C	564,204	-
Company D	561,498	-
Company E	408,246	-

The accounts receivable from the customers accounting for 10% or more of the Company's total sales represent 66% and 71% of the balance of the account at March 31, 2008 and December 31, 2007, respectively. Accounts receivable at March 31, 2008 originated from the coal water mixture business. Accounts receivables that originated from the COPO resin business, which business was discontinued in 2007, have been reclassified to discontinued operations.

4. 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.

5. DEPOSITS AND PREPAYMENTS

Deposits and prepayments consist of the following,

	March 31,	December 31,
	2008	2007
Prepayment for construction in progress and machinery purchases	\$ 945,431	\$ 908,561
Purchase security deposit	277,875	1,609,750
Prepaid expenses	40,988	22,600
Other	2,097	2,018
	\$ 1,266,391	\$ 2,542,929

6. GOVERNMENT GRANT RECEIVABLE

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

7. INVENTORIES

Inventories consist of the following,

	March 31, 2008	December 31, 2007
Raw materials	\$ 52,120	\$ 22,615
Packing materials	1,226	1,751
Finished goods	21,937	16,593
	\$ 75,283	\$ 40,959

Table of Contents

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following,

	March 31, 2008	December 31, 2007
Construction in progress	\$ 123,954	\$ 119,169
Buildings	3,959,449	3,806,628
Leasehold improvements	242,250	232,900
Plant and machinery	1,660,240	1,596,161
Office equipment	68,040	65,414
Motor vehicles	174,839	127,935
	6,228,772	5,948,207
Less: Accumulated depreciation and amortization	590,813	512,403
	\$ 5,637,959	\$ 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 three months ended March 31, 2008 and 2007 were \$72,443 and \$9,729, respectively.

9. PREPAID LAND USE RIGHT

The Company has recorded as prepaid land use rights the costs paid to acquire a long-term interest to utilize the land underlying the building and production facility for its "coal-water mixture" business. This type of arrangement is common for the use of land in the PRC. The prepaid land use rights are amortized on the straight-line method over the term of the land use rights of 50 years.

The lease expenses on prepaid land use right for the periods ended March 31, 2008 and 2007 was \$9,402 and Nil, respectively. The lease expenses of the prepaid land use rights over each of the next five years and thereafter is \$180,710.

10. INTANGIBLE ASSETS

Intangible assets consist of the following,

	March 31, 2008	December 31, 2007
Accounting software	\$ 2,038	\$ 1,959
Less: Accumulated amortization	(618)	(481)
	\$ 1,420	\$ 1,478

The amortization expenses on intangible assets for the periods ended March 31, 2008 and 2007 were \$137 and \$201, respectively.

-14-

Table of Contents

11. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consist of the following as of,

	March 31, 2008	December 31, 2007
Accrued operating expenses	\$ 467,177	\$ 471,988
Prepaid land use right payable	139,100	133,731
Accrued staff welfare	99,780	71,706
Construction in progress payable	12,467	90,140
Non-interest bearing loan	42,750	68,627
Advance from customer	57,000	54,800
Other payables	23,330	2,740
	\$ 841,604	\$ 893,732

12. STATUTORY RESERVES

As stipulated by the PRC's Company Law, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- a. Making up cumulative prior years' losses, if any;
- b. Allocations to the "Statutory capital reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital. This is restricted to set off against losses, expansion of production and operation or increase in registered capital; and
- c. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund". This is restricted to capital expenditure for the collective benefits of the Company's employees; and
- d. Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

Statutory reserves consist of the following as of,

	March 31, 2008	December 31, 2007
Statutory capital reserve	\$ 232,206	\$ 232,206
Statutory common welfare fund	116,103	116,103
	\$ 348,309	\$ 348,309

Table of Contents

13. INCOME TAXES

Companies in the PRC are generally subject to PRC Enterprise Income Taxes at a statutory rate of 33% (30% of national income tax plus 3% local income tax) on the net income. However, the Company's VIE, Shaanxi Suoang has been approved as a "high and new technology enterprise" and under PRC Income Tax Laws, it is entitled to a preferential tax rate of 15% upon expiry of a two years' tax holiday for 2004 and 2005, within which no income taxes were charged. Shaanxi Suoang is subject to income tax from 2006.

The Company and Hangson are not subject to any income taxes as the companies had no income for the periods ended March 31, 2008 and 2007.

The income tax expense for the periods ended March 31, consisted of the following:

	2008	March 31, 2007
Current – PRC Enterprise Income Tax	\$ 46,083	-
Deferred	-	-
Total income tax expenses	46,083	-

The following table reconciles the U.S. statutory rates to the Company's effective tax rate:

	2008	March 31, 2007
U.S. statutory rate	34%	34%
Foreign income not recognized in U.S.	(34%)	(34%)
Non-deductible expenses and other	-	-
Tax holiday	(9%)	-
PRC preferential income tax rate	15%	15%
Effective tax rate	6%	15%

No significant deferred tax liabilities or assets existed as of either March 31, 2008 or 2007.

14. EARNINGS PER SHARE

Basic earnings per share for the periods ended March 31, 2008 and 2007 were determined by dividing net income for the periods by the weighted average number of common shares outstanding.

The Company has retroactively adjusted the weighted average number of common shares outstanding by deeming that the three-for-one (3:1) forward stock split on August 20, 2007 had occurred as of the beginning of the earliest period presented.

The Company did not have dilutive securities outstanding as of and during the periods ended March 31, 2008 and 2007.

Table of Contents

15. RELATED PARTY TRANSACTIONS

a. Related party payables

Amount payable from a director as of March 31, 2008 and December 31 2007, is summarized as follows:

	March 31, 2008	December 31, 2007
Amount due to a director:		
Mr. Peng Zhou, also a minority shareholder of the Company's subsidiary	\$ -	\$ 8,527

This balance is interest free and unsecured and has no fixed repayment date.

b. Disposal of patent

In 2006, the Company disposed of the patent related to the discontinued COPO resin product operations to a related company for a consideration of \$256,200. A loss on disposal of \$291,266 was recorded. The balance that remained outstanding as of December 31, 2007 was \$141,795 and was repaid during the first quarter of 2008.

c. Transfer of property

On June 13, 2006, the Company signed a property transfer agreement with a related company, HanZhong SiXiong KeChuang Commercial Company Ltd., which is controlled by the shareholder of the Company, Mr. Yanjun Zhao to dispose of the Company's leasehold properties together with the leasehold improvements for an aggregate cash consideration of approximately \$2,450,000. The agreed price is \$120,000 lower than the evaluated value according to an appraisal report issued by an independent professional valuer, Xi'an Zheng Heng Assets Valuation Company Ltd. because the property title did not transfer from the property developer to the Company as more fully described in note 16(c). Up to March 31, 2008, a total of \$1,567,500 was received and recorded as deposit on sale of property in the balance sheet. On March 25, 2007 and June 21, 2007, the Company and the buyer entered into the extension agreements whereby the Company extended the date for payment of the remaining balance and transfer of the title of properties to the buyer to on or before May 31, 2007 and October 31, 2007, respectively. On March 6, 2008, the Company entered a supplementary agreement whereby the Company agreed to transfer the title of the properties to the buyer before May 31, 2008 and the buyer agreed to pay the Company no later than one month after the transfer of property title.

16. COMMITMENTS AND CONTINGENCIES

a. Capital expenditure commitments

During the fiscal year 2007, the Company entered into various contracts for the construction of a new plant for its coal water mixture business. Furthermore, the Company also entered into several contracts to purchase machinery.

The Company's commitments for capital expenditure as of March 31, 2008 are as follows:

Contracted but not accrued for:

Purchase of machinery	\$ 319,792
-----------------------	------------

Table of Contents

b. Operating lease commitments

As of March 31, 2008, the Company's total future minimum lease payments under non-cancelable operating leases to be paid in each of the five succeeding years are as follows:

Periods ending March 31,		
	2009	20,880
	2010	20,880
	2011 and thereafter	6,090
Total operating lease commitments		\$ 47,850

c. Real estate title certificate of the leasehold property

The Company has not obtained the real estate title certificate for its leasehold property with a carrying value of \$2,458,013 as of March 31, 2008 and located in the PRC. As discussed in Note 15c, the Company has entered into a property transfer agreement to dispose of this property.

In the event that the Company fails to transfer the real estate title certificate to the buyer, there is a risk that the Company might be subject to penalties. However, management believes that this possibility is remote.

d. Social insurance of Employees

According to the prevailing laws and regulations of the PRC, the Company is required to cover its employees with medical, retirement and unemployment insurance programs. Management believes that due to the transient nature of its employees, the Company does not need to provide all employees with such social insurance.

In the event that any current or former employee files a complaint with the PRC government, the Company may be subject to making up the social insurance as well as administrative fines. As the Company believes that these fines would not be material, no provision has been made in this regard.

Table of Contents

Item 2. Management's Discussion and Analysis or Plan of Operation.

The following management's discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this item. In addition to historical information, the following discussion contains certain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "may", "will", "could", "expect", "anticipate", "intend", "believe", "estimate", "plan", "predict", and similar terms or terminology, or the negative of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bound of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section of the Company's Annual Report on Form 10-KSB filed with the SEC on April 15, 2008. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

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

In this Form 10-Q, references to "we", "our", "us", "Company", "SCE" or the "Registrant" refer to Sino Clean Energy Inc., a Nevada corporation, and its subsidiaries.

Overview

Sino Clean Energy Inc. ("SCE" or the "Company") is engaged in the research, development, production and sale of its "coal water mixture" product, a fuel substitute for oil, gas or coal. The Company was originally incorporated in Texas as "Discount Mortgage Services, Inc." on July 11, 2000 and in September 2001, the Company purchased Endo Networks, Inc., a corporation incorporated in Ontario, Canada on January 11, 2001 ("Endo Canada"). In November 2001, the Company changed its name to Endo Networks, Inc. and was redomiciled to the State of Nevada in December 2002. Prior to the Share Exchange transaction described below, the Company conducted through, and all of the Company's assets were contained within, Endo Canada, in which conceptual and software development was ongoing for approximately two years by the Company founders, through ongoing contract relationships with software development companies.

On October 18, 2006, we entered into a definitive Share Exchange Agreement with Hangson Limited ("Hangson"), whereby we would acquire all of the outstanding common stock of Hangson in exchange for newly-issued shares of our common stock to the Hangson shareholders (the "Share Exchange"). On October 20, 2006 (the "Closing Date"), Hangson became our wholly-owned subsidiary and Hangson's shareholders became owners of the majority of our voting stock. The acquisition of Hangson by us was accounted for as a reverse merger because on a post-merger basis, the former shareholders of Hangson held a majority of our outstanding common stock on a voting and fully-diluted basis. As a result, Hangson was deemed to be the acquirer for accounting purposes. From and after the Closing Date of the Share Exchange, the Registrant's primary operations consisted of the operations of Hangson.

Additionally, on August 18, 2006, Hangson entered various agreements Shaanxi Suo'ang Biological Science & Technology Co., Ltd. ("Shaanxi Suoang"). Through these contractual arrangements, we have the ability to substantially influence Shaanxi Suoang's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval. As a result of these contractual arrangements, which obligate Hangson to absorb a

majority of the risk of loss from Shaanxi Suoang activities, it enables Hangson to control Shaanxi Suoang, and enables Hangson to receive a majority of Shaanxi Suoang's expected residual returns. Hangson is considered to be the primary beneficiary of Shaanxi Suoang. Accordingly, we consolidate Shaanxi Suoang's results, assets and liabilities in our financial statements. For a description of these contractual arrangements, see the section titled "Contractual Arrangements with Shaanxi Suoang and its Shareholders" in the Company's Annual Report on Form 10-KSB filed with the SEC on April 15, 2008. The Company's consolidated assets do not include any collateral for Shaanxi Suoang's obligations. The creditors of Shaanxi Suoang do not have recourse to the general credit of the Company.

Effective January 4, 2007, we changed our name from "Endo Networks, Inc." to "China West Coal Energy Inc." (the "Name Change") and we increased the number of our authorized shares of capital stock to 250,000,000 shares, which include 200,000,000 shares of common stock and 50,000,000 shares of preferred stock ("Authorized Shares Amendment"), by filing a Certificate of Amendment to amend our Articles of Incorporation. On November 27, 2006, holders of a majority of our outstanding common stock approved the Name Change and the Authorized Shares Amendment to our Articles of Incorporation. On December 8, 2006, we filed a definitive information statement on Schedule 14C with the SEC, which was delivered to our stockholders of record to notify them that the stockholders had approved the Name Change and the Authorized Shares Amendment to our Articles of Incorporation. Further, and as discussed more fully in the Form 8-K Current Report filed by the Company with the SEC on January 16, 2007, the Company's Board of Directors, by unanimous written consent, approved a change of the Company's fiscal year. The Company's new fiscal year begins on January 1st and ends on December 31st of each year.

Table of Contents

Our primary business operations are conducted through our wholly-owned subsidiary Hangson Limited (“Hangson”). Hangson was incorporated under the laws of the British Virgin Islands on June 2, 2006. Hangson does not have any substantive operations of its own and conducts its primary business operations through Shaanxi Suoang, which through the contractual arrangements described above is deemed Hangson’s variable interest entity (“VIE”). For the majority of fiscal 2006, Shaanxi Suoang was engaged in two lines of businesses: the research, development, production, marketing and sales of coal-polymer (“COPO”) resin products, and also in the research, development, production and sale of “coal-water mixture,” fuel substitute product (“CWM Fuel”). However, the Company subsequently decided to focus on its CWM Fuel product business. Thus, in December 2006, Shaanxi Suoang ceased operations of the COPO resin products business and is now focused on its CWM Fuel product business. Shaanxi Suoang conducts its CWM Fuel operations through its subsidiary, Shaanxi Suoang New Energy Enterprise Company Ltd. (“Suoang New Energy”). Shaanxi Suoang owns a controlling 80% equity interest in Suoang New Energy. The Company entered into sales contracts for the sale of its CWM fuel in early 2007. Construction of the first phase of the Company’s CWM Fuel production plant was completed in June 2007. The Company’s CWM Fuel production plant became operational and production of its CWM Fuel commenced in August 2007.

Effective on August 15, 2007, the Company merged with its wholly-owned subsidiary, Sino Clean Energy Inc., pursuant to Articles of Merger that the Company filed with the Nevada Secretary of State. The merger was in the form of a parent/subsidiary merger, with the Company as the surviving corporation. In accordance with Section 92A.180 of the Nevada Revised Statutes, shareholder approval of the merger was not required. Upon completion of the merger, the Company’s name has been changed to “Sino Clean Energy Inc.” and the Company’s Articles of Incorporation have been amended to reflect this name change. We changed our name to better reflect the direction and business of the Company.

The Board of Directors of the Company also authorized and approved a 3-for-1 forward stock split (“Stock Split”) of its issued and outstanding shares of common stock, par value \$0.001 per share (“Common Stock”) by way of share dividend, effective on August 15, 2007. To effect the Stock Split, the Company authorized the issuance of two shares of common stock for each one outstanding share of common stock held by the shareholders of record (“Split Shares”) on August 15, 2007 (the “Record Date”).

Immediately prior to the Stock Split, the Company had 28,227,250 shares of common stock issued and outstanding. After giving effect to the Stock Split, the Company has approximately 84,681,750 shares of common stock issued and outstanding. The Company’s common stock was quoted for trading on a post-split basis on the National Association of Securities Dealers Over-the-Counter Bulletin Board under the new trading symbol “SCLX” as of the open of the market on August 21, 2007.

Critical Accounting Policies and Estimates

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.

Impairment

The Company accounts for impairment of long-lived assets including property, plant and equipment, and amortizable intangible assets in accordance with SFAS No.144, Accounting for the Impairment or Disposal of Long-Lived Assets, which requires an impairment loss to be recognized when the carrying amount of a long-lived asset or asset group exceeds its fair value and is not recoverable (when carrying amount exceeds the gross, undiscounted cash flows from use and disposition). The impairment loss is measured as the excess of the carrying amount over the asset's (or asset group's) fair value.

Table of Contents

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 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.

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 year. The resulting gain and loss has been reported as other comprehensive income (loss) within the shareholder's equity.

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 disposal.

RESULTS OF OPERATIONS

Three month period ended March 31, 2008 as compared to three month period ended March 31, 2007

REVENUE. During the three month period ended March 31, 2008, we had revenues from sale of our coal water mixture of \$2,485,128 as compared to revenues of \$Nil during the three month period ended March 31, 2007. In general, this increase is mainly attributable to sales revenue received after the Company commenced operations of its coal water mixture production facility during the third quarter of 2007.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses totaled \$163,498 for the three-month period ended March 31, 2008 as compared to \$51,662 for the three-month period ended March 31, 2007. This increase was primarily caused by the increase in professional fees, salaries and traveling expenses in connection with the commencement of our coal water mixture operation.

NET INCOME. We had net income of \$523,499 for the three-month period ended March 31, 2008 as compared to net income of \$38,242 for the same period in 2007. The increase in net income is primarily attributable to commencement of our coal water mixture operations and production during the third quarter in 2007 which resulted in increased revenue from sales of our coal water mixture product.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flow provided by operating activities was \$917,820 for the three months ended March 31, 2008 as compared to net cash flow used in operating activities was \$1,936,216 for the three months ended March 31, 2007. The increase in our net cash flow provided by operating activities for the three months ended March 31, 2008 was mainly due to revenue received from sales of our coal water mixture product after the commencement of coal water mixture

operations, which started during the third quarter in 2007.

Net cash flow used in investing activities was \$40,962 for the three months ended March 31, 2008 as compared to net cash flow used in investing activities was \$29,623 for the same period in 2007. Uses of cash flow for investing activities were mainly related to purchases of property, plant and equipment for our coal water mixture operations.

Net cash flow provided by financing activities was \$402,473 three months ended March 31, 2008 as compared to net cash flow provided by investing activities was \$98,536 for the same period in 2007. The increase in net cash flow provided by financing activities was mainly due to the Company's receipt of a government subsidy grant from the Provincial Government.

We believe that we have adequate capital resources to continue our operations in the near future. We believe that our current cash balance and the revenues that will be generated will cover anticipated operating expenses for a period of at least one year without supplementing our cash reserves. We may, however, raise additional capital to further develop our products.

Table of Contents

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, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Exchange Rates

Shaanxi Suoang maintains its books and records in Renminbi (“RMB”), the lawful currency of the PRC. In general, for consolidation purposes, the Company translates Shaanxi Suoang’s assets and liabilities into U.S. Dollars using the applicable exchange rates prevailing at the balance sheet date, and the statement of income is translated at average exchange rates during the reporting period. Adjustments resulting from the translation of Shaanxi Suoang’s financial statements are recorded as accumulated other comprehensive income.

Until July 21, 2005, RMB had been pegged to US\$ at the rate of RMB8.30: US\$1.00. On July 21, 2005, the PRC government reformed the exchange rate system into a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies. In addition, the exchange rate of RMB to US\$ was adjusted to RMB8.11: US\$1.00 as of July 21, 2005. The People’s Bank of China announces the closing price of a foreign currency such as US\$ traded against RMB in the inter-bank foreign exchange market after the closing of the market on each working day, which will become the unified exchange rate for the trading against RMB on the following working day. The daily trading price of US\$ against RMB in the inter-bank foreign exchange market is allowed to float within a band of $\pm 0.3\%$ around the unified exchange rate published by the People’s Bank of China. This quotation of exchange rates does not imply free convertibility of RMB to other foreign currencies. All foreign exchange transactions continue to take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People’s Bank of China. Approval of foreign currency payments by the Bank of China or other institutions required submitting a payment application form together with invoices, shipping documents and signed contracts.

The exchange rates used to translate amounts in RMB into US Dollars for the purposes of preparing the consolidated financial statements or otherwise stated in this MD&A were as follows:

March 31, 2008 December 31, 2007 March 31, 2007

Balance sheet items, except for the registered and paid-up capital, as of end of period/year	USD0.1425:RMB1	USD0.1370:RMB1	USD0.1.2910:RMB1
--	----------------	----------------	------------------

Amounts included in the statement of operations, statement of changes in stockholders' equity and statement of cash flows for the period/ year ended	USD0.1400:RMB1	USD0.1320:RMB1	USD0.1265:RMB1
--	----------------	----------------	----------------

No representation is made that RMB amounts have been, or would be, converted into US\$ at the above rates.

Inflation

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

Item 4.

Controls and Procedures

- (a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the applicable period to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.
- (b) Changes in internal controls over financial reporting. There was no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

None.

Item 5. Other Information.

(a) None.

(b) There were no changes to the procedures by which security holders may recommend nominees to our board of directors.

Item 6. Exhibits

(a) Exhibits to the Form 10-Q:

Exhibit

Number Description

2.1 Share Exchange Agreement between Endo Networks, Inc., Endo Majority Shareholders, Hangson Ltd. and the Hangson Shareholders dated October 18, 2006 (1)

3.1 Articles of Incorporation of Endo Networks, Inc., a Nevada corporation, as amended. (3)

3.2 Bylaws of Endo Networks, Inc. (3)

3.3 Text of Amendment to our Bylaws (4)

3.4 Articles of Merger filed with the Secretary of State of Nevada with an effective date of August 15, 2007 (6)

10.1 Asset and Share Purchase Agreement between Registrant and Peter B. Day (for Endo Canada) (2)

10.2 Contract for Technology Transfer between Shaanxi Suo'ang Biological Science & Technology Co., Ltd. and HanZhongWeiDa Commercial Company Limited dated December 25, 2006 (5)

10.3 Contract for Technology Transfer between Shaanxi Suo'ang Biological Science & Technology Co., Ltd. and HanZhongWeiDa Commercial Company Limited dated January 10, 2007 (5)

31.1 Section 302 Certification by the Corporation's Chief Executive Officer *

Edgar Filing: Sino Clean Energy Inc - Form 10-Q

- 31.2 Section 302 Certification by the Corporation's Chief Financial Officer *
- 32.1 Section 906 Certification by the Corporation's Chief Executive Officer *
- 32.2 Section 906 Certification by the Corporation's Chief Financial Officer *
- 99.1 Consulting Services Agreement by and between Hangson Limited and Shaanxi Suo'ang Biological Science & Technology Co., Ltd. dated August 18, 2006 (3)
- 99.2 Equity Pledge Agreement by and between Hangson Limited and Shaanxi Suo'ang Biological Science & Technology Co., Ltd. ("Shaanxi Suoang") and Shaanxi Suoang's Majority Shareholders dated August 18, 2006 (3)
- 99.3 Operating Agreement by and between Hangson Limited and Shaanxi Suo'ang Biological Science & Technology Co., Ltd. ("Shaanxi Suoang") and Shaanxi Suoang's Majority Shareholders dated August 18, 2006 (3)
- 99.4 Proxy Agreement by and between Hangson Limited and Shaanxi Suo'ang Biological Science & Technology Co., Ltd.

Table of Contents

- (“Shaanxi Suoang”) and Shaanxi Suoang’s Majority Shareholders dated August 18, 2006 (3)
- 99.5 Option Agreement between Hangson Limited and Shaanxi Suo’ang Biological Science & Technology Co., Ltd. (“Shaanxi Suoang”) and Shaanxi Suoang’s Majority Shareholders dated August 18, 2006 (3)
- 99.6 Agreement by and between Shaanxi Suo’ang Biological Science and Technology Co. Ltd. and Hanzhong Si Xiong Ke Chuang Business Co. Ltd. (3)
- 99.7 Supplementary Agreement by and between Shaanxi Suo'ang Biological Science and Technology Co. Ltd. and Hanzhong Si Xiong Ke Chuang Business Co. Ltd. dated March 25, 2007 (5)
- 99.8 Agreement to Defer Payment for Property Transfer by and between Shaanxi Suo'ang Biological Science and Technology Co. Ltd. and Hanzhong Si Xiong Ke Chuang Business Co. Ltd. dated June 21, 2007. *
- 99.9 Supplementary Agreement to the Property Transfer Agreement by and between Shaanxi Suo'ang Biological Science and Technology Co. Ltd. and Hanzhong Si Xiong Ke Chuang Business Co. Ltd. dated March 6, 2008. *

* Filed herewith

- (1) Filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on October 18, 2006 and incorporated herein by reference.
- (2) Filed as Exhibit A of Registrant’s Schedule 14A filed with the SEC on August 8, 2006 and incorporated herein by reference.
- (3) Filed as Exhibits to the Registrant’s Current Report on Form 8-K filed with the SEC on October 26, 2006 and incorporated herein by reference.
- (4) Filed as an Exhibit to the Registrant’s Current Report on Form 8-K filed with the SEC on November 17, 2006 and incorporated herein by reference.
- (5) Filed as Exhibits to the Registrant’s Annual Report on Form 10-KSB filed with the SEC on May 3, 2007 and incorporated herein by reference.
- (6) Filed as an Exhibit to the Registrant’s Current Report on Form 8-K filed with the SEC on August 17, 2007 and incorporated herein by reference.

[SIGNATURES PAGE FOLLOWS]

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SINO CLEAN ENERGY INC.
(Registrant)

Date: May 19, 2008

By: /s/ Baowen Ren
Baowen Ren
Chief Executive Officer

