Initial Coverage

Rating: Strong Buy
Risk Rating: High
Market Cap Sector: Microcap

Current Price: $ 1.25
12-Month Target/Gain: $ 2.50 / 100 %

China Clean Energy Inc. (OTC BB: CCGY)

Industry: Chemicals / Renewable Fuels **Sector: Biodiesel**

July 19, 2007

52-Week Range		$ 1.10-$ 3.10
50-/200-Day Average Daily Volume		30,400 / 35,600
Indicated Annual Dividend		nil
Dividend Yield		nil
Market Cap (millions)		$ 26.9
Shares Out. (millions)	**Basic:**	21.5
	Diluted:	21.5
Float		28%
Insider Ownership		72%
Institutional Ownership		0%
Book Value/Share (Fully Diluted)		$ 0.52
Cash/Share (Fully Diluted)		$ 0.04
Long-Term Debt/Equity		3.3 %

Most Recent 12 Months

Price/Sales	1.8 X
Price/Operating EBITDA	11.5 X
Price/Reported Earnings (F. D.)	17.9 X

Reported EPS (Fully-Taxed, Fully-Diluted)

FY 2005	$0.08
FY 2006	$0.07

Current P/E (Fully-Taxed, Cont. Oper.)

Past 12 Months	12.9 X

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Based in the People's Republic of China, China Clean Energy produces specialty chemicals used in the manufacture of inks and adhesives. In 2005 the company adapted its production processes to produce biodiesel, which has become the company's primary focus for growth. CCGY plans to take advantage of its low-cost feedstock (primarily waste cooking oils) and efficient manufacturing to increase biodiesel production to 53 million gallons per year by 2009.

- **CCGY is the only US-listed company whose primary focus is producing biodiesel in China.** Many large Chinese and foreign-based companies are investing in alternative energy in China, including biodiesel. However, these biodiesel operations are modest compared to these larger companies' overall operations. CCGY is the only US-listed pure play on the growth of the biodiesel sector in China.
- **Among all "alternative" fuels, we believe biodiesel is one of the most likely to achieve significant success in China in the near term.** Compared to other non-petroleum-based vehicle fuels, biodiesel has two main advantages: 1) it can be safely distributed and stored using current infrastructure, and 2) existing diesel engines do not have to be modified to utilize biodiesel (typically as an additive to petroleum-based diesel fuel).
- **Demand for diesel fuel in China is likely to remain strong.** Diesel fuel consumption in China is approximately double the level of gasoline consumption. Rising numbers of automobiles (especially taxis), buses and agricultural and commercial vehicles in China, many of which have diesel engines offering better fuel economy and lower maintenance costs than gasoline-powered engines, will cause demand for diesel (and biodiesel) fuel to continue to exceed supply. Biodiesel is freely interchangeable with petroleum-based diesel in most applications; we expect biodiesel's fortunes will reflect continued strong demand for diesel fuel in China.
- **The Chinese government is committed to promotion of "alternative" energy technologies during the current Five Year Plan (2006—2010).** China's economic growth has strained the country's energy infrastructure, as well as creating significant pollution problems. The current Five Year Plan encourages use of non-petroleum-based fuels (including biodiesel) to achieve greater energy independence and security, lower toxic vehicle emissions and new markets for the Chinese agricultural sector's crops.
- **Increasing consumer awareness of the environmental cost of China's strong economic growth will boost demand for cleaner burning fuels, including biodiesel.** Consumer protests over environmental issues are a relatively new phenomenon in China. The increase in such protests has made it clear that many Chinese citizens are not happy with economic growth at any price. We expect the demand for more environmentally-friendly vehicles (and fuels) will rise as a result.
- **We estimate CCGY's chemical business alone is worth more than the company's current market value; over the next three years expanding biodiesel operations could substantially increase that value.** On a peer group comparison basis, we believe CCGY is worth approximately $2.37 per share (excluding biodiesel operations). As the company's biodiesel capacity and production are increased to eleven times current levels through 2009, we believe there is substantial upside potential for the company and its shareholders.

CORPORATE PROFILE

China Clean Energy has two primary lines of business: specialty chemicals refining (75 percent of revenues in FY06) and biodiesel production (25 percent of revenues). All of the company's operations are carried out through wholly-owned subsidiary Fujian Zhongde Technology (based in Fuqing, Fujian province, People's Republic of China). Domestic sales account for approximately 60 percent of total sales with 40 percent of sales coming from exports, including Asia, the Middle East and the US. Fujian Zhongde Technology has a 311,000 square foot production facility with annual production capacity of 10,000 tons (3 million gallons) of biodiesel and 18,000 tons of specialty chemicals. Biodiesel production capacity will be increased eleven fold when production facility currently under construction are completed in late 2008. CCGY has approximately 130 employees.

China Clean Energy Inc.
Summary Of Revenue, Income And Margins

	FY05	FY06	Q107
Revenue (US$ 000)	10,084	13,499	4,138
Gross Profit (US$ 000)	2,814	3,800	1,149
% Of Revenue	28%	28%	28%
EBITDA (US$ 000)	2,151	2,394	600
% Of Revenue	21%	18%	14%
Pretax Operating Income (US$ 000)	1,990	2,073	508
% Of Revenue	20%	15%	12%
Reported Net Income (US$ 000)	1,310	1,270	508
% Of Revenue	13%	9%	12%
Earnings Per Share (Fully-Diluted)			
Reported	$0.08	$0.07	$0.02
Shares Outstanding (Fully-Diluted) (000)	15,995	17,017	21,512
Key Financial Ratios And Measures			
Working Capital (US$ 000)	3,446	3,414	2,545
Current Assets/Current Liabilities	2.3	2.9	2.4
Long-Term Debt/Equity	0.0	0.0	0.0
Return On Equity *	16%	12%	18%
Return On Assets *	12%	10%	15%
Times Interest Earned (X) *	20.5	14.3	19.5

Capital Structure

Long-Term Debt (US$ 000)	0.0	0.0	372
Preferred Stock (US$ 000)	0.0	0.0	0.0
Common Equity (US$ 000)	8,251	10,632	11,141
Total Capital (US$ 000)	8,251	10,632	11,513
Long-Term Debt / Total Capital	0.0	0.0	0.0
Total Assets (US$ 000)	10,833	12,426	13,299

Source: Westminster Securities Corporation, CCGY SEC Filings Fiscal Yearend = December 31
* Annualized

INVESTMENT RATIONALE

We believe CCGY is a unique chance for investors to profit from a number of important, sustainable trends in China, including continued strong economic growth, improving demographics (and buying power) across all strata of society, increasing private, commercial and government vehicle ownership, the need to limit the pollution-related consequences of economic growth and the need to limit reliance on non-domestic energy resources. As a low-cost producer of biodiesel, we believe CCGY is likely to be a long-term winner in the national effort to provide China with safe, reliable, renewable alternatives to petroleum-based fuels.

Key Points

- **CCGY's Current Biodiesel Plant Is Running At Full Capacity.** The company's planned investment in substantial additional biodiesel production capacity reflects management's expectation demand for diesel fuel will continue to outstrip supply for the foreseeable future.

- **CCGY Is Focused On Its Plan To Expand Existing Operations In Biodiesel Production.** Although the company's mature chemicals business is currently accounting for three-quarters of company revenues and earnings, we expect it will become increasingly apparent by late 2007 that the transformation of CCGY into a significant producer of biodiesel will be well under way.

- **The Chinese Government Is Encouraging Investment In "Alternative" Fuels To Reduce The Country's Reliance On Non-Domestic Fuel Sources.** Although China has significant domestic oil and gas reserves, the country has been rapidly increasing its importation of crude oil and natural gas since the early 1990s. Sourcing more energy from domestic sources is clearly a national priority—increased production of biodiesel contributes to the achievement of this goal

- **Because CCGY Can Produce Biodiesel From A Variety Of Low-Cost Waste Vegetable-Based Oils, Its Biodiesel Is Price Competitive With Petroleum-Based Diesel Fuel.** Although CCGY would clearly benefit from any government incentives for biodiesel (e.g. quotas, subsidies), the company's product is competitive with traditional diesel even without any incentives

- **Existing Diesel Engines Can Use Biodiesel Without Modification Or Adverse Effects.** When Rudolf Diesel invented the diesel engine in Germany in 1892, his engine could use a variety of fuels, including peanut oil. Due to its lower cost, crude oil-based diesel fuel eventually became the standard diesel fuel type. Although biodiesel typically has slightly lower energy content than its petroleum-based counterpart, in most applications, petroleum-based diesel and biodiesel are interchangeable. CCGY's biodiesel can be safely used in almost any diesel engine.

- **Pollution-Causing Emissions From Biodiesel Are Lower Than For Petroleum-Based Diesel Fuel.** China's economic growth over the past couple of decades has resulted in dramatically increased use of internal combustion engines. Since 1980 automobile use alone has risen 12 percent annually; diesel fuel use has increased approximately eight percent annually over the same period. The result has been widespread air pollution, particularly in larger cities. By most measures, biodiesel produces lower pollution-causing emissions than traditional diesel fuel.

- **Biodiesel Can Be Distributed, Stored and Dispensed Using the Existing Diesel Fuel Distribution Infrastructure.** Although biodiesel is generally included among "alternative" fuels, unlike most such fuels, which require special handling, biodiesel can be distributed using the same pipelines, railcars, tanker trucks and filling stations already in place for traditional diesel.

- **Attractive Share Valuation.** In our view, CCGY's current market value does not fully reflect the value of the company's specialty chemicals business, much less the potential for sustained, significant revenue and earnings growth through at least 2009 as the company increases its total biodiesel production capacity from the current 10,000 tons (approximately three million gallons) per year to 175,000 tons (52.8 million gallons) per year.

CORPORATE STRUCTURE

CCGY is a Delaware-based corporation with all operations conducted through wholly-owned Fujian Zhongde Technology Company, Limited ("Fujian"), which is based in the city of Fuqing in the southeastern Chinese province of Fujian.

PRODUCTS AND SERVICES

CCGY is engaged in the manufacturing of two product lines: specialty chemicals and biodiesel.

Specialty Chemicals

CCGY's chemical refining business is the company's most mature operating segment, focusing on the production of various specialty chemicals (e.g. acids, resins) that are used by CCGY's customers to manufacture a variety of adhesives and inks. This segment currently accounts for 75 percent of CCGY's revenues.

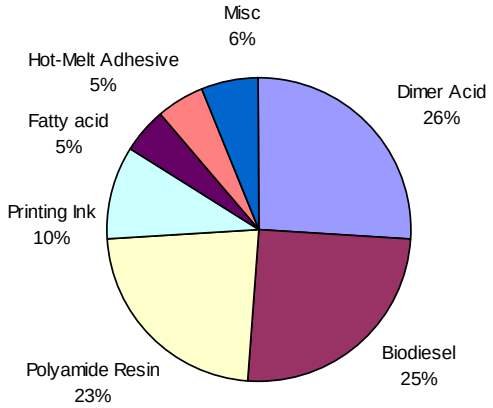
Biodiesel Production

Initially begun as an offshoot of the company's chemical refining business, CCGY started producing biodiesel from used vegetable-based cooking oil, as well as cottonseed and rapeseed leavings (waste from the production of oils from these seeds) in December 2005. Blended with petroleum-based diesel fuel (typically at a ratio of approximately 1 part biodiesel to 20 parts petroleum-based diesel), CCGY's biodiesel can be used in any diesel-fueled vehicle without any significant engine or other vehicle modifications.

CCGY currently has the capacity to produce three million gallons of biodiesel annually. During the second half of FY07 the company plans to build a new biodiesel production facility with the capacity to produce an additional 30 million gallons of biodiesel per year.

Chart 1 below provides a detailed breakdown for CCGY's FY06 revenues:

Chart 1 - China Clean Energy Inc.
Revenue Breakdown By Product (FY06)



Source: CCGY SEC filings

BIODIESEL AS AN ALTERNATIVE TO PETROLEUM-BASED DIESEL FUEL

Biodiesel can be produced using a wide variety of renewable feedstocks from agricultural sources, including new or used vegetable oils (such as corn, soybean, sunflower and palm) and animal fat-based oils and greases via a chemical process called transesterification. This process separates the combustible biodiesel from non-flammable glycerin (which is used in the manufacturing of products as diverse as soap, tar and adhesives) and other byproducts. Typically, one kilogram (2.2 lbs.) of feedstock (plus an alcohol as a catalyst) yields one kilogram of usable biodiesel fuel and approximately one-tenth that amount of glycerin.

Pure biodiesel ("B100") is occasionally used as a vehicle fuel, although it is more common that biodiesel is blended with petroleum-based diesel in ratios ranging from 80 percent diesel/20 percent biodiesel ("B20") to 98 percent diesel/2 percent biodiesel ("B2"). (B100 is common in Europe; blended ratios ranging from B2 to B20 are more common in Asia and the US.)

Biodiesel Feedstocks

There are a wide variety of feedstocks that can be used to produce biodiesel, although vegetable oils, animal fats or recycled cooking oils are most common. Regardless the specific type of feedstock used, all biodiesel has approximately the same energy content, which is approximately eight percent lower than that of petroleum-based diesel. Differences between biodiesel fuel produced from different feedstocks are apparent in other characteristics, such as pour point (an important consideration in colder climates), combustion pressure (diesel engines rely on cylinder pressure, not spark plugs, to ignite fuel), emissions levels (of nitrous oxide and other by-products of combustion) and stability (resistance to decomposition due to exposure to air).

Table 1 - China Clean Energy Inc.
Biodiesel (B100) - Typical Characteristics Based On Different Feedstocks

Type of Feedstock	CFP Point (° F)	Cetane Number	Stability	Increase in NOx
Canola Oil	24	55	High	12%
Edible Tallow	58	62	Low	2%
Yellow Grease 2	34	52	Medium	2%
CCGY's Average Feedstock Mix	32	55	High	12%

Source: U.S. Department of Energy, Westminster Securities, CCGY Management

1) Cold Filter Plug (CFP) Point is the temperature at which crystals form in the engine, resulting in startup problems.

2) Higher cetane number indicates easier engine starting and lower engine noise.

3) Increase in emissions of nitrous oxide compared to petroleum-based biodiesel.

4) Stability refers to chemical change during long-term storage, including at high pressures and elevated temperatures.

It is important to note that the above table refers to pure biodiesel (B100) produced from these different feedstocks. Different diesel/biodiesel mixture ratios also exhibit significantly different characteristics. For example, the CFP point drops significantly in a B20 mix (a common mix in China). For all the feedstocks listed in Table 1, B20's CFP point is below 5° Fahrenheit. The only pollutant that is higher with biodiesel than petroleum-based biodiesel is nitrous oxide (NOx), which is modest (12 percent) for B100 and substantially less in low biodiesel/petroleum diesel mixes (such as B2).

Virgin vegetable- and animal-based oils and greases have historically been a more expensive feedstock than crude oil, which is a reason petroleum-based diesel was the dominant diesel fuel feedstock for the past century. Prior to the significant rise in the price of crude oil over the past couple of years,

government subsidies have typically been needed in order for biodiesel to be cost-competitive with petroleum-based diesel. (Waste cooking oil and yellow grease—by-products of meat processing and cooking—are significantly cheaper than virgin vegetable oils, although most biodiesel producers have found that the additional processing these feedstocks require when being used for biodiesel production are not offset by biodiesel's premium price compared to petroleum-based biodiesel.) As crude oil's price has increased, the price differential between biodiesel produced from various feedstocks and petroleum-based diesel has shrunk, in some cases significantly.

Comparing Biodiesel And Diesel

Biodiesel has several advantages over conventional diesel. Biodiesel is produced from renewable feedstocks and is more environmentally-friendly than diesel produced from petroleum. Common agricultural feedstocks for biodiesel (e.g. corn, soybeans, canola/rapeseed) are commonly cultivated worldwide, making biodiesel production viable in many areas where traditional diesel must be transported over large distances between producer and end user. Other biodiesel feedstocks, including cooking oil and yellow grease, are also widely available and can, through the use of new technology and production techniques, create a useful fuel from by-products of the food service and animal slaughter industries that are commonly considered to be waste.

Biodiesel's advantage over petroleum-based diesel can be significant in terms of environment-friendly emissions. For example, unlike conventional diesel, biodiesel does not contain any sulfur or crude oil residues, allowing much cleaner combustion and lower emissions.

Table 2 - China Clean Enegy Inc.
Biodiesel Impact On Emissions

	Carbon Monoxide	Hydrocarbons	Particulates	Nitrous Oxide
B100	-43%	-56%	-55%	6%
B20	-13%	-11%	-18%	1%

Source: Credit Suisse Malaysia. * Compared to conventional diesel.

As Table Two illustrates, biodiesel use can reduce hydrocarbon and particulate levels—key components of smog and ground-level ozone. However, as mentioned above, biodiesel combustion does produce higher levels of nitrous oxide, a contributor to acid rain. Nonetheless, these higher nitrous oxide levels are more than offset by significantly lower emissions of carbon monoxide, various hydrocarbons and particulates (i.e. soot and ash). All things considered, biodiesel is a significantly cleaner-burning fuel than petroleum-based diesel.

Another advantage of biodiesel is its higher flashpoint. In the US, the American Society for Testing and Materials (ASTM) standard for biodiesel is a flashpoint no less than 266° Fahrenheit. (Petroleum-based diesel has a typical flashpoint ranging between 140°—176° Fahrenheit.) As a result, biodiesel that meets the ASTM standard is safer to handle and store than its petroleum-based counterpart.

Biodiesel also exhibits higher viscosity and lubricity (i.e. lubricating quality), reducing the friction between the moving parts of an engine, creating improved fuel economy and lower maintenance-related costs.

Although, biodiesel has several advantages over conventional diesel, there are some disadvantages. For example, because feedstock accounts for a substantial percentage of the overall production cost for biodiesel, using new vegetable or animal oils as a feedstock results in a biodiesel whose total cost

of production is typically higher—in many cases substantially so—than the cost of petroleum-based diesel. (As mentioned previously, biodiesel produced from waste oils—CCGY's primary feedstock—reduces total production costs sufficiently to compete successfully with petroleum-based diesel.) During periods when the price of crude oil and its derivatives (such as diesel) are low, biodiesel can be at a competitive disadvantage, especially so in the absence of government incentives (such as tax credit and rebates, which are common in Europe and the US, though not in China).

In sub-freezing weather conditions biodiesel's higher viscosity can be a disadvantage due to fuel flow and engine seizing problems. For example, biodiesel produced from soybean oil can cause engine starting problems at temperatures below 30° Fahrenheit (-1° Celsius), while biodiesel produced from waste cooking oil creates similar problems when ambient temperatures drop below 10° Fahrenheit (–12° Celsius). Ambient temperatures at such levels require heating elements incorporated into engine design and/or certain chemical additives to be mixed with both biodiesel and petroleum-based diesel in order for an engine to start and operate properly.

Diesel/biodiesel fuel mixtures have two to eight percent lower energy content per unit than petroleum-based diesel. This differential results in lower fuel economy for an engine using biodiesel, which in a free market environment translates into biodiesel prices being lower than petroleum-based diesel prices, all other things being equal. This energy differential is partially offset by biodiesel's higher lubricity and more complete fuel combustion, depending on the specific ratio of a given diesel/biodiesel blend.

Although the use of biodiesel in internal combustion engines reduces the level of many pollutants (including carbon monoxide, sulfates and particulates) compared to petroleum-based diesel, biodiesel combustion produces higher levels of one significant pollutant—nitrogen oxide (NOx) , which can contribute to respiratory problems for some people. B100 produces NOx emissions approximately six percent higher than pure conventional diesel.

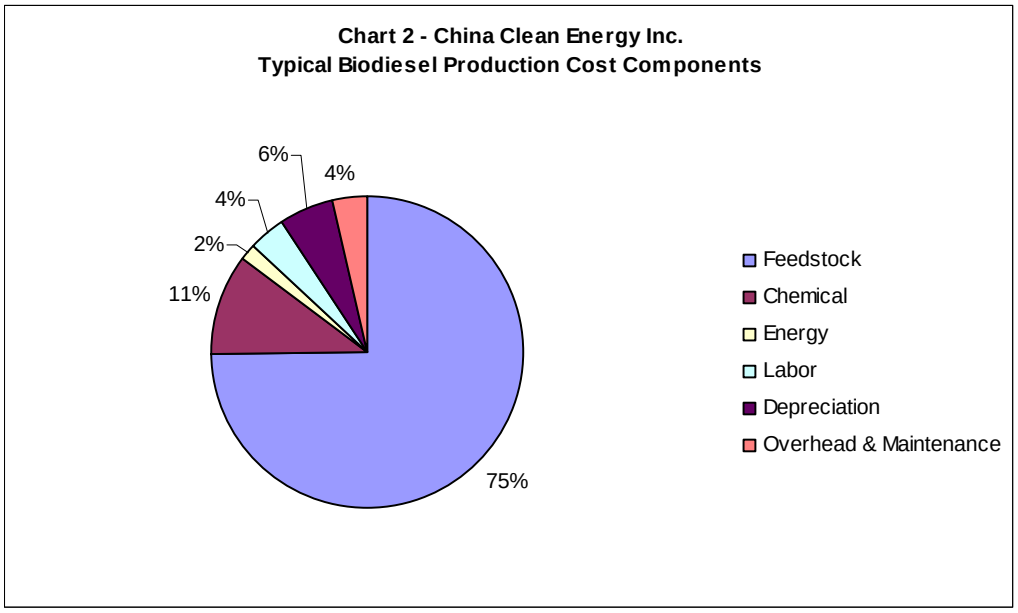
One of the other potential short-term disadvantages of biodiesel is that it has a strong solvent effect compared to conventional diesel. Using B100 or other very high biodiesel/diesel ratio mixes can temporarily lead to clogged fuel filters in older diesel engines when existing residues and sludge in the engine and fuel system are partially dissolved by biodiesel. Eventually this has the positive effect of cleaning the engine and fuel system, improving fuel efficiency; changing fuel filters and replacing older fuel hoses is usually all that is needed to overcome this "problem." (In various independent studies, only about two percent of B20-fueled engines experienced clogged filters as a result of the switch from pure diesel to the biodiesel mix.)

TYPICAL BIODIESEL PRODUCTION COST STRUCTURE

Chart Two below illustrates a typical cost structure associated with biodiesel production.

At 75 percent the cost of feedstock is the most important component of the total cost of biodiesel production. As mentioned before, feedstock prices are the single most important determinant of the economics of biodiesel production.

It is also important to note that the importance of feedstock prices varies among different types of feedstock. Generally, edible vegetable oils are more expensive then waste oil feedstock. When a more expensive feedstock (such as new edible vegetable oil) is used, the feedstock component of total production costs can be more than 80 percent.



Source: Center for Industrial Research and Service - Iowa State University Extension

GROWTH IN DEMAND FOR BIODIESEL

Global demand for biodiesel has increased dramatically over the past couple of years as the higher cost of petroleum-based diesel has made biodiesel increasingly cost competitive. Biodiesel's environmentally friendly nature, coupled with a broad increase in interest in renewable fuels among consumers, corporations and government agencies alike, has also increased interest in biodiesel as an alternative fuel (particularly in the US and Europe). In China, biodiesel's cost competitiveness, environmental advantages and the national government's emphasis on reducing reliance on foreign sources of energy has also led to significant interest in biodiesel.

We expect China will become one of the leaders in global biodiesel production for a variety of reasons, including:

Chinese producers' cost advantage—Higher prices for vegetable oil feedstocks in the US and Europe makes those biodiesel markets less competitive compared to China, where waste cooking oil is widely available and relatively inexpensive. However, as the production of and demand for biodiesel in China increase, we expect all feedstock prices will also increase—a significant potential challenge for all participants in the biodiesel industry. Some biodiesel companies (in China and

elsewhere) are addressing rising feedstock prices by experimenting with newer, cheaper feedstocks.

For example, jatropha, a wild plant common in Africa, is increasingly being considered as a potential biodiesel feedstock. Jatropha requires minimal water, can be grown on land that is unsuitable for most food crops and the plant's seeds have an extremely high oil content. In addition, jatropha is not a food crop, so an increase in its price would not have the political disadvantage of leading to higher food costs.

Demand for vehicular fuels in China will experience strong growth due to the rapidly increasing number of internal combustion vehicles operating in China—Between 2000 - 2005 the number of automobiles in China increased from less than 17 million to nearly 32 million. Almost 25 percent of these vehicles run on diesel fuel. Continued strong growth in automobile ownership, combined with increased use of diesel engines to power commercial and agricultural vehicles, as well as public transportation vehicles such as taxis and buses, is likely to create sustained strong demand for diesel, regardless whether it is of the petroleum or biodiesel variety.

Air pollution is a serious (and growing) problem in China—China is currently facing significant air, water and soil pollution problems. With rising ownership of internal combustion-driven vehicles, significant increases in coal burning for electricity generation and strong industrial growth likely to continue, China will continue to produce high levels of air pollutants. (According to the International Energy Agency, China overtook the United States as the world's biggest emitter of carbon dioxide in 2006 and will overtake the US as the global leader in all greenhouse gas emissions within the next few years.)

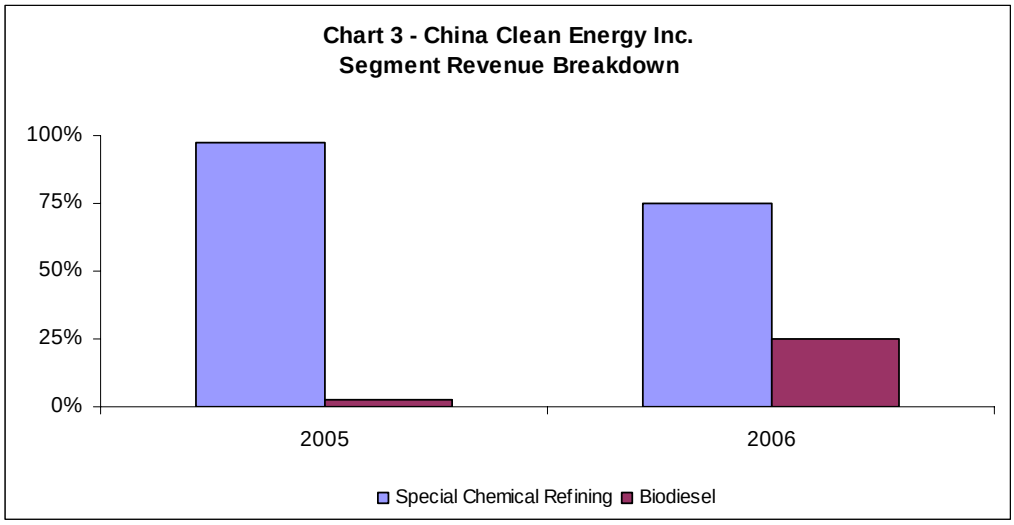
The Chinese government has taken some steps to encourage the production and use of more environmentally-friendly fuels—The Chinese government's recently announced eleventh "5-Year Plan" (for the years 2006 through 2010) includes the goal of increasing use of "alternative" fuels to 15 percent of total energy production by 2020. The government has specifically addressed biodiesel by announcing that it plans to set detailed standards for biodiesel by the end of 2007. As the government provides further guidelines for biodiesel production, we expect the industry will attract more consumer and corporate interest, as well as private investment, all of which would promote the growth of the biodiesel industry. (If the government decides to offer subsidies to biodiesel producers, as it has done with some corn ethanol producers, the improved economies of biodiesel production would also increase investor interest in the sector.)

Biodiesel production requires less complex technology (and less capital investment) than petroleum-based diesel production—Compared to production of traditional diesel from crude oil, biodiesel requires relatively simple production processes and low capital investment. These factors translate into relatively low barriers to entry for new industry participants, but strong demand for biodiesel in China will likely outpace the country's production capacity for the foreseeable future.

GROWTH STRATEGY

Although its specialty chemical segment accounted for 75 percent of CCGY's revenues in FY06, biodiesel will be the company's primary engine of growth for the foreseeable future.

As Chart Three below illustrates, the biodiesel segment grew from less than three percent of total revenues in 2005 to 25 percent of total revenues in 2006, a trend that we expect will continue as CCGY's biodiesel production capacity increases significantly over the next few years.



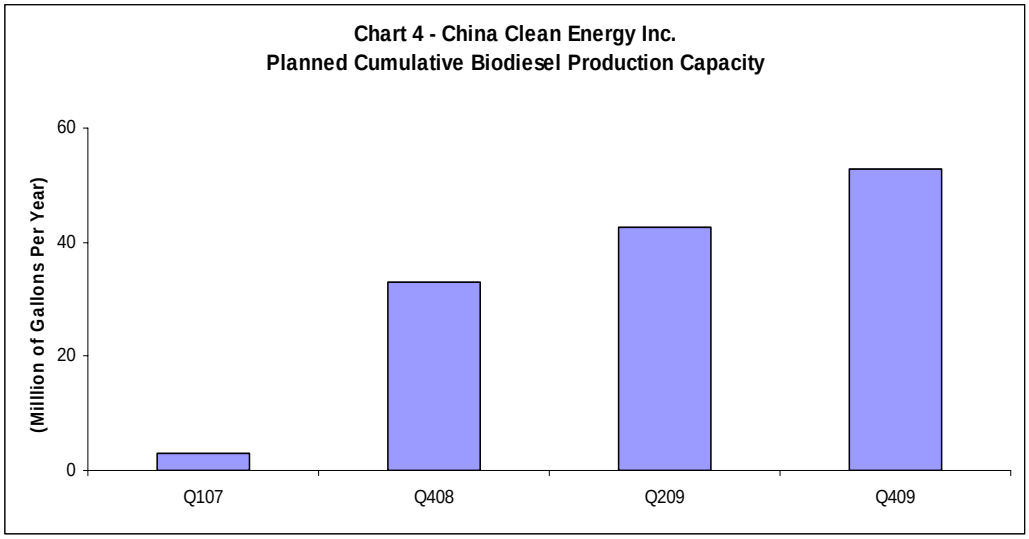
Source: CCGY SEC Filings

Currently, CCGY's only biodiesel plant is running at full capacity with demand higher then supply. CCGY is planning to increase its production capacity by building three new plants over the next four years. Construction on the first plant is expected to be completed during the second half of 2007. Two production facilities planned for completion in 2008 and 2009 will each add another 19.7 million gallons per year to CCGY's production capacity. CCGY expects to have the capacity to produce 53 million gallons of biodiesel annually by late 2009 or early 2010.

With the first of its new biodiesel production facilities planned to begin operations by late 2008, management expects biodiesel will account for approximately 75 percent of CCGY's total revenues in 2009. Assuming the company's biodiesel operations achieve gross margins similar to the company's existing chemical operations (28 - 29 percent), we expect top line growth in the biodiesel segment will result in substantial net income growth beginning in late 2007 or early 2008.

We expect CCGY's biodiesel revenues will experience strong growth due to the various factors cited above related to the Chinese biodiesel market and the company's production cost advantages. CCGY can achieve strong profit margins while selling all the biodiesel it can produce at a two to five percent discount to the wholesale price of conventional diesel.

As long as the company can maintain its cost advantage, demand for its biodiesel, which is typically used by CCGY's customers to produce a B20 blend sold to consumers at the same price as traditional diesel, will exceed the company's production capacity.



Source: CCGY management.

Refined Chemicals

CCGY has been engaged in the specialty chemicals business since 1995; the business was CCGY's sole source of revenues until late 2005. In the future, management expects this business will continue to benefit from the Chinese economy's strong growth. We expect this segment will achieve four to five percent revenue growth annually.

CAPITAL REQUIREMENTS

CCGY's current proposed expansion plans include building three new biodiesel production facilities over the next two and half years.

The first of these new facilities will be located in Fuqing (approximately 20 miles from the current biodiesel production facility). Management estimates the Fuqing facility will cost approximately $15 million to build. The additional two facilities planned for 2008 and 2009 will together require total capital of approximately $11 million.

The land for the Fuqing facility project has been purchased at a cost of $2.5 million, leaving an additional $12.5 million needed to finance construction and project completion. Construction will be split into two phases with the first phase requiring $6.5 million and the second phase accounting for the remaining $6.0 million.

Although CCGY has a successful, mature chemicals business and its biodiesel operations are running at full capacity, we expect the company will need to issue additional equity and/or debt to raise the capital needed to fulfill its biodiesel expansion program. We are not aware of any specific plans the company has to raise additional capital.

MANAGEMENT

Tai-ming Ou (52) Chief Executive Officer and Chairman of the Board— Mr. Ou founded the company in 1995 and since then has served as the Chief Executive Officer. Before 1995, Mr. Ou was the Director of the General and Administrative Office of Fuqing First Secondary School. Mr. Ou received his bachelor's degree in mathematics from Fujian Normal University.

Gary Zhao (44) Chief Financial Officer—Mr. Zhao has served in his current position since November 2006. Previously (2005 through 2006), Mr. Zhao served as Vice President of CapGemini China, an investment management firm. From 2002 through 2005 Mr. Zhao was director in charge of Finance Performance Management and Corporate Strategy at Accenture China. Prior to joining Accenture, Mr. Zhao was VP of finance at Sohu.com Inc. Earlier in his career, Mr. Zhao was financial controller at Motorola China Network Solutions. Mr. Zhao holds a Bachelor of Science degree in Metallurgical Engineering and Master of Science degree in Materials Science. Mr. Zhao received his MBA in Finance and Strategic Management from the Wharton School of the University of Pennsylvania.

Ri-wen Xue (42) Chief Operating Officer—Mr. Xue has been with CCGY since 2000 and became the Chief Operating Office in November 2006. Prior to joining CCGY, Mr. Xue worked for Chip Copperize Corporation in Japan. Mr. Xue is a certified senior economist and holds a bachelor's degree in finance.

INCOME STATEMENT REVIEW

Fiscal Year 2006—(As Reported)

For the fiscal year ended 12/31/06 CCGY reported net income remained flat ($1.3 million) on a 34 percent increase in revenues (to $13.5 million). Fully diluted earnings per share declined 13 percent to $0.07 from $0.08. The flatness of net income and decline in EPS was attributed to the legal and administrative costs associated with becoming a public company. The refined chemicals segment, which increased three percent compared to the prior year, contributed 75 percent of total revenues; the biodiesel segment's revenues increased more than 1,000 percent (to 25 percent of total revenues).

First Quarter 2006 (As Reported)

For the first quarter ended 03/31/07, CCGY reported net income increased 16 percent (from $0.44 million to $0.51 million as compared to Q106). Total revenue increased 45 percent (to $4.1 million from $2.8 million), primarily due to higher biodiesel production and sales.

BALANCE SHEET ANALYSIS

As of March 31, 2007 CCGY's balance sheet is strong, including cash of approximately $1 million, a current ratio of 2.4 X and virtually no long-term debt. Shareholders equity was $11.1 million on $13.3 million in total assets.

CAPITAL STRUCTURE

As of June 13, 2007 CCGY had 21.5 million shares outstanding. Company founder and CEO Mr. Ou and his wife, who is also one of the company's directors, beneficially own 8.5 million shares (39.4 percent of shares outstanding).

In total, insiders own 72 percent of CCGY's common shares. The company has no warrants or options outstanding.

Table 3 - China Clean Energy Inc. Common Shares - Insider and Officer Holdings		
	Shares Held *	**% of Class**
Common Shares		
Tai-ming Ou & Qin Yang	8,477,350	39.4%
Nai-ming Yu	2,399,250	11.2%
Dian Yang	1,279,600	5.9%
Yun He	1,119,650	5.2%
Daiyi Chen	1,119,650	5.2%
Ri-wen Xue	959,700	4.5%
Gary Zhao	100,000	0.5%
Total (Common Shares Held By Insiders)	15,455,200	72%

Source: CCGY SEC filings

OTHER CONSIDERATIONS

Significant future capital requirements for new biodiesel facilities' construction could lead to significant dilution for current shareholders. Over next three years we estimate CCGY will require approximately $24 million in new capital to fund its biodiesel capacity expansion plans. The company will fund some of this capital via internal cash flow, but most of this new capital will have to be funded from the issuance of new debt or equity.

With such a large portion of the company's outstanding shares in the hands of insiders, trading liquidity in CCGY's shares is limited. Insiders own 72 percent of CCGY's common shares; daily trading volume is typically below 50,000 shares.

PUBLICLY-TRADED PEER GROUP COMPARISON

There are a number of existing and planned biodiesel production facilities in China, most of which are in some stage of planning or construction.

Only one Chinese biodiesel company—China Biodiesel International—is publicly traded (in London), making a comparison with CCGY's current and potential "competitors" difficult.

The following provides some perspective on CCGY's expansion plans compared to various US-listed companies involved in biodiesel production, all of which are in some stage of development of significant production capacity:

Allegro Biodiesel (OTC-BB: ABDS) was established in 2006 in Los Angeles, California. The company owns and operates a biodiesel production facility in Louisiana with the capacity to produce 12 million gallons of biodiesel per year. ABDS entered the biodiesel industry by acquiring biodiesel production company Vanguard Synfuels in September 2006. The company primarily uses soybean oil as its feedstock and plans to increase biodiesel production to 20 million gallons per year.

Better Biodiesel (OTC-BB: BBDS) was established in Utah in 2005 and came public via a reverse merger in September 2006. BBDS has a three million gallon per year biodiesel production facility in Utah, which mainly uses vegetable oils as feedstock (though the facility can also use animal fats as a

Table 4 - China Clean Energy Inc.
Peer Group Comparison - Biodiesel - US Listed

Company	Ticker	Share Price ($) 7/18/2007	Shares Outstanding	Market Cap ($ MM)	Existing Biodiesel Capacity (Gallons/Year)	Planned Biodiesel Capacity (Gallons/Year)	Revenue Year Ago Quarter ($ MM)	Revenue Current Quarter ($ MM)	Revenue Growth Quarterly	Potential Revenues * ($ MM)	Market Cap / Potential Revenues
Allegro Biodiesel	ABDS	$ 1.75	18,343,182	$32	12,000,000	20,000,000	0.000	1.843	N.M.	$ 56	0.57
Earth Biofuels	EBOF	$ 0.06	246,017,970	$15	16,000,000	59,000,000	8.617	6.645	-23%	$ 165	0.09
Nova Biosource Fuels	NBF	$ 2.79	109,998,692	$307	10,000,000	130,000,000	4.545	7.914	74%	$ 364	0.84
Better Biodiesel, Inc.	BBDS	$ 2.06	30,845,001	$64	3,000,000	50,000,000	0.000	0.012	N.M.	$ 140	0.45
Average											**0.49**
China Clean Energy	CCGY	$ 1.25	21,512,269	$27	3,000,000	52,700,000	0.829	0.996	20%	$ 116	- - -

Source: Company SEC filings and website, Westminster Securities. *NBF - All revenues are from construction of 3rd party biodiesel plants. First company owned plant will start production middle-2007. EBOF - The company is engaged in biodiesel production and distribution. CCGY - biodiesel revenues only. Assumed diesel price per gallon of $2.80 (US), $2.20 (China). Planned expansion time schedule varies for each company. Revenues based on full capacity production in 2010. Conversion rates: $1 = 7.6 RMB.

Table 5 - China Clean Energy Inc.
Peer Group Comparison - Biodiesel - London AIM Listed

Company	Ticker	Share Price ($) 7/18/2007	Shares Outstanding	Market Cap ($ MM)	Existing Biodiesel Capacity (Gallons/Year)	Planned Biodiesel Capacity (Gallons/Year)	Revenue FY05 ($ MM)	Revenue FY06 ($ MM)	Revenue Growth Annual	Potential Revenues * ($ MM)	Market Cap / Potential Revenues
Biofuels Corporation	BFC	$ 0.06	49,037,461	$3	75,000,000	75,000,000	3.833	102.885	2584%	$ 600	0.00
China Biodiesel Intl	CBI	$ 1.73	40,768,906	$71	14,800,000	59,200,000	8.952	13.300	49%	$ 130	0.54
D1 Oils	DOO	$ 5.85	31,584,579	$185	9,472,000	39,072,000	0.931	3.171	241%	$ 313	0.59
Average											**0.38**

Source: Company SEC filings and website, Westminster Securities. * Most recent quarter figures not available so fiscal year 2006 figures used. Planned expansion time schedule varies for each firm. Revenues based on full capacity production in 2010. Diesel prices of 97.2 pence/liter ($8.00 per US gallon), 1 British Pound = $2.175.

feedstock). In Q107 the company made its initial delivery of 4,500 gallons of biodiesel to its largest customer. BBDS has completed engineering design for a 10 million gallon per year processing facility, copies of which the company expects to build at various locations throughout the US to increase its total production capacity to 50 million gallons per year.

Biofuels Corporation (LSE-AIM: BFC) was established in 2005 in London. BFC is the largest UK-based biodiesel producer with annual capacity to produce 75 million gallons of biodiesel per year. However, BFC only produced 30 million gallons of biodiesel in fiscal year ending March 31, 2007. The company's existing production facility has experienced significant engineering and design problems, which, combined with depressed biodiesel prices in Europe have caused BFC's financial condition to deteriorate. The company's major debt holder has announced it will take the company private.

China Biodiesel International (LSE-AIM: CBI) was established in 2001 in Fujian, China. The company's shares started trading publicly on the Alternative Investment Market ("AIM") in the UK in 2006. The company is one of the largest biodiesel producers in China with annual capacity to produce approximately 15 million gallons of biodiesel. CBI plans to expand capacity to 59 million gallons per year over next three years using waste cooking oil at its primary feedstock. (In June 2007 CBI issued a profits warning due to an unexpected increase in the price it was paying for waste vegetable oil.)

D1 Oils (LSE-AIM: DOO) is a UK-based biodiesel producer that went public in 2004 on the AIM. The company's plan is to be vertically integrated by cultivating its own feedstock resources for its in-house biodiesel production. Since 2006 D1 has been cultivating oil-rich jatropha plants on 358,000 acres in Southern Africa and Southeast Asia in the hope that these resources will replace feedstock currently being purchased on the open market. In June 2007 DOO announced plans to build a 10,000 metric tons/year biodiesel plant in China's Guangxi autonomous region using locally-grown jatropha as the primary feedstock. The company has the capacity to produce approximately 9.5 million gallons of biodiesel per year with plans to bring total capacity to 39 million gallons by the end of 2007.

Earth Biofuels (OTC-BB: EBOF) was established in 2002 and is headquartered in Dallas, Texas. The company came public in 2005 via a reverse merger. EBOF is engaged in the production and distribution of various alternative fuels, including Liquefied Natural Gas (LPG), Ethanol and Biodiesel. Currently, EBOF has the capacity to produce 16 million gallons of biodiesel per year (including the planned acquisition of a six million gallon facility in Texas). The company also has agreements (including joint ventures) with several parties that, if completed and successful, would increase EBOF's biodiesel production capacity to approximately 59 million gallons per year.

Nova Biosource Fuels (AMEX: NBF) is based in Houston, Texas. The company was established in 2006 and started trading on the AMEX in May 2007. Until mid-2007 NBF only built biodiesel plants for third parties to own and operate. At that time, management began to adopt its own ownership model for future facility construction and operation. Currently, the company is constructing two biodiesel plants with total production capacity of 120 million gallons per year. The company recently completed a 20 million gallon facility for a third party in which Nova owns 50 percent of production. NBF uses various types of feedstock for its biodiesel production.

RATINGS AND TARGET PRICES

Our initial Investment Rating on CCGY is "Strong Buy," reflecting our expectation for strong demand for the company's specialty chemicals and biodiesel products, strong revenue and earnings growth, and steady progress toward the achievement of management's goals to build CCGY into a significant player in China's biodiesel industry.

We are assigning an initial Risk Rating of "High," reflecting the risks related to the company's growth plans (e.g. raising the necessary growth capital, maintaining the current deadline for plant construction and additional biodiesel production) partially offset by the stability and strength of CCGY's existing specialty chemicals business.

Establishing a Target Price for CCGY's shares is problematic at this early stage of the company's biodiesel operations' development. In our view, the most appropriate way to value the company is to consider each of these two operating segments on a standalone business, as investors value specialty chemicals companies somewhat differently than biodiesel companies are valued.

As illustrated in Table 6, CCGY's specialty chemicals business has experienced strong results compared to its publicly-traded peers, especially in terms of recent revenue growth and pretax margins. At a Price/Pretax Income multiple of 22.8 X—the same multiple as the other fast-growing Chinese company in this group—Gulf Resources (GUFR)—we estimate the value of CCGY's chemicals segment is approximately $51 million (approximately $2.37 per share) on a standalone basis.

Table 6 - China Clean Energy Inc.
Publicly-Traded Peer Group Comparison - Speciality Chemicals

Company	Ticker	Share Price (7/16/07)	Mkt. Cap. (MM)	Annual Revenues (MM) (1)	Revenue Growth (1)	E.P.S. Growth (1)	Pretax Profit Margin	Price/ Sales	Price/ Earnings (Pretax) (2) (3)
American Vanguard Coporation	AVD	$ 16.11	$ 422	$ 189	-2%	-20%	14%	2.2	18.7
Kronos Worldwide, Inc.	KRO	$ 26.95	$ 1,321	$ 1,289	7%	20%	6%	1.0	10.9
Synthetech	NZYM	$ 0.94	$ 14	$ 13	122%	-104%	1%	1.1	61.1
Gulf Resources	GUFR	$ 2.10	$ 104	$ 10	35%	50%	38%	2.6	22.8
Sterling Chemicals	SCHI	$ 20.75	$ 58	$ 728	22%	105%	-14%	0.1	N.M.
AVERAGES				**$446**	**21%**	**17%**	**7%**	**1.4**	**17.4**
China Clean Energy (4)	CCGY	$ 1.25	$ 28	$ 12	55%	30%	13%	---	---

Source: Westminster Securities, Company SEC filings. 1) All figures based on trailing twelve months, except for GUFR and CCGY (TTM history not available, most recent quarterly figures used). 2) Assumes 35% income tax rate 3) Average exclude largest and smallest values 4) CCGY & GUFR Revenue and EPS growth annualized based on Q107 results. EPS excludes estimated Q107 non-recurring expenses related to CCGY becoming a publicaly traded company.

CCGY's current share price ($1.25) is well below what we consider to be fair value (excluding any value for the company's biodiesel segment).

As illustrated in Tables 4 and 5, for peer group comparisons to CCGY's planned biodiesel operations we include seven publicly-traded biodiesel companies. These companies are active in markets as diverse as the United Kingdom, China and the US and, like CCGY, are all in the early stages of their growth (including having plans for significant biodiesel production capacity expansion over the next few years). On average, these companies' current market cap is approximately 0.5 X our calculation of their future potential biodiesel revenues (based on planned production capacity multiplied by the current price for diesel in each market). Based on our assumption CCGY will realize annual revenues of approximately $116 million from biodiesel sales when all of its planned biodiesel capacity is up and running (52.7 million gallons times $2.20/gallon), we estimate investors will eventually value these operations at approximately $58 million ($116 million times 0.5).

Assuming the company is able to achieve management's current timeline goals to increase CCGY's profitable biodiesel operations eleven fold over the next two to three years, we believe our expectation for a doubling of CCGY's share price over the next year is somewhat conservative.

RISKS

In addition to the various industry and expansion-related risks mentioned above, CCGY's shareholders face certain identifiable risks. We believe the most important of these risks include:

CCGY, like other biodiesel producers, may not be able to pass on future increases in feedstock prices to its customers. Historically, there has been a lack of correlation between biodiesel feedstock prices and biodiesel fuel prices in China**.** Biodiesel fuel price trends have typically followed global petroleum price trends, while feedstock prices have been affected by unrelated factors, such as weather conditions and seasonal changes in feedstock crops.

However, biodiesel producers in China typically sell their product at a small discount to petroleum diesel prices in order to achieve some competitive advantage. As a result, if feedstock prices rise and the price of petroleum-based diesel does not also rise, it is unlikely biodiesel producers would be able to pass their increased cost of production on to their customers in the form of higher biodiesel prices at the wholesale level. (For example, earlier this year palm oil future prices increased 39 percent over a two month period; the price of diesel (and biodiesel) did not change significantly. This had an immediate significant adverse effect on biodiesel producers who use palm oil as their feedstock.)

With feedstock typically accounting for approximately three-quarters of total biodiesel production costs, even a relatively modest increase in feedstock prices can have a significant effect on gross margins. Table Seven below illustrates the range of profit (or loss) per gallon for a "typical" biodiesel producer under a variety of feedstock and biodiesel prices.

Table 7 - China Clean Energy Inc.
Scenario Analysis - Estimated Profit Per Gallon of Biodiesel Sold

		Biodiesel Price Per Gallon						
		$1.45	**$1.70**	**$1.95**	**$2.20**	**$2.45**	**$2.70**	**$2.95**
Feedstock Price Per Kg	**$0.70**	($1.71)	($1.46)	($1.21)	($0.96)	($0.71)	($0.46)	($0.21)
	$0.63	($1.40)	($1.15)	($0.90)	($0.65)	($0.40)	($0.15)	$0.10
	$0.56	($1.08)	($0.83)	($0.58)	($0.33)	($0.08)	$0.17	$0.42
	$0.49	($0.76)	($0.51)	($0.26)	($0.01)	$0.24	$0.49	$0.74
	$0.42	($0.45)	($0.20)	$0.05	$0.30	$0.55	$0.80	$1.05
	$0.35	($0.13)	$0.12	$0.37	$0.62	$0.87	$1.12	$1.37
	$0.28	$0.19	$0.44	$0.69	$0.94	$1.19	$1.44	$1.69

Source: University of Iow a - Center for Industrial Research and Services, Westminster Securities.
Assumptions: 1 kilogram of input feedstock provides 0.296 gallons of biodiesel. Glycerin revenues are excluded. Feedstock price is per kilogram. Total cost of producing one gallon of biodiesel includes follow ing proportionate costs: Feedstock (75%), Chemicals (11%), Energy (2%), Labor (4%) Depreciation (6%), Overhead & Maint.(4%). Total may not add up to 100 because of rounding.

Given the current average biodiesel price of approximately $2.20 per gallon in China and an average feedstock price of $0.35 per kilogram, we estimate a "typical" biodiesel producer would earn $0.62 per gallon (pretax) of biodiesel sold—a 28 percent operating margin. As Table Seven illustrates, even a modest move in either feedstock or biodiesel prices leads to relatively large swings in profitability.

Of course, this operating leverage works both ways. There is also potential upside for biodiesel pro-

ducers if biodiesel prices rise and/or feedstock costs drop, but this is a two-edged sword. If biodiesel prices drop and/or feedstock prices rise, profit margins shrink, in some cases dramatically so. In our view, securing a sufficient amount of feedstock at a price that allows for an attractive level of profitability presents the single biggest risk to most biodiesel producers. (According to the president of one Chinese biodiesel producer, the price his company pays for waste vegetable oil has tripled over the past four years.)

Uncertain government regulations and lack of guidelines and product standards by the Chinese government create uncertainty for both producers and users of biodiesel. There are currently no standards for biodiesel quality (e.g. purity, energy content, pour point, viscosity) in China, although the Chinese government has announced plans to issue guidelines and regulations addressing fuel standards and other issues of interest (including fuel taxes) for the biodiesel industry later this year. We expect establishment of these new guidelines and regulations will encourage increased use of biodiesel as well as new investment in the biodiesel industry, although higher quality standards will also force some producers to alter their biodiesel production processes (potentially reducing profit margins) and forcing marginal players out of business.

Sales of biodiesel are subject to seasonality in regions that experience sub-freezing temperature during winter months. The high pour point of biodiesel leads to engine startup problems at low temperatures (see Table One). If CCGY expands its market footprint to China's colder northern provinces, the company's sales of biodiesel might experience a slowdown in winter months if users switch to pure conventional diesel fuel during these months to reduce engine performance problems.

The Chinese government might rein in the biofuels industry's growth if the prices of agricultural products rise significantly. Biodiesel is typically produced using commodity feedstocks that are also food crops. Although all three of China's major oil companies are making moves into the biofuels sector, an ambitious plan for biofuels production was recently rejected by China's State Council, which expressed concerns regarding rising food commodity (e.g. soybean, grain) prices and inflation in end-product food prices. We expect CCGY's reliance on waste oil would to some degree insulate the company's operations from this debate.

ACCOUNTING ISSUES

CCGY's current auditor is Freeport, New York-based Michael T. Studer, CPA.

We are not aware of any disagreements existing between Mr. Studer and CCGY on any significant accounting-related issues.

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Westminster Securities Corporation Equity Research—Investment Ratings

NYSE Rating Category	Westminster Rating	Westminster Securities Rating Description	Number of Companies Covered	Westminster Securities Rating Distribution	Investment Banking Clients	Percent Banking Clients
BUY	Strong Buy (1)	We expect these shares to increase in value by at least 25% over the next 12 months.	13	68 %	2	15 %
	Buy (2)	We expect these shares to increase in value by at least 10% over the next 12 months.	2	11 %	- - -	- - -
HOLD	Neutral (3)	We expect these shares to remain within a range of +/- 10 % over the next 12 months.	1	5 %	- - -	- - -
SELL	Sell (4)	We expect these shares to decrease in value by at least 10% over the next 12 months.	2	11 %	- - -	- - -
N/A	Coverage Discontinued (CD)	The ratings for the Subject Company have been discontinued by Westminster.	- - -	- - -	- - -	- - -
N/A	Not Rated (NR)	The ratings for the Subject Company have been temporarily suspended by Westminster.	1	5 %	- - -	- - -
N/A	Not Covered (NC)	The Subject Company is not covered by Westminster.	- - -	- - -	- - -	- - -
			19	100 %	2	11 %

Westminster Securities Corporation Equity Research—Risk Ratings

Low	Financial results of companies with a “Low” risk rating have a high level of predictability and their share prices are subject to low volatility as measure by beta.
Moderate	Financial results of companies with a “Moderate” risk rating have a moderate level of predictability and / or their share prices are subject to moderate volatility as measured by beta.
High	Financial results of companies with a “High” risk rating have a low level of predictability and / or their share prices are subject to high volatility as measured by beta.
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Additional information on the securities mentioned herein is available to Westminster Securities clients on request by contacting William D. Lyons or Imran Khan at the e-mail addresses indicated on the cover page of this report or mailing address and phone number indicated below.

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