SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC.
Form 10-K
September 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

x annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **June 30, 2012**

or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 001-15931

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, Inc.
(Exact name of issuer as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	65-0420146 (I.R.S. employer identification number)

Kuanggong Road and Tiyu Road 10th Floor

Chengshi Xin Yong She, Tiyu Road

Xinhua District

Pingdingshan, Henan Province

People's Republic of China (Address of principal executive offices)	**467000** (Zip Code)

Registrant's telephone number, including area code +86-3752882999

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

Title of each class	Name of each exchange on which registered
Common stock, $0.001 par value	NASDAQ Capital Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer	o	Accelerated Filer	o
Non-accelerated filer	o	Smaller reporting company	x

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

As of December 30, 2011, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $32.5 million, based on a closing price of $2.26 per share of common stock as reported on the NASDAQ Stock Market on such date.

As of September 21, 2012, the registrant had 21,121,372 shares of common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K (the "Report") and other reports filed by the registrant from time to time with the Securities and Exchange Commission (collectively the "Filings") contain or may contain forward looking statements and information that are based upon beliefs of, and information currently available to, the registrant's management as well as estimates and assumptions made by the registrant's management. When used in the filings the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan" or the negative of these terms and similar expressions as they relate to the registrant or the registrant's management identify forward looking statements. Such statements reflect the current view of the registrant with respect to future events and are subject to risks, uncertainties, assumptions and other factors (including the risks contained in the section of this Report entitled "Risk Factors") relating to the registrant's industry, the registrant's operations and results of operations and any businesses that may be acquired by the registrant. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Although the registrant believes that the expectations reflected in the forward looking statements are reasonable, the registrant cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, the registrant does not intend to update any of the forward-looking statements to conform these statements to actual results. The following discussion should be read in conjunction with the registrant's financial statements and the related notes thereto included in this Report.

In this Report, "we," "our," "us," "SinoCoking" or the "Company" sometimes refers collectively to SinoCoking Coal and Coke Chemical Industries, Inc. and its subsidiaries and affiliated companies.

PART I

ITEM 1. BUSINESS.

General Overview

SinoCoking Coal and Coke Chemical Industries, Inc. ("SinoCoking" or the "Company") is a vertically-integrated coal and coke producer based in Henan Province, People's Republic of China ("PRC" or "China"). Our products include raw coal, washed coal, "medium" coal and slurries, coke and coal tar. We also generate electricity with gas emitted during the coking process, which we use primarily to power our operations.

All of our business operations are conducted by Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. ("Hongli"), which we control through contractual arrangements that Hongli and its owners have entered into with Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. ("Hongyuan"). These contractual arrangements provide for management and control rights, and in addition entitle us to receive the earnings and control the assets of Hongli. Hongyuan is wholly-owned by Top Favour Limited ("Top Favour"), our wholly-owned subsidiary. Other than our interests in the contractual arrangements, neither we, Top Favour nor Hongyuan own any equity interests in Hongli.

Currently:

- Coking related operations are carried out by Baofeng Coking Factory ("Baofeng Coking), a branch of Hongli.

- Coal related operations are under the following three subsidiaries of Hongli:
  (1) Baofeng Hongchang Coal Co., Ltd. ("Hongchang Coal");
  (2) Baofeng Shuangrui Coal Mining Co., Ltd. ("Shuangrui Coal"), which is wholly owned by Hongchang Coal; and
  (3) Baofeng Xingsheng Coal Mining Co., Ltd. ("Xingsheng Coal").

- Electricity generation is carried out by Baofeng Hongguang Environment Protection Electricity Generating Co., Ltd. ("Hongguang Power"), also a wholly owned subsidiary of Hongli.

It is our intention to transfer all coal related operations from Hongli's subsidiaries to a joint-venture established with Henan Province Coal Seam Gas Development and Utilization Co., Ltd. ("Henan Coal Seam Gas"), a state-owned enterprise and qualified provincial-level coal mine consolidator. The joint-venture, Henan Hongyuan Coal Seam Gas Engineering Technology Co., Ltd. ("Hongyuan CSG"), has been established, although our planned transfer of coal related activities to Hongyuan CSG has not been carried out as of the date of this Report. Our interests in Hongyuan CSG are held by Henan Zhonghong Energy Investment Co., Ltd. ("Zhonghong"), which equity interests are presently held on Hongli's behalf and for its benefit by three nominees pursuant to share entrustment agreements.

In addition, once we complete construction of our new coking plant, we intend to operate the plant through Baofeng Hongrun Coal Chemical Co., Ltd. ("Hongrun Coking"), a wholly-owned subsidiary of Hongli. As of the date of this Report, however, construction has not been completed (see "*Our Products and Operations – Coke – New Coking Facility*" below), and Hongrun Coking has not commenced operations.

History and Corporate Structure

We were incorporated in Florida on September 30, 1996, originally under the name "J. B. Financial Services, Inc." From the date of incorporation until August 24, 1999, we had no material business and no material revenues, expenses, assets or liabilities. We changed our name to "Ableauctions.com, Inc." on July 19, 1999, and subsequently operated an online auction business and a real estate business.

On December 30, 2009, our shareholders approved a Plan and Agreement of Share Exchange, dated July 17, 2009, with Top Favour under which we agreed to acquire all of the outstanding capital stock of Top Favour in exchange for the issuance of 13,117,952 shares of our common stock to the shareholders of Top Favour (the "Share Exchange"). The Share Exchange was consummated on February 5, 2010 (the "Closing Date"). On the Closing Date:

- We ceased operating all of our businesses that existed and were held prior to the Closing Date;

- We changed our name from "Ableauctions.com, Inc." to "SinoCoking Coal and Coke Chemical Industries, Inc." to reflect the business of Top Favour, and effected a 1-for-20 reverse stock split of our issued and outstanding shares of common stock, by filing an amendment to our articles of incorporation with Florida's Department of State;

- All of our directors and officers prior to the Share Exchange resigned, and successor officers and directors designated by Top Favour were appointed to our board of directors and management;

- All of our pre-Share Exchange assets (e.g., relating to online auctions, liquidation, real estate services, finance and development) were transferred to a liquidating trust (the "Liquidating Trust"), including the capital stock of our pre-Share Exchange subsidiaries;

· The Liquidating Trust assumed all of our pre-Share Exchange liabilities;

· Top Favour and its subsidiaries and controlled companies became our subsidiaries and controlled companies; and

· The business, operations and assets of Top Favour (e.g., production of coal, coke and electricity) became our sole business, operations and assets.

On March 11, 2010 we completed two private placement financings, pursuant to exemptions under Regulation S and Regulation D, respectively, in which we sold and issued a total of 7,344,935 shares of common stock, and five-year warrants for the purchase of an additional 3,789,631 shares of common stock, resulting in aggregate proceeds of $44 million (collectively referred to as the "Financing"). The Financing was conducted pursuant to Securities Purchase Agreements dated February 5, 2010 and March 10, 2010, in two closings. The registration statement to register the shares of common stock issued or underlying the securities issued in connection with the Financing was filed on May 11, 2010 and was declared effective on September 13, 2010.

Top Favour

Top Favour is a holding company incorporated in the British Virgin Islands on July 2, 2008. Top Favour was formed by the owners of Hongli as a special vehicle for raising capital outside of the PRC. Other than holding 100% of the equity interests in Hongyuan and facilitating loan transactions for Hongli and its subsidiaries, Top Favour has no operations of its own.

Hongyuan

Hongyuan is a PRC limited liability company with registered capital of $3 million and is the wholly-owned subsidiary of Top Favour. Hongyuan was approved as a wholly foreign owned enterprise ("WFOE") by the Henan provincial government on February 26, 2009 and formally organized on March 18, 2009. Other than activities relating to its contractual arrangements with Hongli, Hongyuan has no separate operations of its own.

Hongli

Hongli is a limited liability company organized in the PRC on July 5, 1996 with registered capital of 8,808,000 Renminbi ("RMB"), held by four Chinese nationals: 83.66% by Mr. Jianhua Lv, our chairman and chief executive officer, 6.44% by Ms. Xin Zheng, 4.95% by Mr. Wenqi Xu, and 4.95% by Mr. Guoxiang Song. In August 2010, the Pingdingshan municipal government directed Hongli to increase its registered capital to RMB 28,080,000 in order to maintain its coal trading license. Accordingly, the owners of Hongli contributed the additional registered capital in full in August 2010, although not in proportion to their original ownership percentages: Mr. Lv and Ms. Zheng increased their holdings to 85.40% and 9.19%, respectively, while Mr. Xu and Mr. Song decreased their holdings to 3.99% and 1.42%, respectively. Registration of such additional contribution and change in ownership percentages with the Administration for Industry and Commerce ("AIC") of Pingdingshan was completed in April 2011.

Currently, Hongli has a branch, six subsidiaries and a joint-venture as follows (collectively "Hongli Group"):

Branch:

· *Baofeng Coking* was established on May 31, 2002 as a branch of Hongli, and operates our existing coking plant.

Subsidiaries:*

· *Hongchang Coal* is a limited liability company formed in the PRC on July 19, 2007 with registered capital of RMB 3 million. Hongchang Coal is a wholly-owned subsidiary of Hongli and holds the rights to mine Hongchang coal mine. All mining activities at the mine are currently on hold pending the ongoing mining moratorium (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" and "below).

· *Hongguang Power* is a limited liability company formed in the PRC on August 1, 2006 with registered capital of RMB 22 million. Hongguang Power is wholly owned by Hongli.

· *Hongrun Coking* is a limited liability company formed in the PRC on May 17, 2011 with registered capital of RMB 30 million. Hongrun Coking is a wholly-owned subsidiary of Hongli. We intend to operate our new coking plant through Hongrun Coking. As the date of this Report, Hongrun Coking has not commenced operations as construction of the new coking plant has not been completed.

· *Shuangrui Coal*** is a limited liability company formed in the PRC on March 17, 2009 with registered capital of RMB 4,029,960. Hongchang Coal currently holds 100% of the equity interests of Shuangrui Coal. Hongli initially acquired 60% of such interests on May 20, 2011, and when it acquired the remaining 40% on June 20, 2012, Hongli concurrently transferred all 100% of Shuangrui Coal to Hongchang Coal, which transfer has been registered with the Pingdingshan AIC. As of the date of this Report, Hongli has not yet paid any consideration for the 40% as negotiation with its seller remains ongoing, although we have accrued for such consideration based on its fair market value. Shuangrui Coal holds the rights to mine the Shuangrui coal mine, although there are currently no mining operations in light of the ongoing mining moratorium (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" below). We intend to dissolve Shuangrui Coal in the future and consolidate its mine assets under Hongchang Coal.

· *Xingsheng Coal*** is a limited liability company formed in the PRC on December 6, 2007 with registered capital of RMB 3,634,600. Hongli currently holds 60% of the equity interests of Xingsheng Coal. Xingsheng Coal holds the rights to mine the Xingsheng coal mine. All mining activities at the mine are currently on hold pending the ongoing mining moratorium (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" below).

- *Zhonghong* is a limited liability company formed in the PRC on December 30, 2010 with initial registered capital of RMB 10,010,000, which was further increased to RMB 20 million on April 14, 2011, and to RMB 51 million on July 12, 2011, of which RMB 30 million has been paid and the balance due by December 20, 2015. Zhonghong's equity interests are presently held on Hongli's behalf and for its benefit by three nominees pursuant to share entrustment agreements, including Messrs. Hui Zheng and Jiangong Fan, vice president of operations and a department manager of Hongli, respectively, and an unrelated party who also serves as Zhonghong's general manager. Zhonghong holds our interests in Hongyuan CSG, our joint-venture with Henan Coal Seam Gas.

Joint-Venture:

- *Hongyuan CSG* is a joint-venture established in the PRC on April 28, 2011 by Zhonghong (49%) and Henan Coal Seam Gas (51%). Hongli's interests in the joint-venture are held by Zhonghong. We intend to transfer all coal related operations from Hongli's subsidiaries to Hongyuan CSG, although such transfers have not been carried out as of the date of this Report.

* We acquired 100% of Baofeng Shunli Coal Ming Co., Ltd. ("Shunli Coal") on May 20, 2011. On July 4, 2012, Shunli was dissolved, and we are in the process of applying to transfer its mine assets to, and consolidating them under, Hongchang Coal, which we currently expect to complete by the end of fiscal 2013. Shunli Coal's mine assets consist of the rights to mine Shunli coal mine, although there are currently no mining operations in light of the ongoing mining moratorium (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" below).

** Our objective in acquiring these companies (and Shunli Coal) is their mining rights, and their sellers were required to dispose of all other assets and liabilities before the transfer of equity interests to us is complete, and to assume all rights and obligations to such assets and liabilities until their disposal, which rights and obligations we would disclaim should any such asset or liability remains in the company after the transfer of equity interests to us is complete. Although equity interests have been transferred to us, the assets and liabilities that the sellers agreed to dispose of remain intact as of the date of this Report. In accordance with our agreements with them, the sellers are in the process of disposing all such assets and liabilities, and on September 2, 2011, we entered into a supplemental agreement with them to memorialize such agreements, which were not previously reduced to writing. Aside from the mining moratorium, we expect such disposals to be completed prior to any resumption of mining operations.

Contractual Arrangements with Hongli Group and its Owners

Our relationship with Hongli Group and its owners are governed by a series of contractual arrangements, under which our subsidiary Hongyuan holds and exercises ownership and management rights over Hongli Group. We, Top Favour and Hongyuan do not own any direct equity interest in Hongli Group; however, the contractual arrangements with Hongli Group and its owners are designed to provide us with rights equivalent in all material respects to those we would possess as the sole equity holder of Hongli Group entities, including absolute control rights and the rights to their assets, property and income. According to a legal opinion issued by our PRC counsel, the contractual arrangements constitute valid and binding obligations of the parties to such agreements, and are enforceable and valid in accordance with the laws of the PRC.

On March 18, 2009, Hongyuan entered into the following contractual arrangements with Hongli Group and its owners:

Consulting Services Agreement. Pursuant to the consulting services agreement, Hongyuan provides Hongli Group companies with general consulting services relating to their business management and operations on an exclusive basis. Additionally, Hongyuan owns any intellectual property rights that are developed during the course of providing these services. Each Hongli Group company pays a quarterly consulting service fee in RMB equal to its net income for such quarter to Hongyuan. The consulting services agreement is in effect unless and until terminated by written notice of either party in the event that: (a) the other party causes a material breach of the agreement, provided that if the breach does not relate to a financial obligation of the breaching party, that party may attempt to remedy the breach within 14 days following the receipt of the written notice; (b) the other party becomes bankrupt, insolvent, is the subject of proceedings or arrangements for liquidation or dissolution, ceases to carry on business, or becomes unable to pay its debts as they become due; (c) Hongyuan terminates its operations; (d) a Hongli Group business license or any other approval for its business operations is terminated, cancelled or revoked; or (e) circumstances arise which would materially and adversely affect the performance or the objectives of the consulting services agreement. Additionally, Hongyuan may terminate the consulting services agreement without cause.

Operating Agreement. Pursuant to the operating agreement, Hongyuan provides guidance and instructions on each Hongli Group company's daily operations, financial management and employment issues. In addition, Hongyuan agrees to guarantee the performance of each Hongli Group company under any agreements or arrangements relating to its business arrangements with any third party. In return, the owners of Hongli Group must designate Hongyuan's candidates as their representatives on each Hongli Group company's board of directors, and Hongyuan has the right to appoint senior executives of each Hongli Group company. Additionally, each Hongli Group company agrees to pledge its accounts receivable and all of its assets to Hongyuan. Moreover, each Hongli Group company agrees not to engage in any transactions that could materially affect its assets, liabilities, rights or operations without Hongyuan's prior consent, 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 the maximum period of time permitted by law unless sooner terminated by any other agreements reached by all parties or upon a 30-day written notice from Hongyuan. The term may be extended only upon Hongyuan's written confirmation prior to the expiration of the agreement, with the extended term to be mutually agreed upon by the parties. Under current PRC Contract Law, there is no limitation on the maximum term permitted by law for the operating agreement. As long as the operating agreement is not terminated or discharged according to contract or by operation of the law and the contractual parties still exist, there is no limitation on term of the operating agreement. However, the PRC government may issue new laws and regulations in connection with these types of operating agreements which may limit the terms of such agreements in the future.

Equity Pledge Agreement. Under the equity pledge agreement, the owners of Hongli Group pledged all of their equity interests in Hongli Group to Hongyuan to guarantee each Hongli Group company's performance of its obligations under the consulting services agreement. If a Hongli Group company or the owners breach their respective contractual

obligations, Hongyuan, as pledgee, will be entitled to certain rights, including, but not limited to, the right to vote with, control and sell the pledged equity interests. The owners of Hongli Group also agreed that upon occurrence of any event of default, Hongyuan shall be granted an exclusive, irrevocable power of attorney to take actions in the place and stead of the owners to carry out the security provisions of the equity pledge agreement, and take any action and execute any instrument as required by Hongyuan to accomplish the purposes of the agreement. The owners of Hongli Group agreed not to dispose of the pledged equity interests or take any actions that would prejudice Hongyuan's interest. This agreement will expire two years from the fulfillment of Hongli Group's obligations under the consulting services agreement.

Option Agreement. Under the option agreement, the owners of Hongli Group irrevocably granted Hongyuan or its designee an exclusive option to purchase, to the extent permitted under Chinese law, all or part of the equity interests in Hongli Group for the cost of the owners' initial contributions to the registered capital of each Hongli Group company or the minimum amount of consideration permitted by applicable Chinese law. Hongyuan or its designee has sole discretion to decide when to exercise the option, whether in part or in full. The term of this agreement is ten years from January 1, 2006 and may be extended prior to its expiration by written agreement of the parties.

Proxy Agreement. Pursuant to the proxy agreement, the owners of Hongli Group irrevocably granted a Hongyuan designee the right to exercise all voting rights of the owners with respect to their ownership interests in accordance with applicable laws and each Hongli Group company's governing charters. This agreement may not be terminated without the unanimous consent of all parties, except that Hongyuan may terminate the proxy agreement with or without cause upon 30-day written notice to the owners.

As a result of the these contractual arrangements between Hongyuan and Hongli Group and its owners, we have the ability to effectively control Hongli Group's daily operations and financial affairs, appoint senior executives and decide on all matters subject to owners' approval. In other words, while Hongli's owners continue to own 100% of its equity interests, they have given us all of their rights as owners through these contractual arrangements. Accordingly, we are considered the primary beneficiary of Hongli Group and Hongli Group are deemed our variable interest entities ("VIEs").

On September 9, 2011 the operating agreement, option agreement, voting rights proxy agreement and option agreement were re-executed by and among Hongyuan, Hongli and the owners of Hongli. The re-executions were necessary to reflect RMB 20 million of additional registered capital contributed by Hongli's owners in August 2010, and the change in each owner's ownership percentage as a result of such contribution. We were made a party to the re-executed agreements to acknowledge them. However, control based on these contractual arrangements may ultimately not be as effective as direct ownership of Hongli Group, as we will need to enforce our rights through quasi-judicial proceeding in the event Hongli Group fails to perform its contractual obligations. In the event the outcome of such proceeding is unfavorable to us, we may effectively lose control over Hongli. See "*Risk Factors – Risks Related to Our Corporate Structure – Our contractual arrangements with Hongli and its owners as well as our ability to enforce our rights thereunder may not be as effective in providing control over Hongli as direct ownership.*" Mr. Lv held approximately 31.7% of our issued and outstanding common stock, and 85.40% of the equity interests of Hongli, as of September 21, 2012. As such, we believe that our interests are aligned with those of Hongli Group and its owners. However, we cannot give assurance that such interests will always be aligned, or that we can effectively control Hongli Group if and when such interests are no longer aligned. See *"Risk Factors - Risks Related to Our Corporate Structure – Management members of Hongli have potential conflicts of interest with us, which may adversely affect our business and your ability for recourse.*"

Our Current Corporate Structure

The following diagram illustrates our current corporate structure:

Our Products and Operations

Overview

We are based in Henan Province in the central part of China, known as a coal-rich region of the country. Our current operations are located in west Baofeng County, a part of Pingdingshan Prefecture south of Zhengzhou, the provincial capital. Our business involves three principal products: coal, coke and electricity.

Coal

We sell coal as a product (in the forms of raw coal, washed coal and byproducts from washing coal), and also use it for our coke production. We currently control four coal mines (see "*Property, Plant and Equipment*" below). Until June 2010, we largely extracted coal from Hongchang coal mine to meet our needs, although we also engaged in coal trading. As described under "*Coal Mining Moratorium*" below, however, we have been operating Hongchang coal mine at less than full capacity since June 2010, and been unable to extract coal since September 2011. We have instead been relying on coal purchased elsewhere, including from Shanxi, Qinghai and Inner Mongolia, to meet our requirements. As a result, our coal production has been in decline:

Fiscal Year	Annual Production (metric tons)
2011	132,449
2012	19,160

Coal Mining Moratorium

In December 2009, the Henan government issued a directive to consolidate coal mines with annual production capacity below 300,000 metric tons (each a "targeted mine" and collectively the "targeted mines"), spurred by the central government's decision to consolidate China's coal industry in order to improve production efficiency and reduce coal mine accidents. In March 2010, the Henan government directed all lower-level governments within the province to begin shutting down all targeted mines, and further designated six state-owned enterprises ("SOEs") to consolidate the targeted mines. Once shut down, the targeted mines cannot resume operations until they are consolidated and their facilities satisfy certain safety requirements.

In February and April 2010, the Baofeng government and the Pingdingshan government designated Hongli to consolidate targeted mines within the county and municipality, respectively. Because the Henan government's directive requires that safety responsibility at each targeted mine be borne by a designated SOE, we reached an arrangement with one of them, Henan Coal Seam Gas, to form a joint-venture that would allow us to comply with the Henan government's directive while maintaining operational control over any targeted mine that we consolidate. Such joint-venture, Hongyuan CSG, was formed in April 2011.

In late June 2010, pursuant to the Henan government's directive, the Pingdingshan government imposed a mining moratorium on all targeted mines within Pingdingshan. Nevertheless, we continued to operate our only mine at that time, Hongchang coal mine, at approximately 50% capacity until September 2011, when we halted operation in order to complete certain engineering and safety upgrades. Operations at our other three mines (Shuangrui, Xingsheng and Shunli) were already halted when we acquired controlling interests in them in May 2011, and have not resumed since.

In August 2011, Henan Coal Seam Gas, as a designated SOE consolidator, determined that Hongchang and Xingsheng coal mines were safe to resume operations, and applied with the Henan government to confirm such determination and issue the necessary licenses and permits to resume operations at both mine sites. However, due to an accident in November 2011 at a mine owned by Yima Coal Group, another designated SOE consolidator, the Henan government ordered all targeted mines to undergo further safety inspections and upgrades. We have made approximately $3.2 million in prepayments for works to increase our mining capacity at Hongchang coal mine to 450,000 metric tons, as well as to upgrade the monitoring system (by installing additional detectors), automatic control system (including power controls and ventilation), and escape system (with additional refuge compartments) at Hongchang and Xingsheng coal mines. Although such works have not commenced, we have submitted the related engineering plans to Henan Coal Seam Gas for its approval and submission to the Henan government. Accordingly, the applications to resume operations at these two mines remain pending as of the date of this Report. As we are also in the process of consolidating Shunli coal mine under Hongchang Coal (see "*History and Corporate Structure – Hongli*" above), the application approval for Hongchang coal mine may be subject to additional delay.

Henan Coal Seam Gas has not yet made a determination as to the safety at Shuangrui and Shunli coal mines, and we do not know when such determination will be made, if at all.

Assuming all four mines can resume operations, it is our present intention to transfer our interests in them to, and to operate them through, Hongyuan CSG. Such transfer, if carried out, would reduce any future revenue we may receive from these mines by 31%, or pro rata to the 49% of the joint-venture that we control. Nevertheless, we believe that such transfer would be in our best interests by reducing any risk of loss from potential future policy changes by the central and provincial governments through the presence and influence of Henan Coal Seam Gas, our joint-venture partner.

Coal Mine Acquisitions

Between May 2010 and September 2010, we made refundable deposits of approximately $20.91 million (RMB 135,138,476) in the aggregate to four coal mine companies to potentially acquire them. However, we have recently abandoned such plans when such companies were assigned by the provincial government to be acquired by a state-owned consolidator. Pursuant to our agreements with their owners entered into in August 2011, approximately $7.86 million (RMB 50,210,000) of our deposits was settled in August 2011, and the balance of approximately $13.42 million (RMB 84,928,476) was settled in May 2012.

Coal Trading

In addition to mining coal, we also engage in coal trading for profit. In the past, we would broker coal from small independent mine operators around us that lacked the means to transport coal from their mine sites or were otherwise unable to sell their coal due to the size of their operations. If their coal met our coking requirements, we would generally use it to produce coke; otherwise, we would hold and sell the coal when market conditions were favorable. Since the mining moratorium, however, we have only engaged in coal trading periodically, and currently with mine operations outside Henan.

Our total coal purchases from third parties for the fiscal years ended June 30, 2011 and 2012 are as follows:

Fiscal Year	Annual Purchases* (metric tons)
2011	325,550
2012	461,932

* Including coal for washing, coking and trading.

Coal Washing

We operate a coal-washing facility at our plant site that is capable of processing up to 750,000 metric tons of coal per year. Under current Chinese coking industry standards, raw coal with no more than 1% sulfur content is deemed suitable for coking, although other factors are also considered. In addition to low sulfur content, the industry preference is for lower ash content and volatile matters. While much of the coal from our mines and that we purchase is generally suitable for coking based on these parameters, the coal must nevertheless be washed before it is ready for the coking ovens, in order to reduce ash and sulfur content, and to increase thermal value. We use a water-based jig washing process, which is prevalent in China, and use both underground and recycled water. Sorting machines that can process up to 600 metric tons per hour sort the washed coal according to size. Washed coal is also typically blended with other coal in order to achieve the proper chemical composition and thermal value for coking.

Approximately 1.33 - 1.38 metric tons of raw coal yield 1 metric ton of washed coal. In addition to washed coal, the coal-washing process produces two byproducts:

- "Medium" coal (sometimes referred to as "mid-coal"), a PRC coal industry classification, is coal that does not have sufficient thermal value for coking, and is mixed with raw coal and even coal slurries, and sold for electricity generation, and domestic and industrial heating applications.

- Coal slurries, sometimes called coal slime, are the castoffs and debris from the washing process. Coal slurries can be used as a fuel with low thermal value, and are sold "as is" or mixed with mid-coal to produce a blended mixture.

Our annual production volumes of washed coal, mid-coal and coal slurries for fiscal years ended June 30, 2011 and 2012 are as follows:

Annual Production

(metric tons)

Fiscal Year	Washed Coal	**Medium Coal***	**Coal Slurries***
2011	107,526	35,852	17,926
2012	104,545	34,848	17,424

* Estimated by management based on quantities of raw coal used as input for coal washing operations.

Coke

Coke is a hardened, solid carbonaceous residue derived from low-ash, low-sulfur bituminous coal from which the volatile constituents are driven off by baking in an oven without oxygen at high temperatures so that the fixed carbon and residual ash are fused together. Volatile constituents of the coal include water, coal-gas, and coal-tar. We produce two types of coke: metallurgical coke and chemical coke.

Metallurgical coke is primarily used for steel manufacturing. Chemical coke, commonly referred in China to as gas coke, is mainly used in China to produce synthesis gas, a gas mixture largely of hydrogen and carbon monoxide that is combustible and often used as a fuel source or as an intermediate for the production of other chemicals including methanol, formaldehyde and ammonia. China has exacting national standards for coke, based upon a variety of metrics, including most importantly, ash content, volatilization, caking qualities, sulfur content, mechanical strength and abrasive resistance. Typically, metallurgical coke must have more than 80% fixed carbon, less than 15% ash content, less than 0.8% sulfur content and less than 1.9% volatile matter. Chemical coke, on the other hand, must have more than 80% fixed carbon, less than 18% ash content, less than 1% sulfur content and less than 3% volatile matter. According to national standards, metallurgical coke is classified into three grades – Grade I, Grade II and Grade III, with Grade I being the highest quality – and chemical coke is its separate grade. Generally, our customers do not have specific content requirements, but we may make certain adjustments, such as to moisture content, if requested by customers. The amount of each grade of coke that we produce is based on market demands, although historically our

customers have mostly required Grade II metallurgical coke which has higher profit margin than other types of coke. For the fiscal years ended June 30, 2011 and 2012, we only produced Grade II coke.

Metallurgical coke and chemical coke are produced using an identical manufacturing process. At our current plant, we produce coke from a series of three WG-86 Type coke ovens lined up in a row with an annual capacity of 250,000 metric tons. Our metallurgical coke is typically 85% fixed carbon, less than 12% ash, less than 1.9% volatile matter and less than 0.7% sulfur. Our chemical coke, on the other hand, is typically more than 80% fixed carbon, less than 18% ash, less than 3% volatile matter and less than 0.8% sulfur.

After being processed at our coal-washing facility, coal is sent to a coal blending room where it is crushed and blended to achieve an optimal coking mixture. Samples are taken from the coal blend and tested for moisture, chemical composition and other properties. The crushed and blended coal is next tamped, or packed, prior to being transported by conveyor to a coal bin to be fed into the waiting oven below. This tamping process allows the use of lower quality washed coal without affecting the quality of the coke produced. After processing through the three temperature-controlled ovens at temperature of 1200° C (2,192° F), hot coke is pushed out of the oven chamber onto a waiting coke cart, transported to an adjacent quench tower where it is cooled with water spray, and hauled to a platform area adjacent to our private rail line to be air-dried. Coke samples are taken at several stages during the process and analyzed in our testing facility, and data is recorded daily and kept by technicians. After drying, the coke is sorted according to size to meet customer requirements.

For the fiscal years ended June 30, 2011 and 2012, we did not produce any chemical coke, and produced the following volumes of metallurgical coke:

	Annual Production
Fiscal Year	**(metric tons)**
2011	156,785
2012	163,202

Prior to the cessation of our mining operations due to the mining moratorium, substantially all of the coal that we extracted that was suitable for coking was used to make coke. When the amount of metallurgical-quality coal that we extracted was not sufficient for our full production capacity, we would source additional coal from third parties. We now make coke largely from coal that we purchase.

The Pingdingshan Bureau of Land and Resources is requiring coking factories with a furnace height of less than 4.3 meters to phase out their operations in the next two to three years. As the two sets of coking furnaces in our existing coking plant are 3 meters in height, we plan to upgrade and retrofit them to 5.5 meters in height after completing our new coking facility, which will also have furnaces that exceed these regulatory standards (see "*New Coking Facility*" below).

Coke Emissions Recycling

During the coking process, coal's volatile contents, including water and coal tar, are driven off in gaseous forms when heated in the coke oven. Rather than allowing this coal gas to be emitted into the environment, we capture it for

recycling. In the recycling process, coal gas is captured and piped into a cooling tower, where coal tar is separated out by condensation, and sold to dealers as a fuel byproduct (see "*Coal Byproducts*" below). We use the remaining purified coal gas to generate electricity, by burning it as a fuel to generate steam that drives steam-powered turbines (see "*Electricity Generation*" below).

Coking Byproducts

As described above, we derive coal tar from the condensation of coal gas. Coal tar is an ingredient of coal tar pitch used in the aluminum industry, and can be further refined to create chemicals and additives such as fine phenol, fine naphthalene and modified pitch that can be used as raw material in making concrete sealant, wood treatment compounds, agricultural pesticides and other chemical products.

Our annual production volumes of coal tar for the fiscal years ended June 30, 2011 and 2012 are as follows:

	Annual Production
Fiscal Year	**(metric tons)**
2011	13,810
2012	7,421

While our fiscal 2012 production volume was lower than the prior fiscal year, the quality of the coal tar improved. Other byproducts include benzene, sulfur-based chemicals and methanol, which our current plant does not produce.

New Coking Facility

On March 3, 2010, we commenced construction of a new state-of-the-art coking plant on a 460,000 square meter site adjacent to our current plant in Pingdingshan. As of the date of this Report, we have completed construction of the shallow foundation, an underground workshop and the furnace and chimney rack, and are in the process of installing the coal preparation, cooling, recycling, and auxiliary systems. Originally anticipated to be completed at the end of December 2011, we slowed down construction in light of soft market conditions for coke. Nevertheless, we plan to complete the plant and commence operations when the coke market improves, which we currently anticipates to be in the first half of calendar 2013.

When completed as designed, this new plant is expected to have an estimated coke-producing capacity of up to 900,000 metric tons per year, as well as the ability to generate power and distill chemicals such as crude benzol, sulfur and ammonium sulfate from the coking process. The new plant is also expected to produce purified coal gas. Our plans to provide the coal gas as a fuel source to local residents through the state-owned gas grid have received approval from the authorities of Daying County, and we currently plan to offer the coal gas at a price per thermal equivalent unit that is estimated to be 20% less than the current price of liquid natural gas, a competing alternative.

Electricity Generation

After coal tar is separated, the resulting purified coal gas is piped to two onsite 3,000-kilowatt power stations (the Daying power station and the Sunling power station) to generate electricity, each of which has an estimated maximum generating capacity of 26,280,000 kilowatt-hours per year. The generated electricity primarily powers operations at our current coking plant and at Hongchang coal mine. Electricity for Shunli, Xingsheng and Shuangrui coal mines is purchased from Baofeng Power Bureau, a local state-owned electric utility provider.

Our annual amounts of electricity generated for the fiscal years ended June 30, 2011 and 2012 are as follows:

	Annual Generation
Fiscal Year	**(kilowatt)**

2011	9,410,144
2012	6,783,760

Sales and Marketing

We enter into non-binding annual letters of intent that set forth current year supply quantities, suggested pricing, and monthly delivery schedules with our customers for both coal and coke products at the beginning of each calendar year. The terms of the letters of intent are usually negotiated during the Annual National Coal Trading Convention organized by the China Coal Transport and Distribution Association. A significant portion of our sales are made through attendance at this convention. Changes in delivery quantity and pricing, which is based on open market pricing at the time of delivery, must be documented in a final written contract on a 30-day advance notice submitted by the party making the change and accepted by the other party. All of our current customers are generally required to make payment upon delivery of each shipment. In pricing our products, we consider factors such as the prices offered by competitors, the quality and grade of the product, the volume in national and regional coal inventory build-up and forecasted future trends for coal and coke prices. The remaining portion of our sales is derived from purchase orders placed by customers throughout the year when they require additional coal and coke products.

We have a flexible credit policy, and adjust credit terms for different types of customers. Depending on the customer, we may allow open accounts, or require acceptance bills or cash on delivery. We consider the creditworthiness and the requested credit amount of each customer when determining the appropriate payment arrangements and credit terms, which generally do not exceed a period over 90 days. We evaluate the creditworthiness of potential new customers before entering into sales contracts and reassesses customer creditworthiness on an annual basis. For customers without an established history, we require immediate settlement of accounts upon delivery.

Coke Sales

Our annual coke sales for the years ended June 30, 2011 and 2012, in volume, dollar amount and as a percentage of our total revenue, and the weighted average selling price per metric ton for each fiscal year, are as follows:

	Coke Sales			
Fiscal Year	Annual Sales (metric tons)	Annual Sales ($)	% of Revenue	Weighted Average Price Per Metric Ton ($)
2011	154,553	$35,970,933	48 %	$ 233
2012	166,373	$38,656,637	49 %	$ 232

Although our fiscal 2012 coke sales exceeded the prior fiscal year, the coke market was fairly soft for much of fiscal 2012, impacted by weak steel demands from tighter governmental control of real estate and land developments, as well as China's economic slowdown which has negatively affected heavy industries.

Raw Coal Sales

Our annual raw coal sales for the fiscal years ended June 30, 2011 and 2012, in volume, dollar amount and as a percentage of our total revenue, and the weighted average selling price per metric ton for each fiscal year, are as follows:

	Raw Coal Sales			
Fiscal Year	Annual Sales (metric tons) (1)	Annual Sales* ($)	% of Revenue	Weighted Average Price Per Metric Ton ($)
2011	207,272	$ 15,073,052	20 %	$ 73
2012	73,990	$ 5,441,981	7 %	$ 74

* Includes raw coal extracted from Hongchang coal mine and purchased as part of our coal trading activities, and raw coal/medium coal/coal slurry mixtures. Excludes any raw coal we used internally as raw material to produce washed coal and coke.

Sales prices per metric ton are influenced largely by the quality and composition of the coal sold. Generally, the thermal value of the coal, together with its chemical composition and other properties such as moisture, ash, sulfur, and other chemical content, affect the price at which we can sell coal. Sale prices for raw coal are also affected by general market conditions, supply and demand. Especially since the second half of fiscal 2012, the raw coal market has shown a declining trend due to a general slowdown in the Chinese economy.

Washed Coal Sales

Our annual washed coal sales for the fiscal years ended June 30, 2011 and 2012, in volume, dollar amount and as a percentage of our total revenue, and the weighted average selling price per metric ton for each fiscal year, are as follows:

	Washed Coal Sales			
Fiscal Year	**Annual Sales (metric tons)**	Annual Sales ($)	% of Revenue	**Weighted Average Price Per Metric Ton ($)**
2011	111,244	$19,885,495	27 %	$ 179
2012	183,903	$32,867,839	42 %	$ 179

Our sales prices per metric ton of washed coal are heavily influenced by the quality and composition of the coal sold. Washed coal prices are also influenced by general market conditions in the washed coal market, such as aggregate supply and demand. The washed coal market for fiscal 2012 was similar to the raw coal market, although demand for high quality washed coal remained fairly robust.

Coal Tar Sales

Our annual coal tar sales for the fiscal years ended June 30, 2011 and 2012, in volume, dollar amount and as a percentage of our total revenue, and the weighted average selling price per metric ton for each fiscal year, are as follows:

	Coal Tar Sales			
Fiscal Year	**Annual Sales**	Annual Sales ($)	% of Revenue	**Weighted**

	(metric tons)			Average Price Per Metric Ton ($)
2011	13,810	$ 3,358,513	5 %	$ 243
2012	7,648	$ 1,946,314	2 %	$ 254

We produce coal tar as a byproduct of the coking process. However, we currently do not have a separate process for refining and preparing coal tar to create a homogenous coal tar product. Accordingly, the quality and characteristics of coal tar produced varies from time to time (depending on inputs), based on such factors as thermal value, and moisture, ash, sulfur, and other chemical contents, and this affects the price at which we can sell our coal tar. The price of coal tar that we sell is also affected by overall market demand and supply, which is influenced by a variety of factors which may include higher prices for oil and oil derivatives, and stronger demand for construction materials, fertilizers, and related industrial chemicals.

Customers

We sell all of our products within China. The following customers each accounted for 10% or more our total revenue for fiscal 2012:

Customer	Sales to Customer ($)	Sales to Customer as a % of Revenue	
Daye Special Steel Co., Ltd.	$ 20 million	25.4	%
Wuhan Railway Zhongli Group	$ 19 million	23.6	%
Hongxin Industrial Co., Ltd.	$ 17 million	21.0	%
Zhengzhou Baonuo Trading Co., Ltd.	$ 16 million	20.5	%

The largest customer of each product for fiscal 2012 is as follows:

Customer	Product	% of Product Bought by Customer	
Daye Special Steel Co., Ltd.	Coke	51.7	%
Zhengzhou Baonuo Trading Co., Ltd.	Coal*	42.3	%
Mr. Xiangbin Cheng	Coal tar	25.3	%

* Includes both raw and washed coal.

None of these customers are related to or affiliated with us. Our sales personnel conduct routine visits to our customers. We have long-standing relationships with our customers, and management believes that our relationships

with them are stable.

Transportation and Distribution

We own and operate a private rail track of 4.5 kilometers in length that connects our current plant to the national railway system at both the East Pingdingshan Railway Station and the Baofeng Railway Station. Industrial loaders load coal and coke from our platform onto railcars to be transported to customers primarily in central and southeastern China in the provinces of Henan, Hubei, Hunan and Fujian. Our private railway allows us to exercise control over the transportation cost and delivery execution of our products. See also "*Property, Plant and Equipment – Railway Assets*" below.

Customers can also arrange for trucks to take delivery of products from our plant site.

Competitors

We compete primarily with coal and coke producers in the central, eastern and southern regions of China. Coke competitors range from Shanxi Coking Co., Ltd., a national coke producer, to local operations like Hongyue Coke Factory, Dongxin Coke Factory and Hongjiang Coke Factory. We also compete with China Pingmei Shenma Group ("China Pingmei"), a Pingdingshan-based state-owned coke and coal producer with similar product-mix as us. China Pingmei is also the largest regional coal producer and one of Henan's six SOE consolidators, all of whom are our competitors in the coal market. Competitive factors include geographic location, quality (i.e. thermal value, ash and sulfur content, washing and processing, and other characteristics), and reliability of delivery. The mining moratorium has also created a competitive advantage for the six SOE consolidators, as their mines are the only ones currently operating in Henan.

Suppliers

We purchase from various suppliers within China. The following suppliers each accounted for 10% or more our total purchases for fiscal 2012:

Supplier	Materials Supplied	Amount of Purchase ($)	% of Total Purchases	
Yaojie Coal Electricity Croup Co., Ltd	Raw coal	9 million	15.8	%
Sanmenxia Yinghao Coal Co., Ltd	Raw coal	8 million	12.7	%
Ruzhou Jialingnan Coal Co., Ltd	Raw coal	7 million	12.5	%
Pingdingshan Hongfeng Coal Processing & Coking Co., Ltd	Washed coal	6 million	10.7	%
Gansu Senbao Coal Co., Ltd	Raw coal	6 million	10.2	%

None of these suppliers are related to or affiliated with us.

As with our coke and coal sales, we meet our coking coal needs by entering into non-binding annual letters of intent with suppliers that set forth supply quantities, suggested pricing and monthly delivery schedules at the beginning of the year. Subject to changes in delivery quantity and pricing, which is based on the open market price of metallurgical coal at the time of delivery and agreed to by the parties, we generally make payment upon each delivery throughout the year.

We believe that we have established stable cooperative relationships with our suppliers. In light of the mining moratorium, we have been sourcing coal from outside of Henan. During the fiscal year ended June 30, 2012, about 33% of our coal purchases were from outside Henan, with the remaining from SOEs in Henan whose mining operations have not been affected by the mining moratorium. On September 6, 2012, we entered into an inventory purchase agreement with Datong Coal Mine Group, Ltd. (“Datong Group”), a SOE based in Shanxi Province, pursuant to which Datong Group will supply us with up to 120,000 metric tons of thermal coal through the end of September 2012.

Our other principal raw materials include water, which is provided without charge in the form of treated underground water by the operator of the nearby Hangzhuang coal mines, and electricity, most of which is generated onsite from our own power stations and which is supplemented from the local state-owned utility as needed. We also require wood and steel for our operations, and source these materials from nearby suppliers on a per purchase order basis. These materials are readily available and there is no shortage of suppliers to choose from.

Employees

The following table sets forth the number of our employees for each of our areas of operations and as a percentage of our total workforce as of June 30, 2012:

	Number of Employees	% of Employees	
Coal-related operations	39	15.9	%
Coke-related operations	190	77.2	%
Sales and marketing	4	1.6	%
Administrative (including management)	13	5.3	%
TOTAL	246	100.0	%

Our existing coking plant currently operates year round in two shifts of eight hours per day. Although mining operations are currently shut down, we have staff at the mine sites for necessary maintenance and repairs during the moratorium. Once our coal mines can resume full operations, we anticipate operating in three shifts of eight hours per day. In compliance with the *Employment Contract Law of PRC*, we have written contracts with all of our employees. We consider our relationship with our employees to be good.

Research and Development

As of June 30, 2012, we did not conduct any research and development activities. We do plan to initiate a program focusing on the extraction of chemicals from coal, and the anticipated costs and benefits of the production and sale of such byproducts are being considered.

Intellectual Property

We have no patents, trademarks, in-bound or outbound licenses, franchises, or royalty arrangements.

Relevant PRC Regulations

We operate in an industry that is highly regulated by local, provincial and central government authorities in the PRC. Applicable regulations include those relating to safety, production, environmental, energy use and labor. While it is not practicable to summarize all applicable laws, the following is a list of names of significant laws and regulations that apply to our business:

Laws and regulations concerning safety of coal mines:

- Law of the People's Republic of China on the Coal Industry
- Regulation on Work Safety Licenses
- Measures for Administration of Coal Production License
- Regulations on Administration of Village's and County's Coal Mines
- Law of Mine Safety
- Production Safety Law, which applies to production activities in general
- Law of the Coal Industry
- Regulations on Coal Mine Safety Supervision and Inspection
- Regulations on Coal Mine Explosives Control
- Special Provisions for the Prevention of Coal Mine Incidents
- Requirements for Basic Production Conditions for Coal Mines
- Penalties for Coal Mine Safety Violations

· Penalties for Production Safety Violations

Laws and regulations concerning environmental protection and energy conservation:

- Law of the Prevention and Control of Solid Waste Environmental Pollution, which applies to entities whose production activities may generate pollutive solid waste

- Law of the Prevention and Control of Atmospheric Pollution, which set restrictions in coal burning and emissions that cause air pollution

· Mineral Resources Law, which regulates the extraction of mineral resources including coal

- Law Regarding the Prevention and Control of Water Pollution, which regulates pollution of underground water caused by mining activities

· Land Administration Law, which restricts mining activities on agricultural land

- Law of Prevention and Control of Radioactive Pollution, which regulates and prohibits the release of radioactive pollution caused by certain mining activities

· Laws of Water and Soil Conservation, which regulates mining activities with the aim of preventing soil erosion

· Environmental Protection Law, which contains certain general provisions that apply to the operation of coal mines

Laws and regulations concerning labor:

- Labor Law, which protects workers, and contains provisions that apply to a broad range of industries including the mining industry

- Labor Contract Law of the People’s Republic of China and its implementation, which protect workers, and contains laws that apply to a broad range of industries including the mining industry

Environmental Protection Measures

We incorporate measures to reduce the environmental impacts of our operations. Our large-sized furnace reduces the frequency of coal loading and trundling, thereby reducing the amount of dust and soot that is generated. We capture coal gas emitted during the coking process to generate electricity which we use in our operations. We also recycle water - water that is used for coal washing is treated to remove phenol and other contaminants, and then re-used in the coal washing operation. We also use recycled water, in the form of treated underground water, to quench coke and for our power stations, which is provided without cost by the nearby Hanzhuang coal mines, which mining rights are owned and operated by unrelated third parties. Additionally, we use sound insulation to reduce noise pollution, and we plant vegetation throughout our plant to help mitigate the environmental impact of our operations.

Safety

Under PRC law, companies with mining operations are required to report violations or mining incidents and casualties to the government authorities. Since inception, except for ordinary and minor injuries, we have suffered no major accidents and no casualties in connection with our mining operations, and have not suffered any reportable incident. In addition, mining companies are subject to random and periodic safety inspections by government mine regulators. Since inception, we have not been found to be in material violation of any mining regulations. As we have no record of violations or mining incidents, management considers our safety record to be excellent. See also "*Our Products and Operations – Coal – Coal Mining Moratorium*" above.

Property, Plant and Equipment

The location of Pingdingshan, where we are based, is illustrated below:

The locations of our executive office, current coking plant and coal mines, are all in and around Pingdingshan, and are illustrated below:

Coal Mines and Production Facilities

The description below is based on operations prior to the mining moratorium (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" above):

All four coal mines that we currently control are located at Baofeng County in the central part of Henan Province and are in close proximity to one another as well as to roadways. All of the mines are underground mines, and the "room-and-pillar" method is used to extract coal. Under such method, a coal stratum is divided into horizontal planes and the coal is removed from each plane while leaving "pillars" of un-mined materials as supports, working from the uppermost plane down. Each plane is further divided into grids to determine the optimal pillar placements. Drilling and blasting techniques are used to extract the coal. We plan to conduct exploration and development activities for each mine once its amount of extracted coal approaches its maximum estimate amount of proven and probable reserves.

All raw coal would be loaded and transported by a chain conveyor into crates which are carried out to the surface by an electrical winch. Each crate carries approximately 2.5 metric tons, and approximately 400 crates would be carried to the surface during each 8-hour mining shift. Rock material would be used for floor ballast with the excess sent to the surface for disposal. Air compressors would provide for underground air tool use. Electrical power would be supplied from our own power stations as well as from the Baofeng Power Bureau through state-owned power lines, and supplied to the underground work site through a double-circuit cable designed to mitigate and circumvent potential power supply disruptions.

Normal water inflow into the mines would be controlled by a system of ditches, sumps, pumps and drainpipes installed throughout the mine tunnels. Each mine's ventilation system includes an exhaustive fan on the surface of the main incline. Auxiliary fans would be used as needed.

The principal pieces of equipment used in our mining operations, including safety system, underground transportation system and loading system, are manufactured in the PRC, and they generally have an estimated useful life of 15 years. Once the mining moratorium is lifted and we are able to resume operations, we currently estimate the total annual operating costs for the four coal mines to be approximately $45 million, or $50 per metric ton of coal produced, based on an average output of 900,000 metric tons per year in the aggregate.

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The extracted coal would be trucked to our processing plant located nearly (approximately 1.5 kilometers from Hongchang coal mine) for washing and sorting at our coal washing facility. Samples would be taken prior to and after the coal washing process to analyze and determine coking readiness based primarily on moisture, ash, sulfur and volatile contents. We would use washed coal that meets certain chemical and thermal requirements to make coke, although we would also sell some to customers.

We intend to transfer all of our coal mining operations to Hongyuan CSG. As of the date of this Report, however, such transfers have not been carried out.

Hongchang Coal Mine

Hongchang coal mine originally consisted of four underground mines: Yongshun mine, Liangshuiquan mine, Zhaoxi secondary mine and Zhaozhuang Tanglishu mine. These mines were positioned adjacent to one another, and although once owned and operated by different parties, these mines made use of common passageways and mine shafts. In June 2005 we acquired Yongshun mine (built in 1996) and Zhaoxi secondary mine (built in 1988) from Quinmin Chen. Also in June 2005, we acquired Liangshuiquan mine (built in 1984) from Minjie Li. In April 2005 we acquired Zhaozhuang Tanglishu mine (built in 1984) from Liuqing He and Jiti Li. We assumed the ongoing mining operations, and initiated the consolidation, of these mines, which consolidation process was completed in 2006. Since acquisition in 2005, we have extracted a total of 709,202 metric tons of coal from Hongchang coal mine, and prior to such time, its predecessor owners extracted a total of 345,000 metric tons. Coal extracted from Hongchang coal mine consists of bituminous coal, and based on historical mining activities, approximately 75% of the coal extracted typically possesses properties that meet the requirements for coking (metallurgical) coal.

Hongchang coal mine is currently not operational (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" above).

Shuangrui Coal Mine

Shuangrui coal mine originally consisted of five underground mines: Zhaozhuang mine (built in 1970), Longsheng mine (built in 1995), New Zhaozhuang mine (built in 2000), Jinpo mine (built in 1999) and West Zhaozhuang mine (built in 1998). The first on-site geological survey for mining purpose of these mines was conducted in 1950s, with several subsequent surveys carried out from 1960s to 2001. Hongchang Coal currently holds 100% of the mine's operator, Shuangrui Coal (see "*History and Corporate Structure – Hongli*" above). Coal extracted from Shuangrui coal mine consists of bituminous coal, and based on historical mining activities, approximately 75% of the coal extracted

typically possesses properties that meet the requirements for coking (metallurgical) coal.

Shuangrui coal mine is currently not operational (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" above). We also plan to dissolve Shuangrui Coal and consolidate its coal mine under Hongchang Coal (see "*History and Corporate Structure – Hongli*" above). Once such consolidation is completed, Shuangrui coal mine will become part of Hongchang coal mine.

Xingsheng Coal Mine

Xingsheng coal mine originally consisted of No. 2 Qingnian mine (operation started in 2000) and No. 3 Shuangyushan mine (operation started in 1998). The first on-site geological survey for mining purpose of these mines was conducted in 1958. The coal extracted from Xingsheng coal mine is bituminous coal which is suitable for coke production. In August 2010, we entered into an agreement to acquire 60% of the mine's operator, Xingsheng Coal, and the registration for the transfer of such equity interests to Hongli was completed on May 20, 2011. Coal extracted from Xingsheng coal mine consists of bituminous coal, and based on historical mining activities, approximately 75% of the coal extracted typically possesses properties that meet the requirements for coking (metallurgical) coal.

Xingsheng coal mine is currently not operational (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" above).

Shunli Coal Mine

Shunli coal mine originally consisted of Dongfanghong mine (built in 1995) and Zhenxing mine (built in 1998). The first on-site geological survey for mining purpose of these mines was conducted in 1950s. In May 2011, we entered into an agreement to acquire 100% of the mine's operator, Shunli Coal, and the registration for the transfer of such equity interests to Hongchang was completed on May 20, 2011. Coal extracted from Shunli coal mine consists of bituminous coal, and based on historical mining activities, approximately 75% of the coal extracted typically possesses properties that meet the requirements for coking (metallurgical) coal.

Shunli coal mine is currently not operational (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" above). We are also in the process of consolidating Shunli coal mine under Hongchang Coal (see "*History and Corporate Structure – Hongli*" above). Once consolidation is completed, Shunli coal mine will become part of Hongchang coal mine.

Additional information regarding these mines is listed below:

	Hongchang Mine (6)	Shuangrui Mine (9)	Xingsheng Mine (12)	Shunli Mine (15)
Background data:				
Commencement of construction	1984	1970	1970	1995
Commencement of commercial production	1987	1970	1998	1998
Coalfield area (*square kilometers*)	0.65	0.47	0.19	0.08
Reserve data:(1)				
Total in-place proven and probable reserves (*metric tons*) (2)	2,479,000 (7)	1,674,000 (10)	2,475,000 (13)	1,373,300
Recoverable reserves (*metric tons*) (3)	1,215,100	1,539,000	2,233,000	1,122,000
Coal washing recovery rate (%) (4)	75	75	75	75
Depth of mining (*meters underground*)	10 – 210	40 – 270	80 - 90	100 - 130
Average thickness of main coal seams (*meters*)	Seam B1: 1.14 Seam A4: 5.50 (8)	6.78	Seam A4: 0.70 – 1.08 Seam B1: 4.50 – 14.40 (14)	Seam A4: 2.0 Seam A6: 1.6 Seam B1: 6.5 – (17)
Type of coal	Thermal/Metallurgical	Thermal/Metallurgical	Thermal/Metallurgical	Thermal/Metall
Leased/owned	Owned	Owned	Owned	Owned
Assigned/unassigned(5)	Assigned	Assigned	Assigned	Assigned
Sulfur content (%)	Seam B1: 2.64 Seam A4: 0.55	Seam B1: 0.55 (11)	Seam A4: 4.90 Seam B1: 0.55	Seam A4: 1.50 Seam A6: 0.87 Seam B1: 0.55
Water content (%)	Seam B1: 0.83	Seam B1: 1.5	N/A	Seam A4: 1.50

	Seam A4: 1.5			Seam A6: 1.08 Seam B1: 1.50 Seam A4: 16
Ash content (%)	Seam B1: 15.3 Seam A4: 14.0	Seam B1: 14	Seam A4: 18.64 Seam B1: 14.00	Seam A6: 33.44 Seam B1: 15 Seam A4: 32
Volatility content (%)	Seam B1: 32.5 Seam A4: 29.0	Seam B1: 29	Seam A4: 38.45 Seam B1: 33.15	Seam A6: 20.59 Seam B1: 29 Seam A4: 30.10
Thermal Value (*megajoules per kilogram*)	31.9	28.5	31.2	Seam A6: 18.56 Seam B1: 31.30
Production data: (*metric tons*)				
Designed raw coal production capacity (*per year*)	150,000	150,000	150,000	150,000
Raw coal production:				
2009	260,938	150,000	150,000	150,000
2010	242,878	150,000	150,000	150,000
2011	186,226	1,020	67,981	0
2012	19,160	0	0	0
Cumulative raw coal production as of June 30, 2012	709,202	301,020	367,981	300,000

(1) The reserve data including (i) total in-place proven and probable reserves, (ii) mining and coal preparation plant recovery rates; (iii) depth of mine; and (iv) average thickness of main coal seam are based on the relevant information from the mining report of each mine issued by our provincial mining authorities, the Regional Geological Survey Team of the Henan Bureau of Geology and Mineral Exploration and Development, and records of the Company. Non-accessible reserves are defined as the portion of identified resources estimated to be not accessible by application of one or more accessibility factors within an area. We note that the degree of assurance between what would meet the definition of "proven reserves" on the one hand, and "probable reserves" on the other hand, cannot be readily defined. Accordingly, pursuant to the SEC's Industry Guide 7 – Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations, in the table above we report proven and probable reserves on a combined basis.

(2) In-place reserves refer to coal in-situ prior to the deduction of pillars of support, barriers or constraints.

(3)

Recoverable reserves refer to identified coal reserves that are technologically and economically feasible to extract prior to the deduction of losses during extraction. We note that the estimated recoverable reserves is a government estimate created and used by local mining authorities to determine permissible extraction rates, the duration of our mining license, and to approve mine designs and that it is subject to revision. We also utilize this estimate for accounting purposes, to amortize our mining rights. Currently estimated recoverable coal may not necessarily be consistent with the results of future mining, engineering and feasibility studies or reports.

(4) Coal washing recovery rate refers to the rate of recovery of coal in the production of our washed coal products.

(5) "Assigned" reserves refer to coal which has been committed to a particular mining complex (mine shafts, mining equipment, and plant facilities), and all coal which has been leased by the company to others. "Unassigned" reserves refer to coal which has not been committed, and which would require new mineshafts, mining equipment, or plant facilities before operations could begin on the property.

(6) The mining report of Hongchang coal mine is dated November 2005 (the "Hongchang Mining Report").

(7) According to the Hongchang Mining Report, Hongchang coal mine was initially found to have total estimated reserves and resources of 2.81 million metric tons. 334,000 metric tons were removed during exploration, leaving approximately 2.47 million metric tons of estimated reserves and resources.

(8) Hongchang coal mine contains two major economically exploitable coal seams, referred to in this table as the "Seam B1" and the "Seam A4".

(9) The mining report of Shuangrui coal mine is dated February 17, 2006 (the "Shuangrui Mining Report").

(10) According to the Shuangrui Mining Report, Shuangrui coal mine was initially found to have total estimated reserves and resources of 4 million metric tons. 2.33 million metric tons were removed during exploration, leaving approximately 1.67 million metric tons of estimated reserves and resources.

(11) Shuangrui Ming contains one major economically exploitable coal seam, referred to in this table as the "Seam B1."

(12) The mining report of Xingsheng coal mine is dated April 10, 2006 (the "Xingsheng Mining Report").

(13) According to the Xingsheng Mining Report, Xingsheng coal mine was initially found to have total estimated reserves and resources of 2.74 million metric tons. 260,000 metric tons were removed during exploration, leaving approximately 2.48 million metric tons of estimated reserves and resources.

(14) Xingsheng coal mine contains two major economically exploitable coal seams, referred to in this table as the "Seam A4" and the "Seam B1."

(15) The mining report of Shunli coal mine is dated March 2, 2006 (the "Shunli Mining Report").

(16) According to the Shunli Mining Report, Shunli coal mine was initially found to have total estimated reserves and resources of 1.44 million metric tons. 647,000 metric tons were removed during exploration, leaving approximately 1.37 million metric tons of estimated reserves and resources.

(17) Shunli coal mine contains three major economically exploitable coal seams, referred to in this table as the "Seam A4", the "Seam A6", and the "Seam B1."

Mining Rights

Like all coal mines in the PRC, the four mines that we control, including the mine sites and the underlying coal and other minerals, are state-owned. Accordingly, the amount of coal that we can extract from each of mine is based on the mining permit issued to the mine's operator by the Henan Province Bureau of Land and Resources (the "Henan Land Resources Bureau"). For example, we extract coal from Hongchang coal mine based on the permit issued to Hongchang Coal. Each permit is issued pursuant to a reserves appraisal report submitted by government authorized mining engineers, and upon approval of such report by the Henan Land Resources Bureau. The amount of coal that can be extracted under the permit represents what we can economically and legally extract under applicable PRC law and as determined by the Henan Land Resources Bureau.

The table below lists our current mining permits:

	Hongchang coal mine	Shuangrui coal mine	Xingsheng coal mine	Shunli coal mine
Issuance date	July 6, 2007	June 4, 2007	May 30, 2007	November 17, 2009
Expiration date (unless extended)	September 6, 2013	October 4, 2011 (1)	July 30, 2012 (1)	September 2011 (1)
Permitted mining amount (metric tons per year)	150,000	150,000	150,000	150,000

(1) These permits have not been renewed in light of the ongoing mining moratorium (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" above). In addition, we are in the process of consolidating Shunli coal mine under Hongchang Coal, and plans to do the same with Shuangrui coal mine (see "*History and Corporate Structure – Hongli*" above). Once consolidation is completed, we will have only one permit to mine all three mine sites.

Under our current mining permits, we are theoretically allowed to extract up to 8,001,300 metric tons of coal from the four coal mines, representing their aggregate estimated in-place proven and probable reserves. Out of such proven and probable reserves, 6,109,100 metric tons are recoverable according to the reserves appraisal reports for these mines.

We are also required to pay for the amount of coal that we wish to extract under each mining permit, generally determined on a per metric ton basis based on proven and probable reserves (rather than actual recoverable coal), as well as prevailing market prices as determined by the Henan Land Resources Bureau. In the event that further exploration results in an increase of estimated proven and probable reserves (and we desire to extract such additional reserves), or if we desire to continue mining beyond a mining permit's expiration date, we must obtain an additional permit from the Henan Land Resources Bureau and may be subject to additional fees to acquire such permit or to modify an existing permit. We expect that the cost of further exploration in and around the four coal mines would be borne by us. We have been conducting additional geological studies around Hongchang coal mine, and expect to report our findings to the local mining authority. We note that the estimated 6,109,100 metric tons of recoverable reserves for the four coal mines in the aggregate is a government estimate created and used by local mining authorities to determine permissible extraction rates and the duration of our mining permits, and to approve mine designs, and is subject to revision. Currently estimated recoverable coal may not necessarily be consistent with the results of future mining, engineering and feasibility studies or reports.

In August 2007, we made a partial payment of approximately $0.6 million (RMB 4.46 million) to extract from Hongchang coal mine its 2,479,000 metric tons of total reserves. A final payment of approximately $0.4 million (RMB 2.7 million) is anticipated to become due when charged by the Henan Land Resources Bureau. The exact amount of this final payment, however, will depend on market prices as determined by our negotiations with the Henan Land Resources Bureau, as well as any new regulations after the consolidation program ends.

Payments in connection with the mining permits for Shuangrui, Shunli and Xingsheng coal mines were made in full in 2005 by their then owners.

Railway Assets

Currently, we have rail assets consisting of approximately 4.5 kilometers of special purpose transportation railway tracks that serve to facilitate the transportation of coal and coke from our site to the national railway system, and ultimately to our customers. We do not own any railcars and locomotives, but instead pay access fees to the Ministry of Railways for the use of government-owned and operated railcars and locomotives. These railcars are loaded with coal and coke products at our yard for delivery through the national railway system.

ITEM 1A. RISK FACTORS

The reader should carefully consider the risks described below together with all of the other information included in this Report. The statements contained in or incorporated into this Report that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our common stock could decline, and an investor in our securities may lose all or part of their investment.

Risks Related To Our Business

Our business and results of operations are dependent on China's coal and coke markets, which may be cyclical.

The principal source of our revenue is from the sale of coal and coke within China, thus the business and operating results are highly dependent on domestic Chinese demand for coal and coke. The Chinese coal and coke markets are cyclical and exhibit fluctuation in supply and demand from year to year. They are subject to numerous factors beyond our control, including, but not limited to, general economic conditions in the PRC and fluctuations in industries with high demand for coal, such as the power and steel industries. These factors are also linked to or influenced by global economic conditions. Fluctuations in supply and demand for coal and coke affect their prices, which in turn affect our operating and financial performance. We have seen substantial price fluctuations in these commodities in the past and believe that such fluctuations may continue. The demand for coal and coke are primarily influenced by the pace of domestic economic growth and development, and the demand for coal and coke from the power, steel, and construction industries. The supply of coal and coke, on the other hand, are primarily affected by the geographic location of coal mines, the volume of coal and coke produced by the domestic and international coal suppliers, tariffs duties and trade controls, value-added taxes imposed on imports, international freight costs, and the quality and price of competing sources of coal and coke. Alternative fuels, such as natural gas, oil and nuclear power, and alternative energy sources, such as hydroelectric power, wind, geothermal and solar, also have influences on the market demand for coal and coke. Excess supply of coal or coke or significant reduction in the demand for our coal or coke by domestic power or steel producers may have an adverse effect on their prices, which would in turn cause a decline in our profitability. In addition, any significant decline in Chinese domestic coal or coke prices could materially and adversely affect our business and results of operations.

Our mining and coking operations are inherently subject to changing conditions that can affect our profitability.

Our mining and coking operations are inherently subject to changing conditions that can affect levels of production and production costs for varying lengths of time and can result in decreases in profitability. We are exposed to commodity price risk related to the purchase of diesel fuel, wood, explosives and steel. In addition, weather and natural disasters (such as earthquakes, landslides, flooding, and other similar occurrences), unexpected maintenance problems, key equipment failures, fires, variations in thickness of the layer, or seam, of coal, amounts of overburden, rock and other natural materials, variations in rock and other natural materials and variations in geological conditions can be expected in the future to have, a significant impact on our operating results. Prolonged disruption of production at the mines would result in a decrease in our revenues and profitability, which could be material (see "*We may not be able to resume our coal mining operations in the near future*" below). Other factors affecting the production and sale of our coal and coke that could result in decreases in our profitability include:

- sustained high pricing environment for raw materials, including, among other things, diesel fuel, explosives and steel;
- changes in the laws and/or regulations that we are subject to, including permitting, safety, labor and environmental requirements;
- labor shortages; and
- changes in the coal and coke market and general economic conditions.

Our coal and coke operations are extensively regulated by the PRC government and government regulations may limit its activities and adversely affect its business operations.

Our coal and coke operations, like those of other Chinese natural resources and energy companies, are subject to extensive regulations administered 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 State Bureau of Taxation, and provincial and local authorities and agencies exercise extensive control over various aspects of China's coal mining and transportation (including rail and sea transport). These controls affect the following material aspects of our operations:

- exploration, exploitation and mining rights and licensing;
- rehabilitation of mining sites after mining is completed;
- recovery rate requirements;
- industry-specific taxes and fees;

- target of our capital investments;
- pension funds appropriation; and

- environmental and safety standards.

We believe that our operations are in compliance with applicable legal and regulatory requirements. However, there can be no assurance that the central, provincial or local governments in the PRC will not impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures by us to comply (see "*We may not be able to resume our coal mining operations in the near future*" below). We may face significant constraints on our ability to implement our business strategies or to carry out or expand business operations. We may also be materially and adversely affected by future changes in certain regulations and policies of the PRC government in respect of the coal or coke industry. New legislation or regulations may be adopted that may materially and adversely affect our operations, our cost structure or 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 Henan Province Pingdingshan Municipal Bureau of Land and Resources is requiring coking factories with a furnace height of less than 4.3 meters to phase out their operations in the next two to three years. As our existing coking furnace's height is 3 meters, we plan to upgrade and retrofit our coking furnace to 5.5 meters in height after completing our new coking facility, which will also have furnaces that exceed these regulatory standards.

We may not be able to resume our coal mining operations in the near future.

With the PRC government's increasing concern regarding mine safety issues, particularly in light of several recent accidental explosions in coal mines (operated by other companies) due to inadequate internal safety measures, and the implementation of the State Council's Regulation on Phase-out of Small Coal Mines, industry-wide coal mine safety inspections have been ongoing in Henan since June 2010. During the course of these inspections, all coal mines in Henan have been shut down. We continued to operate our only mine at that time, Hongchang coal mine, at approximately 50% capacity until September 2011, when we halted operation in order to complete certain engineering and safety upgrades. Operations at our other three mines (Shuangrui, Xingsheng and Shunli) were already halted when we acquired controlling interests in them in May 2011, and have not resumed since (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" above). At this time, we do not know when we can obtain clearance to resume operations at these mines.

This and future interruptions to our coal mining operations, albeit temporary, may have a material effect on our financial results and operations. Moreover, additional new legislation or regulations may be adopted, or the enforcement of existing laws could become more stringent, either of which may have a significant impact on our mining operations or customers' ability to use coal and may require our customers to significantly change operations or to incur substantial costs.

Our future success may depend substantially upon our ability to complete and operate the new coking plant.

A central element of our business plan involves the construction and operation of our new coking plant. We entered into several contracts with contractors and suppliers and commenced construction of this new plant and related facilities on March 3, 2010. As of the date of this Report, construction has not yet been completed. As of June 30, 2012, the total amount due under the contracts for the plant construction was approximately $64.9 million, of which approximately $58.2 million has been paid, and the remaining $6.7 million will be paid based on construction progress. While we believe new operations resulting from the successful completion of the plant's construction as planned will be profitable, prior to completion there can be no assurance that we will be able to operate the new plant profitably. The future profitability of our coking operations will also depend on our ability to secure washed coal on a cost-effective basis.

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

As a producer of coal and coke 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 offences; and
- allow the Chinese Government, at its discretion, to close any facility that fails to comply with environmental regulations or government orders.

Our operations may produce 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 current amounts of capital expenditure for environmental regulatory compliance may not be sufficient if additional regulations are imposed 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 and coke if customers switch to sources of fuel with lower carbon dioxide emissions, which in turn could reduce the revenues of our businesses and have a material adverse effect on results of operations.

Demand for coal and coke and their respective prices are closely linked to consumption patterns of the power and steel industries in China. Any changes in consumption patterns could affect our operations and profitability.

Demand for coal and coke and the prices that we will be able to obtain for these products are closely linked to consumption patterns of the power generation and steel industries in China. These consumption patterns are influenced by factors beyond our control, including the demand for electricity; demand for steel; government regulation; technological developments and the location, availability, quality and price of competing sources of coal and coke; alternative fuels, such as natural gas, oil and nuclear power, and alternative energy sources, such as hydroelectric power, wind, geothermal and solar. Any reduction in the demand for coal or coke by the domestic power and steel industries may cause a decline in demand and revenue from our products which would reduce our profitability. For much of fiscal 2012, the steel industry especially has suffered from tighter governmental control of real estate and land developments, resulting in a soft coke market. Likewise, the general slowdown in the Chinese economy has negatively impacted the coal market, especially in the second half of fiscal 2012, although state-mandated consolidation programs such as the one taking place in Henan have buoyed demand somewhat.

If transportation for our coal or coke becomes unavailable or uneconomic for our customers, our ability to sell our products could suffer.

Transportation costs represent a significant portion of the total cost of coal and, as a result, the cost of transportation is a critical factor in a customer's purchasing decision. Increases in transportation costs could make our products a less competitive source of energy or could make some of our offerings less competitive than other sources of coal or coke. We rely upon trucking, national, provincial and local highways and roadways, and the national railway system to transport our products. Regulation of, and the overall cost of using these forms of transportation may be outside of our control. Further changes in the accessibility and cost of these forms of transportation could affect our ability to deliver our products to our customers, and which, in turn, could affect the attractiveness of our products relative to competing alternatives. In addition, these modes of transportation depend upon the support of the national, provincial and local governments for their maintenance and operation, and their reliability will depend on the actions and resources of these governments.

Risks inherent to mining could increase the cost of operating our business.

Our mining operations are subject to conditions beyond our control that can delay coal deliveries or increase the cost of mining for varying lengths of time. These conditions include weather and natural disasters (such as earthquakes, landslides, flooding, and other similar occurrences), unexpected maintenance problems, key equipment failures, fires, variations in thickness of the layer, or seam, of coal, amounts of overburden, rock and other natural materials, variations in rock and other natural materials and variations in geological conditions.

As with all companies that have coal mining operations, our operations are affected by mining conditions such as a deterioration in the quality or thickness of faults and/or coal seams, pressure in mine openings, presence of gas and/or water inflow and propensity to spontaneous combustion, as well as operational risks associated with industrial or engineering activity, such as mechanical breakdowns. Although we have conducted geological investigations to evaluate such mining conditions and adapt our mining plans to address them, there can be no assurance that the occurrence of any adverse mining conditions would not result in an increase in our costs of production, a reduction of coal output or the temporary suspension of operations.

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

We operate coal mines and related facilities that may be affected by water, gas, fire or structural problems. As a result, our operations, like other coal mining and coking companies, could experience accidents that cause property damage and personal injuries. Although we have implemented safety measures at our operations, and provide on-the-job training for our employees, and, in accordance with relevant laws set aside approximately 9.6% of employees' total

remuneration for employees' health insurance, there can be no assurance that industry-related accidents will not occur in the future.

We currently do not maintain fire, or other property insurance covering our properties, equipment or inventories. 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. Any uninsured losses and liabilities incurred by us could have a material adverse effect on our financial condition and results of operations. For instance, if it occurred, a major mining accident could prompt government-mandated closure of some or all of our mining operations, which would then require us to spend significant resources on remediation which could consume our available capital resources. Further, until such remediation is completed, we would be required to obtain our raw coal inputs from other third party suppliers at a higher price, which would adversely affect our gross margins on coal and coke products. Although the likelihood of a major mining accident is extremely difficult to predict, we note that we have never suffered a casualty or major mining-related accident since inception, we have never been found to be out of compliance with government safety standards, and management believes our mining operations are safer than the industry average in China.

Our ability to operate effectively could be impaired if we loses key personnel or fails to attract qualified personnel.

Our business is managed by a number of key personnel, the loss of any of which could have a material adverse effect on operations. In addition, as business develops and expands, we believe that our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. We cannot assure that key personnel will continue to be employed by us or that we will be able to attract and retain qualified personnel in the future. We employ our key personnel on an at-will basis, which means that either the Company or the employee may generally terminate the employment relationship at any time for any reason. Accordingly, if we are not able to effectively fill vacancies of departing key persons, our business may be impaired. Further, we note that our management is heavily dependent on the skills, experience, contacts, and business relationships of our founder and chief executive officer, Mr. Jianhua Lv. Accordingly, the loss of Mr. Lv could cause significant impairment to the business of our Company.

A downturn in global economic conditions may materially adversely affect our business and results of operations.

Our business and results of operations are affected by international, national and regional economic conditions. Financial markets in the United States, Europe and Asia have experienced significant disruption in the past year, including among other things, heightened volatility in security prices, constrained liquidity and credit availability, rating downgrades of certain investments and declining values of others. We are unable to predict the likely duration and severity of the current disruptions in financial markets, credit availability, and adverse economic conditions throughout the world. These economic developments affect businesses in a number of ways that could result in unfavorable consequences to us. Adverse global economic conditions, including within the PRC, could negatively affect commodity prices, or may cause our current or potential customers to delay or reduce purchases which could, in turn, result in reductions in sales volumes or prices, materially and adversely affecting results of operations and cash flows. Volatility and disruption of global financial markets could limit our customers' abilities to obtain adequate financing to maintain operations and proceed with planned or new capital spending initiatives, leading to a reduction

in sales volume that could materially and adversely affect results of operations and cash flow. In addition, a decline in our customers' abilities to pay as a result of an economic downturn may lead to increased difficulties in the collection of accounts receivable, higher levels of reserves for doubtful accounts and write-offs of accounts receivable, and higher operating costs as a percentage of revenues.

Certain of our shareholders control a significant amount of our common stock.

Approximately 31.7% of our outstanding common stock is controlled by one holding entity, of which our founder and chief executive officer, Mr. Jianhua Lv, is a director and beneficiary. Accordingly, Mr. Lv presently has significant relative voting power and influence over any action requiring shareholder approval, including the election of our directors.

Our acquisitions may disrupt or have a negative impact on our business.

We could have difficulty integrating personnel and operations of Shuangrui Coal, Xingsheng Coal and Shunli Coal with our own. In addition, their key personnel may not be willing to work for us. In addition to the risks described above, acquisitions are accompanied by a number of inherent risks, including, without limitation, the following:

- the effect of any government regulations which relate to the business acquired;
- delays and waiting periods associated with required safety inspections, as well as government licensing or permitting procedures;
- difficulties in disposing of the excess or idle facilities of an acquired company or business and expenses in maintaining such facilities;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the potential impairment of relationships with employees and customers as a result of any integration of new management personnel;
- potential unknown liabilities associated with acquired businesses and the associated operations, or the need to spend significant amounts to retool, reposition or modify the existing operations; and
- the defense of any litigation, whether or not successful, resulting from actions of the acquired company prior to the acquisition.

For instance, as a required part of the process of consolidating mines in China, a consolidator is required to undergo safety inspections which apply to its existing and operating mines as well as acquired mines. These government inspections, as well as the required permitting and permitting process, may require substantial time to complete, and this may cause interruptions our coal mining operations. In light of the mining moratorium, we do not know when such clearance will be issued, if at all (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" above). Further, if safety issues are identified by government mine inspection authorities, we may be required to undertake costly and time-consuming remedial measures in order to restore production.

Our business could be impaired to the extent that management is unable to succeed in addressing any of these risks or other problems encountered in connection with these acquisitions, many of which cannot be presently identified, these risks and problems could disrupt our ongoing business, distract the management and employees, increase our expenses and adversely affect our results of operations.

A large portion of our current revenue is derived from relatively few customers.

We depended on four major customers for a substantial portion of our revenue in fiscal 2012. Nonrenewal or termination of our arrangements with these customers may have a materially adverse effect on our revenue. In the event that any one of our major customers does not renew or terminates its arrangement with us, there can be no assurance that we will be able to enter into another arrangement similar in scope. Additionally, there can be no assurance that our business will not remain largely dependent on a limited customer base accounting for a substantial portion of revenue.

Risks Related to Our Corporate Structure

If the Chinese government determines that the contractual arrangements through which we control Hongli do not comply with applicable regulations, our business could be adversely affected. If the PRC regulatory bodies determine that such agreements do not comply with PRC regulatory restrictions on foreign investment, we could be subject to severe penalties. In addition, changes in such Chinese laws and regulations may materially and adversely affect our business.

There are uncertainties regarding the interpretation and application of PRC laws, rules and regulations, including but not limited to the laws, rules and regulations governing the validity and enforcement of the contractual arrangements between Hongyuan and Hongli. Although we have been advised by our PRC counsel that based on their understanding of the current PRC laws, rules and regulations, the contractual arrangements with Hongli and its owners, as well our ability to enforce our rights thereunder, comply with all applicable PRC laws, rules and regulations, and do not violate, breach, contravene or otherwise conflict with any applicable PRC laws, rules or regulations, we cannot assure you that the PRC regulatory authorities will not determine that our corporate structure and contractual arrangements violate PRC laws, rules or regulations. If the PRC regulatory authorities determine that our contractual arrangements are in violation of applicable PRC laws, rules or regulations, they will become invalid or unenforceable. In addition, new PRC laws, rules and regulations may be introduced from time to time to impose additional requirements that may be applicable to our contractual arrangements.

The Chinese 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 Chinese 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 Chinese 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.

If we, Hongyuan or Hongli are determined to be in violation of any existing or future PRC laws, rules or regulations or fail to obtain or maintain any of the required governmental permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of Hongli and/or voiding the contractual arrangements;
- discontinuing or restricting the operations of Hongli;
- imposing conditions or requirements with which we or Hongyuan or Hongli may not be able to comply;
- requiring us to restructure the relevant ownership structure or operations;
- restricting or prohibiting our use of the proceeds from our initial public offering to finance our business and operations in China; or
- imposing fines or other forms of economic penalties.

As we do not have direct ownership of Hongli, the imposition of any of these penalties may have a material adverse effect on our financial condition, results of operations and prospects.

Our contractual arrangements with Hongli and its owners as well as our ability to enforce our rights thereunder may not be as effective in providing control over Hongli as direct ownership.

We have no equity ownership interest in Hongli, and rely on contractual arrangements to control the company. We cannot assure you that the owners of Hongli will always act in our best interests, and these contractual arrangements may not be as effective in providing control over the company as direct ownership. For example, Hongli could fail to take actions required for our business despite its contractual obligation to do so. If Hongli fails to perform under its agreements with us, we are required by the terms of these agreements to enforce our rights by arbitration before The China International Economic and Trade Arbitration Commission (CIETAC). According to the Rule of CIETA, to initiate such proceeding, we must first prepare and submit an arbitration request to CIETAC for its acceptance. Once accepted, CIETAC will form an arbitration tribunal to hear the matter, set a hearing date and notify Hongli of the proceeding. Hongli will have 45 days from the receipt of such notice to prepare its statement of defense. While we have been advised by our PRC counsel that current CIETAC rules requires a decision to be rendered within six months from the selection of the arbitration tribunal, the passage of any prolong period of time without resolution may disrupt and negatively affect our business operations. Further, we must borne half of CIETAC's fees in addition to our own expenses incurred to prepare for such proceeding, which fees may become prohibitively expensive as the arbitration must take place in Shanghai and be conducted in Chinese. As we are also contractually bound by CIETAC's decision, in the event such decision is unfavorable to us, we may effectively lose our control over Hongli, which could materially and adversely affect our business, financial conditions and results of operations.

Management members of Hongli have potential conflicts of interest with us, which may adversely affect our business and your ability for recourse.

Mr. Jianhua Lv, our chief executive officer, is also the chairman of Hongli and owns 85.4% of its equity ownership interests. Conflicts of interests between their respective duties to our company and Hongli may arise. As our director and executive officer, he has a duty of loyalty and care to us under U.S. law when there are any potential conflicts of interests between our company and Hongli. We cannot, however, assure you that when conflicts of interest arise, he will act completely in our interests, or that conflicts of interests will be resolved in our favor. For example, he may determine that it is in Hongli's interests to sever the contractual arrangements with Hongyuan irrespective of the effect such action may have on us. Because we derive our income entirely from the contractual arrangements with Hongli, we would have no or minimal operations and assets if these contractual arrangements are severed. In addition, Mr. Lv could violate his legal duties by diverting business opportunities from us to others, thereby reducing the amount of payment that Hongli is obligated to remit to us under the consulting services agreement.

In the event that you believe that your rights have been infringed under the U.S. securities laws or otherwise as a result of any one of the circumstances described above, it may be difficult or impossible for you to bring an action against Hongli or our officers or directors who are also members of Hongli's management, and all of whom reside within China. Even if you are successful in bringing an action, the laws of China may render you unable to enforce a judgment against the assets of Hongli and its management, all of which are located in China.

Our principal shareholder may be subject to registration requirements under current regulations relating to offshore investment activities by PRC residents, the non-compliance of which may subject us to fines and sanctions that could adversely affect our business.

In October 2005 and June 2011, the State Administration of Foreign Exchange ("SAFE") promulgated the *Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles*, or Circular 75, and its implement rule, respectively, that state that if PRC citizens residing in the PRC, or PRC residents, use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, they must register with local SAFE branches with respect to their overseas investments in offshore companies. They must also file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or uses of assets in China to guarantee offshore obligations. Under this regulation, their failure to comply with the registration procedures set forth in such regulation may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its offshore parent, as well as restrictions on the capital inflow from the offshore entity to the PRC entity.

Risks Related To Doing Business in China

Our operations are primarily located in China and may be adversely affected by changes in the policies of the PRC government.

The political environment in the PRC and the policies of the PRC government may adversely affect our business operations. The PRC has operated as a socialist state since 1949. In recent years, however, the government has introduced economic reforms aimed at creating a "socialist market economy" and policies have been implemented to allow business enterprises greater autonomy in their operations. Changes in the political leadership of the PRC may have a significant effect on laws and policies related to the current economic reforms program, other policies affecting business and the general political, economic and social environment in the PRC, including the introduction of measures to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on

currency conversion and remittances abroad, and foreign investment. These effects could substantially impair our business, profits or prospects. Moreover, economic reforms and growth in the PRC have been more successful in certain provinces than in others, and the continuation or increases of such disparities could affect the political or social stability of the PRC.

The PRC government exerts substantial influence over the manner in which companies in China must conduct their business activities.

The PRC only recently has permitted greater provincial and local economic autonomy and private economic activities. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in the PRC or particular regions thereof, and if this were to occur, we could be required to divest the interests we then hold in Chinese properties or joint-ventures. Any such developments could have a material adverse effect on our business, operations, financial condition and prospects.

Future inflation in China may inhibit economic activity and adversely affect our operations.

In recent years, the Chinese economy has experienced periods of rapid expansion and within which some years with high rates of inflation and deflation, which have led to the adoption by the PRC government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has moderated since 1995, high inflation may in the future cause the PRC government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby adversely affect our business operations and prospects.

We may be unable to enforce our rights due to policies regarding the regulation of foreign investments in China.

The PRC's legal system is a civil law system based on written statutes in which decided legal cases have little value as precedents, unlike the common law system prevalent in the United States. The PRC does not have a well-developed, consolidated body of laws governing foreign investment enterprises. As a result, the administration of laws and regulations by government agencies may be subject to considerable discretion and variation, and may be subject to influence by external forces unrelated to the legal merits of a particular matter. China's regulations and policies with respect to foreign investments are evolving. Definitive regulations and policies with respect to such matters as the permissible percentage of foreign investment and permissible rates of equity returns have not yet been published. Statements regarding these evolving policies have been conflicting and any such policies, as administered, are likely to be subject to broad interpretation and discretion and to be modified, perhaps on a case-by-case basis. The uncertainties regarding such regulations and policies present risks that we will not be able to achieve our business objectives. There can be no assurance that we will be able to enforce any legal rights we may have under our contracts or otherwise.

We depend upon the acquisition and maintenance of licenses to conduct our business in the PRC.

In order to conduct business in the PRC, we need licenses from the appropriate government authorities, including general business licenses and licenses and/or permits specific to our industry. The loss or failure to obtain or maintain these licenses in full force and effect will have a material adverse impact on our ability to conduct our business and on our financial condition. Mining licenses in China are generally subject to periodic renewal, and license fees associated with renewal may be subject to negotiation between the Company and the relevant government authorities. The government may in the future decide to increase these fees, or impose levies or surcharges on coal mine and mining rights. No assurance can be given regarding the timing or magnitude of these types of government actions.

Price controls may affect both our revenues and net income.

The laws of the PRC provide the government broad power to fix and adjust prices. Although coal and coke are not presently subject to direct price controls by the PRC government, we cannot give any assurance that these products will not be made subject to such controls in the future. To the extent that these products are subject to price controls, our revenue, gross profit, gross margin and net income may be adversely affected since the revenue we derive may become limited and we may face no limitation on our costs. In such a scenario, we may not be able to pass on any increases in costs to our customers. Further, if price controls affect both the revenue and the costs, our ability to operate profitably and the extent of the profitability will be effectively subject to determination by the applicable PRC regulatory authorities.

Since our officers and directors reside outside of the United States, it may be difficult for you to enforce your rights against them or enforce United States court judgments against them in the PRC.

Our directors and executive officers reside in the PRC and all of our assets are located in the PRC. It may therefore be difficult or impossible for United States investors to enforce their legal rights, to effect service of process upon our directors or officers or to enforce judgments of United States courts predicated upon civil liabilities and criminal penalties of our directors and officers under federal securities laws. Further, there are no extradition treaties now in effect between the United States and the PRC, which may limit the effective enforcement against us or our officers and directors of criminal penalties under the U.S. federal securities law or otherwise.

Since our funds are held in banks which do not provide insurance, the failure of any bank in which we deposit our funds could affect our ability to continue in business.

Banks and other financial institutions in the PRC do not provide insurance for funds held on deposit. As a result, in the event of a bank failure, we may not have access to funds we deposit in PRC banks. Depending upon the amount of money we maintain in a PRC bank that fails, our inability to have access to cash could impair operations, and, if we are not able to access funds to pay our suppliers, employees and other creditors, we may be unable to continue in business.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which SinoCoking might be held responsible. If our employees or other agents are found to have engaged in such practices, SinoCoking could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

We may be restricted from freely converting the RMB to other currencies in a timely manner.

The RMB is not a freely convertible currency at present. We receive all of our revenue in RMB, which may need to be converted to other currencies, primarily U.S. dollars, in order to be remitted outside of the PRC. Effective July 1, 1996, foreign currency "current account" transactions by foreign investment enterprises, including Sino-foreign joint-ventures, are no longer subject to the approval of SAFE, but need only a ministerial review, according to the *Administration of the Settlement, Sale and Payment of Foreign Exchange Provisions* promulgated in 1996 (the "FX regulations"). "Current account" items include international commercial transactions, which occur on a regular basis, such as those relating to trade and provision of services. Distributions to joint-venture parties also are considered "current account transactions." Other non-current account items, known as "capital account" items, remain subject to SAFE approval. Under current regulations, we can obtain foreign currency in exchange for RMB from swap centers authorized by the government. We do not anticipate problems in obtaining foreign currency to satisfy our requirements; however, there is no assurance that foreign currency shortages or changes in currency exchange laws and regulations by the PRC government will not restrict us from freely converting Renminbi in a timely manner.

Fluctuations in the exchange rate could have an adverse effect upon our business and reported financial results.

We conduct our business in RMB, thus our functional currency is the RMB, while our reporting currency is the U.S. dollar. The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, the political situation as well as economic policies and conditions. On July 21, 2005, the PRC government changed its decade old policy of pegging its currency to the U.S. currency. Under the current policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximate 6% appreciation of the RMB against the U.S. dollar between July 21, 2005 and June 30, 2012. However, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. To the extent any of our future revenues are denominated in currencies other than the United States dollar, we would be subject to increased risks relating to foreign currency exchange rate fluctuations which could have a material adverse effect on our financial condition and operating results since operating results are reported in United States dollars and significant changes in the exchange rate could materially impact our reported earnings.

Our PRC subsidiary and controlled entities are subject to restrictions on making payments to us, which could adversely affect our cash flow and our ability to pay dividends on our capital stock.

We are a holding company incorporated in the State of Florida and do not have any assets or conduct any business operations other than our investment in the VIEs that we control in China. As a result of our holding company structure, we rely entirely on contractual payments from the VIEs and dividends from our PRC subsidiary for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service

any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiary and VIEs is required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. As a result, they are restricted in their ability to transfer a portion of their net assets to us in the form of dividends, loans or advances. We anticipate that in the foreseeable future our PRC subsidiary and VIEs will need to continue to set aside 10% of their respective after-tax profits to their statutory reserves. Further, our PRC subsidiary and VIEs may incur debt on their own in the future, and the instruments governing such debt may restrict their ability to make contractual or dividend payments to us. If we are unable to receive all of the funds we require for our operations through contractual or dividend arrangements with our PRC subsidiary and VIEs, we may not have sufficient cash flow to fund our corporate overhead and regulatory obligations in the United States and may be unable to pay dividends on our shares of capital stock.

Risks Related to an Investment in Our Securities

The rights of the holders of common stock may be impaired by the potential issuance of dilutive securities, namely preferred stock, convertible debt, and additional common stock.

Our board of directors has the right, without shareholder approval, to issue other dilutive securities with voting, dividend, conversion, liquidation or other rights which could adversely affect the voting power and equity interest of the holders of our common stock. These additional securities could be issued with the right to more than one vote per share, and/or could be utilized as a method of discouraging, delaying or preventing a change of control. The possible impact on takeover attempts could adversely affect the price of the common stock. Although we have no present intention to issue any additional dilutive securities for financing purposes, we may issue such shares in the future.

Under our charter and relevant corporate and securities law, the board of directors may approve the issuance of common stock in connection with certain types of transactions such as of acquisitions of other companies or mining assets, without obtaining shareholder approval. As a result, additional securities may be issued in the event of such transactions, resulting in dilution of the holdings of all pre-transaction shareholders, even though one or more of our shareholders may disagree with our decision to acquire a target or assets.

Our stock price may be affected by our failure to meet projections and estimates of earnings developed either by us or by independent securities analysts.

Our operating results may fall below the expectations of securities analysts and investors. In this event, the market price of our common stock would likely be materially adversely affected.

The market price for our common stock may be volatile and subject to wide fluctuations, which may adversely affect the price at which you can sell our shares.

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

- actual or anticipated fluctuations in our quarterly operations results;
- changes in financial estimates by securities research analysts;
- conditions in foreign or domestic coal or coke markets;
- changes in the economic performance or market valuations of other meat processing 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 the 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.

If we were to become subject to the penny stock rules, it may have difficulty in selling our common stock.

Listed companies with a stock price trading at less than $5.00 per share will be subject to the SEC's penny stock rules, which impose additional sales practice requirements and restrictions on broker-dealers that sell our stock to persons other than established customers and institutional accredited investors. As we have become subject to these rules, these rules may affect the ability of broker-dealers to sell our common stock and may affect your ability to sell any common stock you may own. According to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- boiler room practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
- excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

Our common stock is a relatively new listing, has a limited public float, and a short trading history. As a result, in the near future and beyond, liquidity in our shares may be limited, and you may be unable to sell at or near the purchased price or at all if you need to sell your shares or otherwise liquidate your holdings.

We cannot predict the extent to which an active public market for our common stock will develop or be sustained. Our common stock became listed on NASDAQ in February 2010, and our shares have only a limited amount of trading history. In addition, our common stock has a limited public float, and we are relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume. As a consequence, there have been and may be periods of several days or more when trading activity in the shares is or will be minimal or non-existent, as compared to a seasoned issuer that has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot provide any assurance that a broader or more active public trading market for our common stock will develop or be sustained in the future, or that any particular level of trading volume in our stock will be sustained.

The market for our common stock is expected to be characterized by significant price volatility when compared to seasoned issuers, and we anticipate that our share price will continue to be more volatile than a seasoned issuer for some time. 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. Volatility in share prices is attributable to a number of factors. In the near future, our common stock is expected to be 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 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 our share price. The following factors also may add to the volatility in the price of our common stock: actual or anticipated variations in our quarterly or annual operating results; adverse outcomes; additions to or departures of key personnel, as well as other items discussed under this Risk Factor section, as well as elsewhere in our reports, filings and public disclosures. Many of these

factors are beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common stock will be at any time, including as to whether our common stock will sustain any particular trading price, or as to what effect the sale of shares or the availability of common shares for sale at any time will have on the then prevailing market price.

Volatility in our common stock price may subject SinoCoking to securities litigation.

The future market for our common stock may be characterized by significant price volatility when compared to seasoned issuers, and we expect our share price will be more volatile than a seasoned issuer for the indefinite future. There are periods during which the trading volume of our stock is relatively low, which may exacerbate volatility and result in exaggerated price changes in the common stock. In the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of our 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.

Techniques Employed by Manipulative Short Sellers in Chinese Small Cap Stocks May Drive Down the Market Price of Our Common Stock

Short selling is the practice of selling securities that the seller does not own but rather has, supposedly, borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is therefore in the short seller's best interests for the price of the stock to decline, many short sellers (sometime known as "disclosed shorts") publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. While traditionally these disclosed shorts were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication by weblog ("blogging") have allowed many disclosed shorts to publicly attack a company's credibility, strategy and veracity by means of so-called research reports that mimic the type of investment analysis performed by large Wall Street firm and independent research analysts. These short attacks have, in the past, led to selling of shares in the market, on occasion in large scale and broad base. Issuers with business operations based in the PRC and who have limited trading volumes and are susceptible to higher volatility levels than U.S. domestic large-cap stocks, can be particularly vulnerable to such short attacks.

These short seller publications are not regulated by any governmental, self-regulatory organization or other official authority in the U.S., are not subject to the certification requirements imposed by the Securities and Exchange Commission in Regulation AC (Regulation Analyst Certification) and, accordingly, the opinions they express may be based on distortions of actual facts or, in some cases, fabrications of facts. In light of the limited risks involved in publishing such information, and the enormous profit that can be made from running just one successful short attack, unless the short sellers become subject to significant penalties, it is more likely than not that disclosed shorts will continue to issue such reports.

While we intend to strongly defend our public filings against any such short seller attacks, oftentimes we are constrained, either by principles of freedom of speech, applicable state law (often called "Anti-SLAPP statutes"), or issues of commercial confidentiality, in the manner in which we can proceed against the relevant short seller. You should be aware that in light of the relative freedom to operate that such persons enjoy – oftentimes blogging from outside the U.S. with little or no assets or identity requirements – should we be targeted for such an attack, our stock will likely suffer from a temporary, or possibly long term, decline in market price should the rumors created not be dismissed by market participants.

We have incurred and will continue to incur increased costs as a public company which may affect our profitability.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses. We are subject to the SEC's rules and regulations relating to public disclosure. SEC disclosures generally involve a substantial expenditure of financial resources. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the SEC, has required changes in corporate governance practices of public companies. We expect that as we continue to undertake compliance with these new rules and regulations, our legal and financial compliance costs will continue to rise, and some activities will become more time-consuming and costly. For example, we are required to maintain independent board committees and adopt policies regarding internal controls and disclosure controls and procedures. Management may also need to increase compensation for senior executive officers, engage senior financial officers able to adopt financial reporting and control procedures, allocate a budget for an investor and public relations program, and increase our financial and accounting staff in order to meet the demands and financial reporting requirements as a public reporting company. Such additional personnel, public relations, reporting and compliance costs will affect our financial results.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and operating results and shareholders could lose confidence in our financial reporting.

Internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price. Although we are not required to have an auditor's report on internal controls over financial reporting under current SEC regulations, our management has concluded that our internal controls were ineffective for the fiscal year ended June 30, 2012.

Generally, we have not paid any cash dividends to our shareholders 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 it may not have sufficient funds legally available to pay dividends. Even if the funds are legally available for distribution, we may nevertheless decide or may be unable to pay any dividends. We intend to retain all earnings for our operations.

Past activities during the period prior to our Share Exchange on February 5, 2010 relating to our prior business then known as "Ableauctions.com, Inc." may lead to future liability.

Prior to our acquisition of Top Favour Limited (the BVI holding company for our business) on February 5, 2010, the Company, then known as "Ableauctions.com, Inc.," engaged in businesses unrelated to our current operations. Although certain previously controlling shareholders of Ableauctions.com and its related liquidating trust have provided 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, warranties and covenants made regarding such acquisition, including a $1 million reserve fund set aside by a liquidating trust for purposes of paying any indemnification claims by us, any liabilities relating to such prior business against which we are not completely indemnified may have a material adverse effect on us (and indirectly our shareholders) may not be able to benefit from any funds in reserve.

Reverse takeover transactions of the type conducted between the Company (then known as Ableauctions.com) and Top Favour are often heavily scrutinized by the SEC and we may encounter difficulties or delays in obtaining future regulatory approvals.

Historically, the SEC and the U.S. national exchanges have not generally favored transactions in which a privately-held company merges into a public reporting company with listed securities. On June 29, 2005, the SEC adopted rules dealing with private company mergers into dormant or inactive public companies. Although our Company was not a dormant inactive public company at the time of the reverse takeover transaction, we anticipate that the Company will be scrutinized carefully by the SEC and possibly by the Financial Industry Regulatory Authority. Further, the SEC or other regulatory authority may unexpectedly assert a different interpretation of its rules, than the interpretation relied upon, used by, or considered reasonable the Company and its advisors, and by other companies conducting similar or analogous transactions, which could increase the cost of, or adversely affect our ability to, file and achieve effectiveness for our registration statements, or interfere with or negate the ability of the Company its shareholders to rely upon Rule 144 or similar rules.

Future sales of shares of our common stock may decrease the price for such shares.

Actual sales, or the prospect of sales by our shareholders, may have a negative effect on the market price of the shares of our common stock. We may also register certain shares of our common stock that are subject to outstanding convertible securities, if any, or reserved for issuance under our stock option plans. Once such shares are registered, they can be freely sold in the public market upon exercise of the options. At any given time, if any of our shareholders either individually or in the aggregate cause a large number of securities to be sold in the public market, or if the market perceives that these holders intend to sell a large number of securities, such sales or anticipated sales could result in a substantial reduction in the trading price of shares of our common stock and could also impede our ability to raise future capital.

The elimination of monetary liability against our directors, officers and employees under state law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers and employees.

Our articles of incorporation contain specific provisions that eliminate or limit the liability of directors for monetary damages to us and our shareholders, and we are prepared to give such indemnification to our directors and officers to the extent permissible under state law. We may also maintain or enter into, from time to time, contractual agreements that obligate us to indemnify our officers under employment agreements, and similar contractual agreements with our directors. The foregoing indemnification obligations could result in us incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, in the event of actions against our officers and directors, which we may be unable to recoup. These provisions and resultant costs may also discourage us 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 the directors and officers even though such actions, if successful, might otherwise benefit the Company and its shareholders.

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, availability of borrowings under the new loan, and the net proceeds from our previous financing 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 additional credit. The sale of additional equity securities could result in additional dilution to our shareholders. Incurring 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 it, if at all.

The registration and potential sale, either pursuant to our prospectus or pursuant to Rule 144, by certain selling security holders of a significant number of shares could encourage short sales by third parties.

There may be significant downward pressure on our stock price caused by the sale or potential sale of a significant number of shares by certain of selling security holders pursuant to our effective registration statement on Form S-1 and prospectus or under Rule 144, which could allow short sellers of our stock an opportunity to take advantage of any decrease in the value of our stock. The presence of short sellers in our common stock may further depress the price of our common stock. If the selling security holders sell a significant number of shares of common stock, the market price of our common stock may decline. Furthermore, the sale or potential sale of the offered securities

pursuant to the prospectus and the depressive effect of such sales or potential sales could make it difficult for us to raise funds from other sources.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The following table lists certain information our current facilities.

Location	Approximate Floor Area (Square Meters)	Ownership Status	Principal Uses
Kuanggong Road and Tiyu Road, 10/F, Xinhua District, Pingdingshan, Henan Province, China	600	Leased	Corporate principal executive office (1)
1235-1237/12 F Beichen Century Center, East Beichen Street, Chaoyang District, Beijing, China	303	Leased	Office (2)
1601-16/F, SPD International Finance Center, Jinshui Road, Jinshui District, Zhengzhou, Henan Province, China	455	Leased	Zhonghong's office (3)
Zhaozhuang Village, Daying Town, Baofeng, Pingdingshan, Henan Province, China	95,013	Owned	Coking plant, operational office, rail track, coal washing, power generation
Zhaozhuang Village, Daying Town, Baofeng, Pingdingshan, Henan Province, China	371,628	Owned	New coking plant (4)
Zhaozhuang Village, Daying Town, Baofeng, Pingdingshan, Henan Province, China	310,000	Owned (5)	Hongchang coal mine
Liping Village, Daying Town, Baofeng, Pingdingshan, Henan Province, China	470,000	Owned (5)	Shuangrui coal mine
Southwest Zhaozhuang Village, Daying Town, Baofeng, Pingdingshan, Henan Province, China	190,000	60% Owned (5)	Xingsheng coal mine
West Zhaozhuang Village, Daying Town, Baofeng, Pingdingshan, Henan Province, China	80,000	Owned (5)	Shunli coal mine

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(1) Our principal executive office is in downtown Pingdingshan, approximately 60 kilometers from our current plant, which houses our executive and administrative staff and oversees our operations. We entered into a lease for the premises with the Pingdingshan Rural Cooperative Bank from October 1, 2010 to September 30, 2011, for monthly rent of $2,108 (RMB 13,520). The lease was renewed from October 1, 2011 to September 30, 2012, for monthly rent of $2,550 (RMB 16,220). We currently plan to renew this lease for an addition one-year term after its expiration.

(2) In April 2010, we entered into a lease agreement to lease three office units in Beijing from June 15, 2010 to June 14, 2013, with monthly rent of $22,688 (RMB 145,529) and monthly management fee of $4,003 (RMB 25,681). On August 12, 2010, we renewed the lease but for three different office units from August 15, 2010 to June 14, 2013, with monthly rent of $10,845 (RMB 69,565) and monthly management fee of $1,914 (RMB 12,276). In August 2011, we entered into another lease agreement for three different office units within the same building to replace the above lease. The new lease is from September 15, 2011 to June 14, 2013, with monthly rent of $7,258 (RMB 46,565) and monthly management fee of $1,281 (RMB 8,184). The prior lease agreement was terminated on September 14, 2011.

(3) Zhonghong is leasing an office unit in Zhengzhou from February 25, 2011 to August 24, 2013, with monthly lease payments of $5,780 (RMB 37,075).

(4) As of June 30, 2012, we prepaid (through Hongli) a total of approximately $9.0 million (RMB 58.05 million) to acquire the land use rights to approximately 371,628 square meters of residential land adjacent to our current plant, as the site for our new coking plant. Such prepayments were paid to the land's former occupants and are not refundable. We expect to acquire the land use rights by June 30, 2013 at an estimated total cost of approximately $11.5 million (RMB 73.05 million). We also anticipate paying an additional $1.9 million (RMB 12.45 million) for administrative fees relating to reconfiguring the land for industrial use. As of the date of this Report, plant construction has not been completed.

(5) We do not own the mines (as all mineral resources are state-owned), but we control the mining permits to extract coal from these mines through our ownership of the operators of these mines.

ITEM 3. LEGAL PROCEEDINGS

We know of no material, existing or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our company.

ITEM 4. MINE SAFETY DISCLOSURES

The information required by Item 4 is not applicable to us, as we have no mining operations in the United States.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market Information

Our common stock has been trading on the NASDAQ Capital Market under the symbol "SCOK" since February 17, 2010. The following table sets forth the high and low bid information for our common stock on the NASDAQ Capital Market since February 17, 2010 for the periods indicated:

	The Nasdaq Capital Market Price per Share (1)	
	High	**Low**
2012		
Quarter ended September 30, 2012 (2)	$2.33	$1.60
Quarter ended June 30, 2012	2.46	1.76
Quarter ended March 31, 2012	3.25	2.20
2011		
Quarter ended December 31, 2011	$4.08	$2.03
Quarter ended September 30, 2011	5.54	2.08
Quarter ended June 30, 2011	9.19	4.50
Quarter ended March 31, 2011	14.37	8.15
2010		
Quarter ended December 31, 2010	$12.98	$7.75

(1) From February 17, 2010 forward.
(2) Through September 21, 2012.

Holders

As of September 21, 2012, there were approximately 612 shareholders of record of our common stock. This number does not include an indeterminate number of shareholders whose shares are held by brokers in street name.

Dividends

Other than the distribution of our pre-Acquisition assets of to the Liquidating Trust, and the assumption by the Liquidating Trust of our pre-Acquisition liabilities, the Company has not paid dividends on its common stock since inception. The decision to pay dividends on common stock is within the discretion of the board of directors. It is our current policy to retain any future earnings to finance the operations and growth of our business.

Securities Authorized for Issuance under Equity Compensation Plans

Please see the discussion in Item 12 titled “Equity Compensation Plan Information” below.

Recent Sales of Unregistered Securities

On May 25, 2012, we issued a total of 30,424 restricted shares of common stock to Horizon Consulting Associates, LLC (“Horizon Consulting”), as a part of the consideration for accounting-related consulting services under the consulting agreement with Horizon Consulting. Such issuance was exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, in reliance upon Regulation D as promulgated by the SEC under the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of our operations and financial condition for the fiscal years ended June 30, 2012 and 2011 should be read in conjunction with the Selected Financial Data, our financial statements, and the notes to those financial statements that are included elsewhere in this Report. All monetary figures are presented in U.S. dollars, unless otherwise indicated.

Forward-Looking Statements

The statements in this discussion that are not historical facts are “forward-looking statements.” The words “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” “continue,” the negative forms thereof, or similar expressions, intended to identify forward-looking statements, although not all forward-looking statements are identified by those words or expressions. Forward-looking statements by their nature involve substantial risks and uncertainties, certain of which are beyond our control. Actual results, performance or achievements may differ materially from those expressed or implied by forward-looking statements depending on a variety of important factors, including, but not limited to, weather, local, regional, national and global coke and coal price fluctuations, levels of coal and coke production in the region, the demand for raw materials such as iron and steel which require coke to produce, availability of financing and interest rates, competition, changes in, or failure to comply with, government regulations, costs, uncertainties and other effects of legal and other administrative proceedings, and other risks and uncertainties. We are not undertaking to update or revise any forward-looking statement, whether as a result of new information, future events or circumstances or otherwise.

Overview

We are a vertically-integrated coal and coke producer based in Henan Province, China. We use coal that we extract and buy to produce basic and value-added coal products including raw (unprocessed) coal, washed coal, medium coal and coal slurries (by-products of the coal-washing process), and coke products including chemical and metallurgical coke and coal tar (a by-product of the coke manufacturing process).

Our business operations are conducted through Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. ("Hongli"), a PRC company that we control by a series of contractual arrangements between Hongli and Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. ("Hongyuan"). Hongyuan is a PRC company wholly-owned by Top Favour Limited, a British Virgin Island company and our wholly-owned subsidiary.

As of June 30, 2012, our coke related activities were carried out by Hongli's branch operation, Baofeng Coking Factory ("Baofeng Coking"), coal related activities by four of Hongli's subsidiaries, namely Baofeng Hongchang Coal Co., Ltd. ("Hongchang Coal"), Baofeng Shuangrui Coal Mining Co., Ltd. ("Shuangrui Coal"), Baofeng Xingsheng Coal Mining Co., Ltd. ("Xingsheng Coal") and Baofeng Shunli Coal Mining Co., Ltd. ("Shunli Coal"), and electricity generation by another Hongli subsidiary, Baofeng Hongguang Environment Protection Electricity Generating Co., Ltd. ("Hongguang Power"). In July 2012, we dissolved Shunli Coal and are in the process of transferring its mine assets to, and consolidating them under, Hongchang Coal.

The coal-related activities for the periods discussed below are those of Hongchang Coal only, although its mining operations halted in September 2011. Our other three coal mine companies have halted operations since the provincial-wide mining moratorium was imposed in June 2010. It is our intention to transfer all coal related activities to the joint-venture established with Henan Province Coal Seam Gas Development and Utilization Co., Ltd. ("Henan Coal Seam Gas"), a state-owned enterprise and qualified provincial-level coal mine consolidator. The joint-venture, Henan Hongyuan Coal Seam Gas Engineering Technology Co., Ltd. ("Hongyuan CSG"), has been established, although our planned transfer of coal related activities to Hongyuan CSG has not been carried out as of the date of this Report.

Our interests in Hongyuan CSG are held by Henan Zhonghong Energy Investment Co., Ltd. ("Zhonghong"), a company established in December 2010 and which equity interests are presently held on Hongli's behalf and for its benefits by three nominees pursuant to share entrustment agreements.

Results of Operations

Our revenue in fiscal 2012 increased approximately 6.23% from a year ago. Such increase was mainly contributed by increased sales of coke and washed coal. Because of persistent softening demand for coke, we slowed down construction of our new coking facility, and sold some of the washed coal originally set aside for its operations. Had we gone ahead with completing the facility and commencing its operations during such market conditions, we believe that we would have unnecessarily increased our odds of operating at a loss with any slight decrease in coke price (or slight increase in raw or washed coal price). Our increased revenue was offset by decreased sales of raw coal (in light of the ongoing mining moratorium) and coal tar (from lower production). Such factors affecting our revenue are reflected in the breakdown of our revenue by product type, with 51% of total revenue in fiscal 2012 from coke products, as compared to 53% in fiscal 2011, and 49% from coal products in fiscal 2012, as compared to 47% in fiscal 2011.

On a macro level, management has observed the following trends, which may have a direct impact on our operations in the near future: (1) the economic slowdown and the tightening real estate and land developments in China are negatively impacting upstream industries such as steel and raw materials; (2) state-mandated coal mine consolidations in Henan and elsewhere are tempering the negative impact of the slowing economy on coal price; and (3) the Chinese government's policy to improve mining safety will increase the overall operating cost for the mining industry.

Comparison of Years ended June 30, 2012 and 2011

Revenue

Revenue for fiscal 2012 increased by $4,624,777 or 6.23% as compared to fiscal 2011. Such increase resulted from increased sales of coke and washed coal, offset in part by decrease in coal tar and raw coal sales. Revenue and quantity sold by product type for fiscal 2011 and 2010 are as follows:

	Revenues Coke Products		Coal Products		Total	
Revenue						
Fiscal Year 2011	$39,329,446		$34,958,547		$74,287,993	
Fiscal Year 2012	$40,602,951		$38,309,820		$78,912,771	
Increase (decrease) in $	$1,273,504		$3,351,273		$4,624,777	
% increase (decrease) in $	3.24	%	9.59	%	6.23	%
Quantity Sold (metric tons)						
Fiscal Year 2011	168,363		318,516		486,879	
Fiscal Year 2012	174,021		257,893		431,914	
Increase (decrease)	5,658		(60,623	)	(54,965	)
% increase (decrease)	3.36	%	(19.03	)%	(11.29	)%

Coke products include finished coke, a key raw material for producing steel, and coal tar, a byproduct of the coke manufacturing process which has various industrial applications. Coal products include both washed and raw coal, which is used by customers primarily for electricity generation and heating applications. As used in this discussion and analysis, raw coal includes both thermal and metallurgical coal that is unwashed and relatively unprocessed, in addition to coal washing byproducts such as coal slurry.

Average selling prices per metric ton for our four principal products during fiscal 2012 and 2011 are as follows:

Average Selling Price	Coke	Coal Tar	Raw Coal	Washed Coal
Fiscal Year 2011	$233	$ 243	$ 73	$ 179
Fiscal Year 2012	$232	$ 254	$ 74	$ 179
Increase (decrease) in $	$(1)	$ 11	$ 1	$ 0
% increase (decrease) in $	(0.43)%	4.53 %	1.37 %	0.00 %

Generally, our selling prices are driven by a number of factors, including the particular composition and quality of the coal or coke we sell, their prevailing market prices locally and throughout China, as well as in the global marketplace, timing of sales, delivery terms, and our relationships with our customers and our negotiations of their purchase orders. Although our average selling prices for coke, raw coal and washed coal changed slightly as compared to our last fiscal year, they nevertheless reflect a declining trend in fiscal 2012 due to China's economic slowdown. Our higher price for coal tar was achieved through better-quality coal tar we are able to produce from upgrading our existing coking facility.

We generally sell our raw coal inventory and other coal products when prices are stable at seasonally high levels, or at levels that are considered above historical norms. The average price of the raw coal was calculated based on the weighted average price of unprocessed coal, coal byproducts and mixed thermal coal. We note that the average selling prices for coal products are also influenced by changes in the coal mixtures (with different grades and heat content) that we sold to our customers.

Revenue and quantity sold of each coke product for fiscal 2012 and 2011 are as follows:

	Coke Products		
	Coke	Coal Tar	Total
Revenue			
Fiscal 2011	$35,970,933	$3,358,513	$39,329,446
Fiscal 2012	$38,656,637	$1,946,314	$40,602,951
Increase (decrease) in $	$2,685,704	$(1,412,199)	$1,273,504
% increase (decrease) in $	7.47 %	(42.05)%	3.24 %
Quantity Sold (metric tons)			
Fiscal 2011	154,553	13,810	168,363

Fiscal 2012	166,373	7,648	174,021
Increase (decrease)	11,820	(6,162)	5,658
% increase (decrease)	7.65%	(44.62)%	3.36%

The higher coke revenue for fiscal 2012 resulted from the additional 11,820 metric tons of coke we sold as compared to a year ago. The lower coal tar revenue for fiscal 2012 resulted from less sales volume due to decreased production, offset by an $11 increase in average selling price, as compared to a year ago. We upgraded our current coking facility in March 2011 to better control the quality of our coke and coal tar. But it sacrificed our production volume of coal tar.

Revenue and quantity sold of each coal product for fiscal 2012 and 2011 are as follows:

	Coal Products		
	Raw Coal	Washed Coal	Total
Revenue			
Fiscal 2011	$ 15,073,052	$ 19,885,495	$ 34,958,547
Fiscal 2012	$ 5,441,981	$ 32,867,839	$ 38,309,820
Increase (decrease) in $	$ (9,631,071)	$ 12,982,344	$ 3,351,273
% increase (decrease) in $	(63.90)%	65.29%	9.59%
Quantity Sold (metric tons)			
Fiscal 2011	207,272	111,244	318,516
Fiscal 2012	73,990	183,903	257,893
Increase (decrease)	(133,282)	72,659	(60,623)
% increase (decrease)	(64.30)%	65.31%	(19.03)%

The lower raw coal revenue for fiscal 2012 resulted from our inability to produce coal due to the ongoing mining moratorium, despite of a 1.37% average price increase as compared to a year ago. We currently anticipate that the mining moratorium will end sometime in the first half of calendar 2013, although there cannot be any assurance as to the exact timing.

The higher washed coal revenue for fiscal 2012 resulted from a significantly higher sales volume as compared to a year ago. Since we slowed down the construction of our new coking plant in light of a weak coke market, we did not need to stockpile washed coal for the new plant as originally anticipated and instead sold most of our washed coal inventory.

Cost of Revenue

Cost of revenue increased to $63,745,461 for fiscal 2012 from $47,267,309 a year ago. This was mainly driven by two factors: (1) increased coke and washed coal sales volumes, offset by decreased raw coal sales volume, and (2) the mining moratorium, which drove up our overall production cost for raw coal processing and coking as we were largely unable to obtain raw coal from our own mines.

Gross Profit

Gross profit for fiscal 2012 was $15,167,309, a decrease of $11,853,375 or 43.87% from $27,020,684 for fiscal 2011, reflecting our increased cost of revenue discussed above. As a result, gross profit margin for fiscal 2012 decreased by approximately 17% from approximately 36% for the prior fiscal year.

Operating Expenses

Operating expenses, which consist of selling expenses and general and administrative expenses, was $3,204,148 for fiscal 2012, a decrease of $319,338 or 9.06% from a year ago. Selling expenses decreased by $106,095 or 33.50%, to $210,568, due to decreased raw coal sales. General and administrative expenses decreased by $213,243 or 6.65%, to $2,993,580, due to lower rental expense of $208,909 and travel expense of $403,294, offset by higher professional expenses (including legal, accounting and internal control consulting) in the amount of $432,294, and a $498,166 write off of bad debt.

Other Income and Expense

Other income and expense includes finance expense (which consists of interest and other finance expenses, net of interest income), income and expense not related to our principal operations, and change in fair value of warrants.

Finance expense was $1,167,401 for fiscal 2012, a decrease of $339,505 or 22.53% from fiscal 2011. This is largely due to interest income of approximately $1 million from our loans to an unrelated party, as well as an approximately $0.9 million decrease in interest expense of our $54.9 million (RMB 360 million) loan from Bairui Trust Co., Ltd. ("Bairui Trust") in April 2011, and an approximately $0.2 million decrease of other finance expense.

We had income not related to our principal operations of $241,635. We received approximate $190,000 of income from our investment in Pingdingshan Rural Cooperative Bank ("PRCB") – Xinhua District Branch. In addition, we had approximately $0.6 million of other income. We had expense not related to our principal operations of $152,879 in fiscal 2011, incurred in connection with our loan from Bairui Trust. We also recorded gains in fair value of warrants of $4,852,399 for fiscal 2012, as compared to $23,135,827 for fiscal 2011.

As a result of the foregoing, we had other income of $3,926,633 for fiscal 2012, as compared to $21,476,042 for fiscal 2011.

Provision for Income Taxes

Provision for income taxes for fiscal 2012 decreased by $1,670,143 from fiscal 2011, due to lower operational income before tax of $15,889,794 as compared to $44,973,240 a year ago.

Net income

Net income, including the change in fair value of warrants, was $12,494,557 for fiscal 2012, as compared to $39,907,860 for fiscal year 2011.

We use non-GAAP adjusted net income to measure the performance of our business internally by excluding non-cash charges related to warrants, and believe that the non-GAAP adjusted financial measure allows us to focus on managing business operating performance because the measure reflects the Company's essential operating activities and provides a consistent method of comparison to historical periods. We believe that providing this non-GAAP measure that we use internally is useful to investors for a number of reasons. The non-GAAP measure provides a consistent basis for investors to understand our financial performance in comparison to historical periods without variation of non-recurring items and non-operating related charges. In addition, it allows investors to evaluate our performance using the same methodology and information as that used by our management. Non-GAAP measures are subject to inherent limitations because they do not include all of the expenses included under GAAP and because they involve the exercise of judgment regarding which charges are excluded from the non-GAAP financial measure. However, we compensate for these limitations by providing the relevant disclosure of the items excluded.

The following table provides the non-GAAP financial measure and a reconciliation of such non-GAAP measure to the GAAP net income:

	Fiscal	
	2011	2012
Net income	$39,907,860	$12,494,557
Change in fair value of warrant liabilities	(23,135,827)	(4,852,399)
Adjusted net income	$16,772,033	$7,642,158
Earnings per share- basic	$1.90	$0.59
Earnings per share- diluted	$1.90	$0.59
Adjusted earnings per share – basic	$0.80	$0.36
Adjusted earnings per share – diluted	$0.80	$0.36

Weighted average number of common shares – basic	20,962,091	21,093,525
Weighted average number of common shares – diluted	21,021,255	21,093,525

Excluding non-cash gains, adjusted net income for fiscal 2011 and 2012 is approximately $17 million and $8 million, respectively, which resulted in basic earnings of $0.80 and $0.36 per share, respectively, and diluted earnings of $0.80 and $0.36 per share, respectively.

Liquidity and Capital Resources

In summary, our cash flows are as follows:

	Year Ended June 30,	
	2012	2011
Net cash provided by (used in) operating activities	$(12,232,756)	$15,755,153
Net cash used in investing activities	(15,856,609)	(65,181,932)
Net cash provided by financing activities	3,755,806	57,492,473

Net Cash Provided by (used in) Operating Activities

Net cash used in operating activities for fiscal 2012 was approximately $12.2 million, as compared to net cash provided by operating activities approximately $15.8 million for fiscal 2011. The cash position in operation for fiscal 2012 was due to the combination of the following factors: (a) we received bank guaranteed notes from our customers rather than cash, which increased our note receivables by approximately $14.1 million while reducing our cash inflow; (b) accounts receivable increased by approximately $3.30 million from a decrease in the average accounts receivable turnover ratio, from 10.8 in fiscal 2011 to 7.7; (c) advances to suppliers increased by approximately $3.17 million from coal purchases; (d) other receivable increased by approximately $0.99 million from money borrowed by unrelated parties, although such loans were repaid in August 2012; and (e) tax payables decreased by $1.39 million from lower taxable income.

Net cash provided by operating activities for fiscal 2011 resulted largely from a decrease in notes receivable of approximately $1.07 million from redemption of un-matured notes from our customers, and an increase in tax payables of approximately $1.53 million from increased revenue. On the other hand, an increase in accounts receivable of approximately $2.85 million and an increase in advance to suppliers of approximately $4.23 million reduced our operating cash position for fiscal 2011. In light of the central government's monetary tightening measures, we extended credit to our customers that increased our accounts receivable. Our increased advances to suppliers resulted from our efforts to secure coking coal in Shanxi and Qinghai provinces, given the supply shortage created by the mining moratorium in Henan.

Net Cash Used in Investing Activities

Net cash used in investing activities for fiscal 2012 included: (1) approximately $32.05 million for the construction of our new coking plant, (2) approximately $2.85 million borrowed by two unrelated parties at interest rates of 6% and 3.5%, respectively, and (3) approximately $1.90 million for the land use rights to the land underlying our new coking plant. On the other hand, we received approximately $9.89 million from loan receivable repayments and approximately $11.06 million in refund of prepayments for mine acquisitions that were cancelled.

Net cash used in investing activities for fiscal 2011 included: (1) approximately $34.9 million for acquisition of coal companies, (2) approximately $3.6 million for the land use rights to the land underlying our new coking plant, (3) approximately $15.5 million toward equipment and machinery purchases for the new coking plant, (4) approximately $1.2 million long term investment in a local bank, (5) approximately $1.5 million to capitalize Zhonghong for the formation of our joint-venture with Hongyuan CSG, (6) approximately $6.6 million in secured loans to two unrelated third parties with interest rate of 10.08% (of which $4.5 million was repaid in August 2011), and (7) $13 million loaned to an unrelated third party with interest rate of 9.45%. On the other hand, we received a refund of approximately $5.5 million in prepayments made on equipment and machinery purchases that we cancelled, as well as a loan repayment of approximately $5.6 million.

Net Cash Provided by Financing Activities

Net cash provided by financing activities for fiscal 2012 largely resulted from activities related to short-term borrowings, including our proceeds from, and our repayments of, such borrowings. On September 14, 2011, we repaid approximately $5.04 million (RMB 32 million) in short-term loan from Shanghai Pudong Development Bank ("SPDB") and we renewed the loan for another year with SPDB to borrow approximately $5.04 million (RMB 32 million) with annual interest rate of 6.71%. On March 15, 2012, the loan was repaid and we entered into a new loan and borrowed approximately $5.67 million (RMB 36,000,000) for one year with annual interest rate of 7.22%. Top Favour deposited $6.5 million with SPDB with an annual interest rate of 1.3% as collateral, and the new loan is also guaranteed by our CEO. On December 22, 2011, we deposited approximately $1.57 million (RMB 10 million) with SPDB as restricted cash, and issued approximately $3.14 million of guaranteed bank notes. Such notes matured and were repaid on June

21, 2012, and the related restricted cash was returned to us accordingly. On March 19, 2012, we entered into an agreement with SPDB and issued approximately $1.57 million (RMB 10 million) of bank guaranteed notes by depositing the same amount as restricted cash with the bank. On April 25, 2012, we entered into another agreement with SPDB, and issued approximately $3.14 million (RMB 20 million) of bank guaranteed notes, and deposited approximately $1.57 million (RMB 10 million) as restricted cash for such notes. We also repaid our CEO approximately $0.31 million that he loaned us for working capital.

Net cash provided by financing activities for fiscal 2011 also mainly resulted from activities related to short-term borrowings. We deposited approximately $6.9 million with PRCB as restricted cash to obtain $14 million credit to issue bank guaranteed notes, and we issued an aggregate of approximately $19 million in bank guaranteed notes in fiscal 2011. In April 2011, we repaid our approximately $15 million (RMB 100 million) loan from SPDB, which released approximately $17 million that was deposited as restricted cash to secure the loan. In May 2011, we also deposited approximately $6.2 million as restricted cash with SPDB to obtain a loan of approximately $4.8 million (RMB 32 million). We paid approximately $22.6 million to PRCB to settle our matured bank guaranteed note payables, which released $10.7 million of restricted cash that was deposited as security on such note payables. We also repaid $528,150 in full to Hongfeng Coal Processing and Coking Co., Ltd. We obtained approximately $1.3 million from the exercise of warrants to purchase 219,756 shares of our common stock. In April 2011, we borrowed approximately $54.9 million (RMB 360 million) from Bairui Trust. We also borrowed approximately $400,000 from our CEO for working capital, and received approximately $420,000 from one of our directors (who is also a management member of Hongli) that we previously advanced to him for business development activities.

Capital Resources

Funding for our business activities has historically been provided by cash flow from operations, short-term bank loan financing, and loans from our CEO.

We also have arrangements with certain banks pursuant to which we are able to issue short-term notes to pay our vendors, secured against our deposits with the banks of 50% or 100% of the face value of the notes as well as guarantees from our CEO, Hongli and/or an unrelated third party. We currently have such arrangements with SPDB. Under our arrangements with SPDB, we are subject to a diligence review for each note issued, and SPDB charges us a processing fee based on 0.05% of the face value of each note.

On April 2, 2011, Hongli entered into a loan agreement with Bairui Trust, pursuant to which Bairui Trust agreed to loan Hongli RMB 360 million (approximately $57.0 million), of which RMB 180 million is due on April 2, 2013, and RMB 180 million on April 2, 2014, with annual interest rate of 6.3%. Bairui Trust made the loan to Hongli on April 3, 2011. On November 30, 2011, Hongli entered into a supplemental agreement with Bairui Trust to amend the terms such that RMB 30 million (approximately $4.8 million) will now be due on October 2, 2012, RMB 100 million (approximately $15.8 million) will now be due on April 2, 2013, RMB 50 million (approximately $7.9 million) will now be due on October 2, 2013, and RMB 180 million (approximately $28.5 million) will now be due on April 2, 2014.

Our business plan involves growing our business through: (1) expanding and modernizing our production facilities and achieving greater energy efficiency while also lessening any environmental impact; (2) recapturing more coking by-products for refinement into useful industrial chemicals, and producing more high value-added chemical products; (3) acquiring other coal mines to source raw materials; and (4) looking for opportunities to build up long term strategic business relations with quality mining companies to expand our coal trading business.

Of the foregoing, the following are expected to require capital resources:

- *New Coking Facility*. On March 3, 2010, we announced that we began construction of our new coking facility to be located beside our current facilities in Pingdingshan City. Because the new facility will share the electricity, water and heating systems of our existing facilities, we have revised our previously estimated cost for the new facility from approximately $70 million to approximately $60 million. We intend to use the line of credit from PRCB to complete the construction of our new coking facility, although we have slowed down construction in light of the weak coke market.

- *Coal Mine Safety Improvement Projects*. We are required by the Henan government to upgrade safety-related systems at our coal mines in order to be approved to resume our mining operations. The total estimated cost for such upgrades is approximately $31.5 million. We will be responsible for approximately 70% of the total estimated cost, approximately $22.0 million, under the structure of our joint-venture with Henan Coal Seam Gas. We also intend to use our line of credit from PRCB to complete these projects. These projects have not commenced as of the date of this Report, although we currently expect to complete them sometime during calendar 2013.

During fiscal year ended June 30, 2012, we had capital expenditures of approximately $29.6 million. Such expenditures were for equipment and machinery purchases and site expansion for our new coking plant.

Our management presently anticipates that the proceeds from our prior equity issuance, access to credit and cash flow from operations will provide sufficient capital resources to pursue and complete the construction of our new coking facility, and the upgrades to our coal mine safety systems. We intend to utilize existing cash, cash flow from operations and bank loans to complete our new coking plant and mine safety upgrades. Any future facility expansion,

improvement projects and acquisitions will require additional financing and/or equity capital and will be dependent upon the availability of financing arrangements and capital at the time.

We have not experienced any material losses since inception relating to accidents or other similar events. See "*Risk Factors - We may suffer losses resulting from industry-related accidents and lack of insurance.*"

Off-balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. Other than warrants liability, we have not entered into any derivative contracts that are indexed to its shares and classified as shareholder's equity or that are not reflected in its consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations are based on our financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported net sales and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in Note 2 to our financial statements elsewhere in this Report, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating this management discussion and analysis:

Revenue recognition

We recognize revenue from the sale of coal and coke, our principal products, at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations on our part exist and collectability is reasonably assured. This generally occurs when coal or coke is loaded onto trains or trucks at one of our loading facilities or at third-party facilities. Accordingly, management is required to apply its own judgment regarding collectability based on its experience and knowledge of its current customers, and thus exercise a certain degree of discretion.

Most, if not all, of the electricity generated by Hongguang Power is typically used internally by Baofeng Coking. Supply of surplus electricity generated by Hongguang Power to the national power grid is mandated by the local utilities board. The value of the surplus electricity supplied, if it exists, is calculated based on actual kilowatt-hours produced and transmitted and at a fixed rate determined under contract.

Coal and coke sales represent the invoiced value of goods, net of a value-added tax ("VAT"), sales discounts and actual returns at the time when product is sold to the customer.

Accounts receivables, trade, net

During the normal course of business, we extend unsecured credit not exceeding three months to our customers. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records allowance when management believes collection of amounts due are at risk. Accounts receivables are considered past due after three months from the date credit was granted. Accounts considered uncollectible after exhaustive efforts to collect are written off. We regularly review the credit worthiness of our customers and, based on the results of such credit review, determine whether extended payment terms can be granted to or, in some cases, partial prepayment is required from certain customers. No allowance for doubtful accounts is considered necessary at the balance sheets dates.

Intangible assets - mining rights, net

Mining rights are capitalized at fair value when acquired, including amounts associated with any value beyond proven and probable reserves, and amortized to operations as depletion expense using the units-of-production method over the estimated proven and probable recoverable tons. Our coal reserves are controlled through direct ownership by our VIEs which generally last until the recoverable reserves are depleted.

Impairment of long-lived assets

We evaluate long-lived tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows, in accordance with the accounting guidance regarding "Disposal of Long-Lived Assets." Recoverability is measured by comparing an asset's carrying value to the related projected undiscounted cash flows generated by the long-lived asset or asset group, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. When the carrying value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and/or third party independent appraisals. As of June 30, 2012 and 2011, there was no impairment of long-lived assets.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

We do not use derivative financial instruments and have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents, trade accounts receivable, accounts payable and long-term obligations. We generally consider investments in highly liquid instruments purchased with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents.

Currency Fluctuations and Foreign Currency Risk

Substantially all of our operations are conducted in China. All of our sales and purchases are conducted within China in RMB, which is the official currency of China. As a result, the effect of the fluctuations of exchange rates is considered minimal to our business operations.

Substantially all of our revenues and expenses are denominated in RMB. However, we use the United States dollar for financial reporting purposes. Conversion of RMB into foreign currencies is regulated by the People's Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of RMB, there can be no assurance that such exchange rate will not again become volatile or that RMB will not devalue significantly against the U.S. dollar. Exchange rate fluctuations may adversely affect the value, in U.S. dollar terms, of our net assets and income derived from our operations in China.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term and long-term obligations. Accordingly, fluctuations in applicable interest rates would not have a material impact on the fair value of these securities. At June 30, 2012, we had approximately $12 million in cash. A hypothetical 2% increase or decrease in applicable interest rates would not have a material impact on our earnings or loss, or the fair market value or cash flows of these instruments.

Commodity Price Risk

We are a coal and coke producer, and as discussed elsewhere in this Report, our business is affected by prevailing market prices for coal and coke. However, we do not currently engage in any hedging activities, such as futures, forwards, or options contracts, with respect to any of our inputs or products.

Credit Risk

We are exposed to credit risk from our cash at bank and fixed deposits and accounts receivable. The credit risk on cash at bank and fixed deposits is limited because the counterparties are recognized financial institutions. Accounts

receivable are subjected to credit evaluations. An allowance has been made for estimated irrecoverable amounts which have been determined by reference to past default experience and the current economic environment.

Inflation

Inflationary factors, such as increases in the cost of our products and overhead costs, could impair our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of sales revenue if the selling prices of our products do not increase with these increased costs.

Company's Operations are Substantially in Foreign Countries

Substantially all of our operations are conducted in China and are subject to various political, economic, and other risks and uncertainties inherent in conducting business in China. Among other risks, our operations are subject to the risks of restrictions on transfer of funds; export duties, quotas, and embargoes; domestic and international customs and tariffs; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations. Additional information regarding such risks can be found under the heading "*Risk Factors*" in this Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our audited consolidated financial statements for the fiscal years ended June 30, 2012 and 2011, together with the report of the independent certified public accounting firm thereon and the notes thereto, are presented beginning at page F-1.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

SinoCoking Coal and Coke Chemical Industries, Inc.

We have audited the accompanying consolidated balance sheets of SinoCoking Coal and Coke Chemical Industries, Inc. and Subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of income and comprehensive income, cash flows and equity for the years then ended. SinoCoking Coal and Coke Chemical Industries, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SinoCoking Coal and Coke Chemical Industries, Inc. and Subsidiaries as of June 30, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, New York

September 28, 2012

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	AS OF JUNE 30,	
	2012	2011
ASSETS		
CURRENT ASSETS		
Cash	$2,366,718	$26,266,687
Restricted cash	9,668,000	8,320,500
Accounts receivable, trade, net	12,017,231	8,489,272
Notes receivable, trade	14,176,800	-
Notes receivable, mine acquisition	9,155,520	-
Other receivables	1,412,008	232,126
Loans receivable	9,849,937	16,764,390
Refundable deposit	4,752,000	-
Inventories	2,382,444	3,010,926
Advances to suppliers	12,267,806	8,994,833
Advances to suppliers - related parties	-	575,700
Prepaid expenses	633,313	-
Total current assets	78,681,777	72,654,434
PLANT AND EQUIPMENT, net	16,211,984	17,157,542
CONSTRUCTION IN PROGRESS	39,379,553	23,204,544
OTHER ASSETS		
Prepayments	36,071,853	42,661,993
Intangible assets, net	31,635,487	31,328,852
Long-term investments	2,825,730	2,753,660
Other assets	110,880	108,290
Total other assets	70,643,950	76,852,795
Total assets	$204,917,264	$189,869,315
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short term loans - banks	$26,294,400	$4,950,400
Accounts payable, trade	4,023	144,147
Notes payable	4,752,000	-

Other payables and accrued liabilities	802,028	1,271,585
Other payables - related parties	156,227	455,768
Acquisition payable	4,593,600	154,700
Customer deposits	138,457	127,965
Taxes payable	1,522,062	2,856,671
Total current liabilities	38,262,797	9,961,236
LONG TERM LIABILITIES		
Long term loans	36,432,000	55,692,000
Warrants liability	716,648	5,569,047
Total long term liabilities	37,148,648	61,261,047
Total liabilities	75,411,445	71,222,283
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common shares, $0.001 par value, 100,000,000 authorized, 21,121,372 and 21,090,948 issued and outstanding as of June 30, 2012 and June 30, 2011, respectively	21,121	21,091
Additional paid-in capital	3,592,053	3,442,083
Statutory reserves	3,689,941	3,403,793
Retained earnings	110,257,132	98,004,993
Accumulated other comprehensive income	7,613,972	5,111,872
Total SinoCoking Coal and Coke Chemicals Industries, Inc's equity	125,174,219	109,983,832
NONCONTROLLING INTERESTS	4,331,600	8,663,200
Total equity	129,505,819	118,647,032
Total liabilities and equity	$204,917,264	$189,869,315

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	FOR THE YEARS ENDED JUNE 30,	
	2012	2011
REVENUE	$ 78,912,770	$ 74,287,993
COST OF REVENUE	63,745,461	47,267,309
GROSS PROFIT	15,167,309	27,020,684
OPERATING EXPENSES:		
Selling	210,568	316,663
General and administrative	2,993,580	3,206,823
Total operating expenses	3,204,148	3,523,486
INCOME FROM OPERATIONS	11,963,161	23,497,198
OTHER INCOME (EXPENSE)		
Interest income	1,413,937	416,614
Interest expense	(2,356,333)	(1,472,368)
Other finance expense	(225,005)	(451,152)
Other income (expense), net	241,635	(152,879)
Change in fair value of warrants	4,852,399	23,135,827
Total other income, net	3,926,633	21,476,042
INCOME BEFORE INCOME TAXES	15,889,794	44,973,240
PROVISION FOR INCOME TAXES	3,395,237	5,065,380
NET INCOME	12,494,557	39,907,860
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment	2,502,100	3,976,331
COMPREHENSIVE INCOME	$ 14,996,657	$ 43,884,191
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
Basic	21,093,525	20,962,091
Diluted	21,093,525	21,021,255
EARNINGS PER SHARE		

Basic	$ 0.59	$ 1.90
Diluted	$ 0.59	$ 1.90

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

	Common Share		Additional paid-in	Retained earnings		Accumulated other comprehensive	Noncontrolling	
	Shares	Par Value	capital	Statutory reserves	Unrestricted	income	interest	Total
BALANCE, July 1, 2010	20,871,192	$20,871	$67,269	$1,837,395	$59,373,726	$1,135,541	$-	$62,434,8
Warrants exercised-cash proceeds	219,756	220	1,318,316					1,318,53
Warrants exercised-derivative value			2,056,498					2,056,49
Noncontrolling interest in acquirees							8,663,200	8,663,20
Net income					39,907,860			39,907,8
Adjustment of statutory reserve				1,566,398	(1,276,593)			289,805
Foreign currency translation adjustments						3,976,331		3,976,33
BALANCE, June 30, 2011	21,090,948	21,091	3,442,083	3,403,793	98,004,993	5,111,872	8,663,200	118,647,
Shares issued for services	30,424	30	149,970					150,000
Acquisition of noncontrolling interest							(4,331,600)	(4,331,6
Net income					12,494,557			12,494,5
Adjustment of statutory reserve				286,148	(242,418)			43,730
Foreign currency translation adjustments						2,502,100		2,502,10
BALANCE, June 30, 2012	21,121,372	$21,121	$3,592,053	$3,689,941	$110,257,132	$7,613,972	$4,331,600	$129,505,

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

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED JUNE 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,494,557	$ 39,907,860
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	1,352,871	1,856,068
Amortization and depletion	439,871	1,536,739
Write-off of other receivables and advances to suppliers	530,902	31,689
Change in fair value of warrants	(4,852,399)	(23,135,827)
Warrants granted for service	-	325,285
Reservation of mine maintenance fee	43,730	289,805
Equity investment income	(6,171)	-
Stock issued for services	150,000	-
Change in operating assets and liabilities		
Accounts receivable, trade	(3,303,927)	(2,846,415)
Notes receivable, trade	(14,087,300)	1,071,390
Other receivables	(993,811)	230,494
Inventories	1,807,743	(619,872)
Advances to suppliers	(3,165,668)	(561,559)
Advances to suppliers - related parties	-	(3,665,486)
Prepaid expenses	(628,746)	-
Accounts payable, trade	(142,663)	(152,894)
Other payables and accrued liabilities	(485,054)	(54,950)
Customer deposits	7,385	15,381
Taxes payable	(1,394,076)	1,527,445
Net cash (used in) provided by operating activities	(12,232,756)	15,755,153
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal advances of loans receivable	(2,847,200)	(19,683,800)
Long-term investment	-	(2,686,020)
Repayment of loans receivable	9,886,453	5,599,918
Payments on equipment and construction in progress	(15,526,921)	(12,249,680)
Payments on business acquisitions	-	(14,486,400)
Prepayments on construction in progress	(16,527,000)	(3,247,319)
Refunds of construction prepayments	-	5,504,109
Refunds of coal mine acquisition prepayments	11,061,403	-
Prepayments of intangible assets	(1,903,344)	(23,932,740)
Net cash used in investing activities	(15,856,609)	(65,181,932)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	(1,287,000)	14,782,500
Cash proceeds from exercise of warrants	-	1,318,536
Proceeds from notes payable	7,870,000	19,617,000
Payments of notes payables	(3,148,000)	(22,635,000)
Proceeds from short-term loans - bank	10,703,200	4,828,800
Proceeds from long-term loans - bank	-	54,324,000
Payments of short-term loans - bank	(10,073,600)	(15,090,000)
Payments of short-term loans - others	-	(528,150)
(Payments to)/proceeds from related parties	(308,794)	874,787
Net cash provided by financing activities	3,755,806	57,492,473
EFFECT OF EXCHANGE RATE ON CASH	433,590	797,985
(DECREASE)/INCREASE IN CASH	(23,899,969)	8,863,679
CASH, beginning of year	26,266,687	17,403,008
CASH, end of year	$ 2,366,718	$ 26,266,687
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	$ 4,326,734	$ 4,138,345
Cash paid for interest expense, net of capitalized interest	$ 2,984,940	$ 1,472,368
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES		
Warrants issued for placement agent fee	$ -	$ 325,285
Reclassification of long-term prepayments to other receivable	$ -	$ 526,641
Transferred from advances to suppliers - related parties to other receivables	$ 585,748	$ -
Construction-in-progress acquired with prepayments made in prior year	$ -	$ 7,008,440
Reclassification of derivative liability to equity related to exercise of warrants	$ -	$ 2,056,498
Reclassification of prepayment to refundable deposit	$ 4,722,000	$ -
Reclassification of coal mine acquisition prepayments to notes receivable, mine acquisition	$ 9,097,720	$ -
Refunds of coal mine acquisition prepayments offset by inventory purchases	$ 1,111,673	$ -
Business acquisition with prepayments made in prior year	$ -	$ 4,527,000
Acquisition payable accrued for coal mine acquisition	$ 4,407,200	$ -

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of business and organization

SinoCoking Coal and Coke Chemical Industries, Inc. ("SinoCoking" or the "Company") was organized on September 30, 1996, under the laws of the State of Florida as "J.B. Financial Services, Inc." On July 19, 1999, the Company changed its name to "Ableauctions.com, Inc." On February 5, 2010, in connection with a share exchange transaction as described below, the Company changed its name to "SinoCoking Coal and Coke Chemical Industries, Inc."

On February 5, 2010, the Company completed a share exchange transaction with Top Favour Limited ("Top Favour"), and Top Favour became a wholly-owned subsidiary of the Company (the "Share Exchange"). In connection with the closing of the Share Exchange, all of the assets and liabilities of the Company's former business conducted under Ableauction.com, Inc.'s were transferred to a liquidating trust, including the capital stock of its former subsidiaries.

As a result of the Share Exchange, Top Favour's shareholders owned approximately 97% of the issued and outstanding shares immediately after the Share Exchange, and the management members of Top Favour became the directors and officers of the Company. The Share Exchange was accounted for as a reverse acquisition and recapitalization and as a result, the consolidated financial statements of the Company (the legal acquirer) is, in substance, those of Top Favour (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the Share Exchange. As the Share Exchange was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction.

The Company is a vertically-integrated coal and coke producer based in the People's Republic of China ("PRC" or "China"). All of the Company's business operations are conducted by a variable interest entity ("VIE"), Henan Pingdingshan Hongli Coal & Coking Co., Ltd., ("Hongli"), which is controlled by Top Favour's wholly-owned subsidiary, Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. ("Hongyuan"), through a series of contractual arrangements (see Note 2).

Due to an accident during the quarter ended December 31, 2011 at one of the mines owned by Yima Coal Group, a state-owned enterprise and one of the six provincial level coal mine consolidators in Henan, all mid-scale mines are required to undergo mandatory safety checks and inspections by relevant authorities before receiving clearance to

resume coal mining operations. This requirement applies to all SinoCoking mines, including the Hongchang, Xingsheng, Shuangrui and Shunli coal mines which were previously awaiting government confirmation to resume operations.

The accompanying consolidated financial statements reflect the activities of the Company and each of the following entities as of June 30, 2012:

Name	Background	Ownership
Top Favour	· A British Virgin Islands company · Incorporated on July 2, 2008	100%
Hongyuan	· A PRC limited liability company and deemed a wholly foreign owned enterprise (“WFOE”) · Incorporated on March 18, 2009 · Registered capital of $3 million fully funded	100%
Hongli	· A PRC limited liability company · Incorporated on June 5, 1996 · Initial registered capital of $1,055,248 or 8,808,000 Renminbi (“RMB”), further increased to $4,001,248 (RMB 28,080,000) on August 26, 2010, fully funded · 85.40% of equity interests held by Jianhua Lv, the Company’s Chief Executive Officer (“CEO”) and Chairman of the Board of Directors · Operates a branch, Baofeng Coking Factory (“Baofeng Coking”)	VIE by contractual arrangements (1)
Baofeng Hongchang Coal Co., Ltd. (“Hongchang Coal”)	· A PRC limited liability company · Incorporated on July 19, 2007 · Registered capital of $396,000 (RMB 3,000,000) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Shunli Coal Co., Ltd.(“Shunli Coal”)	· A PRC limited liability company · Incorporated on August 13, 2009 · Registered capital of $461,700 (RMB3,000,000) fully funded · Acquired by Hongchang Coal on May 20, 2011	VIE by contractual arrangements as a wholly-owned subsidiary of Hongchang Coal

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Baofeng Hongguang Power Co., Ltd. (“Hongguang Power”)	· A PRC limited liability company · Incorporated on August 1, 2006 · Registered capital of $2,756,600 (RMB 22,000,000) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Xingsheng Coal Co., Ltd. (“ Xingsheng Coal”)	· A PRC limited liability company · Incorporated on December 6, 2007 · Registered capital of $559,400 (RMB 3,634,600) fully funded · 60% of equity ownership acquired by Hongli on May 20, 2011	VIE by contractual arrangements as a 60% owned subsidiary of Hongli
Baofeng Shuangrui Coal Co., Ltd. (“Shuangrui Coal”)	· A PRC limited liability company · Incorporated on March 17, 2009 · Registered capital of $620,200 (RMB4,029,960) fully funded · 60% of equity ownership acquired by Hongli on May 20, 2011 · 100% of equity ownership acquired by Hongchang Coal on June 20, 2012	VIE by contractual arrangements as a wholly-owned subsidiary of Hongchang Coal
Zhonghong Energy Investment Company (“Zhonghong”)	· A PRC company · Incorporated on December 30, 2010 · Registered capital of $7,842,800 (RMB51,000,000) fully funded equity interests of 100% held by three nominees on behalf of Hongli pursuant to share entrustment agreements	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Hongrun Coal Chemical Co., Ltd. (“Hongrun”)	· A PRC limited liability company · Incorporated on May 17, 2011	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli

· Registered capital of $ 4,620,000 (RMB30 million) fully funded

(1) On March 18, 2009, Hongyuan entered into certain exclusive agreements with Hongli and its equity owners. Pursuant to these agreements, Hongyuan provides exclusive consulting services to Hongli in return for a consulting services fee which is equal to Hongli's net profits. In addition, Hongli's equity owners have pledged their equity interests in Hongli to Hongyuan, irrevocably granted Hongyuan an exclusive option to purchase all or part of the equity interests in Hongli and agreed to entrust all the rights to exercise their voting power to the person(s) appointed by Hongyuan.

Through these contractual arrangements, Hongyuan has the ability to control Hongli's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval. As part of these contractual arrangements, Hongyuan and Hongli entered into an operating agreement which, amongst other matters, precludes Hongli from borrowing money, selling or acquiring assets, including intellectual property rights, providing guarantees to third parties or assigning any business agreements, without the prior written consent of Hongyuan. Hongyuan also agreed that, if any guarantee for Hongli's performance of any contract or loan was required, Hongyuan would provide such guarantee to Hongli.

As a result of these contractual arrangements, Hongyuan is entitled to receive the expected residual returns of Hongli. Additionally, although Hongli has been profitable, in the event that Hongli were to incur losses, Hongyuan would be obligated to absorb a majority of the risk of loss from Hongli's activities as a result of its inability to receive payment for its accumulated consulting fees that are equal to Hongli's net income.

In August 2010, the Pingdingshan municipal government notified Hongli to increase its registered capital by RMB 20,000,000 to RMB 28,080,000 in order to maintain its coal trading license. Accordingly, the equity owners of Hongli contributed such additional registered capital, which amount was contributed in full as of August 26, 2010. However, the equity owners did not contribute in proportion to their original ownership percentages, such that Hongli is now 85.40% owned by Mr. Jianhua Lv (the Company's CEO), 9.1% by Ms. Xin Zheng, 3.99 % by Mr. Wenqi Xu, and 1.42% by Mr. Guoxiang Song. As a result, on September 9, 2011, certain of the contractual arrangements between Hongyuan and Hongli (namely, the operating agreement, option agreement, voting rights proxy agreement and equity pledge agreement) were re-executed to reflect such new ownership percentages in Hongli from the increased registered capital, and the Company was made a party to such re-executions. Otherwise, the terms of these agreements remain unchanged. Registration of the additional registered capital and the change in ownership percentages in Hongli with the Pingdingshan Administration for Industry and Commerce was completed on April 29, 2011.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company believes that the equity owners of Hongli do not have the characteristics of a controlling financial interest, and that the Company is the primary beneficiary of the operations and residual returns of Hongli and, in the event of losses, would be required to absorb a majority of such losses. Accordingly, the Company consolidates Hongli's results, assets and liabilities in the accompanying financial statements.

Selected financial data of Hongli and its subsidiaries is set forth below:

	June 30, 2012	June 30, 2011
Total current assets	$58,535,803	$49,774,889
Total assets	$184,771,289	$166,989,770
Total current liabilities	$53,633,472	$78,860,160
Total liabilities	$90,065,472	$78,860,160

Presently, the Company's coking related operations are carried out by Baofeng Coking, coal related operations by Hongchang Coal, Shuangrui Coal, Shunli Coal and Xingsheng Coal, and electricity generation by Hongguang Power. However, it is the Company's intention to transfer all coal related operations to a joint-venture between Zhonghong and Henan Province Coal Seam Gas Development and Utilization Co., Ltd. ("Henan Coal Seam Gas") (see Note 13). As of June 30, 2012, the transfer of the Company's coal related operations to the joint-venture had not been carried out, and Shuangrui Coal, Shunli Coal and Xingsheng Coal have had no operations since their acquisitions by the Company (see Note 21).

Note 2 – Summary of significant accounting policies

Principles of consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries – Top Favour and Hongyuan, and its VIEs – Hongli and its

subsidiaries. All significant inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation.

In accordance with the Financial Accounting Standards Board's ("FASB") accounting standard for consolidation of variable interest entities, VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes. As a result of the contractual arrangements described below, the Company, through Hongyuan, is obligated to absorb a majority of the risk of loss from Hongli's activities and the Company is enabled to receive a majority of Hongli's expected residual returns. The Company accounts for Hongli as a VIE and is the primary beneficiary. The primary beneficiary is required to consolidate the VIE for financial reporting purposes. Management makes ongoing assessments of whether Hongyuan is the primary beneficiary of Hongli and its subsidiaries.

Accounting Standards Codification ("ASC") 810 – "Consolidation" addresses whether certain types of entities referred to as VIEs, should be consolidated in a company's consolidated financial statements. The contractual arrangements entered into between Hongyuan and Hongli are comprised of the following series of agreements:

(1) a Consulting Services Agreement, through which Hongyuan has the right to advise, consult, manage and operate Hongli and its subsidiaries ("the Operating Companies"), collect, and own all of the respective net profits of the Operating Companies;

(2) an Operating Agreement, through which Hongyuan has the right to recommend director candidates and appoint the senior executives of the Operating Companies, approve any transactions that may materially affect the assets, liabilities, rights or operations of the Operating Companies, and guarantee the contractual performance by the Operating Companies of any agreements with third parties, in exchange for a pledge by the Operating Companies of their respective accounts receivable and assets;

(3) a Proxy Agreement, under which the equity holders of the Operating Companies have vested their voting control over the Operating Companies to Hongyuan and will only transfer their equity interests in the Operating Companies to Hongyuan or its designee(s);

(4) an Option Agreement, under which the equity holders of the Operating Companies have granted Hongyuan the irrevocable right and option to acquire all of its equity interests in the Operating Companies, or, alternatively, all of the assets of the Operating Companies; and

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(5) an Equity Pledge Agreement, under which the equity holders of the Operating Companies have pledged all of their rights, title and interest in the Operating Companies to Hongyuan to guarantee the Operating Companies' performance of their respective obligations under the Consulting Services Agreement.

Since Top Favour, Hongyuan and Hongli are under common control, the above corporate structure including the above contractual arrangements have been accounted for as a reorganization of entities and the consolidation of Top Favour, Hongyuan and Hongli has been accounted for at historical cost and prepared on the basis as if the contractual arrangements had become effective as of the beginning of the first period presented in the accompanying consolidated financial statements.

Use of estimates

The preparation of the 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions relate to coal reserves that are the basis for future cash flow estimates and units-of-production depletion calculations; asset impairments; allowance for doubtful accounts and loans receivable; valuation allowances for deferred income taxes; reserves for contingencies; stock-based compensation and the fair value and accounting treatment for warrants. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates.

Stock-based compensation

The Company records share-based compensation expense based upon the grant date fair value of share-based awards. The value of the award is principally recognized as expense ratably over the requisite service periods. The Company uses the Black-Scholes Merton ("BSM") option-pricing model, which incorporates various assumptions including volatility, expected life and interest rates to determine fair value. The Company's expected volatility assumption is based on the historical volatility of Company's stock. The expected life assumption is primarily based on the simplified

method of the terms of the options. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock-based compensation expense is recognized based on awards expected to vest. U.S. GAAP require forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, when actual forfeitures differ from those estimates. There were no estimated forfeitures as the Company has a short history of issuing options.

Revenue recognition

Coal and coke sales are recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. This generally occurs when coal and coke is loaded onto trains or trucks at one of the Company's loading facilities or at third party facilities.

Substantially, if not all, of the electricity generated by Hongguang Power is typically used internally by Baofeng Coking. Supply of surplus electricity generated by Hongguang Power to the national power grid is mandated by the local utilities board. The value of the surplus electricity supplied, if it exists, is calculated based on actual kilowatt-hours produced and transmitted and at a fixed rate determined under contract.

Coal and coke sales represent the invoiced value of goods, net of a value-added tax ("VAT"), sales discounts and actual returns at the time when product is sold to the customer.

Shipping and handling costs

Shipping and handling costs related to goods sold are included in selling expense. There were no shipping and handling costs for the years ended June 30, 2012, and 2011, because the customers paid for such expenses.

Foreign currency translation and other comprehensive income

The reporting currency of the Company is the U.S. dollar. The functional currency of the Company, its subsidiaries and VIEs in the PRC is denominated in RMB.

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For the subsidiaries and VIEs whose functional currencies are other than the U.S. dollar, all assets and liabilities accounts were translated at the exchange rate on the balance sheet date; shareholders' equity is translated at the historical rates and items in the statement of operations are translated at the average rate for the period. Items in the cash flow statement are also translated at average translation rates for the period, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of equity. The resulting transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations.

The balance sheet amounts, with the exception of equity, at June 30, 2012 and 2011 were translated at RMB 6.31 to $1 and RMB 6.46 to $1, respectively. The average translation rates applied to income and cash flow statement amounts for the years ended June 30, 2012 and 2011 were at RMB 6.35 to $1 and RMB 6.63 to $1, respectively.

Fair value of financial instruments

The Company uses the FASB's accounting standards regarding fair value of financial instruments and related fair value measurements. Those accounting standards established a three-level valuation hierarchy for disclosures of fair value measurement and enhance disclosures requirements for fair value measures. The carrying amounts reported in the accompanying consolidated balance sheets for receivables, payables and short term loans qualify as financial instruments are a reasonable estimate of fair value because of the short period of time between the origination of such instruments, their expected realization and, if applicable, the stated rate of interest is equivalent to rates currently available. The three levels of valuation hierarchy are defined as follows:

Level 1	Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2	Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 Inputs to the valuation methodology are unobservable.

The Company determined that the carrying value of the long-term loans approximated their fair value using level 2 inputs by comparing the stated loan interest rate to the rate charged by the Bank of China on similar loans (See Note 14). For long-term investments (which consist of a 2.86% equity interest in a credit union in China and a 49% equity interest in a joint venture between Zhonghong and Henan Coal Seam Gas), it was impracticable for the Company to obtain their fair values at June 30, 2012.

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2012:

	Carrying Value at June 30, 2012	Fair Value Measurement at June 30, 2012		
		Level1	Level 2	Level 3
Warrants liability	$ 716,648	$ —	$ 716,648	$ —

The following is a reconciliation of the beginning and ending balances of warrants liability measured at fair value on a recurring basis using observable inputs as of June 30, 2012 and 2011:

	June 30, 2012	June 30, 2011
Beginning fair value	$5,569,047	$30,436,087
Issuance of warrants	-	325,285
Realized gain recorded in earnings	(4,852,399)	(23,135,827)
Value of warrants exercised recorded in APIC	-	(2,056,498)
Ending fair value	$716,648	$5,569,047

The Company's warrants are not traded on an active securities market; therefore, the Company estimates the fair value of its warrants using the Cox-Ross-Rubinstein binomial model on June 30, 2012 and 2011.

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	June 30, 2012		June 30, 2011	
Number of shares exercisable	3,906,853		3,906,853	
Exercise price	$6.00-48.00		$ 6.00-48.00	
Stock price	$2.05		$ 4.56	
Expected term (year)	2.60-4.78		3.60-5.78	
Risk-free interest rate	0.38-0.69	%	1.10-2.05	%
Expected volatility	75-85	%	75	%

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record certain financial assets and liabilities at fair value on a non-recurring basis. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. For the years ended June 30, 2012 and 2011, the two long term investments are not considered impaired.

The Company did not identify any other assets and liabilities that are required to be presented on the consolidated balance sheets at fair value.

Cash

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents for cash flow statement purposes. Cash includes cash on hand and demand deposits in accounts maintained with state owned banks within the PRC and with banks in Hong Kong and in the United States of America.

Balances at financial institutions or state owned banks within the PRC are not covered by insurance. Balances at financial institutions in Hong Kong may, from time to time, exceed Hong Kong Deposit Protection Board’s insured limits. As of June 30, 2012 and 2011, the Company had $11,880,025 and $34,425,040 of cash deposits, including restricted cash, which were not covered by insurance, respectively. The Company has not experienced any losses in such accounts.

Restricted cash

Restricted cash represents amounts set aside by the Company in accordance with the Company's debt agreements with certain financial institutions in the PRC. These cash amounts are designated for the purpose of paying down the principal amounts owed to the financial institutions, and these amounts are held at the same financial institutions with which the Company has the debt agreements. Due to the short-term nature of the Company's debt obligations to these banks, the corresponding restricted cash balances have been classified as current in the consolidated balance sheets.

Accounts receivables, trade, net

During the normal course of business, the Company extends unsecured credit not exceeding three months to its customers. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records an allowance when management believes collection of amounts due are at risk. Accounts receivables are considered past due after three months from the date credit was granted. Accounts considered uncollectible after exhaustive efforts to collect are written off. The Company regularly reviews the credit worthiness of its customers and, based on the results of the credit review, determines whether extended payment terms can be granted to or, in some cases, partial prepayment is required from certain customers. No allowance for doubtful accounts is considered necessary at the balance sheet dates.

Notes receivable, trade

These notes receivable represent trade accounts receivable due from customers where the customers' banks have guaranteed payment of the receivable. This amount is non-interest bearing and is normally paid within three to nine months. The Company is allowed to submit its request for payment to the customers' banks prior to the due dates. However, early request for payment will incur an interest charge and a processing fee.

Notes receivable, mine acquisition

These notes receivable represent settlement of the receivables from payments made for mine acquisition where the issuers' banks have guaranteed payment of the receivable. This amount is non-interest bearing and is normally paid within three to nine months. The Company is allowed to submit its request for payment to the issuers' banks earlier than the scheduled payment dates. However, early request for payment will incur an interest charge and a processing fee.

Other receivables

Other receivables include advances to employees for general business purposes and other short term non-traded receivables from unrelated parties, primarily as unsecured demand loans, with no stated interest rate or due date. Management regularly reviews aging of receivables and changes in payment trends and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off after exhaustive efforts at collection. No allowance for doubtful accounts is considered necessary at the balance sheet dates.

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Loans receivable

Loans receivable represents the amount the Company expects to collect from unrelated parties. The loans either are due on demand or mature within a year, and are either unsecured or secured by the properties of the borrowers or guaranteed by unrelated parties. All loans receivables are subject to interest charges. No allowance for doubtful accounts is considered necessary at the balance sheet dates.

Refundable deposit

A deposit was made to Henan Coal Seam Gas and is refundable when the joint venture between it and Zhonghong (see Note 13) commences operations.

Inventories

Inventories are stated at the lower of cost or market, using the weighted average cost method. Inventories consist of raw materials, supplies, work in process, and finished goods. Raw materials mainly consist of coal (mined and purchased), rail, steel, wood and additives used by the Company. The cost of finished goods includes (1) direct costs of raw materials, (2) direct labor, (3) indirect production costs, such as allocable utilities cost, and (4) indirect labor related to the production activities, such as assembling and packaging. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. On an ongoing basis, inventories are reviewed for potential write-down for estimated obsolescence or unmarketable inventories equal to the difference between the costs of inventories and the estimated net realizable value based upon forecasts for future demand and market conditions. When inventories are written-down to the lower of cost or market, they are not marked up subsequently based on changes in underlying facts and circumstances. As of June 30, 2012 and 2011, no allowance for inventory valuation was deemed necessary.

Advances to suppliers

The Company advances monies to certain suppliers for raw material purchases. These advances are interest-free and unsecured. Management regularly reviews aging of advances to suppliers and changes in materials receiving trends and records an allowance when management believes collection of materials due are at risk. Advances aged over one year and considered uncollectible are written off after exhaustive efforts at collection. No allowance for doubtful accounts is considered necessary at the balance sheet dates.

Plant and equipment, net

Plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; while additions, renewals and betterments that extend the useful life are capitalized. When items of plant and equipment are retired or otherwise disposed, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Mine development costs are capitalized and amortized by the units of production method over estimated total recoverable proven and probable reserves. Depreciation of plant and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

	Estimated Useful Life
Building and plant	20 years
Machinery and equipment	10-20 years
Other equipment	1-5 years
Transportation equipment	5-7 years

Construction-in-progress (“CIP”) includes direct costs of construction for mining tunnel improvements and the Company’s new coking plant. Interest incurred during the period of construction, if material, is capitalized. For the years ended June 30, 2012 and 2011, $914,688, and $794,011 in interest were capitalized into CIP, respectively. All other interest is expensed as incurred. CIP is not depreciated until such time the assets are completed and put into service. Maintenance, repairs and minor renewals are charged to expense as incurred. Major additions and betterment to property and equipment are capitalized.

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Intangible assets

Land use rights, net

Costs to obtain land use rights are recorded based on the fair value at acquisition and amortized over 36 years, the contractual period of the rights. Intangible assets with finite lives are amortized over their useful lives and reviewed at least annually for impairment.

Mining rights, net

Mining rights are capitalized at fair value when acquired, including amounts associated with any value beyond proven and probable reserves, and amortized to operations as depletion expense using the units-of-production method over the estimated proven and probable recoverable tons. The Company's coal reserves are controlled by its VIEs and generally last until the recoverable reserves are depleted.

Impairment of long-lived assets

The Company evaluates long-lived tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows, in accordance with the accounting guidance regarding "Disposal of Long-Lived Assets." Recoverability is measured by comparing an asset's carrying value to the related projected undiscounted cash flows generated by the long-lived asset or asset group, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. When the carrying value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss to the extent that the carrying value exceeds its fair value. As of June 30, 2012 and 2011, there was no impairment of long-lived assets. Fair value is determined through various valuation techniques including discounted cash flow

models, quoted market values and/or third party independent appraisals.

Long-term investment

Investments in equity securities of privately-held companies in which the Company holds less than 20% voting interest and to which the Company does not have the ability to exercise significant influence are accounted for under the cost method.

Entities in which the Company has the ability to exercise significant influence, but does not have a controlling interest, are accounted for under the equity method. Significant influence is generally considered to exist when the Company has an ownership interest in the voting stock between 20% and 50%, and other factors, such as representation on the board of directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate.

The Company evaluates potential impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. For investments carried at cost, the Company recognizes impairment in the event that the carrying value of the investment exceeds the Company's proportionate share of the net book value of the investee. As of June 30, 2012, management believes no impairment charge is necessary.

Asset retirement cost and obligations

The Company accounts for the asset retirement cost and obligations to retire tangible long-lived assets in accordance with U.S. GAAP, which requires that the Company's legal obligations associated with the retirement of long-lived assets be recognized at fair value at the time the obligations are incurred. Obligations are incurred at the time development of a mine commences for underground mines or construction begins for support facilities, refuse areas and slurry ponds. If an entity has a conditional asset retirement obligation, a liability should be recognized when the fair value of the obligations can be reasonably estimated.

The obligation's fair value is determined using discounted cash flow techniques and is accreted over time to its expected settlement value. Upon initial recognition of a liability, a corresponding amount is capitalized as part of the carrying amount of the related long-lived asset. Amortization of the related asset is calculated on a unit-of-production method by amortizing the total estimated cost over the salable reserves as determined under SEC Industry Guide 7, multiplied by the production during the period.

Asset retirement costs generally include the cost of reclamation (the process of bringing the land back to its natural state after completion of exploration activities) and environmental remediation (the physical activity of taking steps to remediate, or remedy, any environmental damage caused).

In May 2009, the Bureau of Finance and the Bureau of Land and Resource of Henan Province issued regulations on mine environmental control and recovery which require mining companies to file an evaluation report regarding the environmental impacts of mining (the "Evaluation Report") before December 31, 2010. The corresponding authorities would then determine whether to approve the Evaluation Report after performing on-site investigation, and the asset retirement obligation will be determined by the authorities based on the approved filing. Such requirement was extended along with the extension of the provincial mine consolidation schedule. However, such extension date has not been finalized by the related provincial authorities.

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The Company did not record such asset retirement obligation as of June 30, 2012 and 2011 because the Company did not have sufficient information to reasonably estimate the fair value of such obligation. The range of time over which the Company may settle the obligation is unknown and cannot be reasonably estimated. In addition, the settlement method for the obligation cannot be reasonably determined. The amount of the obligation to be determined by the government authorities is affected by several factors, such as the extent of remediation required in and around the mining area, the methods to be used to remediate the mining site, and any government grants which may or may not be credited to the mining companies.

The Company will recognize the liability in the period in which sufficient information is available to reasonably estimate its fair value.

Income taxes

Deferred income taxes are provided on the asset and liability method for temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the years ended June 30, 2012, and 2011. As of June 30, 2012, federal and state tax returns filed for June 30, 2011, 2010 and 2009 remain subject to examination by the taxing authorities.

Chinese income taxes

The Company's subsidiary and VIEs that operate in the PRC are governed by the income tax laws of the PRC and various local income tax laws (the "Income Tax Laws"), and are generally subject to an income tax at a statutory rate of 25% of taxable income, which is based on the net income reported in the statutory financial statements after appropriate tax adjustment.

Value added tax ("VAT")

Sales revenue represents the invoiced value of goods, net of VAT. All of the Company's coal and coke are sold in the PRC and are subject to a Chinese VAT at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing finished products. The Company records VAT payable and VAT receivable net of payments in the consolidated financial statements. The VAT tax return is filed to offset the payables against the receivables.

Warrants liability

A contract is designated as an asset or a liability and is carried at fair value on a company's balance sheet, with any changes in fair value recorded in a company's results of operations. The Company then determines which options, warrants and embedded features require liability accounting and records the fair value as a derivative liability. The changes in the values of these instruments are shown in the accompanying consolidated statements of income and other comprehensive income as "change in fair value of warrants."

In connection with the Share Exchange, the Company adopted the provisions of an accounting standard regarding instruments that are indexed to an entity's own stock. This accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in equity in the statement of financial position would not be considered a derivative financial instrument. It provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception within the standards. As a result of the adoption of this accounting standard, all warrants issued after the Share Exchange are recorded as a liability because the strike price of such warrants is denominated in U.S. dollars, a currency other than the Company's functional currency which is denominated in RMB.

All warrants issued before the Share Exchange, which were treated as equity pursuant to the derivative treatment exemption prior to the Share Exchange, are also no longer afforded equity treatment because the strike price of such warrants is denominated in U.S. dollar, a currency other than the Company's functional currency which is denominated in RMB. Therefore, such warrants are not considered indexed to the Company's own stock, and as such, all future

changes in the fair value of these warrants will be recognized currently in earnings until such warrants are exercised or expire.

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Noncontrolling interests

As further discussed in Note 21, as of June 30, 2012, noncontrolling interests mainly consist of a 40% equity interest of Xingsheng Coal owned by unrelated parties. As of June 30, 2011, noncontrolling interests include the 40% interests of Xingsheng Coal and a 40% equity interest of Shuangrui Coal, also owned by unrelated parties. For the years ended June 30, 2012, and 2011, there was no net income or loss attributable to such noncontrolling interests because neither entity was operational during such periods.

Earnings per share

The Company reports earnings per share in accordance with the provisions of ASC – 260 “Earnings Per Share.” This standard requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Dilution is computed by applying the treasury stock method. Under this method, option and warrants were assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Comprehensive income

FASB’s accounting standard regarding comprehensive income establishes requirements for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements. This accounting standard defines comprehensive income to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, it also requires all items to be recognized under current accounting standards as components of comprehensive income be reported in financial statement that is presented with the same prominence as other financial statements. The Company's only current component of comprehensive income is the foreign currency translation adjustments.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on the accompanying consolidated income statements.

Note 3 – Concentration and credit risk

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 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.

For the year ended June 30, 2012, 90.5% of the Company's revenue was from four major customers who individually accounted for 25.4%, 23.6%, 21.0% and 20.5% of total revenue, respectively. Accounts receivable from these four customers represented 25.5%, 22.9%, 22.8%, and 22.2% of the total accounts receivable balance as of June 30, 2012, respectively. For the year ended June 30, 2011, 74.6% of the Company's revenue was from three major customers who individually accounted for 38.0%, 21.4%, and 15.2% of total revenue, respectively. Account receivables from these three customers were 27.0%, 20.4%, and 11.1% of the total account receivable balance as of June 30, 2011, respectively.

For the year ended June 30, 2012, five major suppliers provided 61.9% of the Company's raw material purchases, with each supplier individually accounting for 15.8%, 12.7%, 12.5%, 10.7% and 10.2% of total purchases, respectively. For the year ended June 30, 2011, three major suppliers provided 32.9% of the Company's total raw material purchases, with each supplier individually accounting for 11.4%, 10.9% and 10.6% of total purchases, respectively. The Company held no accounts payable from its major suppliers as of June 30, 2012 and 2011.

Note 4 – Loans receivable

On June 8, 2011, Capital Paradise Limited ("CPL"), an unrelated party, borrowed $10,044,200 from Top Favour in an unsecured loan at an annual interest rate of 9.45%, with interest due every six months. The loan matured on June 7, 2012. On June 8, 2012, the Top Favour and CPL entered into a supplemental agreement to extend the maturity date to

December 7, 2012, and to decrease the interest rate to 7% annually. On June 15, 2011, CPL repaid $86,610 of the loan principal, and on July 19, 2011, CPL repaid $1,859,053 of the loan principal.

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On April 19, 2011, the Company loaned $2,165,800 (RMB 14 million) to Mr. Qimin Jian, an unrelated party. This loan was secured by the borrower's land use rights, and carried an annual interest rate of 10.8%. Subsequent to June 30, 2011, both parties agreed to change the annual interest rate to 24%, commencing July 1, 2011. The principal of this loan was repaid in full on September 30, 2011.

On June 21, 2011, the Company loaned $4,641,000 (RMB 30 million) to Mr. Chong Chen, an unrelated party. This loan was guaranteed by an unrelated party, and carried an annual interest rate of 10.8%. Subsequent to June 30, 2011, both parties agreed to change the annual interest rate to 24%, commencing July 1, 2011. The principal of this loan, which was due on July 28, 2011, was repaid in full on August 17, 2011.

During the year ended June 30, 2012, the Company wrote off $353,561 of certain other receivables representing interest on the loans to Mr. Qimin Jian and Mr. Chong Chen from the prior fiscal year and for the three months ended September 30, 2011.

In August 2011, Top Favour loaned an additional $801,000 to CPL. This loan is unsecured, interest free, and due on demand. On November 4, 2011, Top Favour entered a supplement agreement with CPL to extend the loan to November 4, 2012 and to add an annual interest rate of 7%.

On September 19, 2011, the Company loaned $1,094,800 (RMB 7 million) to Pingdingshan Hongxin Industrial Co., Ltd. ("Hongxin"), an unrelated party. This loan was due on December 19, 2011, is unsecured, and carries an annual interest rate of 6.0%. In September 2011, the Company and Hongxin entered into a supplemental agreement to extend the loan to March 31, 2012. The principal of this loan was repaid in full on April 28, 2012.

On February 20, 2012, the Company loaned $950,400 (RMB 6 million) to Pingdingshan Hongfeng coal wash Co., Ltd. ("Hongfeng"), an unrelated party. This loan was due on August 20, 2012, was unsecured, and had an annual interest rate of 3.5%. The principal of this loan was settled in full on August 9, 2012 by a note from Hongfeng guaranteed by its bank. The note is due on February 9, 2013.

For the years ended June 30, 2012 and 2011, interest income from loans receivable amounted to $1,370,939, and $60,097, respectively.

Note 5 – Other receivables

Other receivables consisted of the following:

	June 30, 2012	June 30, 2011
Receivables from an unrelated company	$1,099,910	$125,503
Advances to employees	117,394	42,740
Interest receivable	193,119	-
Miscellaneous	1,585	63,883
Other receivables	$1,412,008	$232,126

For the years ended June 30, 2012 and 2011, the Company wrote off $50,211 and $31,689 in uncollectible other receivables, respectively.

Note 6 – Inventories

Inventories consisted of the following:

	June 30, 2012	June 30, 2011
Raw materials	$244,425	$179,957
Work in process	315,143	751,529
Supplies	55,043	87,430
Finished goods	1,767,833	1,992,010
Total	$2,382,444	$3,010,926

Note 7 – Advances to suppliers

Advances to suppliers are monies deposited with or advanced to unrelated vendors for future inventory purchases, which consist mainly of raw coal purchases. Most of the Company’s vendors require a certain amount of funds to be deposited with them as a guarantee that the Company will receive its purchases on a timely basis and with favorable

pricing.

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Advances to suppliers as of June 30, 2012 and 2011 amounted to $12,267,806 and $8,994,833, respectively. For the year ended June 30, 2012, the Company wrote off $127,130 in uncollectible advances to suppliers.

Note 8 – Prepaid expenses

Prepaid expenses consisted of the following:

	June 30, 2012	June 30, 2011
Prepaid interest	$620,995	$ -
Prepaid rental	11,745	-
Miscellaneous	573	-
	$633,313	$ -

Prepaid interest arose from the Company's loans from Bairui Trust Co., Ltd. ("Bairui") (see Note 14). As required by its supplemental loan agreement with Bairui, the Company prepaid one year of interest on April 2, 2012, the beginning date of the loans per the supplemental loan agreement, at an annual interest rate of 1.5%, and is required to pay the remaining 4.8% annual interest on a monthly basis.

Note 9 – Prepayments

Prepayments consisted of the following:

June 30, 2012	June 30, 2011

Land use rights	$11,110,556	$8,980,335
Mine acquisitions	-	25,546,922
Construction	24,961,297	8,134,736
Total	$36,071,853	$42,661,993

Prepayments for land use rights

Prepayments for land use rights are monies advanced in connection with acquiring land use rights to expand the site of the Company's new coking plant still under construction. Such prepayments were paid to the former occupants of the land underlying the land use rights, and are not refundable. As of June 30, 2012 and 2011, prepayments for land use rights amounted to $11,110,556 and $8,980,335, respectively. The Company is in the process of registering the land use right certificates with Pingdingshan Bureau of Land and Resources and expects to obtain such registrations by December 31, 2012, at an estimated total cost of $11,571,120 (RMB 73,050,000).

Prepayments for acquisitions

The Company has been pursuing acquisitions of coal mine companies with annual production capacity of 150,000 to 300,000 metric tons, pursuant to a government-directed coal mine consolidation program. As of June 30, 2011, the Company prepaid $20,905,922 (RMB 135,138,476) in the aggregate in connection with four potential targets which the Company later decided not to acquire. Pursuant to the Company's agreements with the owners of these four targets entered into in August 2011, the Company's prepayments would be refunded to the Company by December 31, 2011. In August 2011, $7.86 million (RMB 50,210,000) was refunded to the Company and approximately $1.1 million (RMB 7,062,727) was reclassified as coal product purchase deposit and subsequently offset against inventory purchases. The balance of $12,323,520 (RMB 77.8 million) was accounted for as a receivable of mine acquisition prepayments. Such amount was settled in the form of notes receivable and cash, including notes receivable amounting to $9,155,520 during the year ended June 30, 2012 (see Note 2).

In December 2010, the Company advanced $4,752,000 (RMB 30 million) to Henan Province Coal Seam Gas Development and Utilization Co., Ltd. ("Henan Coal Seam Gas"), a state-owned enterprise and qualified provincial-level mine consolidator as security deposit, to form a joint-venture with Zhonghong for the purpose of acquiring coal mines within Henan Province and future operations. The joint-venture, Henan Hongyuan Coal Seam Gas Engineering Technology Co., Ltd. ("Hongyuan CSG"), was established on April 28, 2011. Henan Coal Seam Gas will return such advance to the Company as soon as the Company commences to consolidate all of its existing mines under Hongyuan CSG. Such advance was reclassified as refundable deposit as of June 30, 2012.

As of June 30, 2012 and June 30, 2011, prepayments for mine acquisitions amounted to $0 and $25,546,922, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Prepayments for construction

Prepayments for construction are mainly cash advanced to contractors and equipment suppliers in connection with the Company's new coking plant under construction, as well as for tunnel improvement at the Company's Hongchang coal mine.

As of June 30, 2012, the Company made prepayments of approximately $28.2 million (RMB 177.8 million) toward construction of its new coking plant.

In addition, the Company made prepayments of approximately $1.27 million (RMB 8 million) during the year ended June 30, 2010 for constructing new mining tunnels. As of June 30, 2012, this project had not commenced. The Company expects to start this project in late 2012.

The Company also made prepayments of approximately $3.17 million (RMB 20 million) during May 2012 for upgrading the safety instruments at the Hongchang coal mine. This project has not commenced. The Company expects to complete this project in the middle of 2013.

The total contract price of construction amounted to approximately $64.9 million. Prepayments for construction, as of June 30, 2012 and 2011, amounted to $24,961,297 and $8,134,736, respectively.

Note 10 –Plant and equipment, net

Plant and equipment consisted of the following:

	June 30, 2012	June 30, 2011
Buildings and improvements	$10,833,976	$10,580,909
Mine development cost	11,446,035	11,178,672
Machinery and equipment	7,320,964	7,149,957
Other equipment	436,810	421,189
Total	30,037,785	29,330,727
Less accumulated depreciation	(13,825,801)	(12,173,185)
Total plant and equipment, net	$16,211,984	$17,157,542

Depreciation expense amounted to $1,352,871, and $1,856,068 for the years ended June 30, 2012, and 2011, respectively. No depreciation expense was incurred for mining-related assets due to the shutdown of all coal mine operations in September 2011.

Note 11 – Construction in progress

Construction in progress at June 30, 2012 and 2011 amounted to $39,379,553 and $23,204,544, respectively. Construction in progress was related to the new coking plant. No depreciation is provided for construction in progress until such time the assets are completed and placed into service.

Project	Total as of June 30, 2012	Estimate cost to complete	Estimated total cost	Estimated completion date
New coking plant	$ 39,379,553	$ 26,258,137	$65,637,690	June 2013

Note 12 – Intangible assets

Intangible assets consisted of land use rights and mining rights, which consisted of the following:

	June 30, 2012	June 30, 2011
Land use rights	$2,483,253	$2,425,247
Mining rights	42,994,875	41,990,576
Total intangible assets	45,478,128	44,415,823
Accumulated amortization – land use rights	(586,323)	(505,260)
Accumulated depletion – mining rights	(13,256,318)	(12,581,711)
Total land use rights, net	$31,635,487	$31,328,852

Amortization expense for the years ended June 30, 2012 and 2011 amounted to $68,544, and $65,713, respectively. Depletion expense for the years ended June 30, 2012 and 2011 amounted to $371,327, and $1,471,026, respectively. Depletion expenses were charged to cost of revenue in the period incurred using the unit-of-production method. No depletion was incurred due to the shutdown of all coal mine operations since September 2011.

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Amortization expense of the land use rights for the next five years and thereafter is as follows:

Year ending June 30,	Amortization Expense
2013	$ 68,544
2014	68,544
2015	68,544
2016	68,544
2017	68,544
Thereafter	1,554,210
Total	$ 1,896,930

Note 13 – Long-term investments

Long-term investments consisted of investments accounted for using the cost and equity methods.

In February 2011, the Company invested approximately $1.2 million (RMB 8 million) in Pingdingshan Xinhua District Rural Cooperative Bank (“Cooperative Bank”). This investment represents an approximately 2.86% interest in Cooperative Bank, and is accounted for under the cost method.

In April 2011, Hongyuan CSG was established by Zhonghong (49%) and Henan Coal Seam Gas (51%) as a joint venture. The total registered capital of Hongyuan CSG is approximately $15.47 million (RMB 100 million). As of June 30, 2012, approximately $3.09 million (RMB 20 million) of the registered capital was funded, of which $1.5 million (RMB 9.8 million) was paid by Zhonghong. The remaining registered capital is due on April 20, 2013, of which approximately $6.0 million (RMB 39.2 million) will be paid by Zhonghong. Zhonghong’s investment in Hongyuan CSG is accounted for under the equity method. For the years ended June 30, 2012 and 2011, Hongyuan CSG was inactive.

For the years ended June 30, 2012 and 2011, equity investment income was $6,171 and $0, respectively.

Note 14 – Loans

Short-term loans

On June 16, 2011, Hongyuan entered a one-year loan agreement with Shanghai Pudong Development bank ("SPDB") to borrow $4,950,400 (RMB 32 million) with a per annum interest rate of 6.435%. The collateral for this bank loan was pledged by Top Favour through a bank deposit with SPDB of $6 million with an annual interest rate of 1.3%, which is classified as restricted cash; the loan was guaranteed by the Company's CEO. The loan was paid off on September 14, 2011, and Hongyuan renewed the loan for another year with SPDB to borrow $5,033,600 (RMB 32 million) with per annum interest rate of 6.71%. On March 15, 2012, the loan was paid off and Hongyuan entered into a new loan agreement and borrowed $5,702,400 (RMB 36,000,000) for one year with a per annum interest rate of 7.22%. The collateral for this bank loan was pledged by Top Favour through a bank deposit with SPDB of $6.5 million with an annual interest rate of 1.3%. The new loan is guaranteed by the Company's CEO.

On November 30, 2011, the Company entered into a supplemental agreement with Bairui Trust Co., Ltd., an unrelated party ("Bairui"), and $20,592,000 (RMB 130 million) of the long term loan from Bairui was reclassified as a short term loan as of June 30, 2012 (see "Long-term loans" below).

As of June 30, 2012 and 2011, the balance of short-term loans amounted to $26,294,400 and $4,950,400, respectively.

Long-term loans

Long-term loans represent amounts due to unrelated lenders and mature over one year.

On April 2, 2011, Hongli entered into a loan agreement with Bairui pursuant to which Bairui agreed to loan Hongli the sum of approximately $57.0 million (RMB 360 million) with annual interest of 6.3%, of which approximately $28.5 million (RMB 180 million) is due on April 2, 2013, and approximately $28.5 million (RMB 180 million) on April 2, 2014. The loan was issued on April 3, 2011 and guaranteed by Hongyuan and the Company's CEO.

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On November 30, 2011, the Company entered into a supplemental agreement with Bairui to revise the terms of the prior agreement. As supplemented, approximately $4.8 million (RMB 30 million) with annual interest of 6.3% is now due on October 2, 2012, approximately $15.8 million (RMB 100 million) with annual interest of 6.3%, is now due on April 2, 2013, approximately $7.9 million (RMB 50 million) with annual interest of 6.3% is now due on October 2, 2013, and approximately $28.5 million (RMB 180 million) with annual interest of 6.3% is now due on April 2, 2014.

As of June 30, 2012 and 2011, the balance of long-term loans amounted to $36,432,000 and $55,692,000, respectively.

Weighted average interest rate of the short-term and long-term loans was 5.30%, and 7.99% for the years ended June 30, 2012 and 2011, respectively. Total interest expense on short term and long-term loans for the years ended June 30, 2012 and 2011 amounted to $3,271,021, and $2,246,876, respectively, of which $914,688, and $794,011 was capitalized into CIP, respectively.

Note 15 – Notes payable

Notes payable represents lines of credit extended by banks. When purchasing raw materials, the Company often issues a short term note payable to the vendor funded with draws on such lines of credit. The short term note payable is guaranteed by the banks for its complete face value through a letter of credit and matures within three to six months of issuance.

On December 22, 2011, the Company entered into a note payable agreement with SPDB. Pursuant to the agreement, SPDB agreed to grant a line of credit of $3,166,000 (RMB 20 million) maturing on June 21, 2012, to the Company to purchase raw coal. SPDB required the Company to deposit 50% of the notes payable balance as a guarantee deposit, which is classified on the balance sheet as restricted cash. In addition, the note payable was guaranteed by the Company’s CEO and Hongli. SPDB charged processing fees based on 0.05% of the face value of the notes. The note payable was paid off on June 21, 2012.

On March 19, 2012, the Company entered into another note payable agreement with SPDB. Pursuant to the agreement, SPDB agreed to grant a line of credit of $1,584,000 (RMB 10 million) maturing on September 21, 2012, to the Company to purchase raw coal. SPDB requires the Company to deposit 100% of the note payable balance as a guarantee deposit, which is classified on the balance sheet as restricted cash. In addition, the note payable is guaranteed by the Company's CEO and Hongli. SPDB charges processing fees based on 0.05% of the face value of the notes.

On April 25, 2012, the Company entered into another note payable agreement with SPDB. Pursuant to the agreement, SPDB agreed to grant a line of credit of $3,168,000 (RMB 20 million) maturing on October 25, 2012, to the Company to purchase raw coal. SPDB requires the Company to deposit 50% of the notes payable balance as a guarantee deposit, which is classified on the balance sheet as restricted cash. In addition, the note payable is guaranteed by the Company's CEO and Hongli. SPDB charges processing fees based on 0.05% of the face value of the notes.

Note 16 – Other payables and accrued liabilities

Other payables mainly consisted of accrued salaries, utilities, professional services, and other general and administrative expenses.

Other payables and accrued liabilities consisted of the following:

	June 30, 2012	June 30, 2011
Other payables	$571,919	$ -
Accrued liabilities	230,109	1,271,585
Total	$802,028	$ 1,271,585

Note 17 – Acquisition payable

On May 20, 2011, Hongli acquired 60% of the equity interest of Shuangrui Coal. During the year ended June 30, 2012, Hongli agreed to acquire the remaining 40% of Shuangrui Coal's equity interest. The title of such 40% equity interest was transferred to Hongli, giving Hongli full control of Shuangrui Coal. The purchase price of such 40% equity interest was tentatively set at approximately $4,435,200 (RMB 28 million) subject to certain price adjustments to be finalized by the parties. For the years ended June 30, 2012 and 2011, acquisition payable was $4,593,600 and $154,700, respectively, which represented the accrual purchase price of Shuangrui Coal (see Note 21).

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 – Taxes

Income tax

SinoCoking is subject to the United States federal income tax provisions. Top Favour is a tax-exempt company incorporated in the British Virgin Islands. All of the Company's businesses are conducted by its PRC subsidiary and VIEs, namely Hongyuan, Hongli, Baofeng Coking, Hongchang Coal, Shunli Coal, Xingsheng Coal, Shuangrui Coal, Hongguang Power and Zhonghong.

Hongyuan, Hongli, Baofeng Coking, Hongguang Power, Shunli Coal, Xingsheng Coal, Shuangrui Coal and Zhonghong are subject to 25% enterprise income tax rate in China.

As approved by the local tax bureau, Hongchang Coal's total income tax obligation for each of the calendar years 2011 and 2010 and is approximately $380,000 (RMB 2,520,000), regardless of its actual taxable income during such period. However, Hongchang Coal has not been required to pay income tax since its operations were halted in September 2011.

The estimated tax savings from the foregoing reduced tax rate amounted to $322,449, and $1,471,736 for the years ended June 30, 2012 and 2011, respectively. If the statutory income tax had been applied, the Company would have had decreased basic and diluted earnings per share from $0.59 to $0.58 for the year ended June 30, 2012, respectively, and decreased basic and diluted earnings per share from $1.90 to $1.83 for the year ended June 30, 2011, respectively.

The provision for income taxes consisted of the following:

	For the years ended June 30,	
	2012	2011
U.S. current income tax expense	$-	$-
BVI current income tax expense	-	-
PRC current income tax expense	3,395,237	5,065,380
Total provision for income taxes	3,395,237	$5,065,380

The following table reconciles the statutory rates to the Company's effective tax rate for the years ended June 30, 2012 and 2011:

	For the years ended June 30,	
	2012	2011
U.S. Statutory rate	34.0 %	34.0 %
Foreign income not recognized in U.S.A	(34.0)%	(34.0)%
BVI income tax	0.0 %	0.0 %
PRC income tax	25.0 %	25.0 %
China income tax exemption	(2.8)%	(6.2)%
Other item (1)	(0.8)%	(7.5)%
Effective rate	21.4 %	11.3 %

(1) The (0.8)% for the year ended June 30, 2012 mainly represents gain on change in fair value of warrants of $4,852,399 incurred by the Company, which did not incur tax expense to the Company. The (7.5)% for the year ended June 30, 2011 mainly represents change in fair value of warrants of $23,135,827 incurred by the Company that was not subject to the income tax.

SinoCoking is incorporated in the U.S. and has incurred a net operating loss for income tax purposes for 2012. As of June 30, 2012, the estimated net operating loss carry forward for U.S. income tax purposes was approximately $1,827,000, which may be available to reduce future years' taxable income. The net operating loss carry forward will expire through 2032 if not utilized. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at June 30, 2012 and June 30, 2011, respectively. The Company's management reviews this valuation allowance periodically and makes adjustments as necessary.

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Reconciliation of the valuation allowance is as follows:

	For years ended June 30,	
	2012	2011
Beginning balance	$460,000	$276,000
Additions	160,000	269,000
Deductions	-	(85,000)
Ending balance	$620,000	$460,000

The Company has cumulative undistributed earnings of foreign subsidiaries of approximately $44.2 million as of June 30, 2012, which was included in consolidated retained earnings and will continue to be reinvested in its operations in China. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted in the future.

Value added tax

The Company incurred VAT on sales and VAT on purchases in the PRC amounting to $13,954,823 and $10,633,858 for the year ended June 30, 2012, respectively, and $15,024,674 and $9,155,023 for the year ended June 30, 2011, respectively.

Sales and purchases are recorded net of VAT collected and paid, as the Company acts as an agent for the government.

Taxes payable

Taxes payable consisted of the following:

	June 30, 2012	June 30, 2011
VAT	$499,658	$888,602
Income tax	814,217	1,710,717
Others	208,187	257,352
Total taxes payable	$1,522,062	$2,856,671

Note 19 – Capital transactions

Increase of registered capital in Hongli

As required by the local government and in order for Hongli to retain its coal trading license, Hongli increased its registered capital by $3,050,000 (RMB 20 million). The increased amount was paid by Hongli's equity owners on August 26, 2010. The registration for the registered capital increase was completed as of September 30, 2011.

Options

2002 Stock Option Plan for Directors

In 2002, the Board of Directors adopted the 2002 Stock Option Plan for Directors (the "Directors Plan"). The purpose of the Directors Plan is to attract and retain the services of experienced and knowledgeable individuals to serve as its directors. On the date the Directors Plan was adopted, the total number of shares of common stock subject to it was 11,057. This number of shares may be increased on the first day of January of each year so that the common stock available for awards will equal 5% of the common stock outstanding on that date, provided, however, that the number of shares included in the Directors Plan may not exceed more than 10% of all shares of common stock outstanding. The Directors Plan is administered by the Board of Directors, or any Committee that may be authorized by the Board of Directors. The grant of an option under the Directors Plan is discretionary. The exercise price of an option must be the fair market value of the common stock on the date of grant. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the registrant already owned by the person. The term of an option granted pursuant to the Directors Plan may not be more than 10 years.

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2002 Consultant Stock Plan

In 2002 the Board of Directors adopted the 2002 Consultant Stock Plan (the "Consultants Plan"). The purpose of the Consultants Plan is to be able to offer consultants and others who provide services to the registrant the opportunity to participate in the registrant's growth by paying for such services with equity awards. The Consultants Plan is administered by the Board of Directors, or any Committee that may be authorized by the Board of Directors. Persons eligible for awards under the Consultants Plan may receive options to purchase common stock, stock awards or stock restricted by vesting conditions. The exercise price of an option must be no less than 85% of the fair market value of the common stock on the date of grant. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the registrant already owned by the person or with a fully recourse promissory note, subject to applicable law. The term of an option granted pursuant to the Consultants Plan may not be more than 10 years.

1999 Stock Option Plan

In 1999 the Board of Directors adopted the 1999 Stock Option Plan (the "Option Plan"). The purpose of the Option Plan is to enable the Company retain the services of employees and consultants and others who are valuable to the registrant and to offer incentives to such persons to achieve the objectives of the registrant's shareholders. The total number of shares of common stock subject to the Option Plan is 45,417. The Option Plan is administered by the Board of Directors, or any Committee that may be authorized by the Board of Directors. Employees eligible for awards under the Option Plan may receive incentive options to purchase common stock. If a recipient does not receive an incentive option, he or she will receive a non-qualified stock option. The exercise price of an option must be no less than the fair market value of the common stock on the date of grant, unless the recipient of an award owns 10% or more of the registrant's common stock, in which case the exercise price of an incentive stock option must not be less than 110% of the fair market value. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the registrant already owned by the recipient of the award. The term of an option granted pursuant to the Option Plan may not be more than five years if the option is an incentive option granted to a recipient who owns 10% or more of the registrant's common stock, or 10 years for all other recipients and for recipients of non-qualified stock options.

Under the Directors Plan, there were outstanding options exercisable to 4,792 shares of the Company's common stock. Options exercisable for 1,666 shares of the Company's common stock were granted on October 11, 2002, with an exercise price of $36.00 per share and an expiration date of October 15, 2012. Options exercisable for 3,126 shares of the Company's common stock were granted on November 16, 2004, with an exercise price of $96.00 per share and an expiration date of November 16, 2014.

Under the Option Plan, there were outstanding options exercisable to 6,332 shares of the Company's common stock. Options exercisable for 6,059 shares of the Company's common stock were granted on November 14, 2004, with an exercise price of $96.00 per share and an expiration date of November 14, 2014. These outstanding options were fully vested before the completion of the Share Exchange on February 5, 2010, and no additional options had been granted.

In May 2012, the Company issued 30,424 shares of restricted common stock for consulting services, for total expense of $150,000.

The following consisted of the outstanding and exercisable options at June 30, 2012

Outstanding Options			Exercisable Options		
Number Of Options	Average Remaining Contract Life	Average Exercise Price	Number of Options	Average Remaining Contractual Life	Average Exercise Price
10,851	2.06 years	$ 86.79	10,851	2.06 years	$ 86.79

A summary of changes in options activity is presented as follows:

	Options
Outstanding, June 30, 2010	10,851
Granted	-
Forfeited	-
Exercised	-
Outstanding, June 30, 2011	10,851
Granted	-
Forfeited	-
Exercised	-
Outstanding, June 30, 2012	10,851

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

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Warrants

In connection with its equity financing, the Company issued warrants exercisable into 4,039,636 shares of the Company's common stock. In addition, the Company had existing warrants exercisable into 36,973 shares of the Company's common stock ("Existing warrants") outstanding on February 5, 2010.

On July 1, 2010, the Company granted callable warrants exercisable for 50,000 shares of the Company's common stock in exchange for consulting service. These warrants expire on July 1, 2015 with an exercise price of $20.00, and such exercise price was modified to $15.00 in March 2011. The fair value of these warrants was $325,285, and was charged to general and administrative expense for the year ended June 30, 2011.

On November 12, 2010, warrants underlying 1,000 shares of the Company's common stock were exercised at $6.00 per share. The fair value of these warrants on the exercise date was $6,438. In addition, warrants underlying 218,756 shares of the Company's common stock were exercised at $6.00 per share during the third quarter ended March 31, 2011. The fair value of these warrants on the exercise date was $2,050,060.

The Company follows the provisions of U.S. GAAP regarding instruments that are indexed to an entity's own stock. This accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. It provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception within the standards.

As a result, the Company's warrants are not afforded equity treatment because their strike price is denominated in U.S. dollar, a currency other than the Company's functional currency RMB, and are therefore not considered indexed to the Company's own stock, and as such, all changes in the fair value of such warrants are recognized currently in earnings until such time as such warrants are exercised or expire.

As of June 30, 2012 and June 30, 2011, warrants that were exercisable into 3,906,853 shares of the Company's common stock were recorded as derivative instruments. The value of warrant liabilities was $716,648 and $5,569,047 at June 30, 2012 and June 30, 2011, respectively. The decrease in fair value of warrants was $4,852,399 for the year ended June 30, 2012, and was recorded as gain on change in fair value of warrants.

A summary of changes in warrant activity is presented as follows:

	Existing warrants at $48.00 (1)	Investor warrants at $12.00 (2)	Callable warrants at $12.00 (3)(6)	Callable warrants at $6.00 (4)(6)	Callable warrants at $15.00 (5)(6)	Total
Outstanding, June 30, 2010	36,973	590,446	3,199,190	250,000		4,076,609
Granted					50,000	50,000
Forfeited	-	-	-	-	-	-
Exercised	-	-	-	(219,756)	-	(219,756)
Outstanding, June 30, 2011	36,973	590,446	3,199,190	30,244	50,000	3,906,853
Granted	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding June 30, 2012	36,973	590,446	3,199,190	30,244	50,000	3,906,853

(1) The warrants underlying 36,973 shares of the Company's common stock are exercisable at any time until April 9, 2017, with remaining contractual term of 4.78 years as of June 30, 2012

(2) The warrants underlying 590,446 shares of the Company's common stock are exercisable at any time until February 5, 2015, with remaining contractual term of 2.60 years as of June 30, 2012.

(3) The warrants underlying 3,082,027 and 117,163 shares of the Company's common stock are exercisable at any time until March 11, 2015 and March 18, 2015, respectively, with remaining contractual term of 2.70 and 2.72 years as of June 30, 2012, respectively.

(4) The warrants underlying 30,244 shares of the Company's common stock are exercisable until March 11, 2015, with remaining contractual term of 2.70 years as of June 30, 2012.

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(5) The warrants underlying 50,000 shares of the Company's common stock are exercisable until July 1, 2015, with remaining contractual terms of 3.00 years as of June 30, 2012.

(6) The callable warrants are exercisable for a period of five years from the date of issuance, and are callable at the Company's election six months after the date of issuance if the Company's common stock trades at a price equal to at least 150% of the exercise price with an average trading volume of at least 150,000 shares of common stock (as adjusted for any stock splits, stock dividends, combination and the like) per trading date for at least 10 consecutive trading days, and the underlying shares of common stock are registered.

Note 20 – Earnings per share

The following is a reconciliation of the basic and diluted earnings per share computation:

	For the years ended June 30,	
	2012	2011
Net income for earnings per share	$ 12,494,557	$ 39,907,860
Weighted average shares used in basic computation	21,093,525	20,962,091
Diluted effect of warrants	-	59,164
Weighted average shares used in diluted computation	21,093,525	21,021,255
Earnings per share – Basic	$ 0.59	$ 1.90
Earnings per share – Diluted	$ 0.59	$ 1.90

The Company had warrants and options exercisable for 3,917,704 shares of the Company's common stock in the aggregate at June 30, 2012. For the year ended June 30, 2012, all outstanding options were excluded from the diluted earnings per share calculation since they are anti-dilutive.

The Company had warrants and option exercisable for 3,917,704 shares of the Company's common stock in aggregate at June 30, 2011. For the year ended June 30, 2011, 3,876,609 of outstanding warrants and 10,851 of outstanding options were excluded from the diluted earnings per share calculation due to the anti-dilution feature while warrants

underlying 30,244 shares of the Company's common stock were included in the diluted earnings per share calculation using treasury method.

Note 21- Coal mine acquisitions

On May 20, 2011, the Company acquired 60% of the equity interests of Shuangrui Coal and Xingsheng Coal, and 100% of the equity interests of Shunli Coal.

In August and September 2011, the Company entered into supplemental agreements with the sellers of these three companies (collectively the "Supplement Agreements") to memorialize certain agreed terms that were not reflected in the original purchase agreements. Specifically, all assets and liabilities of each company on or before the closing of the Company's acquisition, other than such company's mining rights, would be disposed of and assumed by the sellers as soon as practicable. At June 30, 2011, the Company's acquisition of these three companies included only their mining rights, as all other assets and liabilities were being disposed of by the sellers, and none of the three companies was operational. Therefore, the operating results of these three companies (other than with respect to their mining rights) from May 20, 2011 through June 30, 2012, which were mainly from disposing assets and liabilities (other than their mining rights), are not included in the accompanying consolidated financial statements.

Although the Company has acquired the equity interests of these three entities, the parties' intention, as memorialized in the Supplemental Agreements, is for the Company to acquire only their mining rights while all other assets and liabilities remain with the sellers. Thus, the respective purchase prices have been allocated solely to the mining rights.

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Acquisition of Shuangrui Coal

On August 10, 2010, Hongli entered into an equity purchase agreement to acquire 60% of equity interests of Shuangrui Coal, which operates Shuangrui coal mine, for a consideration of approximately $6.4 million (RMB 42 million), payable in cash. Transfer of such equity interests to Hongli, and registration of such transfer with the appropriate PRC authorities, were completed on May 20, 2011. As memorialized in the Supplement Agreement with the sellers, all assets and liabilities of Shuangrui Coal at the time of Hongli's acquisition, other than its mining rights, are to be disposed of and/or assumed by the sellers. As such, Hongli's acquisition consideration is equivalent to the purchase price for 60% ownership of Shuangrui's mining rights. As of June 30, 2012, $6.3 million (RMB 41 million) of the purchase price was paid, with the balance of approximately $158,000 (RMB 1 million) to be paid by the company for 60% equity interests. During the year ended June 30, 2012, Hongli and Shuangrui Coal's sellers entered into an agreement to transfer the remaining 40% of Shuangrui Coal to Hongli, and Hongli concurrently transferred 100% of Shuangrui Coal to Hongchang Coal. The ownership transfer to Hongchang Coal was completed on June 20, 2012. As a result, the Company accrued $4,435,200 (RMB 28 million) payable to Shuangrui Coal's sellers (see Note 17).

Acquisition of Xingsheng Coal

On August 10, 2010, Hongli entered into an equity purchase agreement to acquire 60% of equity interests of Xingsheng Coal, which operates the Xingsheng coal mine, for a consideration of approximately $6.4 million (RMB 42 million), payable in cash. Transfer of such equity interests to Hongli, and registration of such transfer with the appropriate PRC authorities, were completed on May 20, 2011. As a result, Hongli owns 60% of the equity interests of Xingsheng Coal, with the remaining 40% owned by the sellers. As memorialized in the Supplement Agreement with the sellers, all assets and liabilities of Xingsheng Coal at the time of Hongli's acquisition, other than its mining rights, are to be disposed of and/or assumed by the sellers. As such, Hongli's acquisition consideration is equivalent to the purchase price for 60% ownership of Xingsheng Coal's mining rights. The purchase price was paid in full in June 2011.

Acquisition of Shunli Coal

On May 19, 2011, Hongchang Coal entered into an equity purchase agreement to acquire 100% of equity interests of Shunli Coal, which operates the Shunli coal mine, for a consideration of approximately $6.4 million (RMB 42 million), payable in cash. Transfer of such equity interests to Hongchang Coal, and registration of such transfer with the appropriate PRC authorities, were completed on May 20, 2011. As a result, Hongchang Coal owns 100% of the equity interests of Shunli Coal. As memorialized in the Supplement Agreement with the sellers, all assets and liabilities of Shunli Coal at the time of acquisition, other than its mining rights, were to be disposed of and/or are assumed by the sellers. As such, Hongchang Coal's acquisition consideration is equivalent to the purchase price for 100% ownership of Shunli Coal's mining rights. The purchase price was paid in full in June 2011.

Since the initial accounting for these acquisitions were for the mining rights only, the entire purchase price was allocated to the mining rights. The mining rights acquired are not being amortized because the businesses have not commenced any operations since their acquisitions.

Note 22 – Commitments and contingencies

Lease agreement

In April 2010, the Company entered into a lease agreement to lease three office units in Beijing from June 15, 2010 to June 14, 2013, with monthly lease payments of $22,688 (RMB 145,529) and monthly management fees of $4,003 (RMB 25,681). On August 12, 2010, the Company renewed the lease agreement to relocate the office units and lease the new units from August 15, 2010 to June 14, 2013, with monthly lease payments of $10,845 (RMB 69,565) and monthly management fee of $1,914 (RMB 12,276). The prior lease was terminated on August 14, 2010.

In August 2011, the Company entered into another lease agreement for three different office units within the same building to replace the above lease. The new lease is from September 15, 2011 to June 14, 2013, with monthly lease payments of $7,258 (RMB 46,565) and monthly management fees of $1,281 (RMB 8,184). The prior lease agreement was terminated on September 14, 2011.

Zhonghong is leasing an office place in Zhengzhou from February 25, 2011 to August 24, 2013, with monthly lease payments of $5,780 (RMB 37,075).

Hongli leased an office in Pingdingshan from October 1, 2010 to September 30, 2011, with monthly lease payments of $2,108 (RMB 13,520). The lease was renewed from October 2011 to September 30 2012, with monthly lease payment of $2,550 (RMB 16,220). As of the date of this report, the Company has not renewed the lease.

For the years ended June 31, 2012, and 2011, lease expense were $154,221, and $363,130, respectively.

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As of June 30, 2012, total future minimum lease payments for the unpaid portion under an operating lease were as follows:

Year ending June 30,	Amount
2013	$179,317
2014	10,571
2015	-
Total	$189,888

Purchase commitment

The Company entered into several contracts with contractors and suppliers for the construction of its new coking facility and for equipment purchases. As of June 30, 2012, the aggregate contract amount was approximately $64,923,852. The Company has made payments of approximately $58,172,148, with the remaining $6,751,704 to be paid based on construction progress.

The Company signs annual framework purchase agreements with its vendors covering calendar year period and estimating quarterly purchase quantity and amount. For calendar year ended December 31, 2012, the aggregate purchase contract amount was approximately $97.9 million (RMB 621.8 million). The Company has purchased approximately $31.2 million (RMB 198.4 million) during the six months ended June 30, 2012, with the remaining approximately $66.6 million (RMB 423.4 million) to be paid based on purchase contracts.

Note 23 – Statutory reserves

The laws and regulations of the PRC require that before foreign invested enterprise can legally distribute profits, it must first satisfy all tax liabilities, provide for losses in previous years, and make allocations, in proportions determined at the discretion of the board of directors, after the statutory reserves. The statutory reserves include the statutory surplus reserve fund and the enterprise expansion fund.

Each of the Company's subsidiary and VIEs in the PRC is required to transfer 10% of its net income, as determined in accordance with the PRC Company Law, to a statutory surplus reserve fund until such reserve balance reaches 50% of each such entity's registered capital. The transfer must be made before distribution of any dividends to shareholders. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The enterprise fund may be used to acquire plant and equipment or to increase the working capital to expend on production and operation of the business. No minimum contribution is required

As of June 30, 2012, the statutory surplus reserves of Hongchang Coal and Hongli had reached 50% of each entity's registered capital. Hongguang Power did not make any contribution to the statutory reserve due to its net operating loss. Zhonghong and Hongrun did not make any contribution to the statutory reserves as neither entity had operations as of June 30, 2012. Shuangrui Coal, Xingsheng Coal and Shunli Coal did not make any contribution to the statutory reserve due to their respective operating losses. During the year ended June 30, 2012, Hongli made additional contributions of $242,418 to its statutory reserve in connection with increasing its registered capital by $2,946,000 (RMB 20 million).

Hongchang Coal is required by the PRC government to reserve safety and maintenance expense to the cost of production based on the actual quantity of coal exploited. The amount of reserves is determined within the unit price range provided by Ministry of Finance of PRC. Currently, Hongchang Coal reserves at RMB 6 per metric ton for safety expense and RMB 8.5 per metric ton for maintenance expense. Shuangrui Coal, Xingsheng Coal and Shunli Coal had no special reserve as of June 30, 2012.

The component of statutory reserves and the future contributions required pursuant to PRC Company Law are as follows:

	June 30, 2012	June 30, 2011	50% of registered capital	Future contributions required as of June 30, 2012
Hongli	$ 2,067,215	$ 1,824,797	$ 2,064,905	$ -
Hongguang Power	-	-	1,514,590	1,514,590
Hongchang Coal	218,361	218,361	218,361	-
Shuangrui Coal	-	-	310,105	310,105
Xingsheng Coal	-	-	279,682	279,682
Shunli Coal	-	-	230,850	230,850
Hongrun	-	-	2,310,000	2,310,000

Hongyuan	-	-	1,500,000	1,500,000
Zhonghong	-	-	1,521,990	1,521,990
Statutory surplus reserve	2,285,576	2,043,158	9,950,483	7,667,217
Mine reproduction reserve	1,404,365	1,360,635	-	-
Total statutory reserve	$ 3,689,941	$ 3,403,793	$ 9,950,483	$ 7,667,217

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Note 24 – Related party transactions

Advances to suppliers – related party at June 30, 2011 amounted to $575,700. The balance represented prepayments to the 40% owner of Xingsheng Coal for coal purchases. The Company acquired 60% of Xingsheng Coal's equity interests on May 20, 2011(see Note 21).

Other payables-related parties represented advances from its CEO. Advances from the CEO amounted to $156,227 and $455,768 at June 30, 2012 and 2011, respectively. Such advances are interest free, due on demand and will be settled in cash payments.

Note 25 – Revenues by products

The Company considers itself, including its coal mining and coking operations and the sales of its coal and coke products, to be operating within one reportable segment. All of the Company's products are sold within the PRC. Major products and the respective revenue are summarized as follows:

	For the years ended June 30,	
	2012	2011
Coke	$38,656,636	$35,970,933
Coal tar	1,946,314	3,358,513
Raw coal	5,441,981	15,073,052
Washed coal	32,867,839	19,885,495
Total	$78,912,770	$74,287,993

Note 26 – Subsequent events

On July 2, 2012, Shunli Coal and Hongchang Coal entered into an agreement to transfer all of Shunli Coal's mining rights to Hongchang Coal, in connection with the Company's plans to consolidate mining areas under Hongchang Coal for future production. On July 4, 2012, Shunli Coal was dissolved. The Company is planning to combine all the mining rights for future production.

On September 6, 2012, the Company signed an inventory purchase agreement with Datong Coal Mine Group, Ltd. ("Datong Group"), a state-owned coal producer based in Shanxi Province. Pursuant the terms of the agreement, Datong Group will supply Hongli with up to 120,000 metric tons of thermal coal through the end of September 2012.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Controls and Procedures

Regulations under the Securities Exchange Act of 1934 (the "Exchange Act") require public companies to maintain "disclosure controls and procedures," which are defined as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We conducted an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of June 30, 2012. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2012, the Company's disclosure controls and procedures were ineffective.

(b) Changes in Internal Control over Financial Reporting

Management has continued to focus on internal controls over financial reporting. While various remedial actions have been taken this year, we want to highlight the following specific changes in internal control over financial reporting during the year:

- We engaged a third-party consultant firm who is knowledgeable in and is experienced in U.S. GAAP to assist with our financial reporting process, and the firm assigns some of its staff to work in our accounting department throughout the year;

- As of June 30, 2012, we did not have any material investment activities without proper preapproval process in accordance with our internal control over investments;

- We continue to set up internal control policies, such as clear segregation of duties among our employees; and

- We hired more professional staff to fulfill accounting department duties, which has improved our internal communications and approval process.

(c) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Company. These controls are designed and implemented under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance to the management and the Board of Directors regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

2. Provide reasonable assurance that transactions are recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

As of June 30, 2012, management assessed the effectiveness of its internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments. Based on such evaluation, management identified deficiencies that were determined to be material weaknesses.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Because of the following material weaknesses, management concluded that our internal controls over financial reporting were ineffective as of June 30, 2012:

We did not have sufficient skilled accounting personnel that are either qualified as Certified Public Accountants in the United States or that have received education from U.S. institutions or other educational programs that would provide adequate relevant education relating to U.S. GAAP. The Company's Chief Financial Officer and Controller have limited experience with U.S. GAAP and are not U.S. Certified Public Accountants. Furthermore, our operating subsidiaries are based in China and are therefore required to comply with PRC GAAP, rather than U.S. GAAP. Thus, the accounting skills and understanding necessary to fulfill the requirements of U.S. GAAP-based reporting, including the preparation of consolidated financial statements, are inadequate, and determined to be a material weakness.

In addition, since we completed the design of our internal controls and assessments for all of our financial reporting cycles in March 2012, we are not yet able to declare our controls as effective over a sufficient period of time in order to demonstrate operating effectiveness of our controls as of June 30, 2012. Therefore, we have determined that such lack of time to evaluate the design and operating effectiveness of our controls is also a material weakness.

In an effort to remedy the foregoing material weaknesses in the future, we intend to do the following:

- Develop a comprehensive training and development plan for our finance, accounting and internal audit personnel, including our Chief Financial Officer, Controller, in the principles and rules of U.S. GAAP, SEC reporting requirements and the application thereof;

- Design and implement a program to provide ongoing company-wide training regarding our internal controls, with particular emphasis on our finance and accounting staff;

- Implement an internal review process over financial reporting to review all recent accounting pronouncements and to verify that any accounting treatment identified in such report has been fully implemented and confirmed by our third-party consultant, and to continue to improve our ongoing review and supervision of our internal control over financial reporting; and

- Hire a full-time employee who possesses the requisite U.S. GAAP experience and education.

Despite the material weaknesses and deficiencies reported above, our management believes that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our current directors and executive officers, their ages, their respective offices and positions, and their respective dates of election or appointment are as follows:

Name	Age	Position Held	Officer/Director since
Jianhua Lv	44	President, Chief Executive Officer and Chairman of the Board	February 5, 2010
Zan ("Sam") Wu	35	Chief Financial Officer	February 5, 2010
Hui Zheng	40	Vice President of Operations and Director	February 5, 2010
Yushan Jiang	58	Independent Director	February 5, 2010
Hui Huang	44	Independent Director	February 5, 2010
Haoyi Zhang	38	Independent Director	February 5, 2010

Business Experience

The following is a summary of the educational background and business experience during the past five years of each of our directors and executive officers. The following information includes the person's principal occupation during the period, and the name and principal business of the organization by which he or she was employed.

Jianhua Lv has been the executive director and chairman of Hongli since 1996, when he founded the company. Prior to this, from 1989 to 1996 Mr. Lv held a number of positions at the Henan Province Pingdingshan Coal Group, where he developed many years of experience in the coal and coking industries. In early 2007, Mr. Lv was appointed as a standing committee member of the Chinese People's Political Consultative Conference of Baofeng, Henan Province, and as a standing committee member of the National People's Congress of Baofeng, Henan Province. Mr. Lv has been honored as an outstanding entrepreneur of the year in 2003 and 2004. Mr. Lv holds a bachelor's degree from Henan University in Chinese, a master's degree in economics from Henan University, and a master of law degree from the Central Party School. Mr. Lv's experience as our Chief Executive Officer and Chairman, and his extensive knowledge of the coal and coking industries qualifies him to serve on our Board.

Zan ("Sam") Wu has served as the chief financial officer of Hongli since July 2009. Prior to this, Mr. Wu worked as an auditor at the Zhong Rui Hui Accounting Firm from 2000 to 2001. Mr. Wu was a financial analyst at VIR Consultancy Ltd. from 2003 to 2004. From 2004 through 2006, Mr. Wu held the positions of assistant manager and financial manager at Domino Scientific Equipment Ltd. Mr. Wu was the chief representative of Global American, Inc. (China Representative Office) from 2006 – 2009. Except for Hongli, our VIE, none of these companies is related to or affiliated with the Company. Mr. Wu holds a bachelor's degree in accounting from the Capital University of

Economics and Business and a master's degree in financial management and control from Aston Business School.

Hui Zheng has served as vice manager of Human Resources at Hongli since 2006. Prior to this Mr. Zheng worked at SinoCoking as a statistician, secretary and vice-dean from 1998 until 2006. Mr. Zheng has worked in the materials industry since 1996. Mr. Zheng holds a degree from Zhengzhou University. Mr. Zheng's in-depth working experience as vice manager at Hongli and operating business in the PRC, his knowledge and his lengthy working experience in the Chinese coal and materials industries qualify him to serve on our Board.

Yushan Jiang has served as the chief executive officer of the Pingdingshan Coal Group Shoushan Coking Co., Ltd. since February 2007. Prior to this, from 2001 to 2007, he was chief engineer at the Henan Tianhong Coking Company. Mr. Jiang developed expensive experience in the coking industry as an employee, director, and head of research and development for various coking operations since 1972. None of these operations is related to or affiliated with the Company. Mr. Jiang is also currently a vice-director and member of the Coking Committee of the Henan Province Metals Association, and vice-secretary of the Henan Province Institute of Coal & Coke. Mr. Jiang holds a Bachelor's degree in Coal and Chemistry from the Wuhan College of Iron & Steel. Mr. Jiang's extensive working and leadership experience in the coking industry and his educational background qualify him to serve on our Board.

Hui Huang is the chairman and chief executive officer of Wuhan Pingdingshan Coal and Wuhan Steel Unification Coking Company ("WPCWSUCC"). Mr. Huang has also served as director of sales and administration of the same company from 1985 to 1996. He then served as director of the Economics and Technology Cooperation Center of the Pingdingshan Coal Group (now known as the Wuhan Pingdingshan Coal and Wuhan Steel Unification Coking Company) from 1996 to 2008, of which he is now chairman of the board. None of these companies is related to or affiliated with the Company. Mr. Huang is also a director of the China Association of Comprehensive Resource Utilization, a vice-director of the Henan Institute of Coal (a branch of the China Association of Comprehensive Resource Utilization), and vice-secretary of the Pingdingshan Youth Union. Mr. Huang holds a bachelor's degree in Economic Management and an MBA from the University of Mining and Technology. Mr. Huang's vast experience in the coal and coking industry in management and as an executive officer and director of WPCWSUCC and as a leader in various coal industry related associations qualify him to serve on our Board.

Haoyi Zhang serves as the chief financial officer of Henan Pinggao Electricity Ltd., one of the major A-Share public companies traded on the Shanghai Stock Exchange, a position he has held since January 2005. From January 2005 to March 2009, he served as the chief accountant of Henan Pinggao DongZhi Gao Ya Kaiguan Ltd., a Sino-Japanese Joint-venture with Toshiba, concurrently with his position as the chief financial officer at Henan Pinggao Electricity Ltd. From April to December 2004, he served as the chief accountant of Henan Pinggao DongZhi Gao Ya Kaiguan Ltd. Mr. Zhang held numerous positions from July 1995 to March 2004 as the deputy director, the director, the deputy chief accountant, the assistant general manager and the chief accountant at China Beifang Industry Company, Xiamen Branch. None of these companies is related to or affiliated with the Company. Mr. Zhang holds a Bachelor's degree in Accounting from Xiamen University and an EMBA degree from Xian Jiaotong University. Mr. Zhang's extensive financial and accounting experience at numerous Chinese companies and his educational background qualify him to serve on our Board.

There are no family relationships among our current directors or executive officers.

During the past ten years none of our current directors or executive officers was involved in any legal proceedings described in subparagraph (f) of Item 401 of Regulations S-K.

Mr. Lv was appointed to his director and officer positions, and Mr. Wu was appointed to his officer position, because they had held similar positions at Hongli, and upon the closing of the Share Exchange on February 5, 2010, they assumed these respective positions. Messrs. Huang and Jiang were selected to serve as independent directors on the board because of their deep and substantial experience in the coal and coking industry. Mr. Haoyi Zhang was selected to serve on as an independent director because of his expertise in public company matters, with particular expertise in accounting, auditing, controls and procedures and financial matters.

Board of Directors

Our board of directors is currently composed of five members. All members of our board of directors serve in this capacity until their terms expire or until their successors are duly elected and qualified. Our bylaws provide that the authorized number of directors will be not less than one and not more than seven. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

During the fiscal year ended June 30, 2012, our board of directors and its committees held the following number of meetings and took the following number of actions by unanimous written consent:

	Meetings	Unanimous written consents
Board of directors	1	1
Audit committee	0	2
Compensation committee	0	1
Nominating committee	0	1

Director Independence and Board Committees

Based upon information submitted to the Company, the board of directors has determined that Messrs. Yushan Jiang, Hui Huang and Haoyi Zhang are each “independent” under the listing standards of the NASDAQ Stock Market.

The board of directors has an audit committee that was established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934. The audit committee members include Mr. Haoyi Zhang (chairman), Mr. Hui Huang and Mr. Yushan Jiang. Mr. Zhang is the audit committee financial expert who is independent, as independence for audit committee members is defined in the listing standards of the NASDAQ Stock Market. The audit committee operates under a written charter adopted by the board of directors on February 16, 2010.

The board of directors established a compensation committee on February 16, 2010. The compensation committee consists of Mr. Yushan Jiang (chairman), Mr. Haoyi Zhang, and Mr. Hui Huang, each of whom is an independent director. Our compensation committee oversees and, as appropriate, makes recommendations to the board of directors regarding the annual salaries and other compensation of our executive officers, and other related policies, and provides assistance and recommendations with respect to our compensation policies and practices. The compensation committee operates under a written charter adopted by the board of directors on February 16, 2010.

The board of directors established a nominating committee on February 16, 2010. The nominating committee consists of Mr. Hui Huang (chairman), Mr. Haoyi Zhang and Mr. Yushan Jiang, each of whom is an independent director. Our nominating committee assists in the selection of director nominees, approves director nominations to be presented for shareholder approval at our annual shareholder meetings and fill any vacancies on our board of directors, considers any nominations of director candidates validly made by shareholders, and reviews and considers developments in corporate governance practices. The nominating committee operates under a written charter adopted on February 16, 2010.

Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than 10% of our common stock to file reports of ownership and changes in ownership of our common stock with the SEC. Directors, executive officers and persons who own more than 10% of our common stock are required by SEC regulations to furnish to the Company copies of all Section 16(a) forms they file.

To our knowledge, based solely upon review of the copies of such reports received or written representations from the reporting persons, we believe that during our 2012 fiscal year, our directors, executive officers and persons who owned more than 10% of our common stock complied with all Section 16(a) filing requirements.

Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We will provide a copy of our code of ethics to any person who requests a copy in writing to the Secretary of the Company, including the e-mail address or facsimile number of the requesting party. Any written requests should be mailed to us at Kuanggong Road and Tiyu Road 10th Floor, Chengshi Xin Yong She, Tiyu Road, Xinhua District, Pingdingshan, Henan Province, P.R. China 467000.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth, for the fiscal years indicated, all compensation awarded to, earned by or paid to our Named Executive Officers.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All other Compensation ($)	Total ($)
Jianhua Lv (1)	2012	240,000	0	0	0	0	0	0	240,000
Chairman and	2011	192,000	—	—	—	—	—	—	192,000
Chief Executive Officer	2010	80,000	—	—	—	—	—	—	80,000
Liuchang Yang (2)	2012	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Former Director, Vice	2011	9,167	—	—	—	—	—	—	9,167
President and Secretary	2010	4,056	—	—	—	—	—	—	4,056
Zan Wu (3)	2012	180,000	0	0	0	0	0	0	180,000
Chief Financial Officer	2011	120,000	—	—	—	—	—	—	120,000
	2010	50,000	n/a	n/a	n/a	n/a	n/a	n/a	50,000

(1) Mr. Lv was appointed as our president, chief executive officer and chairman of the board on February 5, 2010 in connection with the Share Exchange.

(2) Mr. Yang was appointed as our vice president of operation, secretary and director on February 5, 2010 in connection with the Share Exchange and resigned from these positions on May 31, 2011.

(3) Mr. Wu was appointed as our chief financial officer on February 5, 2010 in connection with the Share Exchange.

Outstanding Equity Awards

There was no equity awards granted to our officers or directors in the year ended June 30, 2012.

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Retirement Plans

We currently have no plans that provide for the payment of retirement benefits, or benefits that will be paid primarily following retirement, including but not limited to tax-qualified defined benefit plans, supplemental executive retirement plans, tax-qualified defined contribution plans and nonqualified defined contribution plans.

Potential Payments upon Termination or Change-in-Control

We currently have no contract, agreement, plan or arrangement, whether written or unwritten, that provides for payments to a named executive officer at, following, or in connection with any termination, including without limitation resignation, severance, retirement or a constructive termination of a named executive officer, or a change in control of the Company or a change in the named executive officer's responsibilities, with respect to each named executive officer.

Employment Agreements

We entered into an employment agreement with Mr. Jianhua Lv, our president and chief executive officer, on February 5, 2010. The compensation committee of the board of directors approved and established Mr. Lv's salary at $240,000 per annum for the 2012 fiscal year. Mr. Lv agreed that in the event that he departs from the Company for any reason, he will refrain from using or disclosing our confidential information in any manner which might be detrimental to or conflict with the business interests of the Company. Both the Company and Mr. Lv have the right to terminate Mr. Lv's employment with or without cause by giving prior notice. Any disputes arising from Mr. Lv's employment, termination of his employment or breach of any covenant of good faith related to his employment shall be conclusively settled by final and binding decision of the court located in Henan Province, China. Mr. Lv's agreement does not provide for any fixed term or duration, and Mr. Lv is employed by the Company on an at-will basis.

We entered into an employment agreement with Mr. Zan Wu, our chief financial officer, treasurer and secretary, on February 5, 2010. The compensation committee of the board of directors approved and established Mr. Wu's salary at $180,000 per annum for the 2012 fiscal year. Mr. Wu agreed that in the event that he departs from the Company for any reason, he will refrain from using or disclosing our confidential information in any manner which might be detrimental to or conflict with the business interests of the Company. Both the Company and Mr. Wu have the right to terminate Mr. Wu's employment with or without cause by giving prior notice. Any disputes arising from Mr. Wu's employment, termination of his employment or breach of any covenant of good faith related to his employment shall

be conclusively settled by final and binding decisions of the court located in Henan Province, China. Mr. Wu's agreement does not provide for any fixed term or duration, and Mr. Wu is employed by the Company on an at-will basis.

Director Compensation

The following table provides compensation information for our directors during the fiscal year ended June 30, 2012:

Name	Fees Earned or Paid in Cash($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Jianhua Lv (1)	$ -	$ -	$ -	$ -	$ -	$ -	$-
Hui Zheng	$ 10,000	$ -	$ -	$ -	$ -	$ -	$10,000
Yushan Jiang	$ 10,000	$ -	$ -	$ -	$ -	$ -	$10,000
Hui Huang	$ 10,000	$ -	$ -	$ -	$ -	$ -	$10,000
Haoyi Zhang	$ 10,000	$ -	$ -	$ -	$ -	$ -	$10,000

(1) This individual's compensation is reflected in the Summary Compensation Table for our executive officers above.

All of our current directors were appointed on February 5, 2010 in connection with the Share Exchange. On February 5, 2010, we entered into letter agreements with all of our current directors and pursuant to which we agreed to pay cash compensation in the amount of $10,000 to each of the directors for their services on our board of directors. The terms and conditions under these agreements remained effective for 2012.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information, as of September 21, 2012, regarding the beneficial ownership of the Company's common stock by any person known to the Company to be the beneficial owner of more than 5% of the outstanding common stock, by directors and certain executive officers, and by all directors and executive officers of the Company as a group. All officers and directors above utilize the following address for correspondence purposes: Kuanggong Road and Tiyu Road 10th Floor, Chengshi Xin Yong She, Tiyu Road, Xinhua District, Pingdingshan, Henan Province, China 467000.

Name and Address	Amount and Nature of Beneficial Ownership	Percent (%) of Class*	
Jianhua Lv (1)	6,694,091	31.7	%
Zan ("Sam") Wu	0	0	%
Hui Zheng	0	0	%
Hui Huang	0	0	%
Yushan Jiang	0	0	%
Haoyi Zhang	0	0	%
All Officers and Directors as a Group (5 total)	6,694,091	31.7	%
5% Shareholders:			
Honour Express Limited (2)	6,694,091	31.7	%

Applicable percentage ownership is based on 21,121,372 shares of common stock outstanding as of September 21, 2012.

(1) Represents shares held directly by Honour Express Limited, a British Virgin Islands international business company ("Honour Express"). Jianhua Lv is a director of Honour Express, and in such capacity, Mr. Lv may be deemed to have voting and dispositive power over the shares held directly by Honour Express. Mr. Lv is also an indirect beneficiary, as he holds an option to acquire shares of Honour Express. Pursuant to a certain Incentive Option Agreement dated July 6, 2009, as amended ("Incentive Option Agreement"), Mr. Lv has the right to acquire 100% of the issued and outstanding capital stock of Honour Express from a nominee who holds the shares of capital stock of Honour Express, subject to certain conditions. Mr. Lv's address is: 10th Floor, Chengshi Xin Yong She, Tiyu Road, Xinhua District, Pingdingshan, Henan Province, People's Republic of China, 467000.

(2) The address of Honour Express Limited is: P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

To our knowledge, none of our directors, officers or affiliates, or any 5% or greater shareholder of the Company, or any associate or any such directors, officers or affiliates, is a party that is adverse to the Company in any material legal proceeding.

Securities authorized for issuance under equity compensation plans

We maintain the following equity compensation plans. The discussions below give effect to the 1-for-12 reverse stock split effected on January 15, 2009 and the 1-for-20 reverse stock split the Company effected on February 5, 2010.

2012 Equity Incentive Plan

On April 5, 2012, our board of directors approved a stock incentive plan for officers, directors, employees, and consultants entitled "SinoCoking Coal and Coke Chemical Industries, Inc. 2012 Equity Incentive Plan" (the "2012 Plan"). The maximum number of shares that may be issued under the Plan is 2,000,000 shares of our common stock. The 2012 Plan was approved by our shareholders at our annual meeting held on June 29, 2012. Under the 2012 Plan, the Company may issue common stock and/or options to purchase common stock to our officers, directors, employees and consultants. The 2012 Plan is administered by our board of directors or a committee that it designates comprising of at least three independent directors. The board (or the committee if one is designated) has full and complete authority, in its discretion, but subject to the express provisions of the 2012 Plan, to grant awards, to determine the number of awards to be granted and the time or times at which awards shall be granted; to establish the terms and conditions upon which awards may be exercised; to remove or adjust any restrictions and conditions upon awards; to specify, at the time of grant, provisions relating to exercisability of awards and to accelerate or otherwise modify the exercisability of any awards; and to adopt such rules and regulations and to make all other determinations deemed necessary or desirable for the administration of the 2012 Plan. As of June 30, 2012, there were 2,000,000 shares of our common stock remaining available for future issuance under the 2012 Plan.

2002 Stock Option Plan for Directors

In 2002, our board of directors adopted a 2002 Stock Option Plan for Directors (the "Directors Plan"). The purpose of the Directors Plan is to attract and retain the services of experienced and knowledgeable individuals to serve as our directors. On the date the Directors Plan was adopted, the total number of shares of common stock subject to it was 11,057. This number of shares may be increased on the first day of January of each year so that the common stock available for awards will equal 5% of the common stock outstanding on that date, provided, however, that the number of shares included in the Directors Plan may not exceed more than 10% of all shares of common stock outstanding. The Directors Plan is administered by the board of directors, or any committee that may be authorized by the board of directors, so long as any such committee is made up of non-employee directors. The grant of an option under the Directors Plan is discretionary. The exercise price of an option must be the fair market value of the common stock on

the date of grant. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the Company already owned by the person. The term of an option granted pursuant to the Directors Plan may not be more than 10 years. The Directors Plan was adopted and approved by the board of directors on October 11, 2002, and shall terminate 10 years from such approval date.

2002 Consultant Stock Plan

In 2002, our board of directors adopted a 2002 Consultant Stock Plan (the "Consultants Plan"). The purpose of the Consultants Plan is to be able to offer consultants and others who provide services to the Company the opportunity to participate in our growth by paying for such services with equity awards. The total number of shares of common stock subject to the Consultants Plan was increased from 27,084 to 133,334 as approved by the board of directors in 2003. The Consultants Plan is administered by the board of directors, or any committee that may be authorized by the board of directors. Persons eligible for awards under the Consultants Plan may receive options to purchase common stock, stock awards or stock restricted by vesting conditions. The exercise price of an option must be no less than 85% of the fair market value of the common stock on the date of grant. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the Company already owned by the person or with a fully recourse promissory note, subject to applicable law. The term of an option granted pursuant to the Consultants Plan may not be more than 10 years. The Consultants Plan terminated in May 2012 in accordance with its terms.

1999 Stock Option Plan

In 1999, our board of directors adopted a 1999 Stock Option Plan (the "Option Plan"). The purpose of the Option Plan is to be able to retain the services of employees and consultants and others who are valuable to the Company and to offer incentives to such persons to achieve the objectives of our shareholders. The total number of shares of common stock subject to the Option Plan is 45,417. The Option Plan is administered by the board of directors, or any committee that may be authorized by the board of directors, so long as any such committee is made up of non-employee directors. Employees eligible for awards under the Option Plan may receive incentive options to purchase common stock. If a recipient does not receive an incentive option, he or she will receive a non-qualified stock option. The exercise price of an option must be no less than the fair market value of the common stock on the date of grant, unless the recipient of an award owns 10% or more of our common stock, in which case the exercise price of an incentive stock option must not be less than 110% of the fair market value. An option grant may be subject to vesting conditions. Options may be exercised in cash, or with shares of the common stock of the Company already owned by the recipient of the award. The term of an option granted pursuant to the Option Plan may not be more than five years if the option is an incentive option granted to a recipient who owns 10% or more of our common stock, or 10 years for all other recipients and for recipients of non-qualified stock options. Incentive stock options may be granted under the Option Plan until the day immediately preceding the 10 year anniversary of the date on which the Option Plan was adopted by the board of directors, which was October 14, 1999. Non-Qualified Stock Options may be granted under the Option Plan until the Option Plan is terminated by the board of directors in its sole discretion.

The following table illustrates, as of June 30, 2012, information relating to all of our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity Compensation Plan Approved by Security Holders				
2012 Plan	0		n/a	2,000,000
2002 Consultant Stock Plan	0		n/a	0
1999 Stock Option Plan	6,059	(1)	$ 96.00	0
Equity Compensation Plan Not Approved by Security Holders –				
2002 Stock Option Plan for Directors	4,792	(1)	$ 75.13	0

(1) This number reflects the reverse stock splits that were effected in January 2009 and February 2010.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Set forth below are our related party transactions since July 1, 2009:

Acquisition of Top Favour

On December 30, 2009, our shareholders approved a Plan and Agreement of Share Exchange, dated July 17, 2009, with Top Favour, pursuant to which we (formerly named "Ableauctions.com, Inc.") agreed to acquire all of the outstanding capital stock of Top Favour in exchange for the issuance of 13,117,952 shares of our common stock to the shareholders of Top Favour (the "Share Exchange"). The Share Exchange was consummated at 5:00 p.m. Pacific time on February 5, 2010 (the "Closing Date").

On the Closing Date:

- We ceased operating our historical auctions and real estate-related businesses;
- We changed our name from "Ableauctions.com, Inc." to "SinoCoking Coal and Coke Chemical Industries, Inc." to reflect the business of Top Favour;
- All of our directors and officers prior to the Share Exchange resigned, and successor officers and directors designated by Top Favour were appointed to the board and management;
- All of our pre-Share Exchange assets (e.g. relating to online auctions, liquidation, real estate services, finance and development) were transferred to a liquidating trust (the "Liquidating Trust"); these assets included the capital stock of our pre-Share Exchange subsidiaries;
  - The Liquidating Trust assumed all of our pre-Share Exchange liabilities;
  - Top Favour and its controlled companies and subsidiaries became our controlled companies and subsidiaries;
- The business, operations and assets of Top Favour (e.g., production of coal and coke) became our sole business, operations and assets.

Liquidation of Our Former Business

The operations of our former pre-Share Exchange subsidiaries, now held by the Liquidating Trust, are in the process of being wound down and will eventually be liquidated. Any proceeds from the liquidation which remain after the

payment of liabilities and expenses relating to the liquidation will be distributed by the Liquidating Trust to the shareholders of record prior to the consummation of the Share Exchange.

Other Related Party Transactions

As of June 30, 2012 and 2011, we had $0 and $575,700 in advances to suppliers. Such amounts represent prepayments we made to the 40% owner of Xingsheng Coal for coal purchases. We hold the remaining 60% of Xingsheng Coal through Hongli.

From time to time, our CEO Mr. Jianhua Lv advances expenses on our behalf. Such advances are interest free, due on demand and repaid in cash. Advances from our CEO amounted to $156,227 and $455,768 at June 30, 2012 and 2011, respectively.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table shows the fees that were billed for audit and other services provided by Friedman LLP, our independent accountants, during the 2011 fiscal year:

	Fiscal Year Ended June 30,	
	2012	2011
Audit Fees (1)	$343,016	$220,000
Audit-related Fees (2)	-	-
Tax Fees (3)	-	-
All Other Fees (4)	-	-
Total	$343,016	$220,000

(1) **Audit Fees** – This category includes the audit of our annual financial statements, review of financial statements included in our Quarterly Reports on Form 10-Q, and services that are normally provided by independent auditors in connection with statutory and regulatory filings or the engagement for fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

(2) **Audit-Related Fees** – This category consists of assurance and related services by our independent auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under "Audit Fees." The services for the fees disclosed under this category include consultation regarding our correspondence with the SEC.

(3) **Tax Fees** – This category consists of professional services rendered by our independent auditors for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

(4) **All Other Fees** – This category consists of fees for other miscellaneous items.

Pre-Approval Policies and Procedures of the Audit Committee

Our Audit Committee approves the engagement of our independent auditors and is also required to pre-approve all audit and non-audit expenses. Prior to engaging its accountants to perform particular services, our Audit Committee obtains an estimate for the service to be performed. All of the services described above were approved by the Audit Committee in accordance with its procedure.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) Financial Statements

The following consolidated financial statements for the years ended June 30, 2012 and 2011 and for the two years ended June 30, 2012 are included in Part II, Item 8 of this Report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Schedules are omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule or because the information required is given in the consolidated financial statements or the notes thereto.

(3) Exhibits

EXHIBIT INDEX

Exhibit Number	Description
2.1	Share Exchange Agreement dated July 17, 2009 between Ableauctions.com, Inc., Abdul Ladha and Hanifa Ladha and Top Favour Limited and the shareholders of Top Favour Limited (6)
2.2	First Amendment to the Share Exchange Agreement between Ableauctions.com, Inc., Abdul Ladha and Hanifa Ladha and Top Favour Limited and the shareholders of Top Favour Limited dated November 25, 2009 (9)
3.1	Articles of Incorporation, as amended (1)
3.2	Articles of Amendment to Articles of Incorporation (2)
3.3	Bylaws (1)
4.1	Specimen Stock Certificate of SinoCoking Coal and Coke Chemical Industries, Inc. (2)
10.1	1999 Stock Option Plan (4)
10.2	2002 Stock Option Plan for Directors (3)
10.3	2002 Consultant Stock Plan (5)
10.4	License Agreement dated May 15, 2009 between the Company and iCollector Technologies Ltd. and ABC Live Auction World Ltd. (7)
10.5	License Agreement dated June 1, 2009 between the Company and RapidFusion, Inc. and Pacific Amber Technologies, Inc. (7)
10.6	Voting Agreement dated July 17, 2009 between Abdul Ladha and Hanifa Ladha and Top Favour Limited (6)

10.7	Agreement establishing the Able (U.S.) Liquidating Trust (7)
10.8	Agreement establishing the Able (U.S.) Distribution Trust (7)
10.9	Agreement establishing the Able (Canada) Distribution Trust (7)
10.10	Transfer and Assignment of Assets and Assumption of Liabilities (7)
10.11	Form of Securities Purchase Agreement (Regulation S) (1)
10.12	Form of Warrant dated February 5, 2010 (Regulation S) (1)
10.13	Form of Director's Offer and Acceptance Letter (2)
10.14	Form of Officer's Offer and Acceptance Letter (2)
10.15	Consulting Services Agreement dated March 18, 2009 (2)
10.16	Operating Agreement dated March 18, 2009 (2)
10.17	Equity Pledge Agreement dated March 18, 2009 (2)
10.18	Option Agreement dated March 18, 2009 (2)
10.19	Voting Rights Proxy Agreement dated March 18, 2009 (2)
10.20	Form of Warrant dated March 11, 2010 (Regulation S) (10)
10.21	Form of Securities Purchase Agreement (Regulation D) (10)
10.22	Form of Registration Rights Agreement (10)
10.23	Form of Warrant dated March 11, 2010 (Regulation D) (10)
10.24	Placement Agent Agreement (10)
10.25	Re-execution of Equity Pledge Agreement dated September 9, 2011(15)
10.26	Re-execution of Operating Agreement dated September 9, 2011(15)
10.27	Re-execution of Option Agreement dated September 9, 2011(15)
10.28	Re-execution of Voting Rights Proxy Agreement dated September 9, 2011(15)
10.29	Supplemental Agreement between Hongli and the Owners of Shuangrui Coal dated September 2, 2011(16)
10.30	Supplemental Agreement between Hongli and the Owners of Xingsheng Coal dated September 2, 2011(16)
10.31	Supplemental Agreement between Hongchang and the Owners of Shunli Coal dated September 2, 2011(16)
14	Code of Ethics (8)
21.2	Subsidiaries of SinoCoking Coal and Coke Chemical Industries, Inc. (7)
23	Consent of Friedman LLP*
31.1	Certification Pursuant to Rule 13a-14(a) and 15d-14(a) (4) of Chief Executive Officer *
31.2	Certification Pursuant to Rule 13a-14(a) and 15d-14(a) (4) of Chief Financial Officer *
32.1	Certification Pursuant to Section 1350 of Title 18 of the United States Code of Chief Executive Officer*
32.2	Certification Pursuant to Section 1350 of Title 18 of the United States Code of Chief Financial Officer*
99.1	Equity Interests Transfer Agreement between Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. on the one hand, and Dongping Wu, Xiaoling Zhao and Dianqing Li on the other, for the Shuangrui Equity Interests dated August 10, 2010 (11)
99.2	Equity Interests Transfer Agreement between Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. on the one hand, and Mingxun Du and Xingling Li on the other, for the Xingsheng Equity Interests dated August 10, 2010 (11)
99.3	Bank Acceptance Agreement between Hongli and Pingdingshan Rural Cooperative Bank dated January 7, 2011 (12)
99.4	Loan Agreement by and between Hongli and Bairei Trust Co., Ltd. dated April 2, 2011 (13)
99.5	Security Deposit Payment Agreement by and between Hongli and Bairei Trust Co., Ltd. dated April 2, 2011 (13)
99.6	Guarantee Agreement by and between Hongyuan and Bairei Trust Co., Ltd. dated April 2, 2011 (13)
99.7	Loan Agreement between Top Favour Limited and Ziben Tiantang Co., Ltd. dated June 17, 2011 (14)
99.8	

	Supply Agreement between Hongli and Wuhan Railway Zhongli Group Co., Ltd. dated January 1, 2011 (16)
99.9	Supply Agreement between Hongli and Daye Xinye Tegang Co., Ltd. dated January 2, 2011 (16)
99.10	Supply Agreement between Hongchang Coal and Wuhan Tieying Commerce Co., Ltd. dated January 3, 2011 (16)
99.11	Purchase Agreement between Baofeng Coking and Hongfeng Coal Processing and Coking Co., Ltd. dated January 1, 2011 (16)
99.12	Purchase Agreement between Baofeng Coking and Gansu Senbao Commerce Co., Ltd. dated January 3, 2011 (16)
99.13	Purchase Agreement between Baofeng Coking and Shaanxi Xiansheng Industry and Commerce Co., Ltd. dated January 3, 2011 (16)
99.14	Equity Interest Transfer Agreement between Baofeng Hongchang Coal Co., Ltd. on the one hand, and Jianguo Yang, Yaoqun Wang and Zhanjing Yang on the other, for the Shunli Equity Interests dated May 19, 2011 (16)
99.15	Mining permit of Hongchang coal mine (16)
99.16	Mining permit of Shunli coal mine (16)
99.17	Mining permit of Xingsheng coal mine (16)
99.18	Mining permit of Shuangrui coal mine (16)
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* Filed herewith

(1) Incorporated by reference to the Form 10-SB filed by the Company with the SEC on November 18, 1999.

(2) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the SEC on February 8, 2010.

(3) Incorporated by reference to the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002 filed by the Company with the SEC on March 27, 2003.

(4) Incorporated by reference to the Form S-8 Registration Statement filed by the Company with the SEC on June 13, 2003.

(5) Incorporated by reference to the Form S-8 Registration Statement filed

by the Company with the SEC on May 8, 2002.

(6) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the SEC on July 17, 2009.

(7) Incorporated by reference to the registration statement on Form 10-K filed by the Company with the SEC on March 31, 2010.

(8) Incorporated by reference to the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003 filed by the Company with the SEC on March 30, 2004.

(9) Incorporated by reference to the Form 8-K Current Report filed by the Company with the SEC on November 25, 2009.

(10) Incorporated by reference to the Form 8-K Current Report filed by the Company with

	the SEC on March 15, 2010.
(11)	Incorporated by reference to the Form 8-K Current Report filed by the Company with the SEC on August 10, 2010.
(12)	Incorporated by reference to the Form 8-K Current Report filed by the Company with the SEC on January 18, 2011.
(13)	Incorporated by reference to the Form 8-K Current Report filed by the Company with the SEC on April 5, 2011.
(14)	Incorporated by reference to the Form 8-K Current Report filed by the Company with the SEC on June 23, 2011.
(15)	Incorporated by reference to the Form 8-K Current Report filed by the Company with the SEC on September 12, 2011.
(16)	Incorporated by reference to the Annual Report on Form 10-K for

the fiscal year ended June 30, 2011 filed by the Company with the SEC on September 11, 2011.

SIGNATURES

Pursuant to the requirements of section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SINOCOKING COAL
AND COKE CHEMICAL
INDUSTRIES, INC.**

(Registrant)

Date: September 28, 2012 By: /s/ Jianhua Lv
Jianhua Lv

Chief Executive Officer

Date: September 28, 2012 By: /s/ Zan Wu
Zan Wu

Chief Financial Officer

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.

Name	Title	Date
/s/ Jianhua Lv Jianhua Lv	Chief Executive Officer / Director	September 28, 2012
/s/ Zan Wu Zan Wu	Chief Financial Officer	September 28, 2012
/s/ Hui Huang Hui Huang	Director	September 28, 2012
/s/ Haoyi Zhang	Director	September 28, 2012

Haoyi Zhang

/s/ Yushan Jiang Yushan Jiang	Director	September 28, 2012