

**Sino Clean Energy**  
**2011 Third Quarter Financial Results**  
**November 21, 2011**

**Operator:** Good day everyone and welcome to the Third Quarter 2011 Earnings conference call for Sino Clean Energy. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. If you would like to pose a question, please press the star followed by the one on your touchtone phone. If you would like to withdraw your question, please press star followed by the two. If anyone has difficulties during the conference, please press star, zero for operator assistance at any time. If you are on a speakerphone mode, you will need to lift the handset before making your selection. This conference is being recorded today, Monday, November 21<sup>st</sup>, 2011.

I would now like to turn the conference over to Rob Koeppe of ICR. Please go ahead, sir.

**Rob Koeppe:** Thank you, Operator, and welcome everyone to Sino Clean Energy's Third Quarter 2011 Earnings call. Today you will first hear from SCEI's Chairman, Chief Executive Officer and President, Mr. Baowen Ren. Mr. Ren will give an overview of the quarter and the Company's strategy. Mr. Ren will be followed by the Chairman of the Audit Committee, Mr. Paul Chiu, who will provide updates about the Company's progress with corporate governance policies and regulatory compliance. Finally, SCEI's Chief Financial Officer, Ms. Wendy Fu, will discuss the Company's financial results and business outlook. Ms. Jing Li, assistant to the CEO, will provide English interpretation for remarks made in Mandarin Chinese. After their prepared remarks, management will be available to answer your questions.

Before we get started, I am going to review the Safe Harbor statement regarding today's conference call. Please note that the discussion today will contain certain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. To understand the factors that could cause results to materially differ from those in the forward-looking statements, please refer to our prospectus filed with the Securities and Exchange Commission on July 31st, 2000. We do not assume any obligation to update any forward-looking statements except as required under applicable law.

At this point, I would like to introduce Mr. Baowen Ren, Chairman, Chief Executive Officer and President of Sino Clean Energy. Mr. Ren will speak in Mandarin and Ms. Li will interpret into English. Mr. Ren?

**Baowen Ren:** (Chinese spoken)

**Jing Li:** Thank you, Robert. Thank you everyone for joining us today.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** During the past very challenging quarter, I'm pleased that the Company managed to maintain reasonable sales volumes.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** As disclosed in earlier announcements, operations at our largest customer, Haizong Heating, remained suspended throughout the third quarter. In Tongchuan, we further lost one customer to a low-price competitor and one customer suspended operations due a reduced loan facility.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** On the positive side, the customer base and order volume of our Dongguan facility continued to increase during the quarter. Our business in Dongguan contributed 47.4% of revenues during the period, partially offsetting revenue reductions from our Shenyang and Tongchuan facilities. Our current output capacity in Dongguan is 300,000 metric tons. We expect to meet increased demand in Dongguan by adding another production line of 750,000 metric ton capacity at the end of the first quarter in 2012.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** With our largest customer resuming operations at November 1<sup>st</sup> of 2011, we are confident that our Shenyang facility will ramp up quickly and begin contributing again to overall revenues in the future.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** I'm also pleased that the independent consultancy Thornhill Capital LLC, which is a leader in accounting, compliance, due diligence and other services for China operating enterprises listed in the U.S., has completed its initial review of the Company's tax payments and related filings. As our audit committee chair, Mr. Paul Chiu, will discuss in more detail later, Thornhill concluded that it is unlikely the Company has filed incorrect State Administration of Taxation and State Administration of Industry and Commerce

reports or provided false reports that do not agree to the reports filed with the SEC. The Thornhill report also noted that there is no significant variance in the reconciliation of the SAT and SAIC reports with the SEC reports previously filed. The Thornhill report marks the successful conclusion of the first stage of a broad operations-wide internal investigation being supervised by the Company's audit committee.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** Now let me turn to recent business updates.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** First in regards to the planned Foshan Nan Hei acquisition, as previously reported, the Company has engaged Shaanxi Rongde Law Firm to conduct a comprehensive investigation and evaluation of Foshan Nan Hei's assets, ownership structures, liabilities and credit worthiness. This legal investigation and evaluation has been proceeding as scheduled. We expect this preliminary evaluation to be completed by the end of 2011, after which time the Company will begin financial due diligence procedures.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** In regards to our cooperation with Nathalin Welstar Energy Corporation Limited, SCEI management's planned visit to Thailand was delayed because of recent flooding in Thailand. SCEI management now plans to conduct that visit in Thailand starting on December 1<sup>st</sup>. Part of our fact visit will include examining Nathalin's facilities and that of their customer base. We will further consider any impact, including flooding, on our plans for cooperation in the timelines for implementation. We will keep the market updated on any material developments in this regard.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** In sum, with our largest customer expected to come back online to resume their orders plus the expected increase in demand for thermal energy in winter months, we believe the fourth quarter results will significantly exceed the third quarter's. With the Chinese government's ongoing commitment to increasing efforts at energy conservation, emissions reductions, improving air quality and raising energy efficiency, Sino Clean Energy is well positioned to sustain robust growth as the leading producer of coal water slurry fuel in China.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** With that, I turn the call to Mr. Paul Chiu, Chairman of our Audit Committee. Paul, please?

**Paul Chiu:** Thank you very much, Mr. Ren and Ms. Li. I'm glad to report positive progress in regard to the Company's corporate governance and regulatory compliance. As Mr. Ren has just mentioned earlier, the Company engaged an independent third party evaluation agency, U.S.-based Thornhill Capital LLC, to conduct a review and reconciliation of the Company's tax returns filed with the State Administration of Taxation and the filing with the State Administration of Industry and Commerce against the audited financial information filed with the U.S. Securities and Exchange Commission under U.S. GAAP. The Company has now received the report from Thornhill on November 10<sup>th</sup>. As Mr. Ren has just noted, Thornhill concluded that with respect to Shenyang Suo'ang, the Company's principal base of operations, it's unlikely the Company has filed incorrect SAT and SAIC reports or provided any false reports that do not agree to the report that we filed with the SEC. In addition, there's no significant variance in the reconciliation of the SAT and SAIC reports with the U.S. SEC report that we filed. This conclusion represents a major step in clearing up the Company's name from well-publicized allegations of fraud earlier this year.

Thornhill was able to reconcile the SAT filing of the two other major operation bases, Shenyang Suo'ang and Dongguan Clean Energy; however, due to time constraints, the information provided for such filings at these locations has not yet been independently verified and the SAIC reconciliation has not been performed in those cases. As the Company further endeavors to enhance its internal controls and governance policies, the audit committee is supervising a broader operation-wide internal investigation. The intent is to address certain matters raised in the past concerning the veracity of the Company's stated production facilities and activity, revenue, cash balances, and customers.

As part of this expanded effort, in October the Company has engaged a specialist team consisting mainly of former senior managers from the Big Four CPA firms to assist in implementing recommendations from Ernst & Young (China) Advisory Services on the Sarbanes-Oxley compliance, timely setting up of an effective internal control system, and improving the SEC financial reporting process of the Company. The Company is working closely with these advisors and as a result hopes that it can attain significant improvements in the above areas over the next two quarters.

In August and September of this year, we have received comment letters from both the SEC and NASDAQ, as part of their routine review procedures, in regards to our Company past Exchange Act filings concerning various aspects of Sino Clean Energy's financial and legal disclosure in its previously filed 10-K, 10-Q and 8-Ks. The Company was further required in response to such comments to provide the SEC with examples of how it will

enhance its disclosures in all its future filings. Now the Company has replied to all of the SEC and NASDAQ comments in detail and will continue to work diligently and fully to address any additional inquiries should they arise. To ensure that all the enhanced disclosures as promised to SEC are included in the Company's Form 10-Q filing just now for the fourth quarter, the Company filed for extension of time in the filing of its Form 10-Q. Subsequently the Company has filed its 10-Q on November 18<sup>th</sup> before the expiry date of the extension period on November 21<sup>st</sup>.

With that, I now will pass the call to our CFO, Ms Wendy Fu, who will review our Company's third quarter financial results. Ms. Fu, please.

**Wendy Fu:** Thank you, Mr. Chiu. During the third quarter, our revenue decreased 31% to \$17 million from \$24.9 million in the same period of 2010. This was primarily due to a decrease in sales to our major customer, Haizong Heating in Shenyang as stated in our previous quarter's earnings call. This customer suspended operations due to the modification of a pipeline in certain areas of their Ming Fa real estate development project. The reduction in sales volume due to this business interruption was 81,251 metric tons compared with the same period last year. In addition, the Company's subsidiary, Shaanxi Suo'ang New Energy lost one more customer to a new competitor. Another customer also suspended operations during the third quarter in Tongchuan. The reduction in sales volume including these customers was 71,910 metric tons as compared with the sales in the same period of 2010.

During the quarter, the Company sold 125,235 metric tons of coal water slurry fuel compared to 261,496 metric tons in the same period of 2010, representing a decrease of 52%. The Company's annual production capacity at September 30<sup>th</sup>, 2011, was 1,150,000 metric tons as compared to 850,000 metric tons at September 30<sup>th</sup>, 2010.

For the first nine months of 2011, revenue was \$73.9 million, representing a slight increase over \$33.6 million for the same period in 2010. As of September 30<sup>th</sup>, 2011, Sino Clean Energy had 37 active customers and coal water slurry fuel supply agreements totaling approximately 1,200,000 metric tons per year, compared to 43 customers totaling approximately 600,000 metric tons of coal water slurry fuel per year at September 30<sup>th</sup>, 2010.

Cost of goods sold was \$11.4 million in the third quarter of 2011 compared to \$15.3 million in the third quarter of 2010, representing a decrease of 25% in line with the decreasing sales volume. Gross profit decreased 40.5% to \$5.7 million from \$9.6 million in the same period of 2010. Gross margin was 33.4% compared to 38.7% in the third quarter of 2010. This primarily resulted as a combination of significantly higher purchase prices

for coal in Dongguan and higher depreciation costs for plant and machinery at that facility.

Selling expenses were \$0.9 million in the third quarter of 2011 as compared to \$1.2 million in the same period of 2010, a decrease of 26%. This decrease was mainly attributable to decreased transportation costs and marketing costs due to decreased selling volumes. General and administrative expenses were \$1.2 million in third quarter of 2011 compared to \$0.6 million in the same period of 2010, representing an increase of 100%. This was primarily due to the legal expense and the professional fees and increased expenses related to Sino Clean Energy being a public company.

Income from operations decreased 53.7% to \$3.7 million in the third quarter of 2011 from \$7.9 million in the third quarter of 2010 due to the above mentioned factors. Net income in the third quarter of 2011 was \$3.3 million including changing fair value of derivative liabilities of \$2.7 million and a gain on extinguishment of derivative liability of \$3.1 million. Basic earnings per share were \$0.14 adjusting for non-cash charges during each respective period. Adjusted earnings were \$2.8 million and \$6.6 million for the third quarter of 2011 and 2010, yielding \$0.11 and \$0.39 in adjusted basic earnings per share respectively.

We ended the third quarter in a strong financial position. As of September 30<sup>th</sup>, 2011, the Company had cash and cash equivalents of \$59.4 million compared to \$52.1 million as of December 31<sup>st</sup>, 2010. Net cash generated from operations was \$2.5 million in the nine months ended September 30<sup>th</sup>, 2011, compared to \$21.3 million in the nine months ended September 30<sup>th</sup>, 2010. This decline was mainly due to the decrease in amortization of discount on convertible notes and an increase in accounts receivable.

The Company had working capital of \$83 million as at September 30<sup>th</sup>, 2011, and a current ratio of 16 to 1. Net accounts receivable balance was \$12.1 million at September 30, 2011, compared to \$3.6 million and \$3.9 million at September 30<sup>th</sup> and December 31<sup>st</sup>, 2010, respectively. Allowance for doubtful accounts was \$1.1 million at September 30<sup>th</sup>, 2011, compared to zero at September 30<sup>th</sup>, 2010, and December 31<sup>st</sup>, 2010, respectively. The annualized days sales outstanding for the nine months ending on September 30<sup>th</sup>, 2011, were 66 days compared to 24 days in third quarter 2010. The lengthening of days sales outstanding reflects tightening credit environment around Tongchuan and a trend of growing coal water slurry fuel purchaser power in Dongguan.

Sino Clean Energy reconfirms fiscal 2011 guidance and expects revenue of between \$101.5 million and \$110.7 million due to the Company's major customer, Shenyang Haizong Heating resuming its operations

in October. The Company expects non-GAAP adjusted earnings to be in the range of \$23 million to \$24.8 million and the full-year adjusted earnings per share of between \$0.98 and \$1.06. This guidance assumes total sales volume of 850,000 metric tons to 920,000 metric tons of coal water slurry fuel in 2011.

This concludes my summary. Thank you very much. We'll now open the call to any questions you may have for the management team.

**Operator:** Thank you, Ms. Fu. We will now begin the question and answer session. As a reminder, if you'd like to ask a question, please press the star followed by the one on your touchtone phone. If you would like to withdraw your question, please press star followed by the two. If you are on speakerphone mode, you will need to lift the handset before making your selection.

Your first question today comes from Debra Fiakas with Crystal Equity Research. Please go ahead.

**Debra Fiakas:** Thank you. My first question is for Mr. Ren. Ms. Fu just reported that there are 37 customers at the end of the third quarter compared to 43 a year ago, but these 37 customers represent almost twice as much demand. I wondered if you could describe the changes in your customer base – are they growing or has there been a change in just who these customers are so that they are buying so much more coal water slurry fuel?

**Jing Li:** Thank you. (Chinese spoken)

**Baowen Ren:** (Chinese spoken)

**Jing Li:** To your question, actually this is because our customer structure changed, which is different from last year. For previous year, most of the customers are heating supply customers, and this year most of the customers are industry customers. For this year, we almost have no customers related to thermal heating, so although the structure changed, but the demand for our coal water slurry fuel has not changed.

**Debra Fiakas:** Okay, good. I also wanted to ask whether or not this change in customers, this shift to more industrial kinds of customers, means that their demand will be spread out throughout the year, it won't be related to the weather conditions?

**Jing Li:** (Chinese spoken)

**Baowen Ren:** (Chinese spoken)

**Jing Li:** Actually, yes – currently we do have some customers, heating supply customers, but most of them would be industrial, so in the future we will change our customer base and most of the customers will be industry related and the production and the sales will be very stable without obvious seasonality effects.

**Debra Fiakas:** Okay, thank you.

**Jing Li:** But currently we still have some seasonality effects.

**Debra Fiakas:** Okay. I also wanted to ask about the two customers that were lost, I believe, in Tongchuan – one because it shut down operations and the other because it was lost to a competitor. Could you tell us what industry or what kind of businesses those were?

**Jing Li:** (Chinese spoken)

**Baowen Ren:** (Chinese spoken)

**Jing Li:** We lost two customers in second quarter. One is Lihua—Lihua Wine factory, which is industry customer, and we lost this customer because of the tightened credit—tightened cash flow for their industry. And another one is the heating customer, and we lost it to a low-price competitor. Shaanxi Wanxing Environmental Coal Water Slurry Fuel Development Co., Ltd. (陕西万兴环保水煤浆开发有限公司)

**Debra Fiakas:** Okay, very good. My next question is for Mr. Chiu. I wonder, Mr. Chiu, if you could tell us whether or not Thornhill is going to continue with the work and go back to get the third party verification for those places where—the locations where they did not already get the third party verification.

**Paul Chiu:** Yes, I will clarify those points, but before that to supplement Mr. Ren's answer, we are going to increase our industrial customers especially in Dongguan. As we have just mentioned, we have production capacity of 1.15 million metric tons and we have already booked sales of 1.2 million for the coming year, and the main increase was from industrial customers in Dongguan who are mainly in manufacturing and later on we will expand into chemicals. So those industrial customers operate on a full-year, basis so there will not be any seasonal factors. Okay, that's the supplement.

In any case, I come back to your question. What the Thornhill team has actually disclosed to us is that they have been able to verify over 90% of those banking statements and SAT filings, SAIC filings; however, because of the time limit, they cannot travel to Dongguan and then to Shenyang to get the banking documents and the filings with the government first hand.. So in actual fact,, a portion of less than 10% of the banking documents are not

verified., so in terms of—you know, From the standpoint of auditing, accounting or regularity, those are not really material. However, later on maybe we'll try to get you a full report and maybe you'll find out for yourself. Basically, we may cover that in the future. We are going to go to those two facilities to verify on the sales and production. That will be the later part of our due diligence. Maybe at that time, we may include this as well; but as of right now, I can stress and answer your question that these are not really material.

**Debra Fiakas:** Okay. And this third party verification, does that involve simply contacting customers or contacting the priors or banks and so forth to get confirmation of numbers?

**Paul Chiu: For due diligence work** on the Thornhill report, they actually have to go to the government agencies to get all the reports firsthand from the agencies directly. And number two on the banking statements, they were able to go to the local banks and the branch for bank statements up to two years; however, that's the limitation because pre-2009, those banking statements are not available to be printed from local branches, as the local banks, as a matter of policy, do not keep records going back over two years, so they have to rely on the copies from our company.

**Debra Fiakas:** Okay. But the Thornhill report then did include the verification of bank deposits?

**Paul Chiu:** Yes, based on the banking statements; however, you have to look at the report because really they are trying to do—the main purpose is still the reconciliation of those filings, reports with the SEC, comparing to the income tax filings. So the emphasis is not on cash balances—they have to rely on, of course, on previous year banking statements, otherwise they cannot find out. But on this report, they don't say anything about the cash balances. I have to emphasize again that they did not do any finding on the cash balances, not at this time.

Debra Fiakas: All right, very good. Now that report, will that be made public in whole, in its entirety?

**Paul Chiu:** Yes, I think what happens is you can send the request to the management and they can make a decision later on. You know, it's not been decided yet.

**Debra Fiakas:** All right, very good. And then there's one additional internal investigation that's being headed by the law firm Loeb & Loeb. Is that still ongoing?

**Paul Chiu:** That's right. We are going ahead with Loeb & Loeb together and of course they have to prepare that based on the issues that have

been raised by the short sellers and so on. So we expect that to go on and be completed in the first and second quarter of next year.

**Debra Fiakas:** All right, very good. Thank you very much. I have one last question and that's for Ms. Fu, and it's in regard to the accounts receivable. The accounts receivable remain fairly significant and I wondered if the Company has done any kind of work to determine whether or not there might be the need to write down additional accounts receivable due to credit conditions?

**Wendy Fu:** Yes, management has already looked into the accounts—each customer's balances, and we have collected most of the balance due in October and November so the collection was not reflected in the third quarter report, but it will be reflected in the fourth quarter report. For that reason, we did not write down—I mean, we did not need to provide more allowance for doubtful accounts.

**Debra Fiakas:** Okay. Okay, excellent. Thank you very much, and I'll step aside to let someone else ask a few questions.

**Operator:** Ladies and gentlemen, as a reminder, if you have a question you may press the star followed by the one on your touchtone phone. If you'd like to withdraw yourself from the queuing process, you may press star, two.

Your next question comes from Jeff Davidowitz with Oldfield Company. Please go ahead.

**Jeff Davidowitz:** Good morning, gentlemen. My question is for Mr. Chiu. When Thornhill was first engaged?

**Paul Chiu:** Actually Thornhill was engaged in the summer; however—yes, I understand there's an undue delay, but at that time we have to say that there's certain miscommunication and cooperation with the Thornhill team is not that great. Because by the time the team has arrived in our headquarters, we did not realize that they had to get their hands on documents firsthand. We have provided our cooperation, but in actual fact they had to go to the bank and be present and witness the printing of the actual banking statement going back more than two years, and we understand later we need the higher authority to get those authorizations in order to obtain all those past bank records—and we arranged it this time with this bank. And the other part of the delay was due to those SAT and all this government filing and so on, they had to actually go there and get them; and again, there's some coordination problem. But at the end of the day, we are able to do it based on efficient coordination for the last month. You do realize that these guys doing due diligence have their own principles they must adhere to, they must uphold. And they cannot accept

anything that's from the Company, so in compliance of their requirements, we have to get hold of original documents on a timely basis.. And that's the problem that caused undue delay last time,, because the management or the people in charge cannot really do a good coordination at that time.

**Jeff Davidowitz:** All right, so just to clarify the prior questioner and your answer, will Thornhill be completing their due diligence and their confirmation of these numbers, or have they completed this phase of their audit?

**Paul Chiu:** Actually, as we said on the press release, they have done this part of their due diligence- process. The major thing is we have to verify that the filings with the government, especially SAT and the SAIC reports, confirm with our books and all the accounts which we filed with the SEC. So basically they covered over 90% of the banking statements and the company's records which they got their hands on firsthand, and they found no variance. So the first part is done, but again, I will stress that we have to go onto the next part, which will cover sales, cash balances and so on, and that we will undertake in the first and second quarter of next year.

**Jeff Davidowitz:** Okay. So again, as you mentioned earlier, did Thornhill confirm the cash and sales and accounts receivable that we have listed?

**Paul Chiu:** As for cash balances per banking statement, yes. As for your question on sales and accounts receivable —you realize that if you have to go to verify the sales, then you have to get hold of all those sales invoices, and then obtain third party verification for the sales and so on. So really, they are confining the investigation to the banking records only at this time, i.e., the banking statements.

**Jeff Davidowitz:** Okay, thank you.

**Paul Chiu:** You're welcome.

**Operator:** Ladies and gentlemen, if you have any additional questions at this time, you may press the star followed by the one on your touchtone phone. If you are using a speakerphone today, please lift the handset before pressing the keys.

Your next question comes from Jim Stone with PSK Advisors. Please go ahead.

**Jim Stone:** Thank you, gentlemen, for being so helpful and giving us all this data. Usually about this time, you begin talking about your building plans for next year, and I wonder if you can share with us what your thinking is

on increasing capacity over 2012. You've told us what it will be at the end of Q1, but what might it be at the end of Q4?

**Paul Chiu:** Yes, actually I can answer that question because I think that I answered your question the last time around in August, you know, now it is three months already. Actually right now, our capacity as noted in our 10Q report is 1.15 million MT and we expect that the new Dongguan facility will be completed early next year, January-February. They are awaiting the final delivery of certain key equipment and they will be installed at that time, and there will be an increase in production capacity by 750,000 MT. So that will take us to 1.9 million MTAs you know, we are doing right now the due-diligence on the major acquisition at Foshan NanHai, and that will add another 600,000.MT So altogether we are looking at 2.5 million MT maybe by the middle or September of next year. It's hard to say because a buildup of capacity takes a long time.

**Jim Stone:** Well, we understand that you can have great plans and sometimes there is difficulty in executing them, but I was curious about what the plans were. But I assume that you folks have been very busy in adding, that you are planning or thinking about stuff beyond next September so that there might be even a chance by the end of next year that it could be something greater than 2.5 million?

**Paul Chiu:** Yes, possibly. Right now we cannot comment on that with certainty.-

**Rob Koeppe:** Paul, this is Rob from ICR. You're breaking up. Can you just be careful? There might be some device interfering with your phone.

**Paul Chiu:** Okay, I don't think so.

**Rob Koeppe:** Okay, continuing answer the questions, but please make sure there's nothing interfering. Sorry for interrupting.

**Paul Chiu:** Okay. Yes, I think management is adhering to SEC rules and regulations, and so unless we sign a letter of intent or there's a definitive agreement concerning the proposed deal, we cannot disclose them. So that's to answer the rest of your question.

**Jim Stone:** Okay, that's fine. I wasn't asking for a number but I just wanted—if possible, if you could share with us whether indeed you were planning to expand, and you've answered that question. Okay. The next question is could you talk a bit about the competitive environment – at one point, you said you were number two in the Dongguan province. I'm wondering where you stand now and what the competition looks like, because even outside of Dongguan you've talked about shedding customers who were the thermal customers, so they must have gone to somewhere, which would imply

competition. You talked about losing one customer, so whatever you can share with us about the competitive environment and where you stand would be very helpful.

**Paul Chiu:** Okay. Yes, I think Mr. Ren can answer that question.

**Jing Li:** (Chinese spoken)

**Baowen Ren:** (Chinese spoken)

**Jing Li:** Okay, let me translate. For the first facility in Tongchuan, overall the development of CWSF in China is really competitive, and in each location of China there are new projects of CWSF emerging. As far as Tongchuan facility, we are still ranked number one and right now there is a new competitor, but this competitor's production and sales is much lower than ours.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** In Dongguan, we rank number two, and in Shenyang there are a total of three CWS producers and we are the leader in that location. We are the leader in terms of the size in Shenyang. In the whole China, Mr. Ren said that we rank number five in the CWSF field.

**Jim Stone:** Okay, thank you. I have just one other question here – at one point, you were talking about purchasing shares, and I know you addressed it in the last conference call; but with the stock down below—well, it was last week selling at less than half the cash value, can you tell us what your current thinking is about purchasing more shares, and did you purchase any in the third quarter?

**Paul Chiu:** Yes, as we have filed in the Q3, we did not increase the purchase of shares; however the management has already indicated there will be a lot of cash requirement for the capital expenditures and for what we have budgeted for the next year, you know, first and second quarter of next year. So therefore, the cash requirement is extremely urgent and in view of the credit tightening environment in China, it's very important that we keep very healthy cash balance. So with that objective in mind, we have not increased the purchase of the shares.

**Jim Stone:** Thank you for the question, and keep up the nice, good work. We really appreciate it.

**Paul Chiu:** Okay. Thank you. Thank you very much.

**Operator:** Once again ladies and gentlemen, if you have any questions at this time, you may press the star followed by the one. If you'd like to withdraw your question from the queuing process, you may press star, two.

Your next question comes from Debra Fiakas with Crystal Equity Research. Please go ahead.

**Debra Fiakas:** Thank you. I want to ask if you could also give us an update on the legal action that had originally been taken earlier in the year vis-à-vis the short sellers. Is there any kind of update that you might provide us? Are you still continuing to pursue that litigation?

**Paul Chiu:** Yes. The management had a couple of meetings with the lawyers over the last two months and we were told that the action against the short sellers has already been in progress, and we were able to serve them by email, that was sanctioned by the court, and then later on we served them in New York. The action will start according to schedule, it will come on in the next two or three months, but the lawyer also advised that in this sort of action before we go to court, we will probably have a mediation session, and at that time, you know, we'll see what happens. But I can also update you on the class action lawsuit against us. We have prepared really well. We are in the process of getting all the documents needed and so on, and we are confident of proving that lawsuit is without any merit. And again, there will be a mediation session and the lawyers advised at that time mainly—a lot of the lawyers representing the plaintiffs, they are really out to get their fees and so on, and in the end we may have to settle. And any settlement or any legal costs or court costs incurred by these actions will likely be covered by the Company's current insurance policies.

**Debra Fiakas:** Okay, very good. And then I have one more question, if you can indulge me in a question about the warrants that are outstanding. Each quarter, of course, there is the accounting treatment for the warrants, the derivatives that are outstanding, and it does produce considerable variance in the Company's reported earnings because of the mark up and mark down of those warrants. And I don't know if this is for you, Mr. Chiu, or Ms. Fu or Mr. Ren, but I wondered if the Company has given any consideration to the repurchase of those warrants or to a reset of the exercise price such that they will get exercised or be eliminated and we won't see that accounting treatment and therefore the variance in the earnings going forward?

**Paul Chiu:** Okay. Yes, I will answer that and then that will be supplemented by Wendy or Mr. Ren. What happened is that's something we can't help, because there is—you and I, we know very well this is the requirement under U.S. GAAP treatment right now. But the warrants that's outstanding right now, they are really mainly issued for, incentive purposes and then for past performance or whatever. So we were not inclined to re purchase them or extinguish them, and every quarter we have to do the valuation by the

professional agencies and we have to account for them. But we cannot help that there is fluctuation as that is required under the U.S. GAAP.

**Debra Fiakas:** I understand the requirement; that's not my question. My question is has the Company considered taking the action needed to either change the terms of the warrant to the type of warrant that doesn't require that kind of accounting treatment – I understand the requirement for the accounting treatment – or has the Company considered resetting the exercise price so that you can get them exercised and so they are no longer outstanding, or repurchasing them? I'm not suggesting that you would just cancel them; I'm suggesting that you would do something to get them either exercised or repurchased so that we won't have to see the required accounting?

**Paul Chiu:** Understand. Yes, understand completely. My answer would be that as of right now, the management has not made any decision in that regard. Yes, we are not thinking of doing that, not right now.

**Debra Fiakas:** Okay, very good. Thank you.

**Paul Chiu:** Yes, thank you.

**Operator:** We have time for one more question. Your next question on the line comes from John Cray – he's a private investor. Please go ahead.

**John Cray:** Yes, I was wondering – is there any word on CVRs, when they'll be issued? Because I still have not received my CVRs.

**Paul Chiu:** CVR? Yes, I think the lawyers are doing that. We were told that for shareholders who have brokerage accounts, the CVRs have already been credited to their accounts electronically. For shareholders who require direct mailing, we will follow up with our lawyers to have it done in the next month or two..

**John Cray:** One final question – I know you mentioned that you have a large cash position for some of the investments that you're about to make. Was there ever any possibility of a dividend being paid?

**Paul Chiu:** Yes, Mr. Ren can answer the question.

**Jing Li:** (Chinese spoken)

**Male Speaker:** Dividend, yes.

**Baowen Ren:** (Chinese spoken)

**Jing Li:** Yes, this is a good suggestion and Mr. Ren and management will consider this issue of dividends carefully. They are talking with the Board of Directors to make a decision. However, the current key point is to complete the acquisition of Nan Hei Clean Energy and Dongguan expansion, so that would come first in consideration of the cash in our accounts. But we will think about that and discuss with the Board of Directors. Thank you.

**John Cray:** All right, thank you very much.

**Paul Chiu:** You're welcome.

**Operator:** That concludes our question and answer session. I will now pass the line over for closing remarks.

**Rob Koeppe:** Thank you everyone for joining us for tonight's conference call, and we look forward to speaking to you again at the next earnings season.

**Operator:** Ladies and gentlemen, that does conclude our conference call for today. Thank you for your participation. You may now disconnect your lines.