

China West Coal Energy Inc  
Form 10KSB  
May 03, 2007

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

**FORM 10-KSB**

x **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2006**

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 000-51753**

**CHINA WEST COAL ENERGY INC.**

(Exact name of Registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of  
incorporation or organization)

**75-2882833**

(I.R.S. Employer Identification No.)

**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)

**(8629) 8209-1099**

(Issuer's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
<b>None</b>	<b>None</b>

Securities registered pursuant to Section 12(g) of the Act:

Title of Class  
**Common Stock, \$.001 par value**

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Issuer's revenues for its most recent fiscal year: \$7,253,887

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The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant on April 30, 2007 was approximately \$10,246,510. The per share stock price for computational purposes was \$0.55, based on the closing sale price per share for the Registrant's common stock on the OTC Bulletin Board on April 30, 2007. This value is not intended to be a representation as to the value or worth of the Registrant's common stock. The number of non-affiliates of the Registrant has been calculated by subtracting the number of shares held by persons affiliated with the Registrant from the number of outstanding shares.

The number of shares of the Registrant's common stock outstanding on April 30 2007 was 28,227,250.

Transitional Business Disclosure Format (Check One). Yes  No

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**FOR YEAR ENDED DECEMBER 31, 2006**

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## **INTRODUCTORY NOTES - FORWARD LOOKING STATEMENTS AND CERTAIN TERMINOLOGY**

Some of the statements made by us in this Annual Report on Form 10-KSB are forward-looking in nature, including but not limited to, statements relating to our future revenue, product development, demand, acceptance and market share, gross margins, levels of research and development, our management's plans and objectives for our current and future operations, and other statements that are not historical facts. Forward-looking statements include, but are not limited to, statements that are not historical facts, and statements including forms of the words "intend", "believe", "will", "may", "could", "expect", "anticipate", "plan", "possible", and similar terms. Actual results could differ materially from the results implied by the forward looking statements due to a variety of factors, many of which are discussed throughout this Annual Report and particularly in the sections titled "Factors That May Affect Future Results" and "Factors Affecting Business, Operating Results and Financial Condition", both of which are included in the section titled "Management's Discussion and Analysis of Plan of Operation." Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements that may reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Factors that could cause actual results to differ materially from those expressed in any forward-looking statement made by us include, but are not limited to:

- our ability to finance our activities and maintain our financial liquidity;
- our ability to attract and retain qualified, knowledgeable employees;
- the impact of general economic conditions on our business;
- postponements, reductions, or cancellations in orders from new or existing customers;
- the limited number of potential customers for our products;
- the variability in gross margins on our products;
- our ability to design and market new products successfully;
- our failure to acquire new customers in the future;
- deterioration of business and economic conditions in our markets;
- intensely competitive industry conditions with increasing price competition; and
- the rate of growth in the alternative fuel markets.

In this document, the words "we," "our," "ours," "us," and "Company" refer to China West Coal Energy Inc. and our subsidiaries.

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### **History Of Endo Networks, Inc.**

China West Coal Energy Inc. (“CWCE” 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, CWCE conducted through, and all of CWCE’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. The Company helped businesses acquire new customers and build sales and loyalty with existing customers. The Company used interactive technology such as touch screen kiosks, handheld computers, and websites, combined with promotional marketing tactics to filter large numbers of consumers, to find qualified prospects, and even precondition them for a sale. Our services can be deployed within a business’ own retail environment, to increase sales with their own customer base by increasing frequency of visit and/or average spend with individual customers, or they can be deployed within a partner location such as an office tower or a consumer show, to find and acquire qualified new customers. The Company’s prior areas of expertise included: web, kiosk, handheld, wireless, loyalty, promotional marketing, direct marketing, integration with point of sale, surveys, incentive, sampling, and field and event marketing. The client base included specialty retail, general retail, food service, automotive, alcohol, energy, consumer packaged goods, entertainment, amateur sports, and telecommunications companies.

However, since its inception, the Company had incurred losses and had substantial trouble maintaining consistent cash flow necessary to operate our business. As recently as its last fiscal year and quarter, the Company reported losses and working with a capital deficit for those same periods. The additional investment and infrastructure needed to sustain our business and develop our operations could not be supported by its current cash flow. In view of the foregoing, the Company’s lack of our growth and the limited platform for our future growth in its current state, the Company’s Board determined that it would be in our stockholders’ best interests to sell all of Endo’s assets to Peter B. Day, the Company’s previous President, CEO and sole director prior to the Closing of the Share Exchange. In making the determination to sell all of our assets to Mr. Day, the Board gave primary consideration to Mr. Day’s familiarity with our operations and business relations. The Company’s Board believed that Mr. Day’s knowledge of our operations would lead to an efficient and expeditious sale process. The Board was also able to negotiate Mr. Day’s agreement to assume any liability with respect to the Company’s assets prior to the Closing. The Asset and Share Purchase Agreement (the “Purchase Agreement”) by and between the Company and Mr. Day was approved by our Board and executed on June 26, 2006, and a majority of our shareholders approved the Purchase Agreement at our Annual Shareholder meeting on September 5, 2006. The Purchase Agreement was filed as Exhibit A to our Schedule 14A Information Statement, which was filed with the Securities and Exchange Commission on August 8, 2006, and is incorporated herein by reference. The description of the Purchase Agreement contained herein and the transactions contemplated thereby do not purport to be complete and are qualified in their entirety by reference to such documents. On September 30, 2006, the Company completed its sale of all of its assets and shares of Endo Canada to Mr. Day, pursuant to the terms of that certain Purchase Agreement. Following the Closing of the Purchase Agreement, the Company sought to identify, evaluate and investigate various companies with the intent that, if such investigation warrants, a transaction could be negotiated and completed pursuant to which the Company would acquire a target company with an operating business with the intent of continuing the acquired company’s business as a publicly held entity.

On October 18, 2006, the Company executed a Share Exchange Agreement (“Exchange Agreement”) by and among Hangson Limited, a business company incorporated under the laws of the British Virgin Islands (“Hangson”), and the stockholders of 100% of Hangson’s common stock (the “Hangson Stockholders”), on the one hand, and Endo and a majority of the Company’s stockholders (“Endo Stockholders”), on the other hand. The closing of this share exchange transaction (the “Share Exchange”) occurred on October 20, 2006 (the “Closing Date” or the “Closing”). Separately, Hangson entered into consulting service agreements and equity-related agreements (the “Contractual Arrangements”) with Shaanxi Suoang Biological Science & Technology Co., Ltd. (“Shaanxi Suoang”), which is a limited liability company headquartered in the People’s Republic of China (“PRC”) and organized under the laws of the PRC. Hangson’s business operations are conducted through Shaanxi Suoang under these Contractual Arrangements.

Under the Exchange Agreement, on the Closing Date, the Company issued a total of 26,000,000 shares of Common Stock (the “ENDO Shares”) to the Hangson Stockholders and to Viking Partners, Inc., a consultant in this transaction, in exchange for 100% of the common stock of Hangson. Additionally, immediately prior to the Closing Date, Peter B. Day, the Company’s then President, CEO and sole director voluntarily cancelled 715,500 (post-reverse split) shares of the 915,500 (post 1 for 5 reverse split) shares of the Company’s common stock that he owns; and three of Company’s other shareholders also voluntarily cancelled a total of 438,850 (post 1 for 5 reverse split) shares of the Company’s common stock that they own, and the Company issued an additional 669,600 shares pursuant to certain anti-dilution provisions contained in agreements the Company had with two consultants. Also pursuant to the Share Exchange, and as approved by a majority of the Company’s shareholders, the Company split its common stock on a 1-for-5 reverse basis (the “Reverse Split”) prior to the Closing Date. After the cancellations, the consultant anti-dilution share issuances, the Reverse Split and minor corrective stock issuances for rounding of fractional shares resulting from the Reverse Split, the Company had approximately 2,227,250 shares of common stock outstanding and after the Share Exchange, the Company had approximately 28,227,250 shares of common stock outstanding, with the Hangson’s Shareholders owning approximately 85% of the Company’s common stock. In addition, at Closing, Hangson paid the Company’s creditors a total of US \$500,000 for services rendered, in order to satisfy certain obligations as set forth in the Exchange Agreement. We accounted for this Share Exchange as a reverse acquisition and recapitalization and, as a result, the Company’s consolidated financial statements are in substance those of Hangson, with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the Share Exchange.

From and after the Closing Date of the Share Exchange, the Company’s primary operations consisted of the operations of Hangson and its variable interest entity (“VIE”), Shaanxi Suo’ang Biological Science & Technology Co., Ltd. (“Shaanxi Suoang”)

Having no substantive operation of its own, Hangson, through its VIE, Shaanxi Suoang is currently engaged in the research, development, production and sale of “coal-water mixture,” which is a fuel substitute for coal, oil or gas. Shaanxi Suoang operates the “coal-water mixture” business through its subsidiary, Shaanxi Suo’ang New Energy Enterprise Company Limited.

### **Recent Developments**

On May 8, 2006, Shaanxi Suoang entered into an agreement to establish a subsidiary named Shaanxi Suo’ang New Energy Enterprise Company Limited (“Suoang New Energy”) in which Shaanxi Suoang has injected a capital of \$496,000 representing an 80% equity interest in Suoang New Energy. Suoang New Energy was formed for the purpose of engaging in the research, development, production and sale of “coal water mixture”, a fuel to substitute for coal, oil or gas.

During the majority of the 2006 fiscal year, we were engaged in two lines of business: production and sale of coal-polymer (“COPO”) resin products, including but not limited to, degradable mulch used for the conservation of moisture and warmth of soil and protection of the roots of plants, and materials used for plastic injection molding, electric wire covering, and garbage bags, and also its “coal-water mixture” fuel substitute business described above. However, the Company has subsequently decided to focus solely on its coal-water mixture fuel product business. In December 2006, we began phasing out of the COPO resin product business by selling our patented technology related to COPO resin production. Further, we ceased operations of our COPO resin product manufacturing plant in January 2007, and we also sold the COPO resin plant machinery. Going forward, we will concentrate on the development, production and sale of our “coal-water mixture” fuel substitute. In January 2007, we entered into our first contracts for the sale of our coal water mixture product. We expect production of our coal water mixture will commence in July 2007.



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 includes 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.

As discussed more fully in the Form 8-K Current Report filed 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 will begin on January 1 and end on December 31 of each year, and this change is applicable with the year ending December 31, 2006.

Throughout the remainder of this report, when we use phrases such as "we," "our," "Company," "us," we are referring to CWCE, Hangson, and Shaanxi Suoang as a combined entity.

### **Overview of Hangson Limited**

Hangson is a company that was incorporated on June 2, 2006 under the laws of the British Virgin Islands and is the Company's wholly owned subsidiary. The Company was previously engaged in both the production and sale of COPO resin products and also the research, development, production and sale of its "coal-water mixture," product, an available fuel substitute for coal, oil or gas. However, the Company subsequently decided that it would be in the best interest of the Company to cease operations of the COPO resin products business and focus on the "coal-water mixture" product business. Because of the control that the Company exercises over Shaanxi Suoang pursuant to the "Contractual Arrangements" described below by and between Shaanxi Suoang and Hangson, Shaanxi Suoang has phased out of the COPO resin products business and will instead focus on research, development, production and sale of "coal-water mixture" fuel substitute. In December 2006, the patented technology owned through Shaanxi Suoang in connection with the COPO resin products was sold to HanZhongWeiDa Commercial Company Limited, a company controlled by Leping Yao, a shareholder of Shaanxi Suoang, for consideration of \$256,200. Further, in January 2007, we ceased operations at our COPO resin product manufacturing plant and we sold our COPO resin products' manufacturing plant machinery to HanZhongWeiDa Commercial Company Limited for cash consideration of \$89,670 and the related COPO products inventory to an unrelated third party for \$12,767.

Hangson does not conduct any substantive operations of its own and conducts its primary business operations through its VIE, Shaanxi Suoang. Shaanxi Suoang, in turn, conducts its coal-water mixture operations through its subsidiary, Suoang New Energy.

PRC law currently has limits on foreign ownership of certain companies. To comply with these foreign ownership restrictions, we operate our business in China through Shaanxi Suoang, which is a limited liability company headquartered in Xi'an, China and organized under the laws of China. Shaanxi Suoang has the licenses and approvals necessary to operate our business in China. We have contractual arrangements with Shaanxi Suoang and its shareholders pursuant to which we provide technology consulting and other general business operation services to Shaanxi Suoang. Through these contractual arrangements, we also 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 enable us to control Shaanxi Suoang, we are considered 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 below titled "Contractual Arrangements with Shaanxi Suoang and its Shareholders." 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.

### **Contractual Arrangements With Shaanxi Suoang And Its Shareholders**

Our relationships with Shaanxi Suoang and its shareholders are governed by a series of contractual arrangements. Under PRC laws, each of Hangson, and Shaanxi Suoang is an independent legal person and none of them is exposed to liabilities incurred by the other party. Other than pursuant to the contractual arrangements between Hangson and Shaanxi Suoang, Shaanxi Suoang does not transfer any other funds generated from its operations to Hangson. As of August 18, 2006, we entered into the following contractual arrangements with Shaanxi Suoang as described below:

**Consulting Services Agreement.** Pursuant to the exclusive consulting services agreements between Hangson and Shaanxi Suoang, Hangson has the exclusive right to provide to Shaanxi Suoang general business operations services as well as consulting services related to the technological research and development of coal-based products as well as

general business operation advice and strategic planning (the “Services”). Under this agreement, Hangson owns the intellectual property rights developed or discovered through research and development, in the course of providing the Services, or derived from the provision of the Services. Shaanxi Suoang pays a quarterly consulting service fees in Renminbi (“RMB”) to Hangson that is equal to all of Shaanxi Suoang’s revenue for such quarter.

*Operating Agreement.* Pursuant to the operating agreement among Hangson, Shaanxi Suoang and all shareholders of Shaanxi Suoang (collectively “Shaanxi Suoang’s Shareholders”), Hangson provides guidance and instructions on Shaanxi Suoang’s daily operations, financial management and employment issues. The shareholders of Shaanxi Suoang must designate the candidates recommended by Hangson as their representatives on Shaanxi Suoang’s board of directors. Hangson has the right to appoint senior executives of Shaanxi Suoang. In addition, Hangson agrees to guarantee Shaanxi Suoang’s performance under any agreements or arrangements relating to Shaanxi Suoang’s business arrangements with any third party. Shaanxi Suoang, in return, agrees to pledge its accounts receivable and all of its assets to Hangson. Moreover, Shaanxi Suoang agrees that without the prior consent of Hangson, Shaanxi Suoang will not engage in any transactions that could materially affect the assets, liabilities, rights or operations of Shaanxi Suoang, including, without limitation, incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party or transfer of any agreements relating to its business operation to any third party. The term of this agreement is ten (10) years from August 18, 2006 and may be extended only upon Hangson’s written confirmation prior to the expiration of this agreement, with the extended term to be mutually agreed upon by the parties.

*Equity Pledge Agreement.* Under the equity pledge agreement between the shareholders of Shaanxi Suoang and Hangson, the shareholders of Shaanxi Suoang pledged all of their equity interests in Shaanxi Suoang to Hangson to guarantee Shaanxi Suoang's performance of its obligations under the technology consulting agreement. If Shaanxi Suoang or Shaanxi Suoang's Shareholders breaches its respective contractual obligations, Hangson, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. Shaanxi Suoang's Shareholders also agreed that upon occurrence of any event of default, Hangson shall be granted an exclusive, irrevocable power of attorney to take actions in the place and stead of the Shaanxi Suoang's Shareholders to carry out the security provisions of the equity pledge agreement and take any action and execute any instrument that Hangson may deem necessary or advisable to accomplish the purposes of the equity pledge agreement. The shareholders of Shaanxi Suoang agreed not to dispose of the pledged equity interests or take any actions that would prejudice Hangson's interest. The equity pledge agreement will expire two (2) years after Shaanxi Suoang's obligations under the exclusive consulting services agreements have been fulfilled.

*Option Agreement.* Under the option agreement between the shareholders of Shaanxi Suoang and Hangson, the shareholders of Shaanxi Suoang irrevocably granted Hangson or its designated person an exclusive option to purchase, to the extent permitted under PRC law, all or part of the equity interests in Shaanxi Suoang for the cost of the initial contributions to the registered capital or the minimum amount of consideration permitted by applicable PRC law. Hangson or its designated person has sole discretion to decide when to exercise the option, whether in part or in full. The term of this agreement is ten (10) years from August 18, 2006 and may be extended prior to its expiration by written agreement of the parties.

*Proxy Agreement.* Pursuant to the proxy agreement among Hangson and Shaanxi Suoang's Shareholders, Shaanxi Suoang's Shareholders agreed to irrevocably grant a person to be designated by Hangson with the right to exercise Shaanxi Suoang's Shareholders' voting rights and their other rights, including the attendance at and the voting of Shaanxi Suoang's Shareholders' shares at the shareholders' meetings (or by written consent in lieu of such meetings) in accordance with applicable laws and its Article of Association, including but not limited to the rights to sell or transfer all or any of his equity interests of the Shaanxi Suoang, and appoint and vote for the directors and Chairman as the authorized representative of the shareholders of Shaanxi Suoang. The term of this Proxy Agreement is ten (10) years from August 18, 2006 and may be extended prior to its expiration by written agreement of the parties.

#### **Shaanxi Suo'ang Biological Science & Technology Co., Ltd.**

As discussed above, our operations are conducted through Shaanxi Suoang, which is a limited liability company headquartered in Xian, China and organized under the laws of PRC. Shaanxi Suoang was organized in May 2002. As described above, Shaanxi Suoang is now solely engaged in research, development, marketing and the sales of "coal water mixture", which is an available fuel substitute for oil, gas or coal through its subsidiary, Suoang New Energy.

#### **Principal Products Or Services**

Shaanxi Suoang is currently engaged in research, development, marketing and sales of its coal water mixture fuel (hereinafter "CWM Fuel"). CWM Fuel is a fuel substitute that can be used instead of oil, coal and gas, in industrial boilers, power plant boilers and industrial kilns. The Company believes it is ready to commercialize this fuel substitute for use in boilers used for central heating for government buildings, schools, armed forces' barracks, and residential communities, and also for use in industrial production facilities. The Company is currently constructing a coal water mixture production plant in western China. The whole construction project is estimated to cost approximately RMB60 million (US\$7,500,000) in total. We believe that construction will be completed by the June 2007 and we expect production of our CWM Fuel product will commence in July 2007.



## **Coal Water Mixture Fuel**

CWM Fuel is a viscous, heavy liquid fuel that is produced by mixing grinded coal, water and chemical additives. This liquid fuel can be stored, pumped and burned as a substitute for oil or gas in properly modified furnaces or boilers. In general, CWM Fuel is cheaper than oil or gas but its combustion thermal efficiency may be similar to oil or gas. Further, CWM Fuel may burn cleaner than coal and thus, may be a more environmentally friendly fuel.

The Company is currently constructing a CWM Fuel production facility in the city of Tongchuan with an expected annual production capacity of 300,000 tons that will enable the Company to supply several industrial users and two central heating stations in Tongchuan.

China is a large producer and consumer of coal and will remain so for the foreseeable future. Pollution resulting from coal combustion causes concern both within and outside China. Approximately 90% of environmental pollution in China is attributable to direct coal combustion. The Chinese Government is currently developing policies and implementing control-measures to reduce this pollution. Clean coal technology (CCT) can play an important part in this process, contributing to both improved energy utilization efficiency and reduced environmental pollution.

In August 1995, the Chinese government formulated “the 9<sup>th</sup> Five-Year Plan for Clean Coal Technology in China and a Development Program to 2010.” In the “10<sup>th</sup> Five-Year Plan” the State emphasized the need to strengthen clean coal technology R&D and also to promote commercialization of proven clean coal technologies. The potential clean coal technology market in China is substantial. The Company’s CWM Fuel, being a mixture of coal, water, and additives, presents itself as a fuel to substitute direct coal combustion. Use of the CWM Fuel not only allows the mixture to be transported as a fluid, which avoids coal dust dispersion and spontaneous combustion during transportation and storage, but it also allows the equipment used to burn this fuel to be simplified. CWM Fuel may enhance the combustion efficiency rate of coal while reducing the dust emission rate.

Because direct coal combustion has caused serious pollution in China, the Chinese government has enacted relevant laws and regulations to require enterprises to replace old direct coal combustion industrial burners or furnaces with furnaces that use cleaner fuels. In the city of Xian, for example, thousands of plants continue to use old direct coal combustion burners or furnaces. In addition, we believe on average, approximately 200 furnaces are purchased by local enterprises in Xian each year. But based on prevailing regulations, no new direct coal combustion furnace is allowed to be installed within Xian’s city limits. Therefore, considering the high and fluctuating prices of petroleum, the potential demand for the Company’s CWM Fuel product as a cleaner substitute for direct coal combustion is expected to be substantial.

In 2003, Shaanxi Suoang’s board of directors realized this opportunity and initiated the development of our CWM Fuel product. After studying the market demand for CWM Fuel in the cities of Qingdao, Shenyang, Maoming, Foshan for two years and conducting a feasibility study, the Company decided to develop its CWM Fuel product which complies with the environmental protection policies of “prohibiting the burning of raw coal” in large-sized or medium-sized cities such as Xian. Shaanxi Suoang developed a series of technologies in 2004, including “techniques for the production of coal water mixture by utilizing the waste fluid from paper making and silt in urban area” and the “garbage combustion techniques based on coal water mixture.” Given the expected demand for coal water mixture products and CWM Fuel product that we have developed, we believe that the conditions for the application, promotion and industrialized production and sale of CWM Fuel is now mature. The Company has invested approximately RMB60 million to initiate the construction of the production facility base for its CWM Fuel in the city of Tongchuan, and the Company is currently planning for an annual production capacity of 300,000 tons, which would be one of the largest in Western China.

The Company's future plans relating to its CWM products include either the purchase of or becoming a major shareholder in boiler manufacturers in Shaanxi Province to facilitate the production of boilers that are compatible with our CWM Fuel. Future plans also include the potential purchase of coal mines to supply the coal needed to manufacture the CWM Fuel.

**DISTRIBUTION METHODS OF THE PRODUCTS OR SERVICES AND OUR CUSTOMERS**

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Our CWM Fuel product will be sold and distributed by the Company directly to its customers. We plan to conduct promotional marketing activities to publicize our product and enhance the Company's image as well as to reinforce the recognition of the Company's brand name through assistance from the local government.

In January 2007, we entered into our first contracts for the sale of our CWM Fuel product. Because the Company has just commenced sales of our CWM Fuel product, we will be dependent on a limited number of customers for a substantial portion of our revenues from the sale of this product. Nonrenewal or termination of our contracts with major customer or the failure by these customers to issue additional orders under the existing contracts would have a materially adverse effect on our revenues. There can be no assurance that the Company will be able to obtain additional contracts for CWM Fuel product sales similar in scope to those we have recently obtained, that it will be able to retain existing customers and attract new customers, or that it will not remain largely dependent on a limited customer base accounting for a substantial portion of revenues.

## **COMPETITION**

In regards to our CWM Fuel product, we have no major competitors in Shaanxi province but we have four competitors in other provinces: Tai'an Liangda CWM Co., Ltd., Datong Huihai CWM Company, Daqing Shengtai Clean Coal Fuel Co., Ltd., and Ningbo Hongyuan CWM Co., Ltd. The Company will be able to compete with these competitors because of its strong R&D capability, extensive sales network, abundant coal resources, the local government's assistance and the lack of competitors in the Shaanxi market.

## **SOURCES AND AVAILABILITY OF RAW MATERIALS AND THE PRINCIPAL SUPPLIERS**

Our principal raw material is coal that is supplied directly from the local coal mines and used to manufacture our products. The prices for this raw material are subject to market forces largely beyond our control, including energy costs, market demand, and freight costs. The prices for this raw material have varied significantly in the past and may vary significantly in the future.

## **PATENTS, TRADEMARKS, LICENSES, FRANCHISES, CONCESSIONS, ROYALTY AGREEMENTS OR LABOR CONTRACTS**

We rely on a combination of patent, trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. We previously owned an issued patented special technology in regards to our COPO products in China that was valid for 10 years. However, we have ceased operations of our COPO products business and have decided to concentrate on our CWM Fuel business. Thus, in December 2006, we entered into an agreement for the sale of the above-described patented technology to a related company HanZhongWeiDa Commercial Company Limited which was controlled by Leping Yao, a shareholder of Shaanxi Suo'ang for consideration of \$256,200.

We also enter into confidentiality, non-compete and invention assignment agreements with our employees and consultants and nondisclosure agreements with third parties. Coal and bio-technology companies are at times involved in litigation based on allegations of infringement or other violations of intellectual property rights. Furthermore, the application of laws governing intellectual property rights in the PRC and abroad is uncertain and evolving and could involve substantial risks to us.

## **GOVERNMENT APPROVAL AND REGULATION OF THE COMPANY'S PRINCIPAL PRODUCTS OR SERVICES**

The State Environmental Protection Laws of the PRC governs us and our products. The Company is subject to various PRC federal, state and local environmental laws and regulations, including the State Environmental Protection Laws



concerning emissions to the air, discharges to waterways, the release of materials into the environment, the generation, handling, storage, transportation, treatment and disposal of waste materials or otherwise relating to the protection of the environment. The Company endeavors to ensure the safe and lawful operation of its facilities in manufacturing and distribution of products and believes it is in compliance in all material respects with applicable PRC laws and regulations.

No enterprise may start production at its facilities until it receives approval from the Ministry of Commerce to begin operations. The Company currently has obtained the requisite approval and licenses from the Ministry of Commerce in order to operate our production facilities.

## **COSTS AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS**

No environmental compliance expenses were required in 2006 for the Company's current COPO products production facility. Further, the Company does not expect to incur any material environmental compliance costs in connection with its CWM Fuel business.

## **RESEARCH AND DEVELOPMENT**

We will continue to conduct research and development ("R&D") to further develop and improve the quality of our CWM Fuel products. In 2006, we had approximately \$37,718 in R&D expenses.

## **EMPLOYEES**

In 2005, the Company had 80 employees, 80 of which were full time employees. In 2006, the Company had 76 employees, 76 of which were full time employees. We believe the success of our business depends, in part, on our ability to attract and retain qualified personnel, particularly qualified scientific, technical and key management personnel and we strive to have good relationships with our employees.

## **PRINCIPAL EXECUTIVE OFFICES**

Our principal executive office is located at Room 2205, Suite A, Zhengxin Building, No. 5, Gaoxin 1st Road, Gao Xin District, Xi'an, Shaanxi Province, People's Republic of China and our telephone number is (029) 8209-1099.

## **REPORTS TO SECURITY HOLDERS**

We file reports including our annual report, information statements as well as other reports required of publicly held companies with the Securities and Exchange Commission ("SEC"). You can read and copy any materials we file with the Commission at its' Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. In addition, the SEC maintains an Internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission, including us.

## **ITEM 2. DESCRIPTION OF PROPERTY**

The Company's headquarters are currently located in approximately 298 square meters of office space and production facilities at Room 2205, Suite A, Zhengxin Bldg., No.5, Gaoxin 1st Road, Gao Xin District, Xi'an, Shaanxi Province, People's Republic of China. The Company leases this office space. We terminated the tenancy agreement for our COPO resin product manufacturing plant in December 2006. However, the Company is also currently constructing a production facility for the CWM Fuel product in Tongchuan City, China. In July, 2006, the Company purchased a land use right for the property located at Yao Zhou Ou in Tongchuan City for the CWM Fuel production facility and is currently in the process of obtaining the land use right certificate for this property.

The table below provides summary descriptions of the properties used for the Company's business operations in 2006:

<b>Property Location</b>	<b>Area (sq. meters)</b>	<b>Lease Expiration Period</b>	<b>Purpose</b>
Room 2205, Suite A,	248	March 17, 2008	Offices

Zhengxin Bldg., No.5, Gaoxin 1st Road, Gao Xin District, Xi'an, Shaanxi Province, People's Republic of China			
No. 36 Da Xing Lu, Xian Shi, People's Republic of China	2,310	December 30, 2013 (Company terminated the tenancy agreement in 12/2006.)	COPO Resin Products Production and Manufacturing Facility
Yao Zhou Ou, Tongchuan City, People's Republic of China	40,626	None - Company owned	Production facility for coal water mixture - under construction

During the year 2004, the Company exchanged leasehold properties consisting of three floors in a commercial building located in the Hanzhong City, China and having a net book value of \$1,691,555 for another leasehold properties also consisting of three floors in the same building and having a fair value of \$1,773,697. The terms of the exchange also required the Company to pay cash of \$501,205. The Company accounted for the cash component as an acquisition of real estate, and the nonmonetary component based on the recorded amount of \$1,691,555 of the leasehold properties given up.

In order to raise funds to support the Company's new CWM Fuel business, on June 13, 2006, the Company signed a property transfer agreement with Hanzhong Si Xiong Ke Chuang Business Company Limited ("Buyer"), a company controlled by Yanjun Zhao, a Company shareholder, to dispose of the above-described leasehold properties together with the leasehold improvement at the cash consideration of approximately \$2,450,000. According to the property transfer agreement, the cash consideration would be settled by installment with the last installment on or before March 31, 2007 and the title of the property will be passed to buyer upon receipt of the 95% of the total consideration due to the Company under the property transfer agreement. As of December 31, 2006, the Company has received \$1,409,100 in connection with this property transfer transaction.

On March 25, 2007, the Company and the Buyer entered into a supplementary agreement whereby the Company agreed to transfer the title of the properties to the Buyer upon the Buyer's payment of the remaining balance of approximately \$1,041,900 to the Company on or before May 31, 2007.

### ITEM 3. LEGAL PROCEEDINGS

We may be subject to, from time to time, various legal proceedings relating to claims arising out of our operations in the ordinary course of our business. We are not currently a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the business, financial condition, or results of operations of the Company.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders at its offices located at 2624 Dunwin Drive, Unit #3, Mississauga, Ontario, Canada L5L 3T5 on September 5, 2006 at 9:30 A.M. As described more fully in the Company's Definitive Proxy Statement on Schedule 14A filed on August, 8, 2006, we held the meeting: (a) to elect Peter B. Day as the sole member of the Company's Board of Directors, whose terms are described in the proxy statement; (b) to consider and vote on approval of the sale of all of our assets and shares of Endo Networks, Inc. (Canada) to Mr. Peter Day pursuant to that certain Asset and Share Purchase Agreement, dated as of June 26, 2006; (c) to grant our Board of Directors the authority to effect a reverse stock split of up to 20 to 1; and (d) to grant our Board of Directors the authority to effect a forward stock split of up to 20 to 1. The following is the results of the voting:

#### 1. Election of Director:

Nominees		Number of Shares
Peter B. Day	For:	11,957,113
	Against:	0
	Abstain:	1,600,253

#### 2. To approve Asset and Share Purchase Agreement, dated as of June 26, 2006



<b>Approve</b>	<b>Number of Shares</b>	
Asset and Share Purchase Agreement	For:	11,957,113
	Against:	0
	Abstain:	1,600,253

**3. To approve grant of authority to the Board to effect a reverse stock split of up to 20 to 1.**

<b>Approve</b>	<b>Number of Shares</b>	
Authority for Reverse Stock Split	For:	11,957,113
	Against:	0
	Abstain:	1,600,253

**4. To approve grant of authority to Board to effect a forward stock split of up to 20 to 1.**

<b>Approve</b>	<b>Number of Shares</b>	
Authority for Reverse Stock Split	For:	11,957,113
	Against:	0
	Abstain:	1,600,253

**PART II**

**ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is not listed on any stock exchange. The common stock is traded over-the-counter on the Over-the-Counter Electronic Bulletin Board under the symbol "CWCE". The following table sets forth the high and low bid information for the common stock for each quarter within the last two fiscal years (for fiscal year ended December 31), as reported by the Over-the-Counter Electronic Bulletin Board. The bid prices reflect inter-dealer quotations, do not include retail markups, markdowns or commissions and do not necessarily reflect actual transactions.

	<b>LOW</b>	<b>HIGH</b>
<b>2006</b>		
Fourth Quarter	\$ 0.00	\$ 0.80
Third Quarter	\$ 0.13	\$ 0.16
Second Quarter	\$ 0.14	\$ 0.15
First Quarter	\$ 0.10	\$ 0.14
<b>2005</b>		
Fourth Quarter	\$ 0.10	\$ 0.10
Third Quarter	\$ 0.10	\$ 0.10
Second Quarter	\$ 0.10	\$ 0.10
First Quarter	\$ 0.09	\$ 0.10

As of April 30, 2007, there were approximately 112 stockholders of record of our common stock.

## **DIVIDENDS**

We have never paid any dividends on the Common Stock or the Preferred Stock whereas our VIE Shaanxi Suoang paid \$4,440,960 in 2006. We currently anticipate that any future earnings will be retained for the development of our business and do not anticipate paying any dividends on the Common Stock or the Preferred Stock in the foreseeable future.

## **TRANSFER AGENT**

Our transfer agent is Signature Stock Transfer, Inc., 2301 Ohio Drive - Suite 100, Plano, Texas 75093. Their telephone number is (972) 612-4120.

## **EQUITY COMPENSATION PLAN INFORMATION**

We currently do not have any effective equity compensation plans.

## **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS**

As described in full detail in our Current Report on Form 8-K filed on November 17, 2006, which is incorporated herein by reference, on November 9, 2006, the Company's Board of Directors elected to dismiss Lopez, Blevins, Bork & Associates, L.L.P. ("LBB") as its independent registered public accounting firm ("Independent Accountant") and also elected to retain Schwartz Levitsky Feldman LLP, Chartered Accountants as its new Independent Accountant. During the Company's fiscal year ended September 30, 2005 and the subsequent interim period through November 9, 2006, the date of the dismissal of LBB, the Company did not have any disagreement with LBB on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. The decision to change Independent Accountants was approved by the Board of Directors.

## **RECENT SALES OF UNREGISTERED SECURITIES**

Pursuant to the Share Exchange Agreement entered by and among Hangson Limited, a British Virgin Islands company ("Hangson"), and the stockholders of 100% of Hangson's common stock (the "Hangson Stockholders"), on the one hand, and the Registrant and a majority of the Registrant's stockholders ("ENDO Stockholders"), on the other hand, the Company issued 26,000,000 shares of the Company's common stock (the "ENDO Shares") to the Hangson Shareholders and to Viking Partners, Inc. ("Viking"), a consultant in the Share Exchange transaction, in exchange for 100% of the common stock of Hangson. The issuance of the Endo Shares to the Hangson Shareholders and Viking pursuant to the

Share Exchange Agreement was exempt from registration under the Securities Act pursuant to Section 4(2) and/or Regulation S thereof. We made this determination based on the representations of the Hangson Shareholders and Viking which included, in pertinent part, that such shareholders were either (a) "accredited investors" within the meaning of Rule 501 of Regulation D promulgated under the Securities Act, and/or (b) not a "U.S. person" as that term is defined in Rule 902(k) of Regulation S under the Act, and that such shareholders were acquiring our common stock, for investment purposes for their own respective accounts and not as nominees or agents, and not with a view to the resale or distribution thereof, and that each member understood that the shares of our common stock may not be sold or otherwise disposed of without registration under the Securities Act or an applicable exemption therefrom.



On May 2, 2006, we entered into a consulting agreement (the “TriPoint Agreement”) with TriPoint Capital Advisors, LLC (“TriPoint”), a business consultant, in order to assist us in our business development, with the structuring of capital transactions, to provide mergers and acquisition support services, and corporate compliance support. As consideration for their services under the agreement, we agreed to issue TriPoint 472,000 shares (94,400 shares after giving effect for the 5:1 reverse stock split on October 17, 2006) of our common stock. Based on the last trading price prior to the issuance of the stock a non-cash consulting expense of \$70,800 was recorded for the issuance of these shares. The TriPoint Agreement provided that if a reduction in shares occurs after the date of the agreement by reason of a reverse stock split, then the Company is obligated to issue TriPoint a warrant for the purchase of additional shares of common stock, at the then par value, sufficient to preserve the original share issuance in the agreement of 472,000 (the “TriPoint Agreement Anti-Dilution Provision”). The shares were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

On May 2, 2006, we entered into a consulting agreement (the “Progressive Agreement”) with Progressive Capital Markets, LLC (“Progressive”), a business consultant, in order to assist us in our business development, with the structuring of capital transactions, to provide mergers and acquisition support services, and corporate compliance support. As consideration for their services under the agreement, we agreed to issue Progressive 365,000 (73,000 shares after giving effect for the 5:1 reverse stock split on October 17, 2006) shares of our common stock. Based on the last trading price prior to the issuance of the stock a non-cash consulting expense of \$54,750 was recorded for the issuance of these shares. The Progressive Agreement provided that if a reduction in shares occurs after the date of the agreement by reason of a reverse stock split, then the Company is obligated to issue Progressive a warrant for the purchase of additional shares of common stock, at the then par value, sufficient to preserve the original share issuance in the agreement of 365,000 (the “Progressive Agreement Anti-Dilution Provision”). The shares were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

On October 11, 2006, pursuant to the TriPoint Agreement Anti-Dilution Provision and because the Company engaged in a 1 for 5 Reverse Stock Split (as discussed more fully above), the Company issued TriPoint a warrant (the “TriPoint Warrant”) for the purchase of an additional 377,600 shares of the Company’s common stock with an exercise price of \$.001 per share, so as to preserve the number of shares held by TriPoint prior to the Reverse Split at 472,000 shares as required under the TriPoint Agreement. The warrant was issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

On October 11, 2006, pursuant to the Progressive Agreement Anti-Dilution Provision and because the Company engaged in a 1 for 5 Reverse Stock Split (as discussed more fully above), the Company issued Progressive a warrant (the “Progressive Warrant”) for the purchase of an additional 292,000 shares of the Company’s common stock with an exercise price of \$.001 per share, so as to preserve the number of shares held by Progressive prior to the Reverse Split at 365,000 shares as required under the Progressive Agreement. The warrant was issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

On October 17, 2006, TriPoint exercised their TriPoint warrant, as described above, and the Company issued to TriPoint 377,600 shares of the Company’s common stock at an exercise price of \$.001 per share to TriPoint. These shares were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

On October 17, 2006, Progressive exercised their Progressive warrant, as described above, and the Company issued to Progressive 292,000 shares of the Company’s common stock at an exercise price of \$.001 per share to Progressive. These shares were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act for issuances not involving a public offering.

During July 2005, the Company issued 55,000 shares (11,000 shares after giving effect for the 5:1 reverse stock split on October 17, 2006) of its common stock to consultants for consulting services valued \$0.10 per share or \$5,500, which was the fair value of common stock on the date issued. These transactions were exempt from registration requirements in reliance on Section 4(2) of the Securities Act of 1933. There was no form of general solicitation or general advertising undertaken and the investor is accredited.

During July 2004, the Company issued 96,500 (19,300 shares after giving effect for the 5:1 reverse stock split on October 17, 2006) shares of common stock to consultants for consulting services valued \$0.07 per share or \$6,755, which was the fair value of common stock on the date issued. These transactions were exempt from registration requirements in reliance on Section 4(2) of the Securities Act of 1933. There was no form of general solicitation or general advertising undertaken and the investor is accredited.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Overview**

China West Coal Energy Inc. (formerly Endo Networks, Inc.) (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 is deemed to be the acquirer for accounting purposes. From and after the Closing Date of the Share Exchange, the Registrant’s primary operations will now consist 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 obligates 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 above titled “Contractual Arrangements with Shaanxi Suoang and its Shareholders.” 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.

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, as described more fully in Item 1 above titled “Description of Business,” as of January 2007, the Company ceased operations of its COPO resin products business and is now

focused on its CWM Fuel product business. Shaanxi Suoang conducts its CWM Fuel operations through its subsidiary, Suoang New Energy.

**Significant Accounting Policies**

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*Intangible assets*

The land use right is amortized over the expected period of 50 years.

*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 Impairment of Long-Lived Assets to be Disposed Of*, 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.

*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.

*Revenue recognition*

Revenues of the Company include COPO resin product sales which have been classified as discontinued operations. 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 transactions*

The Company determines its functional currency based on the criteria of SFAS 52, *Foreign Currency Translation* and has determined RMB to be their functional currency. Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the balance sheet date. Exchange gains or losses are included in the statement of operations.

*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.

## FISCAL YEAR END

On January 16, 2007, the Company adopted the fiscal year end of Hangson, the accounting acquirer in the reverse acquisition described above and the Company's operating business after the share exchange transaction. Thus the Company new fiscal year end is December 31, commencing with the Company's annual report for the year ending December 31, 2006.

## GOING CONCERN

In January 2007, the Company ceased its COPO resin products operations and is principally engaged in research, development, production, marketing and sales of "coal-water mixture" business. The new CWM Fuel business has not commenced production as of the date of this report. Furthermore, the Company signed an agreement to dispose of leasehold property it owned in the previous years which generated rental income in order to accumulate funds to support the new CWM Fuel operation. These circumstances indicate that the Company may need additional financing to meet cash requirements for its operations in order to continue as a going concern.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded amounts of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management believes the Company's ability to continue as a going concern is dependent upon its ability to maintain profitable operations for the new business. In 2007, the Company entered into sales contracts for the sale of its CWM Fuel product. Management believes the Company will be able to commence production of its CWM Fuel product and be able to generate sufficient cash flow from these sales contracts to meet its obligations on a timely basis in the foreseeable future.

## RESULT OF OPERATIONS

### **Fiscal year ended December 31, 2006 as compared to fiscal year ended December 31, 2005**

**REVENUES.** All revenues are related to the discontinued operation. During the year ended December 31, 2006, we had revenues of \$7,253,887 as compared to revenues of \$5,426,591 during the year ended December 31, 2005, an increase of approximately 34%. In general, this increase is mainly attributable to an increase in the number of distributors in the Company's COPO resin product business, which ceased operation during the year.

**GROSS PROFIT.** Cost of goods sold, which consist of raw materials, direct labor and manufacturing overhead, were \$5,434,301 for the year ended December 31, 2006 as compared to \$4,417,584 for the year ended December 31, 2005. Gross profit was \$1,819,586 for the year ended December 31, 2006 as compared to \$1,009,007 for the year ended December 31, 2005, representing gross margins of approximately 25% and 19%, respectively. All gross profit of the Company is attributable to our implementation of better cost controls in the Company's ceased COPO resin product business.

**SELLING EXPENSES.** Selling expenses, which consist of commission, advertising and promotion expenses, freight charges and salaries in relation to the Company's ceased COPO resin product business totaled \$285,235 for the year ended December 31, 2006 as compared to \$143,231 for the year ended December 31, 2005, an increase of approximately 99%. This increase is mainly due to increases in freight charges and salaries.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses totaled \$655,054 for the year ended December 31, 2006 as compared to \$475,938 for the year ended December 31, 2005, an increase of approximately 17%. This increase is primarily attributable to the expansion of our operations and an increase in legal and professional fees incurred in connection with compliance with the Company's SEC reporting obligations.





NET INCOME. We had a net loss of \$92,020 for the year ended December 31, 2006 as compared to a net income \$842,692 for the year ended December 31, 2005. The decrease in net income is primarily attributable to the payment of \$575,000 for merger costs, impairment of plant and machineries of \$170,166 and loss on disposal of patent of \$291,206.

## LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2006, we generated cash from operating activities of \$1,412,517, of which \$3,709,360 were generated from the discontinued operation, while the continued operation generated a net cash spent of \$2,296,843, as compared to \$987,016 for the year ended December 31, 2005. The increase is primarily attributable to the receipt of a deposit from property held for resale. The expenditure in investing activities for 2006 consisted of, among others, payment of \$1,877,867 for the purchases of property, plant and equipment and payment of construction costs for of our new CWM Fuel manufacturing plant. On the other hand, we generated \$3,966,249 from financing activities for 2006 (as compared to \$468,656 used in financing activities for 2005), which, among others, consisted of proceeds from paid in capital from subsidiaries of \$4,440,960.

As of December 31, 2006, the Company had cash of \$4,450,557. Our total current assets were \$10,384,944 and our total current liabilities were \$2,759,458, which resulted in a net working capital of \$7,625,486.

## CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

### Contractual Obligations

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

#### Payments Due by Period

	Total	Less than 1 year	1-3 Years	3-5 Years	5 Years +
Contractual Obligations:					
Capital Lease Obligations	\$ 831,649	831,649	--	--	--
Operating Leases	\$ 13,745	--	13,745	--	--
Total Contractual Obligations:	\$ 845,394	831,649	13,745	--	--

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

Capital commitments include capital contribution to a subsidiary and purchase of machines for our production of "coal-water mixture" of Hangson.

### 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.

**Related Party Transactions**

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For a description of our related party transactions see Item 12 of this Annual Report entitled “Certain Relationships and Related Transactions, and Director Independence.”

## 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 US 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.

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:

	<b>2006</b>	<b>2005</b>
Balance sheet items, except for the registered and paid-up capital, as of December 31	USD0.1281:RMB1	USD0.124:RMB1
Amounts included in the statement of operations, statement of changes in stockholders’ equity and statement of cash flows for the years ended December 31	USD0.126:RMB1	USD0.122:RMB1

## **RISK FACTORS**

### **Factors Affecting Business, Operating Results and Financial Condition**

*An investment in our securities is very speculative and involves a high degree of risk. You should carefully consider the following risk factors, along with the other matters referred to in this Annual Report, before you decide to buy our securities. If you decide to buy our securities, you should be able to afford a complete loss of your investment.*

### **Risks Associated With Our Business**

#### ***FACTORS THAT MAY AFFECT FUTURE PERFORMANCE***

Before investing in our common stock you should carefully consider the following risk factors, the other information included herein and the information included in our other reports and filings. Our business, financial condition, and the trading price of our common stock could be adversely affected by these and other risks.

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

We have a limited operating history. Shaanxi Suoang commenced operations in 2002 and first achieved profitability in the year ended 2004. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving industries such as the coal products and alternative energy industry in China. An investor in our securities must consider the risks, uncertainties and difficulties frequently encountered by companies in new and rapidly evolving markets. The risks and difficulties we face include challenges in accurate financial planning as a result of limited historical data and the uncertainties resulting from having had a relatively limited time period in which to implement and evaluate our business strategies as compared to older companies with longer operating histories.

***We recently ceased operations of our COPO resin product business and the production of our CWM Fuel product has yet to commence.***

In December 2006, we decided to solely focus on the research, development, production, marketing and sale of our CWM Fuel product and thus, in January 2007, we ceased operations and have phased out our COPO resin product business. In early 2007, we entered into contracts for the sale of our CWM Fuel product. We believe the first phase of the construction of our CWM Fuel manufacturing plant will be completed in June 2007, and that production and delivery of our CWM Fuel product will commence in July 2007. However, there can be no assurance that we will be able to successfully complete the construction of our CWM manufacturing plant in a timely manner. Assuming we complete the construction of our CWM Fuel plant and commence production of our CWM Fuel product, we cannot assure you that our operations will be able to generate sufficient revenue to continue our operations or that our new CWM Fuel business operations will be profitable.

***Our independent auditor has expressed doubt about our ability to continue as a going concern because we ceased our COPO resin operation, which was our main resource of working capital, we disposed of leasehold property which generated rental income and production of our new Coal Water Mixture (“CWM”) fuel product has not commenced.***

Our independent auditor has noted in its report concerning our financial statements as of December 31, 2006 that the Company ceased its COPO resin operation, which was the main resource of the Company’s working capital, disposed of leasehold property, which generated rental income, and started a new Coal Water Mixture (“CWM”) fuel business subsequent to the balance sheet date. The independent auditor further noted that production facilities of the Company’s CWM Fuel are under construction and operations have not yet commenced. The independent auditor stated that these conditions raise substantial doubt about our ability to continue as a going concern. We cannot assure you that we will achieve operating profits in the future.

***We Must Obtain Additional Financing to Execute Our Business Plan***

The projected revenues from the sale of our CWM Fuel product may not be adequate to support our expansion and product development programs. We will need substantial additional funds to build and maintain our new production facilities, pursue further research and development, obtain regulatory approvals; file, prosecute, defend and enforce our intellectual property rights and market our products. We will seek additional funds through public or private equity or debt financing, strategic transactions and/or from other sources. We could enter into collaborative arrangements for the development of particular products that would lead to our relinquishing some or all rights to the related technology or products.

There are no assurances that future funding will be available on favorable terms or at all. If additional funding is not obtained, we will need to reduce, defer or cancel development programs, planned initiatives or overhead expenditures, to the extent necessary. The failure to fund our capital requirements would have a material adverse effect on our business, financial condition and results of operations.

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

As the majority of our revenue will be derived from sales of coal-based products, our business and operating results are substantially dependent on the domestic supply for coal. The domestic and international coal markets are cyclical and exhibit fluctuation in supply and demand from year to year and are subject to numerous factors beyond our control, including, but not limited to, the economic conditions in the PRC, the global economic conditions and fluctuations in industries with high demand for coal, such as the power and steel industries. Fluctuations in supply and demand for coal have effects on coal prices which in turn affect our operating and financial performance. We have experienced substantial price fluctuations in the past and believe that such fluctuations will continue. The demand for coal is primarily affected by the overall economic development and the demand for coal from the electricity generation, steel and construction industries. The supply of coal on the other hand, is primarily affected by the geographical location of the coal supplies, the volume of coal produced by the domestic and international coal suppliers, and the quality and price of competing sources of coal. Alternative fuels such as natural gas, oil and nuclear power, alternative energy sources such as hydroelectric power, and international shipping costs also have effects on the market demand for coal. Excess demand for coal may have an adverse effect on coal prices which would in turn cause a decline in our profitability. A significant increase in domestic coal prices could also materially and adversely affect our business and result of operations.

***Our business relies on our major customers.***

Our revenues from the sale of the CWM Fuel will be initially derived from sales to 3 major customers, Shaanxi Hau Yuen Paper Industry Company Limited, Shaanxi Tongchuan Yi Tong Gao Ya Dian Chi Factory, and Shaanxi Yao Zhou Jian Qin Cement Company Limited. Given the large percentage of our revenues to be derived from our sales to these 3 major customers, any adverse developments to Shaanxi Yao Zhou Jian Qin Cement Company Limited, Shaanxi Tongchuan Yi Tong Gao Ya Dian Chi Factory and Shaanxi Hau Yuen Paper Industry Company Limited business operations could have an adverse impact on our results of operations.

***Competition in the PRC and the international coal industry is increasing and our business and prospects will be adversely affected if we are not able to compete effectively.***

We face competition in all areas of our business. Competition in the coal energy industry is based on many factors, including price, production capacity, quality and characteristics, transportation capability and costs, blending capability and brand name. Our coal-based products business competes in the domestic market in China and in international markets with other large domestic coal-based products companies and we will also have to compete with other competitors in the coal water mixture product industry. Some of our competitors may have greater financial, marketing, distribution and other resources than we do, and more well-known brand names in the markets. We currently compete favorably on the quality of our coal-based products. However, there can be no assurance that we will continue to compete favorably due to quality improvements by our competitors and this may have a material adverse impact on our results of operations.

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

We operate manufacturing facilities that may be affected by water, gas, fire or structural problems. As a result, we, like other coal-based products companies, may experience accidents that will cause property damage and personal injuries. Although we have implemented safety measures for our production facilities and provided on-the-job training for our employees, there can be no assurance that industry-related accidents will not occur in the future.

We do not currently maintain fire, casualty or other property insurance covering our properties, equipment or inventories, other than with respect to vehicles. In addition, we do not maintain any business interruption insurance or any third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our properties, other than third party liability insurance with respect to vehicles. Any uninsured losses and liabilities incurred by us could have a material adverse effect on our financial condition and results of operations.

***Our business operations may be adversely affected by present or future environmental regulations.***

As a producer of coal products, we are subject to significant, extensive, and increasingly stringent environmental protection laws and regulations in China. These laws and regulations:

impose fees for the discharge of waste substances;

require the establishment of reserves for reclamation and rehabilitation;

require the payment of fines for serious environmental offenses; and

allow the PRC Government, at its discretion, to close any facility that fails to comply with orders requiring it to correct or stop operations causing environmental damage.

Our operations may produce significant amounts of waste water, gas and solid waste materials. Currently, the PRC Government is moving toward more rigorous enforcement of applicable laws and regulations as well as the adoption and enforcement of more stringent environmental standards. Our budgeted amounts of capital expenditure for environmental regulatory compliance may not be sufficient and we may need to allocate additional funds for such purpose. If we fail to comply with current or future environmental laws and regulations, we may be required to pay penalties or fines or take corrective actions, any of which may have a material adverse effect on our business operations and financial condition.

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

***Our operations are subject to a number of risks relating to the PRC.***

We are also subject to a number of risks relating to the PRC, including the following:

The central and local PRC governments continue to support the development and operation of coal industry in China. If the PRC Government changes its current policies that are currently beneficial to us, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

Under current PRC regulatory requirements, our projects for the development of our coal water mixture fuel substitute require PRC Government approval. If any of our important projects required for our growth or cost reduction are not approved, or are not approved on a timely basis, our financial condition and operating performances could be adversely affected.

The PRC Government has been reforming, and is expected to continue to reform its economic system. Many of the reforms are unprecedented or experimental, and are expected to be refined and improved. Other political, economic and social factors can also lead to further readjustment of the reform measures. This refining and readjustment process may not always have a positive effect on our operations. Our operating results may be adversely affected by changes in the PRC's economic and social conditions and by changes in policies of the PRC Government such as changes in laws and regulations (or the interpretation thereof), imposition of additional restrictions on currency conversion and reduction in tariff protection and other import restrictions.

Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, or PBOC, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of Renminbi to U.S. dollars has generally been stable. On July 21, 2005, however, PBOC announced a reform of its exchange rate system. Under the reform, Renminbi is no longer effectively linked to US dollars but instead is allowed to trade in a tight 0.3% band against a basket of foreign currencies. Any further appreciation of Renminbi in the future will increase the cost of our export sales, reduce our account receivables denominated in foreign currencies and adversely affect our financial condition and results of operations. On the other hand, any devaluation of the Renminbi may adversely affect the value of, and dividends payable on our shares we receive our revenues and denominate our profits in Renminbi. Our financial condition and operating performance may also be affected by changes in the value of certain currencies other than Renminbi in which our earnings and obligations are denominated. In particular, a devaluation of the Renminbi is likely to increase the portion of our cash flow required to satisfy our foreign currency-denominated obligations.

Since 1997, many new laws and regulations covering general economic matters have been promulgated in the PRC. Despite this activity to develop the legal system, PRC's system of laws is not yet complete. Even where adequate law exists, enforcement of existing laws or contracts based on existing law may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of PRC's judiciary in many cases creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes.



***Our coal water mixture production facilities will be subject to extensive regulation by the PRC Government and government regulations may limit our activities and adversely affect our business operations.***

Our coal water mixture operations, like those of other PRC energy companies, is subject to extensive regulation established by the PRC Government. Central governmental authorities, such as the National Development and Reform Commission, the State Environmental Protection Administration, the Ministry of Land and Resources, the State Administration of Coal Mine Safety, the and the State Bureau of Taxation, and provincial and local authorities and agencies exercise extensive control over various aspects of China's coal industry and transportation (including rail and sea transport). These controls affect the following material aspects of our operations:

pricing of our transport services;  
industry-specific taxes and fees;  
target of our capital investments;  
pension funds appropriation; and  
environmental and safety standards.

We may face significant constraints on our ability to implement our business strategies or to carry out or expand our business operations. Our business may also be materially and adversely affected by future changes in certain regulations and policies of the PRC Government in respect of the coal industry. New legislation or regulations may be adopted that may materially and adversely affect our coal water mixture operations, our cost structure or the demand for our products. In addition, new legislation or regulations or different or more stringent interpretation of existing laws and regulations may also require us to substantially change our existing operations or incur significant costs.

***The Profitability of Our Products Depend on Our Ability to Operate Without Infringing the Proprietary Rights of Others and to Protect Proprietary Rights***

We must operate without infringing the proprietary rights of third parties and without third parties circumventing our rights. The patent positions of coal and biotechnology enterprises, including ours, are uncertain and involve complex legal and factual questions for which important legal principles are largely unresolved. For example, no consistent policy has emerged regarding the breadth of bio-technology patent claims that are granted by the U.S. Patent and Trademark Office or enforced by the U.S. federal courts. In addition, the scope of the originally claimed subject matter in a patent application can be significantly reduced before a patent is issued. The biotechnology patent situation outside the U.S. is even more uncertain and is currently undergoing review and revision in many countries. For our products, which have or in the future may have, obtained patent protection, their profitability may depend in part on our ability to obtain and maintain patents and licenses and preserve trade secrets, and the period our intellectual property remains exclusive. Because patent applications are maintained in secrecy in some cases, we cannot be certain that we or our licensors are the first creators of inventions described in our pending patent applications or patents or the first to file patent applications for such inventions.

***Other companies may independently develop similar products and design around any patented products we develop.***

We cannot assure you that:

any of our patent applications will result in the issuance of patents;  
we will develop additional patentable products;  
the patents we have been issued will provide us with any competitive advantages;  
the patents of others will not impede our ability to do business; or  
third parties will not be able to circumvent our patents.

A number of coal-based products companies, bio-technology companies, research and academic companies and institutions have developed technologies, filed patent applications or received patents on technologies that may relate to our business. If these technologies, applications or patents conflict with ours, our ability to sell our products may be curtailed. If patents that cover our activities are issued to other companies, we may not be able to obtain licenses at a reasonable cost, or at all. We may also be unable to develop our technology, or introduce, manufacture or sell current or future products we have planned.

Patent litigation is becoming widespread in the bio-technology industry. Such litigation may affect our efforts to form collaborations, to conduct research or development, to conduct clinical testing or to manufacture or market any products under development. There are no assurances that our patents would be held valid or enforceable by a court or that a competitor's technology or product would be found to infringe our patents in the event of patent litigation. Our business could be materially affected by an adverse outcome to such litigation. We could incur substantial costs and devote significant management resources to defend our patent position or to seek a declaration that another company's patents are invalid.

Much of our know-how and technology may not be patentable, though it may constitute trade secrets. There are no assurances that we will be able to meaningfully protect our trade secrets. We cannot assure you that any of our existing confidentiality agreements with employees, consultants, advisors or collaborators will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure. Collaborators, advisors or consultants may dispute the ownership of proprietary rights to our technology, for example by asserting that they developed the technology independently.

***We May Encounter Difficulties in Manufacturing our Products***

Before our products can be profitable, they must be produced in commercial quantities in a cost-effective manufacturing process that complies with regulatory requirements, including production and quality control regulations. If we cannot arrange for or maintain commercial-scale manufacturing on acceptable terms, or if there are delays or difficulties in the manufacturing process, we may not be able to conduct clinical testing, obtain regulatory approval or meet demand for our products. Production of our products could require raw materials which are scarce or which can be obtained only from a limited number of sources. If we are unable to obtain adequate supplies of such raw materials, the development, regulatory approval and marketing of our products could be delayed.

***We May Not Be Able to Obtain the Regulatory Approvals or Clearances That Are Necessary to Commercialize Our Products***

The PRC imposes significant statutory and regulatory obligations upon the manufacture and sale of our products. Each regulatory authority typically has a lengthy approval process in which it examines product testing data and the facilities in which the product is manufactured. Regulatory submissions must meet complex criteria to demonstrate the safety and efficacy of the ultimate products. Addressing these criteria requires considerable data collection, verification and analysis. We may spend time and money preparing regulatory submissions or applications without assurances as to whether they will be approved on a timely basis or at all.

Our product candidates, some of which are currently in the early stages of development, will require additional development prior to their commercialization. These steps and the process of obtaining required approvals and clearances can be costly and time-consuming. If our potential products are not successfully developed, cannot be proven to be safe and effective through product testing, or do not receive applicable regulatory approvals and clearances, or if there are delays in the process:

the commercialization of our products could be adversely affected;

any competitive advantages of the products could be diminished; and

revenues or collaborative milestones from the products could be reduced or delayed.

Governmental and regulatory authorities may approve a product candidate for fewer indications or narrower circumstances than requested or may condition approval on the performance of post-marketing studies for a product candidate. Even if a product receives regulatory approval and clearance, it may later exhibit adverse side effects that limit or prevent its widespread use or that force us to withdraw the product from the market.

Any marketed product and its manufacturer will continue to be subject to strict regulation after approval. Results of post-marketing programs may limit or expand the further marketing of products. Unforeseen problems with an approved product or any violation of regulations could result in restrictions on the product, including its withdrawal from the market and possible civil actions.

In manufacturing our products we will be required to comply with applicable good manufacturing practices regulations, which include requirements relating to quality control and quality assurance, as well as the maintenance of records and documentation. if we cannot comply with regulatory requirements, including applicable good manufacturing practice requirements, we may not be allowed to develop or market the product candidates. If we or our manufacturers fail to comply with applicable regulatory requirements at any stage during the regulatory process, we may be subject to sanctions, including fines, product recalls or seizures, injunctions, refusal of regulatory agencies to review pending market approval applications or supplements to approve applications, total or partial suspension of production, civil penalties, withdrawals of previously approved marketing applications and criminal prosecution.

***Competitors May Develop and Market Products That Are Less Expensive, More Effective or Safer, Making Our Products Obsolete or Uncompetitive***

Some of our competitors and potential competitors have greater product development capabilities and financial, scientific, marketing and human resources than we do. Technological competition from other alternative energy, coal-based product and bio-technology companies is intense and is expected to increase. Other companies have developed technologies that could be the basis for competitive products. Some of these products may be produced with an entirely different approach or may be manufactured differently than the products we are developing. Alternative products may be developed that are more effective and are less costly than our products. Competitors may succeed in developing products earlier than us, obtaining approvals and clearances for such products more rapidly than us, or developing products that are more effective than ours. Over time, our technology or products may become obsolete or uncompetitive.

***Our Products May Not Gain Market Acceptance***

Our products may not gain market acceptance in the coal-based products and bio-technology community. The degree of market acceptance of any product depends on a number of factors, including establishment and demonstration of our products' efficacy and safety, cost-effectiveness, advantages over alternative products, and marketing and distribution support for the products. Limited information regarding these factors is available in connection with our products or products that may compete with ours.

To directly market and distribute our products, we or our collaborators require a marketing and sales force with appropriate technical expertise and supporting distribution capabilities. We may not be able to further establish sales, marketing and distribution capabilities or enter into arrangements with third parties on acceptable terms. If we or our partners cannot successfully market and sell our products, our ability to generate revenue will be limited.

***Our Operations and the Use of Our Products Could Subject Us to Damages Relating to Injuries or Accidental Contamination.***

Our research and development processes involve the controlled use of hazardous materials. We are subject to federal, provincial and local PRC laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and waste products. The risk of accidental contamination or injury from handling and disposing of such materials cannot be completely eliminated. In the event of an accident involving hazardous materials, we could be held liable for resulting damages. We are not insured with respect to this liability. Such liability could exceed our resources. In the future we could incur significant costs to comply with PRC environmental laws and regulations.

***If We Were Successfully Sued for Product Liability, We Could Face Substantial liabilities That May Exceed Our Resources.***

We may be held liable if any product we develop, or any product which is made using our technologies, causes injury or is found unsuitable during product testing, manufacturing, marketing, sale or use. We currently do not have product liability insurance. We are not insured with respect to this liability. If we choose to obtain product liability insurance but cannot obtain sufficient insurance coverage at an acceptable cost or otherwise protect against potential product liability claims, the commercialization of products that we develop may be prevented or inhibited. If we are sued for any injury caused by our products, our liability could exceed our total assets.

***We Have Limited Business Insurance Coverage.***

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. We do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster may result in our incurring substantial costs and the diversion of our resources.

***Our Success Depends on Attracting and Retaining Qualified Personnel***

We depend on a core management and scientific team. The loss of any of these individuals could prevent us from achieving our business objective of commercializing our product candidates. Our future success will depend in large part on our continued ability to attract and retain other highly qualified scientific, technical and management personnel, as well as personnel with expertise in clinical testing and government regulation. We face competition for personnel from other companies, universities, public and private research institutions, government entities and other organizations. If our recruitment and retention efforts are unsuccessful, our business operations could suffer.

### **Risk Related to the Alternative Energy Industry**

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

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

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

Our CWM Fuel product will be subject to oversight and regulation in accordance with national and local ordinances or regulations relating to safety, environmental protection, and related matters. We are responsible for knowing such ordinances and requirements must design our CWM Fuel product to comply with varying standards. Any new government regulations or utility policies pertaining to our products may result in significant additional expenses to us, our resellers and their customers and, as a result, could cause a significant reduction in demand for our product.

If our CWM Fuel product is not suitable for widespread adoption or sufficient demand for our CWM Fuel product does not develop or takes longer to develop than we anticipate, our sales would not significantly increase and we would be unable to achieve or sustain profitability.

The market for CWM Fuel products is emerging and rapidly evolving, and its future success is uncertain. If CWM Fuel and clean coal technology prove unsuitable for widespread commercial deployment or if demand for our CWM Fuel product fails to develop sufficiently, we may be unable to generate enough revenues to achieve and sustain profitability. In addition, demand for CWM Fuel product in the markets and geographic regions we target may not develop or may develop more slowly than we anticipate. Many factors will influence the widespread adoption of coal water mixture technology and demand for our products, including:

cost-effectiveness of coal water mixture technologies as compared with conventional and other alternative energy technologies;

performance and reliability of our coal water mixture product as compared with conventional and other alternative energy products;

capital expenditures by customers that tend to decrease if the PRC or global economy slows down; and

availability of government subsidies and incentives.

### **Risks Related to Our Corporate Structure**

*PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation, we could be subject to sanctions. In addition, changes in such PRC laws and regulations may materially and adversely affect our business.*



There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our affiliated Chinese entity, Shaanxi Suoang, and its shareholders. We are considered a foreign person or foreign invested enterprise under PRC law. As a result, we are subject to PRC law limitations on foreign ownership of Chinese companies. These laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

The PRC government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new PRC laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

***We may be adversely affected by complexity, uncertainties and changes in PRC regulation of our business and companies, including limitations on our ability to own key assets.***

The PRC government regulates the coal and bio-technology industries including foreign ownership of, and the licensing and permit requirements pertaining to, companies in these industry. These laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be a violation of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of our industry include the following:

we only have contractual control over Shaanxi Suoang. We do not own it due to the restriction of foreign investment in Chinese businesses; and

uncertainties relating to the regulation of the coal product and alternative energy business in China, including evolving licensing practices, means that permits, licenses or operations at our company may be subject to challenge. This may disrupt our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effects on us.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, alternative energy and bio-technology businesses in China, including our business.

***In order to comply with PRC laws limiting foreign ownership of Chinese companies, we conduct our business through Shaanxi Suoang by means of contractual arrangements. If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our business could be adversely affected.***

The PRC government restricts foreign investment in businesses in China. Accordingly, we operate our business in China through Shaanxi Suoang. Shaanxi Suoang holds the licenses and approvals necessary to operate our coal-based products business in China. We have contractual arrangements with Shaanxi Suoang and its shareholders that allow us to substantially control Shaanxi Suoang. We cannot assure you, however, that we will be able to enforce these contracts.

Although we believe we comply with current PRC regulations, we cannot assure you that the PRC government would agree that these operating arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our

business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business.

***Our contractual arrangements with Shaanxi Suoang and its shareholders may not be as effective in providing control over these entities as direct ownership.***

Since PRC law limits foreign equity ownership in companies in China, we operate our business through an affiliated Chinese company, referred to herein as Shaanxi Suoang. We have no equity ownership interest in Shaanxi Suoang and rely on contractual arrangements to control and operate such business. These contractual arrangements may not be as effective in providing control over Shaanxi Suoang as direct ownership. For example, Shaanxi Suoang could fail to take actions required for our business despite its contractual obligation to do so. If Shaanxi Suoang fails to perform under their agreements with us, we may have to rely on legal remedies under PRC law, which may not be effective. In addition, we cannot assure you that Shaanxi Suoang's shareholders would always act in our best interests.

***The Chairman of the Board of Directors of Shaanxi Suoang has potential conflicts of interest with us, which may adversely affect our business.***

Mr. Baowen Ren, our Chief Executive Officer, is also the Chairman of the Board of Directors of Shaanxi Suoang. Conflicts of interests between his duties to our company and Shaanxi Suoang may arise. As Mr. Ren is a director and executive officer of our Company, he has a duty of loyalty and care to us under Nevada law when there are any potential conflicts of interests between our company and Shaanxi Suoang. We cannot assure you, however, that when conflicts of interest arise, Mr. Ren will act completely in our interests or that conflicts of interests will be resolved in our favor. In addition, Mr. Ren could violate his legal duties by diverting business opportunities from us to others. If we cannot resolve any conflicts of interest between us and Mr. Ren, we would have to rely on legal proceedings, which could result in the disruption of our business.

### **Risks Related to Doing Business in China**

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

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. Since early 2004, the PRC government has implemented certain measures to control the pace of economic growth. Such measures may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition.

***If PRC law were to phase out the preferential tax benefits currently being extended to foreign invested enterprises and "new or high-technology enterprises" located in a high-tech zone, we would have to pay more taxes, which could have a material and adverse effect on our financial condition and results of operations.***

Under PRC laws and regulations, an enterprise may enjoy preferential tax benefits if it is registered in a high-tech zone and also qualifies as "new or high-technology enterprise". As an enterprise as well as a certified "new or high-technology enterprise" located in a high-tech zone in Xian, Shaanxi Suoang is entitled to a two-year exemption from enterprise income tax beginning from its first year of operation, followed by a 15% tax rate so long as it continues to qualify as a "new or high-technology enterprise." Shaanxi Suoang is currently subject to a 15% enterprise income tax rate for so long as its status as a "new or high-technology enterprise" remains unchanged. If the PRC law were to phase out preferential tax benefits currently granted to "new or high-technology enterprises" and technology consulting services, we would be subject to the standard statutory tax rate, which currently is 33%, and we would be unable to obtain business tax refunds for our provision of technology consulting services. Loss of these preferential tax treatments could have a material and adverse effect on our financial condition and results of operations.

***Shaanxi Suoang is subject to restrictions on making payments to us.***

Hangson, our wholly owned subsidiary, is a holding company incorporated in the British Virgin Islands and it does not have any assets or conduct any business operations other than our investments in our variable interest entity (“VIE”) in China, Shaanxi Suoang. As a result of our holding company structure, we rely entirely on payments from Shaanxi Suoang under our contractual arrangements. The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. (See the section below titled “Government control of currency conversion may affect the value of your investment.”) Furthermore, if our VIE in China incurs debt on its own in the future, the instruments governing the debt may restrict its ability to make payments. If we are unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to pay dividends on our ordinary shares.

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

We conduct our business primarily through Hangson and our VIE, Shaanxi Suoang. Our operations in China are governed by PRC laws and regulations. We are generally subject to laws and regulations in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

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

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, most of our senior executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

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

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current structure, our income is primarily derived from payments from Shaanxi Suoang. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entity to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

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

The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Our revenues and costs are mostly denominated in RMB, while a significant portion of our financial assets are denominated in U.S. dollars. We rely entirely on fees paid to us by our

VIE in China. Any significant fluctuation in value of RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our stock in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. An appreciation of RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into RMB, as RMB is our reporting currency.

***We face risks related to health epidemics and other outbreaks.***

Our business could be adversely affected by the effects of SARS or another epidemic or outbreak. China reported a number of cases of SARS in April 2004. Any prolonged recurrence of SARS or other adverse public health developments in China may have a material adverse effect on our business operations. For instance, health or other government regulations adopted in response may require temporary closure of our production facilities or of our offices. Such closures would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of SARS or any other epidemic.

**Risks Related to an Investment in Our Securities**

***To Date, We Have Not Paid Any Cash Dividends and No Cash Dividends Will be Paid in the Foreseeable Future.***

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

***The Application of the "Penny Stock" Rules Could Adversely Affect the Market Price of Our Common Stock and Increase Your Transaction Costs to Sell Those Shares.***

As long as the trading price of our common shares is below \$5 per share, the open-market trading of our common shares will be subject to the "penny stock" rules. The "penny stock" rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability or decrease the willingness of broker-dealers to sell our common shares, and may result in decreased liquidity for our common shares and increased transaction costs for sales and purchases of our common shares as compared to other securities.

***Our Common Shares are Thinly Traded and, You May be Unable to Sell at or Near Ask Prices or at All if You Need to Sell Your Shares to Raise Money or Otherwise Desire to Liquidate Your Shares.***

The Company cannot predict the extent to which an active public market for its common stock will develop or be sustained. However, the Company does not rule out the possibility of applying for listing on the Nasdaq National Market or other exchanges.

Our common shares have historically been sporadically or "thinly-traded" on the "Over-the-Counter Bulletin Board", meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or



purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained.

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

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or "risky" investment due to our lack of revenues or profits to date and uncertainty of future market acceptance for our current and potential products. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; adverse outcomes; the termination of our contractual agreements with Shaanxi Suoang; and additions or departures of our key personnel, as well as other items discussed under this "Risk Factors" section, as well as elsewhere in this Current Report. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price. However, the Company does not rule out the possibility of applying for listing on the Nasdaq National Market or other exchanges.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

***Volatility in Our Common Share Price May Subject Us to Securities Litigation.***

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

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

Our principal shareholders and their affiliated entities will own approximately 85% of our outstanding ordinary shares, representing approximately 85% of our voting power. These shareholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions. In addition, because of the percentage of ownership and voting concentration in these

principal shareholders and their affiliated entities, elections of our board of directors will generally be within the control of these shareholders and their affiliated entities. While all of our shareholders are entitled to vote on matters submitted to our shareholders for approval, the concentration of shares and voting control presently lies with these principal shareholders and their affiliated entities. As such, it would be difficult for shareholders to propose and have approved proposals not supported by management. There can be no assurances that matters voted upon by our officers and directors in their capacity as shareholders will be viewed favorably by all shareholders of the company.

***The Elimination of Monetary Liability Against our Directors, Officers and Employees under Nevada law and the Existence of Indemnification Rights to our Directors, Officers and Employees may Result in Substantial Expenditures by our Company and may Discourage Lawsuits Against our Directors, Officers and Employees.***

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

***Legislative Actions, Higher Insurance Costs and Potential New Accounting Pronouncements may Impact our Future Financial Position and Results of Operations.***

There have been regulatory changes, including the Sarbanes-Oxley Act of 2002, and there may potentially be new accounting pronouncements or additional regulatory rulings that will have an impact on our future financial position and results of operations. The Sarbanes-Oxley Act of 2002 and other rule changes as well as proposed legislative initiatives following the Enron bankruptcy are likely to increase general and administrative costs and expenses. In addition, insurers are likely to increase premiums as a result of high claims rates over the past several years, which we expect will increase our premiums for insurance policies. Further, there could be changes in certain accounting rules. These and other potential changes could materially increase the expenses we report under generally accepted accounting principles, and adversely affect our operating results.

***Past Activities Of The Company And Its Affiliates May Lead To Future Liability For The Company.***

Prior to our entry into the Exchange Agreement with Hangson on October 20, 2006, the Company engaged in businesses unrelated to its current operations. Although the Endo Shareholders are providing certain indemnifications against any loss, liability, claim, damage or expense arising out of or based on any breach of or inaccuracy in any of their representations and warranties made regarding such acquisition, any liabilities relating to such prior business against which Hangson is not completely indemnified may have a material adverse effect on the Company.

***The market price for our stock may be volatile.***

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

actual or anticipated fluctuations in our quarterly operating results;

changes in financial estimates by securities research analysts;

conditions in bio-technology and coal-based product markets;

changes in the economic performance or market valuations of other alternative energy and coal-based products companies;

announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;

addition or departure of key personnel;

fluctuations of exchange rates between RMB and the U.S. dollar;

intellectual property litigation; and

general economic or political conditions in China.

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

***We may need additional capital, and the sale of additional shares or other equity securities could result in additional dilution to our shareholders.***

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

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

We will be subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our stock. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

***We will incur increased costs as a result of being a public company.***

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as new rules subsequently implemented by SEC have required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. In addition, we will incur additional costs associated with our public company reporting requirements. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

## **ITEM 7. FINANCIAL STATEMENTS**

The Company's Financial Statements commence on the following page.

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CHINA WEST COAL ENERGY INC. (FORMERLY ENDO NETWORKS, INC.)  
AND ITS SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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CHINA WEST COAL ENERGY INC. (FORMERLY ENDO NETWORKS, INC.)  
AND ITS SUBSIDIARIES

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**Schwartz Levitsky Feldman llp**  
CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS  
TORONTO · MONTREAL

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
China West Coal Energy Inc. (Formerly Endo Networks, Inc.)

We have audited the accompanying consolidated balance sheet of China West Coal Energy Inc. (formerly Endo Networks, Inc.) as at December 31, 2006 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the management of China West Coal Energy Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Hangson Limited, the accounting acquirer of China West Coal Energy Inc. (formerly Endo Networks, Inc.) (see Note 1) as of December 31, 2005, were audited by other auditor whose report dated June 5, 2006 expressed an unqualified opinion on those statements before restatement.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China West Coal Energy Inc. as of December 31, 2006 and the results of its operations and its cash flows for the year ended December 31, 2006 in conformity with United States generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 3 to the financial statements, the Company ceased its COPO resin operation which was the main resource of its working capital and disposed of leasehold property which generated rental income and started a new Coal Water Mixture ("CWM") fuel business subsequent to the balance sheet date. The production facilities of the CWM are under construction and operations have not yet commenced. These conditions raise substantial doubt about the company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 20. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**"SCHWARTZ LEVITSKY FELDMAN LLP"**

Toronto, Ontario, Canada  
March 9, 2007

Chartered Accountants  
Licensed Public Accountants

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Toronto, Ontario M6A 2X1  
Tel: 416 785 5353  
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**CHINA WEST COAL ENERGY INC. (FORMERLY ENDO NETWORKS, INC.)  
AND ITS SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash on hand and at bank	\$ 4,450,557	\$ 691,268
Amounts due from directors (Note 18)	206,186	119,397
Deposits and prepayments (Note 7)	1,830,769	-
Short term loan to related party (Notes 9,18)	411,970	-
Discontinued operations (Note 14)	3,485,462	3,475,664
	10,384,944	4,286,329
<b>Non-Current Assets</b>		
Long term investment (Note 8)	-	335,500
Prepaid rental	-	59,520
Long-term loan to a related party (Notes 9, 18)	-	372,000
Intangible assets, net (Note 11)	1,533,349	628,640
Property, plant and equipment, net (Note 10)	623,934	92,648
<b>Total Assets</b>	<b>\$ 12,542,227</b>	<b>\$ 5,774,637</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accrued expenses and other payables (Note 12)	\$ 372,125	\$ 140,125
Amount due to a director (Note 18)	20,702	-
Discontinued operations (Note 14)	2,366,631	104,669
<b>Total Current Liabilities</b>	<b>2,759,458</b>	<b>244,794</b>
Minority interest	94,748	-
<b>Commitments and Contingencies (Note 19)</b>		
<b>Related Party Transactions (Notes 9, 14,18)</b>		
<b>Shareholders' Equity</b>		
Common stock, \$0.001 par value, 200,000,000 shares authorized, 28,227,250 issued and outstanding	28,227	4,712,137
Additional paid-in capital	9,209,629	84,759
Statutory reserves (Note 13)	348,309	159,371
Accumulated comprehensive income	432,312	125,594
(Accumulated deficit) retained earnings	(330,456)	447,982
<b>Total Shareholders' Equity</b>	<b>9,688,021</b>	<b>5,529,843</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 12,542,227</b>	<b>\$ 5,774,637</b>

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



**CHINA WEST COAL ENERGY INC. (FORMERLY ENDO NETWORKS, INC.)  
AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>Revenue</b>	\$ -	\$ -
Cost of goods sold	-	-
<b>Gross profit</b>	-	-
<b>Operating expenses</b>		
Research and development expenses	37,718	-
General and administrative expenses	263,174	-
<b>Loss from operations</b>	(300,892)	-
<b>Other income (expenses)</b>		
Merger costs	(575,000)	-
Interest income	60,678	28,957
Sundry income(expenses)	-	4,024
Finance costs	(82)	(2)
Total other (expense) income	(514,404)	32,979
<b>(Loss) income from continuing operations before income taxes</b>	(815,296)	32,979
Provision for income taxes (Note 16)	-	-
<b>Net (loss) income from continuing operation</b>	(815,296)	32,979
<b>Net income from discontinued operations (Note 14)</b>	690,482	809,713
<b>Net (loss) income before minority interest</b>	(124,814)	842,692
<b>Minority interest</b>	32,794	-
<b>Net (loss) income</b>	(92,020)	842,692
<b>Other comprehensive income</b>		
Foreign currency translation adjustment	306,718	125,594
<b>Net comprehensive income</b>	\$ 214,698	\$ 968,286
Net (Loss) earnings per share from continuing operation (Note 17)		
- Basic	(0.029)	0.001
- Diluted	(0.029)	0.001
Net earnings per share from discontinued operation		
- Basic	\$ 0.024	\$ 0.029
- Diluted	\$ 0.024	\$ 0.029

Weighted average number of common shares outstanding

- Basic	28,227,250	28,227,250
- Diluted	28,227,250	28,227,250

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

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**CHINA WEST COAL ENERGY INC. (FORMERLY ENDO NETWORKS, INC.)  
AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Common stock		Additional paid-in capital	Statutory capital reserves	Statutory welfare reserves	Accumulated comprehensive income	Retained earnings (Deficit)	Total
	Shares	Amount						
Balance at January 1, 2005 (at par \$0.1208)	39,000,000	\$ 4,712,137	\$ 84,759	\$ 15,839	\$ 7,920	\$ -	\$ 209,558	\$ 5,030,213
Foreign Currency translation	-	-	-	-	-	125,594	-	125,594
Net income	-	-	-	-	-	-	842,692	842,692
Transfer to statutory reserves	-	-	-	90,408	45,204	-	(135,612)	-
Dividend	-	-	-	-	-	-	(468,656)	(468,656)
<b>Balance at December 31, 2005 (at par \$0.1208)</b>	39,000,000	\$ 4,712,137	\$ 84,759	\$ 106,247	\$ 53,124	\$ 125,594	\$ 447,982	\$ 5,529,843
Capital injection of subsidiaries	-	-	4,440,960	-	-	-	-	4,440,960
Exchange of share prior to recapitalization	(39,000,000)	(4,712,137)	4,712,137	-	-	-	-	-
Capital acquired on capitalization (at par \$0.001)	2,712,000	2,712	(2,712)	-	-	-	-	-
Cancellation of share (at par \$0.001)	(1,154,350)	(1,154)	1,154	-	-	-	-	-
Recapitalization (at par \$0.001)	26,669,600	26,669	(26,669)	-	-	-	-	-
Net loss	-	-	-	-	-	-	(92,020)	(92,020)
Transfer to statutory reserves	-	-	-	123,849	62,979	-	(186,828)	-
	-	-	-	2,110	-	306,718	-	308,828



Effect on  
translation  
difference

Dividend	-	-	-	-	-	-	(499,590)	(499,590)
<b>Balance at December 31, 2006</b>	28,227,250	\$ 28,227	\$ 9,209,629	\$ 232,206	\$ 116,103	\$ 432,312	\$ (330,456)	\$ 9,688,021

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

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**CHINA WEST COAL ENERGY INC. (FORMERLY ENDO NETWORKS, INC.)  
AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (92,020)	\$ 842,692
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net income from discontinued operations	(690,482)	(809,713)
Minority interest	(32,794)	-
Depreciation and amortization	129,259	110,218
Provision for doubtful debts	443	-
Interest income	-	(28,957)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Other receivables, deposits and prepayments	(1,798,207)	-
Increase (decrease) in:		
Accrued expenses and other payable	186,958	(14,395)
Net cash provided by discontinued operations (Note 14)	3,709,360	887,171
Net cash generated from operating activities	1,412,517	987,016
<b>Cash flows from investing activities</b>		
Increase in interest receivable to a related party	(27,206)	-
(Increase) decrease in amount due from a director	(81,452)	13,858
Interest received	-	84,941
Payment for land use right	(1,522,136)	-
Payment for establishment of a subsidiary	-	(335,500)
Proceeds from disposal of subsidiary	346,369	-
Purchase of intangible assets	-	(905)
Purchase of property, plant and equipment	(593,442)	(1,029)
Net cash used in investing activities	(1,877,867)	(238,635)
<b>Cash flows from financing activities</b>		
Amounts due from shareholders	20,355	-
Dividend paid	(499,590)	(468,656)
Decrease in paid-in capital	4,524	-
Proceeds from paid in capital from subsidiaries	4,440,960	-
Net cash generated from (used in) financing activities	3,966,249	(468,656)
<b>Effect of exchange rate changes</b>	258,390	7,947
<b>Net increase in cash</b>	3,759,289	287,672
Cash, beginning of year	\$ 691,268	\$ 403,596
Cash, end of year	\$ 4,450,557	\$ 691,268

**Supplemental disclosure information**

Finance costs paid	\$	82	\$	2
Income taxes paid	\$	126,119	\$	-

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

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**CHINA WEST COAL ENERGY INC. (FORMERLY ENDO NETWORKS, INC.)  
AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

1. **CORPORATE REORGANIZATION AND BUSINESS ACTIVITIES**

China West Coal Energy Inc. (formerly Endo Networks, Inc.) (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, the Company entered into a definitive Share Exchange Agreement with Hangson Limited (“Hangson”), whereby the Company acquired all of the outstanding common stock of Hangson in exchange for newly issued shares of the Company’s common stock to the Hangson shareholders (the “Share Exchange”). On October 20, 2006 (the “Closing Date”), Hangson became a wholly owned subsidiary and Hangson’s shareholders became owners of the majority of the voting stock. The acquisition of Hangson by the Company was accounted for as a reverse merger and a recapitalization because on a post-merger basis, the former shareholders of Hangson held a majority of the Company’s outstanding common stock on a voting and diluted basis. As a result, Hangson is deemed to be the acquirer for accounting purposes. From and after the Closing Date of the Share Exchange, the Registrant’s primary operations will now consist of the operations of Hangson.

Additionally, on August 18, 2006, Hangson entered into various agreements with Shaanxi Suo’ang Biological Science & Technology Co., Ltd. (“Shaanxi Suoang”). Through these contractual arrangements, Hangson has 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 obligates Hangson to absorb a majority of the risk of loss from Shaanxi Suoang activities, enables Hangson to control Shaanxi Suoang, and enables Hangson to receive a majority of Shaanxi Suoang’s expected residual returns, Hangson is considered the primary beneficiary of Shaanxi Suoang and as a variable interest entity (“VIE”) under FASB Interpretation No. 46R (“FIN 46R”), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51”. Accordingly, the Company consolidates Shaanxi Suoang’s results, assets and liabilities in its financial statements. The Company’s consolidated assets do not include any collateral for Shaanxi Suoang’s obligations. The creditors of Shannxi Suoang do not have recourse to the general credit of the Company.

1. CORPORATE REORGANIZATION AND BUSINESS ACTIVITIES (CONT'D)

Hangson was incorporated under the laws of the British Virgin Islands on June 2, 2006. Hangson does not conduct any substantive operations of its own and conducts its primary business operations through its variable interest entity ("VIE"), Shaanxi Suoang. Shaanxi Suoang is engaged in the research, development, production, marketing and sales of coal-polymer ("COPO") resin products including but not limited to, degradable mulch used for the conservation of moisture and warmth of soil and protection of the roots of plants, and materials used for plastic injection molding, electric wire covering, and garbage bags. Shaanxi Suoang is also engaged in the research, development, production and sale of coal-water mixture ("CMW"), which is a potential fuel substitute for coal, oil or gas. Since December 2006, Shaanxi Suoang ceased its operations in COPO products manufacturing and was planning to fully enter the business of manufacturing and selling CWM through a subsidiary of which 80% interest is controlled by Shaanxi Suoang New Energy Enterprise Company Ltd. ("New Energy"). From January 2007, Shaanxi Suoang will cease its original operation in COPO products business and act as holding company for administrative and marketing support to New Energy.

On October 18, 2006, the Company executed a Share Exchange Agreement (the "Exchange Agreement") by and between Hangson, and the stockholders of 100% of Hangson's common stock (the "Hangson Stockholders"), on the one hand, and the Company and a majority of the Company's stockholders, on the other hand. The closing of this transaction (the "Closing") occurred on October 20, 2006 (the "Closing Date").

The Company effected a 1 for 5 reverse split of its common stock, which is effective as of October 17, 2006. The Company's Board of Directors approved the Reverse Split in June 2006 and a majority of its stockholders approved it at the annual shareholder meeting on September 5, 2006. The Company had a total of 2,712,000 shares of common stock outstanding after the reverse split.

Under the Exchange Agreement, on the Closing Date, the Company issued a total of 26,000,000 shares of the Company's Common Stock (the "Shares") to Hangson Stockholders and to Viking Partners, Inc. ("Viking"), a consultant in this transaction, in exchange for 100% of the common stock of Hangson. Additionally, immediately prior to the Closing, Peter B. Day, the Company's former President, CEO and sole director voluntarily cancelled 715,500 (post 1-for-5 reverse split) shares of the 915,500 (post 1-for-5 reverse split) shares of the Company's common stock that he owns; and three of the Company's other shareholders also voluntarily cancelled a total of 438,850 (post 1-for-5 reverse split) shares of the Company's common stock that they own. Also pursuant to the Exchange Agreement, and as approved by a majority of the Company's shareholders, the Company split its common stock on a 1-for-5 reverse basis (the "Reverse Split") prior to the Closing Date. Further, prior to the Closing, the Company issued an additional 669,600 shares after the Reverse Split pursuant to certain anti-dilution provisions contained in agreements the Company had with two of the Company's consultants. After the share cancellations, the Reverse Split and the consultant anti-dilution share issuances, the Company had a total of approximately 2,227,250 shares of common stock outstanding. After the Closing, the Company had 28,227,250 shares of common stock outstanding, with the Hangson's Stockholders owning approximately 85% of the Company's common stock, and with the balance of the Company's common stock held by those who held the Company's shares prior to the Share Exchange. In addition, at the Closing, Hangson paid the Company's creditors a total of US\$500,000 for consulting services rendered, in order to satisfy certain obligations as set forth in the Exchange Agreement.

1. CORPORATE REORGANIZATION AND BUSINESS ACTIVITIES (CONT'D)

On June 19, 2005, Shaanxi Suo'ang entered into an agreement to establish a subsidiary named Shaanxi SuoKe New Energy Enterprise Company Limited ("SuoKe") together with a third party company named PengYuan Enterprise Company Ltd. ("PengYuan") and Mr. Peng Zhou in which the Company invested \$343,750 holding a 55% interest in SuoKe. The purpose for establishment of SuoKe was to carry out the operation of CWM, however, since the cooperation with PengYuan did not proceed as expected, the Company disposed of its investment in SuoKe and transferred its 55% interest in it to Mr. Peng Zhou. Based on an agreement signed between Peng Zhou and Shaanxi Suo'ang, the 55% investment in SuoKe had been transferred to Mr. Peng Zhou at the cost in the amount of \$343,750.

On May 8, 2006, Shaanxi Suo'ang entered into an agreement to establish a subsidiary named Shaanxi Suo'ang New Energy Enterprise Company Limited ("Suo'ang New Energy") together with Mr. Peng Zhou, in which Shaanxi Suo'ang has injected a capital of \$496,000 representing an 80% equity interest in Suo'ang New Energy and Mr. Peng Zhou has injected \$124,100 and representing an 20% equity interest in Suo'ang New energy. Suo'ang New Energy was formed for the purpose of engaging in the research, development, production and sale of "coal water mixture", a fuel to substitute for coal, oil or gas. As at December 31, 2006, the plant was under construction and the Company expects to commence operation around July 2007.

2. FISCAL YEAR END

Prior to the acquisition, Hangson's reporting fiscal year end was December 31. However, the Company's reporting year-end was September 30. The Company has decided to adopt the fiscal year end of Hangson, its operating business after the share exchange transaction described above, and thus on January 15, 2007, the Company's Board of Directors approved a change of its fiscal year by an unanimous written consent. The Company's new fiscal year will begin on January 1 and end on December 31 of each year, and this change shall be applicable with the year ending December 31, 2006.

3. GOING CONCERN AND MANAGEMENT'S PLANS

The accompanying financial statements have been prepared based on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. In January 2007, the Company ceased its COPO resin operation and is now principally engaged in research, development, production, marketing and sales of "coal-water mixture" business. The new business has not commenced operations and the Company may need additional financing to meet cash requirements for start up and to ensure continuity as a going concern.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded amounts of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management believes the Company's ability to continue as a going concern is dependent upon its ability to achieve and maintain profitable operations for the new business in 2007. The Company has already entered into sales contracts in respect of the "coal-water mixture" business which the management believes will generate sufficient cash flow to meet its obligations on a timely basis in the foreseeable future.

4. 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, Shaanxi Suo'ang and its controlled subsidiary, Suo'ang New Energy. All significant inter-company transactions and balances among the Company, Hangson and its variable interest entities are eliminated upon consolidation.

By the end of the year, Shaanxi Suo'ang's main operation was discontinued and the assets are classified as assets held for sale and discontinued operation.

On September 15, 2005, the Company established a subsidiary named Shaanxi Suoke New Energy Industry Company Limited ("Shaanxi Suoke") in which the Company injected a capital of \$335,500 representing a 55% equity interest in Shaanxi Suoke. Shaanxi Suoke was formed for the purpose of engaging in the research, development, production and sale of "coal water mixture", a fuel to substitute for coal, oil or gas.

However, since its establishment, Shaanxi Suoke has never commenced any operations. Nor has the Company gained any control of the board of Shaanxi Suoke. In addition, by a resolution on May 15, 2006, the Company sold the 55% equity interest of Shaanxi Suoke to one of the shareholders of Shaanxi Suoke, Mr. Peng Zhou, who established another subsidiary named Suo'ang New Energy together with Shaanxi Suo'ang, at cost with a cash consideration of \$335,500.

Statement of Financial Accounting Standards ("SFAS") No. 94 "Consolidation of All Majority-Owned Subsidiary" requires that all majority-owned subsidiaries shall be consolidated except those where control is likely to be temporary or it does not rest with the majority owner. Accordingly, these financial statements do not consolidate Shaanxi Suoke for the year ended December 31, 2005 and 2006, because of the lack of ability to control Shaanxi Suoke. Results of Shaanxi Suoke since its establishment to December 31, 2005 and 2006 were immaterial.

(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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Accounts and other receivables

Accounts and other 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 year. As of December 31, 2006, accounts and other receivables were net of allowances of \$3,772 and Nil, respectively. As of December 31, 2005, accounts and other receivables were net of allowances of \$3,215 and Nil, respectively.

(d) Inventories

Inventories from the discontinued operations 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.

(e) 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:

Leasehold properties	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



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) 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.

(g) Intangible assets

The land use right is amortized over the expected period of 50 years.

(h) 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 Impairment of Long-Lived Assets to be Disposed Of*, 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.

(i) 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 accumulated comprehensive income of \$432,312 and \$125,594 for the years ended December 31, 2006 and 2005 respectively. The comprehensive income arose from the changes in foreign currency exchange rate.

(j) Fair value of Financial instruments

The Company believes that the carrying values of its cash and cash equivalents, other receivables and other payables as of December 31, 2006 approximate to their respective fair values due to the short-term nature of those instrument.

(k) Revenue recognition

Revenues of the Company include COPO resin product sales which have been classified as discontinued operations. 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

(l) Advertising expenses

Advertising expenses are expensed to operations in the period incurred. The Company incurred advertising expenses of \$986 and \$1,258 for the years ended December 31, 2006 and 2005, respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Research and development costs

Research and development costs are expensed to operations as incurred.

(n) Stock based compensation

The Company has adopted Statement of Financial Accounting Standards No. 123R "Accounting for Stock-Based Compensation" ("SFAS123"), which defines a fair-value-based method of accounting for stock based employee compensation and transactions in which an entity issues its equity instruments to acquire goods and services from non-employees. Stock compensation for stock granted to non-employees has been determined in accordance with SFAS 123R and the Emerging Issues Task Force consensus in Issue No. 96-18, "Accounting for Equity Instruments that are issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services" ("EITF 96-18"), as the fair value of the consideration received or the fair value of equity instruments issued, whichever is more reliably measured.

(o) Earnings per share

Basic earnings per share ("EPS") is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period.

(p) 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.

(q) Foreign currency transactions

The Company determines its functional currency based on the criteria of SFAS 52, *Foreign Currency Translation* and has determined RMB to be their functional currency. Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the balance sheet date. Exchange gains or losses are included in the statement of operations.

(r) 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.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) 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.

(t) Recently issued accounting pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS 155"). This Statement amends FASB Statements No. 133, Accounting for Derivative Instruments and Hedging Activities, and No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This Statement resolves issues addressed in Statement 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company has not yet determined the impact of the adoption of SFAS No. 155 on its financial statements, if any.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets" ("SFAS 156"). This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in indicated situations; requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; permits an entity to choose relevant subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities; at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. The Company has determined that the adoption of SFAS No. 156 did not have a material impact on Consolidated Financial Statements.



4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Recently issued accounting pronouncements (cont'd)

The FASB issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes," in July 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 does not anticipate that the adoption of this standard will have a material effect on its financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," which eliminated the diversity in practice surrounding the quantification and evaluation of financial statement errors. The guidance outlined in SAB 108 is effective for the Company and is consistent with its historical practices for assessing such matters when circumstances have required such an evaluation. Accordingly, the Company does not believe that the adoption of SAB 108 will have any impact on its financial statement.

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 is currently evaluating the impact of adopting SFAS 157.

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.

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 is currently evaluating the impact of adopting SFAS 159 on its financial statements.

## 5. CONCENTRATION OF CREDIT RISK

- (a) Financial instruments which potentially expose the Company to concentrations of credit risk, consist of cash and cash equivalents and accounts receivable arising from discontinued business. The Company performs ongoing evaluations of their cash position and credit evaluations to ensure collections and minimize losses.
- (b) As of December 31, 2006 and 2005, 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 years ended December 31, 2006 and 2005, all of the Company's sales arose in the PRC and were generated by the discontinued operation. All accounts receivable as of December 2006 and 2005 also arose in the PRC generated from the discontinued operation.
- (d) Details of the customers accounting for 10% or more of total sales as of December 31, are as follows:

	2006	2005
Company A	\$ -	\$ 610,000
Company B	-	586,204
Company C	1,252,276	-
Company D	1,174,336	-
Company E	1,151,996	-
Company F	748,503	-

The accounts receivable from the three customers with the largest receivable balance represents 50% and 48% of the balance of the account at December 31, 2006 and 2005, respectively. Since these accounts receivable originated from the COPO resin business, which was discontinued subsequent to the year-end, part of these amounts have been reclassified to discontinued operations.

## 6. 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.

## 7. DEPOSIT AND PREPAYMENTS

Deposit and prepayment consist of the following as of December 31,

	2006	2005
Prepayment for construction in progress	\$ 1,827,932	\$ -
Rental deposit	1,902	-
Others	935	-
	\$ 1,830,769	\$ -

## 8. INVESTMENT

Investment consists of the following as of December 31,

	2006	2005
Capital injected in a subsidiary	\$ -	\$ 335,500

On September 15, 2005, the Company established a subsidiary named Shaanxi Suoke New Energy Industry Company Limited (“Shaanxi Suoke”) in which the Company injected a capital of \$335,500 representing a 55% equity interest in Shaanxi Suoke. Shaanxi Suoke was formed for the purpose of engaging in the research, development, production and sale of “coal water mixture”, a fuel to substitute for coal, oil or gas.

However, since its establishment, Shaanxi Suoke has never commenced any operations. Nor has the Company gained any control of the board of Shaanxi Suoke. In addition, by a resolution on May 15, 2006, the Company sold the 55% equity interest of Shaanxi Suoke to one of the shareholders of Shaanxi Suoke, Mr. Peng Zhou, who later on established another subsidiary named Suo’ang New Energy together with Shaanxi Suo’ang, at cost with a cash consideration of \$335,500.

Statement of Financial Accounting Standards (“SFAS”) No. 94 “Consolidation of All Majority-Owned Subsidiary” requires that all majority-owned subsidiaries shall be consolidated except those where control is likely to be temporary or it does not rest with the majority owner. Accordingly, no consolidated financial statements have been prepared to consolidate Shaanxi Suoke for the year ended December 31, 2005 and 2006, because of lack of ability to control Shaanxi Suoke. Results of Shaanxi Suoke since its establishment to December 31, 2005 and 2006 were immaterial.

## 9. INTEREST BEARING LOAN TO A RELATED PARTY

An interest bearing loan has been lent to a related company, Shaanxi Hanzhong New Century Real Estate Company Limited which was controlled by a shareholder, Mr. Yang Feng. The loan was lent with a term of five years from November 5, 2002 to November 5, 2007 and bears interest at 7.2% per annum. A majority shareholder of the Shaanxi Suo’ang, Shaanxi Hanzhong Blue Tide Costumes Group Corporation Limited, guaranteed the repayment of this loan with all of its assets and issued a commitment letter to Shaanxi Suo’ang. According to a supplement agreement signed between both parties and witnessed by a PRC lawyer, the loan is repayable in one lump sum in May 2007.



10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following as of December 31,

	2006	2005
Construction in progress	\$ 579,610	\$ -
Office equipment	57,771	52,964
Motor vehicles	119,624	95,571
	757,005	148,535
Less: Accumulated depreciation and amortization	(133,071)	(55,887)
	\$ 623,934	\$ 92,648

Construction in progress included above was the construction of buildings, production lines and machinery for the “coal-water mixture” business. The construction work commenced in June 2006 and the first phase is expected to be completed and become operational in 2007.

The depreciation expenses on property, plant and equipment for the years ended December 31, 2006 and 2005 were \$21,622 and \$18,704 respectively.

11. INTANGIBLE ASSETS

Intangible assets consist of the following as of December 31,

	2006	2005
Land use rights	\$ 1,547,192	\$ -
Patent	-	930,000
Accounting software	1,832	905
	1,549,024	930,905
Less: Accumulated amortization	(15,675)	(302,265)
	\$ 1,533,349	\$ 628,640

During the year, the Company paid \$1,547,192 for obtaining a land use rights located at Yao Zhou Ou, PRC. The Company is in the process of obtaining the land use right certificate. Management expects that the application will be completed in July 2007 and expects that there should be no legal barriers for the Company to obtain an ownership certificate.

On formation of Shaanxi Suoang, a former shareholder contributed the patent in return for the issuance of 18% common stock in Shaanxi Suoang. The patent was carried at the fair value at the time of contribution by that shareholder based on an independent appraisal and as agreed among the shareholders of Shaanxi Suoang. The patent was related to COPO resin production. As the production of COPO resin ceased in December 2006, the patent was disposed to a related company, HanZhongWeiDa Commercial Company Limited which was controlled by Leping Yao, a shareholder of Shaanxi Suoang at a consideration of \$256,200.

The amortization expense on intangible assets for the years ended December 31, 2006 and 2005 were \$94,684 and \$91,514, respectively. For each of the next five years, annual amortization expense on the land use rights and accounting software will be \$30,944 and \$366, respectively.

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12. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consist of the following as of December 31,

	2006	2005
Retention payable for leasehold improvement	\$ -	\$ 4,340
Accrued operating expenses	235,769	49,040
Accrued staff welfare	52,993	33,249
Other payable	68,363	53,496
	\$ 357,125	\$ 140,125

13. 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:

- (i) Making up cumulative prior years' losses, if any;
- (ii) 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, which is restricted for set off against losses, expansion of production and operation or increase in registered capital;
- (iii) Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is restricted for capital expenditure for the collective benefits of the Company's employees; and
- (iv) Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

Statutory reserves consist of the following as of December 31,

	2006	2005
Statutory capital reserve	\$ 232,206	\$ 106,247
Statutory common welfare fund	116,103	53,124
	\$ 348,309	\$ 159,371

14. DISCONTINUED OPERATIONS

(a) Assets of discontinued operation consist of the followings as of December 31,

	2006	2005
<b>ASSETS</b>		
<b>Current Assets</b>		
Accounts receivable, net of allowances for doubtful accounts of \$3,772 and \$3,215, as at December 31, 2006 and 2005 respectively	\$ 750,635	\$ 639,701
Patent transfer receivable	256,200	-
Other receivable	39,071	39,432
Deposits and prepayments	-	124,863
Assets held for sale (Note 15)	2,439,556	2,671,668
	3,485,462	3,475,664

Patent transfer receivable represents the amount receivable for the disposal of patent.

**LIABILITIES****Current Liabilities**

Accounts payable	\$ 864,787	\$ 64,702
Accrued expenses and other payables	-	38,287
Deposits on property held for resale	1,409,100	-
Taxes payable	92,744	1,680
<b>Total Current Liabilities</b>	<b>2,366,631</b>	<b>104,669</b>

Accrued expenses and other payables of discontinued operation consist of the following as of December 31,

	2006	2005
Retention payable for leasehold improvement	\$ -	\$ 4,340
Accrued operating expenses	-	33,947
	\$ -	\$ 38,287

14. DISCONTINUED OPERATIONS (CONT'D)

(b) Results of discontinued operations consist of the following as of December 31,

	2006	2005
<b>Revenue</b>	\$ 7,253,887	\$ 5,426,591
Cost of goods sold	5,434,301	4,417,584
<b>Gross profit</b>	1,819,586	1,009,007
<b>Operating expenses</b>		
Selling expenses	285,235	143,231
General and administrative expenses	354,162	475,938
<b>Income from discontinued operations</b>	1,180,189	389,838
<b>Other income (expenses)</b>		
Rental income, net of outgoings	329,741	419,875
Sundry income(expenses)	(143,534)	-
Total other income	186,207	419,875
<b>Income from discontinued operations before income taxes</b>	1,366,396	809,713
Provision for income taxes	(214,482)	-
<b>Net income from discontinued operations</b>	1,151,914	809,713
Loss on disposal of patent	(291,266)	-
Impairment of plant and machinery	(170,166)	-
<b>Net income from discontinued operations</b>	\$ 690,482	\$ 809,713

c) Cash flows from of discontinued operations consist of the following as of December 31,

	2006	2005
<b>Cash flows from discontinued operations</b>		
Net income	\$ 690,482	\$ 809,713
Adjustments to reconcile net income to net cash provided by (used in) discontinued operations:		
Depreciation and amortization	175,235	112,252
Impairment of plant and equipment	170,166	-
Loss on disposal of patent	291,266	-
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable, trade	(88,720)	(188,422)
Other receivables, deposits and prepayments	187,054	42,525
Inventories	24,350	323,489
Increase (decrease) in:		

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Accounts payable	784,568	(200,459)
Deposit from property held for resale	1,385,478	-
Taxes payable	89,481	(11,927)
Net cash provided by discontinued operations	\$ 3,709,360	\$ 887,171

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15. ASSETS HELD FOR SALE

Assets held for sale consist of the following as of December 31,

	2006	2005
Properties and leasehold improvements (Note a)	\$ 2,334,934	\$ 2,357,421
Machinery (Note b)	89,670	275,798
Inventory (Note c)	14,952	38,449
	\$ 2,439,556	\$ 2,671,668

(a) Property and leasehold improvements

Property and leasehold improvements consist of the following as of December 31,

	2006	2005
Cost	\$ 2,544,085	\$ 2,462,659
Accumulated depreciation	(209,151)	(105,238)
	\$ 2,334,934	\$ 2,357,421

During the year 2004, the Company exchanged leasehold properties consisting of three floors in a commercial building and having a net book value of \$1,691,555 for other leasehold properties also consisting of three floors in the same building and having a fair value of \$1,773,697. The terms of the exchange also required the Company to pay cash of \$501,205. The Company accounts for the cash component as an acquisition of real estate, and the nonmonetary component based on the recorded amount of \$1,691,555 of the leasehold properties given up.

On June 13, 2006, the Company signed a property transfer agreement with a related company, Han Zhong Si Xiong Ke Chuang Commercial Company Ltd., which is controlled by the shareholder of the Company, Mr. Yanjun Zhao, to dispose the leasehold properties together with the leasehold improvement at a cash consideration of approximately \$2,450,000 which is \$120,000 lower than the evaluated value according to an appraisal report issued by Xi'An Zheng Heng Assets Valuation Company Ltd. As such, there was gain on disposal of the property and leasehold improvements of \$ 115,066. According to the agreement, the cash consideration would be settled by installment with the last installment on or before March 31, 2007 and the title of the property will be passed to the buyer upon receipt of the 95% of the total consideration paid to the Company. As at December 31, 2006, an amount of \$1,409,100 has been received by the Company and recorded as deposits on property held for resale.

On March 25, 2007, the Company and the buyer entered into a supplementary agreement whereby the Company agrees to transfer the title of the properties to the buyer when the buyer pays the remaining balance of approximately \$1,040,900 before the date of May 31, 2007.

The depreciation expense on property and leasehold improvement for the years ended December 31, 2006 and 2005 were \$98,788 and \$91,128 respectively.

15. ASSETS HELD FOR SALE (CONT'D)(b) Machinery

Machinery consist of the following as of December 31,

	2006	2005
Cost	\$ 324,086	\$ 316,521
Impairment	(170,166)	
Accumulated depreciation	(64,250)	(40,723)
	\$ 89,670	\$ 275,798

After the balance sheet date, the Company and the buyer entered into an agreement whereby the Company agreed to sell the machinery to a related company, HanZhongWeiDa Commercial Company Limited which controlled by LePing Yao, a shareholder of Shaanxi Suoang at a consideration of \$89,670. The Company accounts for impairment of the machinery in accordance with SFAS No.144, *Accounting for Impairment of Long-Lived Assets to be Disposed Of*, of \$170,166 for the year.

The depreciation expense on machinery for the years ended December 31, 2006 and 2005 were \$21,817 and \$21,124 respectively.

(c) Inventories

Inventories consist of the following as of December 31,

	2006	2005
Raw materials	\$ 7,608	\$ 5,530
Finished goods	5,244	31,644
Packing materials	229	901
Consumables	1,871	374
	\$ 14,952	\$ 38,449

After the balance sheet date, the Company sold the inventories to unrelated third parties in consideration of \$12,767 with a loss of \$2,185.



16. 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, 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 year’s tax holiday for 2004 and 2005, within which no income taxes were being charged. Shaanxi Suoang is subject to the income tax from 2006. Current year’s income tax expenses are \$214,482, which all related to the discontinued operations. Another PRC subsidiary, Suo’ang New Energy has only been newly established and carried no operations in year 2006. During the year, there is no income and no income tax liability.

The Company and Hangson are not subject to any income taxes as the companies have no income for the year 2006 and 2005.

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

	2006	2005
U.S. statutory rate	34.0%	34.0%
Foreign income not recognized in the U.S.	(34.0%)	(34.0%)
China preferential income tax rate	15.0%	15.0%
Tax holiday	-	(15.0%)
Effective tax rate	15.0%	-

No significant deferred tax liabilities or assets existed as of either December 31, 2006 or 2005.

17. EARNINGS PER SHARE

Basic earnings per share (EPS) for the years ended December 31, 2006 and 2005 were determined by dividing net income for the years by the weighted average number of common shares outstanding. The weighted average number of common shares outstanding was adjusted to account for the effects of the share exchange transaction as a reverse acquisition as more fully described in Note 1.

The Company has retroactively adjusted the weighted average number of common shares outstanding by deeming that the one-for-five (1:5) reverse stock split during the year had occurred as of the beginning of the earliest period presented.

The reconciliations of the denominators of the basic and diluted EPS computations are as follows:

	December 31, 2006	December 31, 2005
Denominator for Basic EPS	28,227,250	28,227,250
Weighted average effect on denominator for Basic EPS	28,227,250	28,227,250

18. RELATED PARTY TRANSACTIONS(a) Related party receivables and payables

Amounts receivable from a related party and directors as of December 31, are summarized as follows:

	2006	2005
<b>Loan to a related party</b>		
Shaanxi Hanzhong New Century Real Estate Company Limited (see Note 9)		
Principal	\$ 384,300	\$ 372,000
Interest receivable	27,670	-
	411,970	372,000
<b>Amounts due from directors</b>		
Mr. Baowen Ren, also a shareholder of the Company	\$ 144,698	\$ 119,397
Mr. Peng Zhou, also a shareholder of the Company and Suoang New Energy	61,488	-
	206,186	119,397
<b>Amount due to a director</b>		
Mr. Peng Zhou, also a shareholder of the Company and Suoang New Energy	20,702	-

Balance with Shaanxi Hanzhong New Century Real Estate Company Limited represented an interest bearing loan which was fully described in Note 9.

Balances with Mr. Baowen Ren and Mr. Peng Zhou represent cash advances by the Company. These balances are interest free and unsecured and have no fixed repayment dates. It is expected that the balances will be received or repaid within one year.

(b) Guarantee given by a shareholder

A majority shareholder of the Company, Shaanxi Hanzhong Blue Tide Costumes Group Corporation Limited, has guaranteed the repayment of the long-term interest bearing loan advanced to a related company, Shaanxi Hanzhong New Century Real Estate Company Limited, controlled by Mr. Yang Feng as more fully described in Note 9 and above.

(c) Sale of Shaanxi Suoke

During the year, Shaanxi Suo'ang disposed of its 55% equity interest in Shaanxi Suoke to one of the shareholders of Shaanxi Suoke and who is also the present minority shareholder of Suoang New Energy, Mr. Peng Zhou, at its carrying cost of \$335,500 as more fully described in Note 8.

(d) Disposal of Patent

During the year, Shaanxi Suo'ang disposed its patent to a related company, HanZhongWeiDa Commercial Company Limited which is controlled by Leping Yao, a shareholder of Shaanxi Suoang at the consideration of \$256,200 as more fully described in Note 11.



18. RELATED PARTY TRANSACTIONS (CONT'D)(e) 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 the leasehold properties together with the leasehold improvement at the cash consideration of approximately \$2,450,000. The title of the property will only be transferred until payment of 95% consideration as more described in Note 15.

19. COMMITMENTS AND CONTINGENCIES(a) Capital expenditure commitments

During the fiscal year 2006, 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 December 31, 2006 are as follows:

<u>Contracted but not accrued for:</u>		
Construction of factory buildings	\$	210,787
Purchase of machinery		620,862
<b>Total</b>	<b>\$</b>	<b>831,649</b>

(b) Operating lease commitments

As of December 31, 2006, 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:

<u>Years ending December 31,</u>		
2007	\$	4,851
2008		4,851
2009		4,043
2010 and thereafter		-
<b>Total Operating Lease Commitments</b>		<b>13,745</b>

(c) Ownership Certificate of the leased property

According to relevant PRC laws and regulations, a land use right certificate, along with government approvals for land planning, project planning, and construction need to be obtained before construction of building is commenced. An ownership certificate shall be granted by the government upon application under the condition that the aforementioned certificate and government approvals are obtained.

The Company has not yet obtained the ownership certificate. However, the developer of the leasehold property held for re-sale has applied to obtain the ownership certificate for approval. Moreover, the developer of the leasehold property held for re-sale had already obtained approvals for land planning, project planning, and construction.



19. COMMITMENTS AND CONTINGENCIES (CONT'D)

(c) Ownership Certificate of the leased property (cont'd)

Management believes, under the condition that the developer is granted a land use right certificate and related approvals, there should be no legal barriers for the Company to obtain an ownership certificate for the leasehold property held for re-sale. However, in the event that the Company fails to obtain the ownership certificate for the leasehold property held for re-sale, there is the risk that the buildings may need to be vacated as illegitimate ownership. However, management believes that this possibility while present is very remote. As a result, no provision has been made in the financial statements for this potential occurrence.

(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.

20. SUBSEQUENT EVENTS

After the balance sheet date, the Company ceased its COPO resin operation and is principally engaged in research, development, production, marketing and sales of its coal water mixture ("CWM") product. The CWM business is expected to be 100% carried out by Shaanxi Suo'ang's 80% owned subsidiary, Suo'ang New Energy.

The Company disposed all its plant and machinery in relation to its COPO resin operation with the carrying amount of approximately \$263,000 at the consideration of approximately \$90,000. The disposal loss of those plant and machinery has been reflected as an impairment loss in current year.

21. RECLASSIFICATIONS

Certain amounts included in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation. Such reclassifications did not have any effect on reported net income.

**ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**  
**8.**

As described in full detail in our Current Report on Form 8-K filed on November 17, 2006, which is incorporated herein by reference, on November 9, 2006, the Company's Board of Directors elected to dismiss LBB & Associates Ltd., LLP as the Company's independent registered public accounting firm ("Independent Accountant") and also elected to retain Schwartz Levitsky Feldman LLP, Chartered Accountants, as its new Independent Accountant.

**ITEM 8A. CONTROLS AND PROCEDURE**

- (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 Director of Finance, 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.

**ITEM 8B. OTHER INFORMATION**

As discussed more fully above under Item 1. ("Description of Business"), the Company decided to cease operations of its COPO resin products business and focus on the Company's CWM Fuel product business. Thus, in December 2006, the Company's patented technology owned through Shaanxi Suoang in connection with the COPO resin products was sold to HanZhongWeiDa Commercial Company Limited ("HanZhongWeiDa"), a related company controlled by Leping Yao, a shareholder of Shaanxi Suoang, for consideration of \$256,200. Further, and in January 2007, we ceased operations at our COPO resin product manufacturing plant and we sold our COPO resin products' manufacturing plant machinery to HanZhongWeiDa Commercial Company Limited for consideration of \$89,670. The Company obtained an independent appraisal report prior to the sale of the patent and the COPO plant machinery and the appraised value for the patent was approximately RMB2,000,000 (approximately \$259,538) and the appraised value of the COPO plant machinery was approximately RMB700,000 (approximately \$90,838). The Company then sought out buyers who would be interested in purchasing these assets for the highest purchase price and also considered the recoverability of proceeds from the sale of these assets. Of the companies that made an offer for these assets, HanZhongWeiDa offered the highest price and thus the Company sold these assets to HanZhongWeiDa. The Company incurred a loss on the disposal of the patented technology of \$291,266 and incurred an impairment loss of \$170,166 in connection with the disposal of the COPO resin product plant machinery.

**PART III**

**ITEM 9. DIRECTORS, EXECUTIVE OFFICERS OF REGISTRANT**

## **DIRECTORS AND EXECUTIVE OFFICERS**

### **Current Executive Officers and Directors**

The following tables set forth information regarding the Company's current executive officers and directors of the Company. The Board of Directors is comprised of only one class. Except as otherwise described below, all of the directors will serve until the next annual meeting of stockholders or until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. Also provided herein are brief descriptions of the business experience of each director and executive officer during the past five years and an indication of directorships held by each director in other companies subject to the reporting requirements under the federal securities laws.



Name	Age	Positions
Baowen Ren	37	CEO, President and Chairman of the Board
Wenjie Zhang	34	Director
Peng Zhou	38	Director
Caixia Peng	28	Chief Financial Officer and Treasurer

**Baowen Ren**, 37, is the Director of Hangson Limited and has been Chairman of the Board of Shaanxi Suo'ang Biological Science & Technology, Co., Ltd. ("Shaanxi Suo'ang"), Hangson's Chinese operational variable interest business entity, since January 2003. Mr. Ren is a senior economic engineer who graduated from the Business Management Department of Hanzhong Normal University in 1992. He had been the president of Shaanxi Lanchao Group Clothe Group Co. Ltd. from January 2001 to December 2002 and had been conferred honorable titles of "Pacemaker in the New Long March", "Shaanxi Outstanding Young Entrepreneur", "Shaanxi Top 100 Entrepreneur", and "National Model Township Entrepreneur of Ministry of Agriculture". Under his leadership, Shaanxi Suo'ang has convened a batch of excellent management personnel for products technology development, market strategy and sales, and capital operations for the expansion and development of Shaanxi Suoang's business.

**Peng Zhou**, 38, is the General Manager of Shaanxi Suo'ang, Hangson's Chinese operational variable interest business entity. Mr. Zhou is an accountant who graduated from the Statistics Department of Shaanxi Institute of Finance in 1992. Mr. Zhou started at Shaanxi Suo'ang as a Project Manager in May 2002 and was promoted to his current position as General Manager in May 2005. Mr. Zhou has also been engaged in industries such as finance, media, foreign trade, real estate and had held the posts of manager of credit department, editor, financial supervisor, and deputy manager. From June 1997 until March 2002, Mr. Zhou was the Vice President of Hanzhong Ruisen Real Estate Company. Mr. Zhou was also in charge of compiling and reporting work for a number of projects such as Industrial Park Project of 3,000-thousand Sets of Clothes, New Construction Material Project-Shale Brick Manufacturing Demonstration Base with Annual Output of 6000-Thousand Pieces, and Erlang Dam Downstream Hydropower Station Cascade Development Project.

**Wenjie Zhang**, 34, has been the General Manager of Hanzhong Minsheng Guomao Department Store since January 2004. Mr. Zhang graduated with a degree in administration from the Xi'an Science Institution in 1995. From January 2001 until December 2003, Mr. Zhang was the Sales Manager at Shaanxi Jingyi Wood Group Company.

**Caixia Peng**, 28, is the Finance Director of Shaanxi Suo'ang, Hangson's Chinese operational variable interest business entity. Ms. Peng started as Shaanxi Suo'ang's Finance Manager in April 2005 and has been Shaanxi Suo'ang's Finance Director since February 2006. Ms. Peng is an accountant who graduated from the Xi'an Finance & Economy Institution in 1992. From July 2003 until March 2005, Ms. Peng was the Finance Manager at Yangling Bodisen Co., Ltd. Prior to that, from July 2001 until June 2003, Ms. Peng was the Finance Director at Yangling Tianwei Pharmaceutical Co., Ltd.

#### **Audit, Nominating and Compensation Committees**

Due to our lack of operations and size, we have not designated an Audit Committee. Furthermore, we are currently quoted on the OTC Bulletin Board, which is sponsored by the NASD, under the symbol "CWCE" and the OTCBB does not have any listing requirements mandating the establishment of any particular committees. Our board of directors acts as our Audit Committee and performs equivalent functions, such as: recommending a firm of independent certified public accountants to audit the annual financial statements; reviewing the independent auditors independence, the financial statements and their audit report; and reviewing management's administration of the system of internal accounting controls. For these same reasons, we did not have any other committees during fiscal 2005.

Our Board believes that, considering our size and the members of our Board, decisions relating to director nominations can be made on a case-by-case basis by all members of the board without the formality of a nominating committee or a nominating committee charter. To date, we have not engaged third parties to identify or evaluate or assist in identifying potential nominees, although we reserve the right in the future to retain a third party search firm, if necessary.

The Board does not have an express policy with regard to the consideration of any director candidates recommended by shareholders since the Board believes that it can adequately evaluate any such nominees on a case-by-case basis. The Board will evaluate shareholder-recommended candidates under the same criteria as internally generated candidates. Although the Board does not currently have any formal minimum criteria for nominees, substantial relevant business and industry experience would generally be considered important, as would the ability to attend and prepare for board, committee and shareholder meetings. Any candidate must state in advance his or her willingness and interest in serving on the board of directors.

We have not received any recommendations for a director nominee from any shareholder.

### Code of Ethics

For the year ended December 31, 2006, we did not have formal written code of ethics applicable to our principal executive officer and principal financial officer, because the board of directors has not determined it to be immediately necessary from a management perspective to adopt a formal code at this time. However, we plan to adopt and approve a formal written code of ethics in the near future.

### Family Relationships

There are no family relationships between or among any of the current directors, executive officers or persons nominated or charged by the Company to become directors or executive officers.

### Involvement in Certain Legal Proceedings

There are no orders, judgments, or decrees of any governmental agency or administrator, or of any court of competent jurisdiction, revoking or suspending for cause any license, permit or other authority to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining any of our officers or directors from engaging in or continuing any conduct, practice or employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanor involving a security, or any aspect of the securities business or of theft or of any felony. Nor are any of the officers or directors of any corporation or entity affiliated with us so enjoined.

### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors, and persons who own more than ten percent (10%) of our common stock to file reports of ownership and change in ownership with the Securities and Exchange Commission and the exchange on which the common stock is listed for trading. Executive officers, directors and more than ten percent (10%) stockholders are required by regulations promulgated under the Exchange Act to furnish us with copies of all Section 16(a) reports filed. To the Company's knowledge, based solely on review of the copies of such reports furnished to the Company and written representation that no other reports were required, all of the Company's other officers, directors and greater than ten percent (10%) shareholders complied with all applicable Section 16(a) filing requirements.

## ITEM 10. EXECUTIVE COMPENSATION

### SUMMARY OF EXECUTIVE COMPENSATION

None of current executive officers received compensation in excess of \$100,000 for the fiscal years ended December 31, 2006 or 2005, respectively. The following table summarizes all compensation received by our previous Chief Executive Officer, President and Chief Financial Officer in fiscal years 2006 and 2005.

SUMMARY COMPENSATION TABLE									
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
	2006	4,560	0	0	0	0	0	0	4,560

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Baowen Ren, Chief Executive Officers (1)	2005	4,556	0	0	0	0	0	0	4,556
Caixia Peng, Chief Financial Officer(2)	2006	2,430	0	0	0	0	0	0	2,430
	2005	2,130	0	0	0	0	0	0	2,130
Peter B. Day, Former CEO and CFO (3)	2006	\$105,500	0	0	0	0	0	0	105,500
	2005	\$103,200	0	0	0	0	0	0	103,200

- (1) Salary paid to Mr. Ren is expressed in U.S. Dollars based on the interbank exchange rate of RMB 7.90 for each 1.00 U.S. Dollar, on October 20, 2006.
- (2) Salary paid to Ms. Peng is expressed in U.S. Dollars based on the interbank exchange rate of RMB 7.90 for each 1.00 U.S. Dollar, on October 20, 2006.
- (3) As of September 30, 2006, Mr. Day was the Chief Executive Officer, President, and Chief Financial Officer of the Company. Mr. Day had not received any payment for his position and as a result his salary was accrued as an expense. This liability was purchased from the Company by Mr. Day together with the assets of Endo Canada pursuant to the June 26, 2006 Asset and Share Purchase Agreement. Mr. Day resigned as the Company's Chief Executive Officer, President, and Chief Financial Officer on October 20, 2006 in connection with the Share Exchange transaction described above under the section titled "Item 1. Description of Business".

### **Narrative Disclosure To Summary Compensation Table And Grants Of Plan-Based Awards**

We currently do not have any employment agreements with our executive officers.

### **STOCK EXERCISES**

For the fiscal years ended December 31, 2006 and 2005, the Company had no unexercised stock options or stock awards that had not vested because the Company had not issued any options or Stock Appreciation Rights ("SARs") to any officers, employees or directors during the last two fiscal years. During the fiscal year ended 2004, the Company issued options for the purchase a total of 634,000 shares of the Company's common stock to consultants of the Company. All of these options expired as of September 30, 2006.

### **POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL**

SEC regulations state that we must disclose information regarding agreements, plans or arrangements that provide for payments or benefits to our executive officers in connection with any termination of employment or change in control of the Company. We currently have no employment agreements with any of our executive officers, nor any compensatory plans or arrangements resulting from the resignation, retirement or any other termination of any of our executive officers, from a change-in-control, or from a change in any executive officer's responsibilities following a change-in-control. As a result, we have omitted this table.

### **DIRECTOR COMPENSATION**

We currently we do not have any compensation agreements with the members of our Board of Directors for their service on the Board, and we did not provide any director compensation to members of our Board during the last fiscal year.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth information regarding the beneficial ownership of our common stock as of April 16, 2007, for each of the following persons:

- each of our directors and named executive officers;
- all directors and named executive officers as a group; and
- each person who is known by us to own beneficially five percent or more of our common stock.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated in the table, the persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite the stockholder's name. Unless otherwise indicated, the address of each beneficial owner listed below is Room 2205, Suite A, Zhengxin Bldg., No.5, Gaoxin 1st Road, Gao Xin District, Xi'an, Shaanxi Province, People's Republic of China. The percentage of class beneficially owned set forth below is based on 28,227,250 shares of common stock outstanding on April 16, 2007.

	Number of Shares beneficially owned	Percentage of class beneficially owned (1)
<b>Named executive officers and directors:</b>		
Baowen Ren, CEO, President, and Chairman	9,597,232	34.00%
Wenjie Zhang, Director	1,269,234	4.50%
Peng Zhou, Director	0	0.0%
Caixia Peng, CFO and Treasurer	0	0.0%
All directors and executive officers as a group (4 persons)	10,866,466	38.5%

\* less than 1%

(1) Based on 28,227,250 shares outstanding.

**Securities Authorized for Issuance under Equity Compensation Plan**

We currently do not have any effective equity compensation plans.

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

## HANGSON'S CONTRACTUAL ARRANGEMENTS WITH SHAANXI SUOANG AND ITS SHAREHOLDERS

PRC law currently limits foreign equity ownership of Chinese companies. To comply with these foreign ownership restrictions, we operate our business in China through a series of contractual arrangements with Shaanxi Suoang and its majority shareholders that were executed on August 18, 2006. For a description of these contractual arrangements, please see the section under Item 1 above titled "Contractual Arrangements with Shaanxi Suoang and Its Shareholders."

### RELATED PARTY TRANSACTIONS

Set forth below are the Company's related party transactions and the related party transactions between Shaanxi Suoang's shareholders, officers and/or directors, and Shaanxi Suoang, with whom Hangson has contractual arrangements which give Hangson the ability to substantially influence Shaanxi Suoang's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval.

#### (a) *Related party receivables and payables*

Amounts receivable from a related party, and due from or due to directors as of December 31 of each year are summarized as follows:

	2006	2005
Loan to a related party		
Shaanxi Hanzhong New Century Real Estate Company Limited		
(1)	\$ 411,970	\$ 372,000
Amounts due from directors		
Mr. Baowen Ren, also a shareholder of the Company (2)	\$ 144,698	\$ 119,397
Mr, Peng Zhou, also a shareholder of the Company (2)	\$ 61,488	\$ -
Amount due to a director		
Mr, Peng Zhou, also a shareholder of the Company and Suoang	\$ 20,702	\$ -
New Energy (2)		

(1) Balance with Shaanxi Hanzhong New Century Real Estate Company Limited represents a long-term interest bearing loan of \$384,300 paid and interest receivable of \$57,670 to a company, Shaanxi Hanzhong New Century Real Estate Company Limited is controlled by the shareholder, Mr. Yang Feng. The loan is for a term of five years from November 5, 2002 to November 5, 2007 and bears interest at 7.2% per annum. A majority shareholder of the Shaanxi Suoang, Shaanxi Hanzhong Blue Tide Costumes Group Corporation Limited, guarantees the repayment of this loan. According to a supplement agreement signed between both parties and witnessed by a PRC lawyer, the loan is repayable in one lump sum in May 2007.

(2) The balances with Mr. Baowen Ren and Mr. Peng Zhou represent cash advances by the Company. This balance is interest free and unsecured and has no fixed repayment date. It is expected that the balance will be received or repaid within one year.

#### (b) *Guarantee given by a shareholder*

A majority shareholder of the Shaanxi Suoang, Shaanxi Hanzhong Blue Tide Costumes Group Corporation Limited, guarantees the repayment of a long-term interest bearing loan advanced to a company, Shaanxi Hanzhong New Century Real Estate Company Limited, controlled by Mr. Yang Feng.





**(c) Sale of Shaanxi Suoke**

During the year, Shaanxi Suoang disposed its 55% equity interest in Shaanxi Suoke to Mr. Peng Zhou, director and shareholder of the Company and also minority shareholder of Suoang New Energy at its carrying cost of \$335,500.

**(d) Disposal of Patent**

In December 2006, Shaanxi Suoang sold its patent to HanZhongWeiDa Commercial Company Limited, a company controlled by Leping Yao, a shareholder of Shaanxi Suoang, at the consideration of \$256,200.

**(e) Transfer of property**

On June 13, 2006, Shaanxi Suoang entered into a property transfer agreement with Hanzhong Sixiong Kechuang Commercial Company Limited, a company controlled by Mr. Yanjun Zhao, a Company shareholder to dispose of the Company's leasehold property in Hangzhong City, China together with the leasehold improvement therein in exchange for cash consideration of approximately \$2,450,000. The title of the property will not be transferred until the Company receives payment of 95% of the cash consideration.

**OTHER RELATED PARTY TRANSACTIONS**

Per the terms of a verbal agreement the Company paid its former President Mr. Day approximately \$8,600 per month in consulting fees. The Company accrued consulting fees due to Mr. Day in the amount of \$251,120 at September 30, 2005. These amounts were recorded under "Accrued expenses - related parties" in the financial statements and was purchased by Mr. Day together with assets according to the Purchase Agreement he signed with the company on June 26, 2006.

The Company also paid for Mr. Day's home office rent. For the year ended December 31, 2005, the total rent paid by the Company for the President's home office was \$17,900.

On September 30, 2006, Peter Day, the Company's former CEO, President, CFO and sole director, purchased all of our assets and shares in Endo Networks, Inc., a corporation incorporated under the laws of Canada from us pursuant to that certain Asset and Share Purchase Agreement dated as of June 26, 2006. As consideration for all of the assets, which currently total \$553,015, and all of the shares of Endo Canada, Mr. Day assumed all of our liabilities prior to the Share Exchange, which currently total \$919,389 (such number includes our assets of \$553,015 and our excess liabilities of \$366,374), except for certain excluded liabilities.

**DIRECTOR INDEPENDENCE**

The Company does not have a separately designated audit, compensation or nominating committee of our Board, as it is not required to, and the functions customarily delegated to these committees are performed by the full Board. We have determined, however, that none of our directors is "independent" as that term is defined in Section 4200 of the NASD Marketplace Rule.

**ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K**

**(a) Exhibits to the Form 10-KSB:**

**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.

3.2 Bylaws of Endo Networks, Inc.

- 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 \*
- 10.3 Machineries Transfer Agreement between Shaanxi Suo'ang Biological Science & Technology Co., Ltd. and HanZhongWeiDa Commercial Company Limited dated January 10, 2007 \*
- 17.1 Letter of Resignation by Mr. Peter B. Day to the Board of Directors of Endo Networks, Inc.(3)
- 21 List of Subsidiaries \*
- 31.1 Section 302 Certification by the Corporation's Chief Executive Officer \*
- 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. ("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 \*

\* Filed herewith.

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- (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.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

AUDIT FEES

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The aggregate fees billed by Lopez, Blevins, Bork & Associates, LLP for professional services rendered for the review of the Company's unaudited financial statements through the quarter ended June 30, 2006 and the audit of the Company's annual financial statements for the year ended September 30, 2005 or services that are normally provided by the accountant in connection with statutory and regulatory filing or engagements for those periods/years was \$17,100.

The aggregate fees billed by GC Alliance Limited for professional services rendered for the audit of the Company in connection with the Share Exchange Transaction was \$105,000.

The aggregate fees billed by the newly appointed auditor, Schwartz Levitsky Feldman LLP, was \$110,000 for professional services rendered for the audit of the Company's annual consolidated financial statements for the fiscal year ended December 31, 2006.

#### AUDIT RELATED FEES

There were no fees billed for services reasonably related to the performance of the audit or review of the financial statements outside of those fees disclosed above under "Audit Fees" for the year ended December 31, 2006.

#### TAX FEES

For the years ended December 31, 2006 and December 31, 2006, there were no fees billed for services for tax compliance, tax advice and tax planning work to the Company.

#### ALL OTHER FEES

There were no fee billed by LBB or SLF during the last two fiscal years for products and services provided by LBB or SLF.

#### PRE-APPROVAL POLICIES AND PROCEDURES

Prior to engaging its accountants to perform particular services, our board of directors obtains an estimate for the service to be performed. All of the services described above were approved by the board of directors in accordance with its procedure.

**[SIGNATURES PAGE FOLLOWS]**

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 3, 2007

**CHINA WEST COAL ENERGY INC.**  
(Registrant)

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

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Baowen Ren and Caixia Peng, and each of them, jointly and severally, his attorneys in fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-KSB, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Baowen Ren Baowen Ren	Chief Executive Officer, President and Chairman of the Board	May 3, 2007
/s/ Caixia Peng Caixia Peng	Chief Financial Officer and Treasurer	May 3, 2007
/s/ Wenjie Zhang Wenjie Zhang	Director	May 3, 2007
/s/ Peng Zhou Peng Zhou	Director	May 3, 2007