SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC.
Form 10-Q
November 15, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2010

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

Kuanggong Road and Tiyu Road 10th Floor,
Chengshi Xin Yong She, Tiyu Road, Xinhua District,
Pingdingshan, Henan Province, China 467000
(Address of principal executive offices and zip code)

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $0.001 per share
Securities registered pursuant to Section 12(g) of the Act: None

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 x 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 (§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 o 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 ¨	Accelerated Filer ¨
Non-accelerated filer ¨	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 ¨ No x

As of November 12, 2010, the Registrant had 20,871,192 shares of common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this report, other than statements of historical facts, that address future activities, events or developments, are forward-looking statements, including, but not limited to, statements containing the words "believe," "anticipate," "expect," "project," "may," "might," "will" and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Whether actual results will conform to the expectations and predictions of management, however, is subject to a number of risks and uncertainties that may cause actual results to differ materially. Such risks are in the section entitled "Risk Factors" beginning on page 21 of our Annual Report on Form 10-K for the year ended June 30, 2010 filed with the SEC on September 29, 2010.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2010 (Unaudited)	June 30, 2010
CURRENT ASSETS		
Cash	$ 6,216,987	$ 17,403,008
Restricted cash	27,489,000	22,902,000
Loans receivable	3,071,687	25,13,308
Notes receivable	29,940	1,045,830
Accounts receivable, trade, net	9,260,960	5,304,684
Other receivables	13,621,988	479,121
Other receivables - related parties	-	477,052
Inventories	1,459,288	2,261,816
Advances to suppliers	10,569,930	55,09,780
Total current assets	71,719,780	57,896,599
PLANT AND EQUIPMENT, net	21,973,819	20,930,413
OTHER ASSETS		
Prepayments for land use rights	8,690,085	5,074,485
Prepayments for mine acquisitions	11,996,730	8,858,398
Prepayments for construction of new operating plant	16,165,167	16,789,806
Intangible - land use rights, net	1,906,825	1,892,292
Intangible - mineral rights, net	2,297,351	2,629,437
Other assets	114,123	103,110
Total other assets	41,170,281	35,347,528
Total assets	$ 134,863,880	$ 114,174,540
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	$ 304,604	$ 291,750
Notes payable	19,461,000	2,946,000
Short term loans - bank	14,970,000	14,730,000
Short term loans - others	-	515,550
Due to related parties	298,599	51,381
Other payables and accrued liabilities	532,053	1,433,121
Customer deposits	160,041	106,830
Taxes payable	2,164,097	1,229,019
Total current liabilities	37,890,394	21,303,651
OTHER LIABILITIES		
Warrant derivative liability	17,841,697	30,436,087
Total other liabilities	17,841,697	30,436,087

Total liabilities		55,732,091		51,739,738
COMMITMENTS AND CONTINGENCIES				
SHAREHOLDERS' EQUITY				
Common stock, $0.001 par value, 100,000,000 authorized, 20,871,192 issued and outstanding as of September 30, 2010 and June 30, 2010, respectively		20,871		20,871
Additional Paid-in capital		67,269		67,269
Statutory reserves		1,906,085		1,837,395
Retained earnings		74,855,724		59,373,726
Accumulated other comprehensive income		2,281,840		1,135,541
Total shareholders' equity		79,131,789		62,434,802
Total liabilities and shareholders' equity	$	134,863,880	$	114,174,540

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

	For the three months ended September 30, 2010	2009
REVENUE	$ 13,008,462	$ 18,129,461
COST OF REVENUE	8,364,109	9,069,065
GROSS PROFIT	4,644,353	9,060,396
OPERATING EXPENSES:		
Selling	84,467	195,277
General and administrative	935,147	231,839
Total operating expenses	1,019,614	427,116
INCOME FROM OPERATIONS	3,624,739	8,633,280
OTHER INCOME (EXPENSE), NET		
Finance expense, net	(56,950)	(96,724)
Other expense, net	(56,698)	(189)
Change in fair value of warrants	12,919,675	-
Total other income (expense), net	12,806,027	(96,913)
INCOME BEFORE INCOME TAXES	16,430,766	8,536,367
PROVISION FOR INCOME TAXES	948,768	1,988,990
NET INCOME	15,481,998	6,547,377
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment	1,146,299	52,069
COMPREHENSIVE INCOME	$ 16,628,297	$ 6,599,446
WEIGHTED AVERAGE NUMBER OF COMMON STOCK		
Basic	20,871,192	13,117,952
Diluted	21,288,959	13,117,952
EARNINGS PER SHARE		
Basic	$ 0.74	$ 0.50
Diluted	$ 0.73	$ 0.50

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional paid-in	Retained earnings		Accumulated other comprehensive	
	Shares	Par Value	capital	Statutory reserves	Unrestricted	income	Total
BALANCE, June 30, 2009	13,117,952	$ 13,118	$ 3,531,959	$ 1,127,710	$ 29,754,451	$ 779,804	$ 35,207,042
Net income					6,547,377		6,547,377
Adjustment of statutory reserves				193,696	(193,696)		-
Foreign currency translation adjustments						52,069	52,069
BALANCE, September 30, 2009 (Unaudited)	13,117,952	$ 13,118	$ 3,531,959	$ 1,321,406	$ 36,108,132	$ 831,873	$ 41,806,488
Shares and warrants issued in reverse merger recapitalization	405,710	406	(406)				-
Shares and warrants sold for cash	7,344,935	7,345	44,062,265				44,069,610
Offering costs related to shares and warrants sold			(12,015,273)				(12,015,273)
Warrants issued reclassified to derivative liability			(35,578,543)		(8,491,067)		(44,069,610)
Cumulative effect of reclassification of existing warrants					(631,002)		(631,002)
Fractional shares due to the one-for-twenty reverse split	2,595	2	(2)				-
Net income					32,387,120		32,387,120
Adjustment of Statutory				515,989	543		516,532

reserve							
Imputed interests on loans from related parties waived			67,269				67,269
Foreign currency translation adjustments						$ 303,668	$ 303,668
BALANCE, June 30, 2010	20,871,192	$ 20,871	$ 67,269	$ 1,837,395	$ 59,373,726	$ 1,135,541	$ 62,434,802
Net income					15,481,998		15,481,998
Adjustment of statutory reserve				68,690			68,690
Foreign currency translation adjustments						1,146,299	1,146,299
BALANCE, September 30, 2010 (Unaudited)	20,871,192	$ 20,871	$ 67,269	$ 1,906,085	$ 74,855,724	$ 2,281,840	$ 79,131,789

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the three months ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,481,998	$ 6,547,377
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	413,694	713,242
Amortization and depletion	386,521	999,147
Change in fair value of warrants	(12,919,675)	-
Warrants granted for service	325,285	
Reservation of mine maintenance fee	67,864	-
Change in operating assets and liabilities		
Notes receivable	1,020,510	(815,123)
Accounts receivable, trade	(3,823,314)	(1,077,033)
Other receivables	(1,441,009)	41,654
Inventories	829,288	(3,072,988)
Advances to suppliers	(4,910,761)	25,194
Accounts payable, trade	11,546	635,049
Other payables and accrued liabilities	(922,311)	1,780,227
Customer deposits	50,851	(1,057,880)
Taxes payable	904,050	703,653
Net cash (used in) provided by operating activities	(4,525,463)	5,422,519
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal of loans receivable	(2,042,695)	-
Repayment of loans receivable	1,497,006	
Payments on equipment and construction-in-progress	(220,230)	(3,114,495)
Prepayment on land use rights	(3,490,440)	-
Prepayment of mine acquisitions	(2,958,000)	-
Net cash used in investing activities	(7,214,359)	(3,114,495)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in restricted cash	(4,437,000)	-
Cash proceeds from notes payables	4,732,800	-
Repayments to short-term loans	(517,650)	(1,737,329)
Proceeds from short-term loans	-	34,537
Proceeds from (payments to) related parties	718,063	(64,175)
Net cash provided by (used in) financing activities	496,213	(1,766,967)
EFFECT OF EXCHANGE RATE ON CASH	57,588	56,555
(DECREASE) INCREASE IN CASH	(11,186,021)	597,612
CASH, beginning of period	17,403,008	278,399

CASH, end of period	$	6,216,987	$	876,011
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for income tax	$	556,124	$	1,843,669
Cash paid for interest expense	$	42,595	$	61,596
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES				
Bank loan interest paid by shareholder	$	162,690	$	-
Notes payables not delivered to payee	$	11,536,200	$	-
Transferred from Long-term prepayment to construction-in-progress	$	887,400	$	-

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(UNAUDITED)

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 (BVI)"), and Top Favour (BVI) became a wholly-owned subsidiary of the Company. In connection with the closing of the share exchange transaction, all of the assets and liabilities of Ableauction.com, Inc's former business had been transferred to a liquidating trust, including the capital stock of its former subsidiaries. After the share exchange transaction, Top Favour (BVI)'s shareholders owned approximately 97% of the issued and outstanding shares. The management members of Top Favour (BVI) became the directors and officers of the Company. The share exchange transaction 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 (BVI) (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 transaction. As the share exchange transaction was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction. The historical financial statements for periods prior to February 5, 2010 are those of Top Favour (BVI) except that the equity section and earnings per share have been retroactively restated to reflect the reverse acquisition. See more details in Note 3.

Top Favour (BVI) was incorporated in the British Virgin Islands on July 2, 2008. Through its wholly-owned subsidiary Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. ("Hongyuan"), which was formed on March 18, 2009 with a registered capital of $3,000,000 under the laws of the People's Republic of China ("PRC" or "China"), and the variable interest entity ("VIE") - Henan Pingdingshan Hongli Coal & Coking Co., Ltd. ("Hongli"), the Company produces and sells coal, coke, coal gas-generated electricity, and other coking by-products in the PRC.

Hongli and its operating subsidiaries, Baofeng Hongchang Coal, Ltd ("Hongchang Coal") and Baofeng Hongguang Power Co., Ltd("Hongguang Power") hold the approved licenses necessary to operate the coal mining, coal sales, coking and power plant businesses in China. PRC law currently has limits on foreign ownership of these types of companies. To comply with these foreign ownership restrictions and in order for Top Favour (BVI) to obtain control over Hongli's PRC operating entities, on March 18, 2009. Top Favour (BVI), through Hongyuan, entered into contractual arrangements with Hongli on March 18, 2009 ("Contractual Arrangements").

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

Management has included all adjustments, consisting only of normal recurring adjustments, considered necessary to give a fair presentation of operating results for the periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the 2010 annual report on Form 10-K for the fiscal year ended June 30, 2010.

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(UNAUDITED)

Principles of consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries – Top Favour (BVI), 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 FASB's 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 these contractual arrangements (Note 1), Top Favour (BVI) is obligated to absorb a majority of the risk of loss from Hongli's activities and Top Favour (BVI) is enabled to receive a majority of its expected residual returns. Top Favour (BVI) accounts for Hongli as a VIE and is the primary beneficiary. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

ASC 810 addresses whether certain types of entities referred to as VIEs, should be consolidated in a company's consolidated financial statements. These Contractual Arrangements entered into between Top Favour (BVI) and Hongli through Hongyuan are comprised of a series of agreements, including:

(1) a Consulting Services Agreement, through which Hongyuan has the right to advise, consult, manage and operate Hongli and its subsidiaries ("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 shareholders 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 shareholders 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

(5) an Equity Pledge Agreement, under which the shareholders 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.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
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Since Top Favour (BVI), 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 (BVI), Hongyuan and Hongli has been accounted for at historical cost and prepared on the basis as if the aforementioned exclusive agreements between Top Favour (BVI) and Hongli 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; valuation allowances for deferred income taxes; reserves for contingencies and the fair value and accounting treatment of certain financial instruments. 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. In addition, different assumptions or conditions could reasonably be expected to yield different results.

Stock-based compensation

We record 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. We use 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 compensation expense is recognized based on awards expected to vest. GAAP requires 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

The Company's revenue recognition policies are in compliance with FASB’s accounting standards. 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.

Most if not all of the electricity generated by Hongguan 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.

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
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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. Total shipping and handling costs amounted to $0 and $11,217 for the three months ended September 30, 2010 and 2009, respectively.

Foreign currency translation and other comprehensive income

The reporting currency of the Company is the US dollar. The functional currency of the Company and the BVI is the US dollar compared to the functional currency of its subsidiaries and VIEs in the PRC which is the Chinese Renminbi (RMB).

For the subsidiaries and VIEs whose functional currencies are other than the US 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 shareholders' 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 as incurred. For the three months ended September 30, 2010 and 2009, the transaction gains and losses were not significant.

The balance sheet amounts, with the exception of equity, at September 30, 2010 and June 30, 2010 were translated at RMB 6.68 to $1 and RMB 6.79 to $1, respectively. The average translation rates applied to income and cash flow statement amounts for the three months ended September 30, 2010 and 2009 were at RMB 6.76 to $1 and RMB 6.82 to $1, respectively.

Fair value of financial instruments

The Company uses the Financial Accounting Standard Board's ("FASB") accounting standard 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.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
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(UNAUDITED)

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 and significant to the fair value.

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2010:

	Carrying Value at September 30, 2010	Fair Value Measurement at September 30, 2010		
		Level 1	Level 2	Level 3
Warrant liability(unaudited)	$ 17,841,697	$ —	$	$ 17,841,697

The Company's warrants are not traded in an active securities market; therefore the Company estimates the fair value to those warrants using the Cox-Ross-Rubinstein binomial model on September 30, 2010 and June 30, 2010.

	September 30, 2010 (Unaudited)	June 30, 2010
Number of shares exercisable	4,126,609	4,076,609
Exercise price	$ 12.00-48.00	$ 12.00-48.00
Stock price	$ 8.23	$ 12.30
Expected term(year)	4.35-4.75	4.61-4.72
Risk-free interest rate	0.98-2.53%	1.63-2.38%
Expected volatility	80%	80%

Due to the short trading history of the Company's stock, the expected volatility is based primarily on other similar public companies' historical volatilities, which are traded on United States stock markets. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the warrants. The Company believes this method produces an estimate that is representative of the Company's expectations of future volatility over the expected term of these warrants. The Company currently has no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the warrants.

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record 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 three months ended September 30, 2010 and 2009, there were no impairment charges.

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(UNAUDITED)

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.

Restricted cash

Restricted cash represent amounts set aside by the Company in accordance with the Company's debt agreements with certain financial institutions. 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 debt agreements in the PRC. 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 to its customers. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible 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.

Other receivables

Other receivables mainly include advances to employees for general business purpose and other short term non-traded receivable from unrelated parties, primarily as unsecured demand loans, with no state 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.

Inventories

Inventories are stated at the lower of cost or market, using the weighted average cost method. Inventories consist of raw materials and supplies, work in process, and finished goods. Raw materials mainly consist of coal (mined and purchased), rail, steel, wood and additives used in the Company. The cost of finished goods included (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, it is not marked up subsequently based on changes in underlying facts and circumstances. As of September 30, 2010 and June 30, 2010, the management believed that no allowance for inventory valuation was deemed necessary.

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Advances to suppliers

The Company advances monies to certain suppliers for raw materials purchase and construction contracts. These advances are interest-free and unsecured.

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 of mining tunnel improvements. Interest incurred during the period of construction, if material, is capitalized. For the three months ended September 30, 2010 and 2009, $180,630 and $0 interest was 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.

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. Under the accounting standard regarding treatment of goodwill and other intangible assets, all goodwill and certain intangible assets determined to have indefinite lives are not amortized but tested for impairment at least annually. Intangible assets other than goodwill will be amortized over their useful lives and reviewed at least quarterly for impairment.

Intangible - mineral rights, net

Mineral 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 tones. The Company's coal reserves are controlled through direct ownership which generally lasts until the recoverable reserves are depleted.

Impairment of long - lived assets

The Company evaluates long lived tangible and intangible assets for impairment, at least annually, but more often 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 the asset's net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book 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. Based on its review, the Company believes that, as September 30, 2010 and June 30, 2010, there was no impairment of long lived assets.

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Asset retirement cost and obligations

The Company adopted the accounting standard to account for the asset retirement cost and obligations to retire tangible long-lived assets. This standard generally requires that the Company's legal obligations associated with the retirement of long-lived assets are 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 Securities and Exchange Commission (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, Henan Bureau of Finance and Bureau of Land and Resource issued regulation for "Mine Environment Control and Environment Recovery" ("Mine Recovery Regulations") which require mining companies to file an Evaluation Report Regarding Mining Environmental Impact ("Evaluation Report") before December 31, 2010. The corresponding authorities will 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.

The Company did not record such asset retirement obligation as of September 30, 2010 and June 30, 2010 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 extend of remediation required in and around the mining area, the methods to be used to remediate the mining site, and the 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.

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Income taxes

Income taxes provided on the liability method in respect of 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.

A 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 three months ended September 30, 2010 and 2009. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

Chinese income taxes

The Company’s subsidiary and VIEs are operating in the PRC and are governed by the income tax laws of the PRC and various local income tax laws (“Income Tax Laws”). The Company ’ s subsidiary and VIEs 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 a value-added tax (VAT). All of the Company’s coal and coke that are sold in the PRC are subject to a Chinese value-added tax 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 their finished products. The Company recorded 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.

Warrant derivative 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”.

Due to the reverse merger on February 5, 2010, 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 stockholders' 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 February 5, 2010 reverse acquisition were recorded as derivative liability because the strike price of the warrants is denominated in US dollar, a currency other than the Company's functional currency RMB.

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Prior to February 5, 2010, the Existing warrants previously treated as equity pursuant to the derivative treatment exemption are no longer afforded equity treatment because the strike price of the warrants is denominated in US dollar, a currency other than the Company's functional currency RMB. Therefore, the 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 time as the warrants are exercised or expire. The Company has reclassified the fair value of the Existing warrants of $631,002 from equity to liability status as if these warrants were treated as a derivative liability at February 5, 2010.

Earnings per share

The Company reports earnings per share in accordance with the provisions of FASB's related accounting standard. 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 that all items that are required 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.

Related parties

Parties are considered to be related to the Company if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of such principal owners and management, and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

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Recently issued accounting pronouncements

In January 2010, FASB issued ASU No. 2010-01– Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has adopted this ASU and disclosed the fair value of its warrant derivative liability as required.

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In February 2010, FASB issued ASU No. 2010-9 –Amendments to Certain Recognition and Disclosure Requirements. This update addresses certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures, removes the requirement that public companies disclose the date of their financial statements in both issued and revised financial statements. According to the FASB, the revised statements include those that have been changed to correct an error or conform to a retrospective application of U.S. GAAP. The amendment is effective for interim and annual reporting periods in fiscal year ending after June 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In March 2010, FASB issued ASU No. 2010-10 –Amendments for Certain Investment Funds. This update defers the effective date of the amendments to the consolidation requirements made by FASB Statement 167 to a reporting entity's interest in certain types of entities. The deferral will mainly impact the evaluation of reporting enterprises' interests in mutual funds, private equity funds, hedge funds, real estate investment entities that measure their investment at fair value, real estate investment trusts, and venture capital funds. The ASU also clarifies guidance in Statement 167 that addresses whether fee arrangements represent a variable interest for all service providers and decision makers. The ASU is effective for interim and annual reporting periods in fiscal year beginning after November 15, 2009. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In March 2010, FASB issued ASU No. 2010-11 –Scope Exception Related to Embedded Credit Derivatives. Embedded credit-derivative features related only to the transfer of credit risk in the form of subordination of one financial instrument to another are not subject to potential bifurcation and separate accounting as clarified by recently issued FASB guidance. Other embedded credit-derivative features are required to be analyzed to determine whether they must be accounted for separately. This update provides guidance on whether embedded credit-derivative features in financial instruments issued by structures such as collateralized debt obligations (CDOs) and synthetic CDOs are subject to bifurcation and separate accounting. The guidance is effective at the beginning of a company's first fiscal quarter beginning after June 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-13, "Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades," or ASU 2010-13. ASU 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update 2010-20 which amends "Receivables" (Topic 310). ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures

for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. While ASU 2010-20 will not have a material impact on our consolidated financial statements, we expect that it will expand our disclosures related to Loans receivable.

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Note 3 - Business reorganization

On February 5, 2010, the Company (formerly known as Ableacutions.com, Inc) completed a share exchange transaction with Top Favour (BVI), and Top Favour (BVI) became a wholly-owned subsidiary of the Company. In connection with the closing of the share exchange transaction, all of the assets and liabilities of Ableauction.com, Inc's former business had been transferred to a liquidating trust, including the capital stock of its former subsidiaries. On the closing date, the Company issued 13,117,952 of its common shares to Top Favour (BVI)'s shareholders in exchange for 100% of the capital stock of Top Favour (BVI). Prior to the share exchange transaction, the Company had 405,710 shares of common stock issued and outstanding. After the share exchange transaction, the Company had 13,523,662 shares of common stock outstanding, and Top Favour (BVI)'s shareholders owned approximately 97% of the issued and outstanding shares. The management members of Top Favour (BVI) became the directors and officers of the Company. The share exchange transaction 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 (BVI) (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 transaction. As the share exchange transaction was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction. Acquisition-related costs incurred to effect the business combination, including finder's fee, advisory, legal, accounting, valuation, and other professional and consulting fees, were $1,127,612 and accounted for as expense as of June 30, 2010.

Note 4 – Enterprise-wide reporting

Based on qualitative and quantitative criteria established by the FASB accounting standard regarding disclosures about segments of an enterprise and related information, the Company considers itself, including coal mining, coking and the sales of all products as a result of these business activities, to be operating within one reportable segment. All of the Company's products are sold within the PRC. Major products and respective revenues for the three months ended September 30, 2010 and 2009 are as summarized as follows:

	Three months ended September 30,	
	2010	2009
	(unaudited)	(unaudited)
Coke	$ 8,709,145	$ 5,717,599
Coal Tar	415,838	260,804
Raw coal	2,663,592	5,122,129
Washed coal	1,219,887	7,028,929
Total	$ 13,008,462	$ 18,129,461

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Note 5 – 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.

Financial instruments, which subject the Company to concentration of credit risk, consist of cash. The Company maintains balances at financial institutions located in PRC and Hong Kong. Balances at financial institutions or state owned banks within the PRC are not covered by insurance. Balances at financial institutions which, from time to time, may exceed Hong Kong Deposit Protection Board insured limits for the banks located in Hong Kong. As of September 30, 2010 and June 30, 2010, the Company had cash deposits including, restricted cash, which were not covered by insurance of $33,427,918 and $39,791,148, respectively. The Company has not experienced any losses in such accounts.

For the three months ended September 30, 2010 and 2009, all of the Company's sales were generated in the PRC as well as account receivables.

For the three months ended September 30, 2010, 96.3% of the Company's total revenues were from three major customers accounted individually for 46.7%, 29.6%, and 20.0% of total revenues, respectively. Account receivables with those three customers were 60.2%, 26.1%, and 11.7% of the total account receivable balance at September 30, 2010, respectively. For the three months ended September 30, 2009, 91.1% of the Company's total revenues from three major customers accounted individually of 68.0%, 12.4%, and 10.7%, respectively.

For the three months ended September 30, 2010 and 2009, all of the Company's purchases of raw materials, as well as accounts payable were generated in the PRC. For the three months ended September 30, 2010, four major suppliers provided 73.2% of the raw materials purchase with each supplier individually accounted for 35.7%, 14.8%, 12.2% and 10.5%, respectively. As of September 30, 2010, the Company did not have payables to any of those suppliers. For the three months ended September 30, 2009, four major suppliers provided 81.4% of the Company's raw material purchases with each supplier individually accounting for 33.0%, 16.9%, 16.6% and 14.9%, respectively.

Note 6 – Loans receivable

On March 22, May 8, 2010 and August 1, 2010, the Company entered into loan agreements with a same third-party company and loaned it $1,013,308, $1,500,000, and $1,000,000, respectively. These loans are due on demand, non-secured, and with an annual interest rate of 3%. $1.49 million was repaid in September 2010, and $1.02 million was repaid in October 2010.

On September 27, 2010, the Company loaned $1,055,385 (RMB7,050,000) to another unrelated company. This loan is due on March 26, 2011, non-secured, and with an annual interest rate of 5%.

As of September 30, 2010 and June 30, 2010, loans receivables amounted to $3,071,687 and $2,513,308, respectively.

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Note 7 – Notes receivable

Notes receivable represent trade accounts receivable due from various customers where the customers' bank has 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 their request for payment to the customer's bank earlier than the scheduled payment date. However, the early request will incur an interest charge and a processing fee. Notes receivable amounted to $29,940 and $1,045,830 as of September 30, 2010 and June 30, 2010, respectively.

Note 8 - Accounts receivable, trade, net

Accounts receivable consisted of the following:

	September 30, 2010 (Unaudited)	June 30, 2010
Accounts receivable	$ 9,260,960	$ 5,304,900
Allowance for bad debt	-	216
Accounts receivable, trade, net	$ 9,260,960	$ 5,304,684

For the three months ended September 30, 2010 and 2009, the Company did not write off any uncollectible receivables. As of September 30, 2010 and June 30, 2010, management recorded a reserve for allowance for doubtful accounts of $0 and $216, respectively.

Note 9 – Other receivables

Other receivables consisted of the following:

	September 30, 2010 (Unaudited)	June 30, 2010
Receivables related to notes payable	$ 11,676,600	$ -
Prepayment to be refund due to cancellation of contracts	1,629,579	209,166
Receivables from an unrelated company	156,896	154,381
Advances to employees	158,913	115,574
Other receivables	$ 13,621,988	$ 479,121

The Company obtained $11,976,000 notes payables from a bank during the three months ended September 30, 2010, of which notes amounted to $11,676,600 were held by the Company and not being delivered to the payee as of September 30, 2010.

The Company cancelled coal purchase agreements with two vendors, and as of September 30, 2010 and June 30, 2010, prepayment previously made to be refund amounted to $1,629,579 and $209,166, respectively.

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The Company advanced money to one vendor for business purpose without interest charge. Receivables from this vendor amounted to $156,896 and $154,381 at September 30, 2010 and June 30, 2010, respectively.

For the three months ended September 30, 2010 and 2009, the Company did not write off any uncollectible receivables. Management believes all other receivables were collectible as of September 30, 2010 and June 30, 2010.

Note 10 – Inventories

Inventories as of September 30, 2010 and June 30, 2010 consisted of the following:

	September 30, 2010 (Unaudited)	June 30, 2010
Raw materials	$ 226,396	$ 157,717
Work in process	449,842	587,886
Supplies	45,904	21,744
Finished goods	737,146	1,494,469
Total	$ 1,459,288	$ 2,261,816

Note 11 – Advances to suppliers

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

Advances to suppliers as of September 30, 2010 and June 30, 2010 amounted to $10,569,930 and $5,509,780, respectively.

Note 12 – Prepayments

Prepayment for land use right

Prepayments for land use right are monies advanced for land use rights to expand the new coking factory. As of September 30, 2010, prepayments for land use right amounted to $8,690,085. Prepayments were paid to the previous residents who lived in the place the new coking factory will be located. The prepayment is not refundable. The Company estimates that the total cost of obtaining land use rights will be $10,479,000 (RMB70,000,000). The land use right is expected to be acquired by June, 2011.

Prepayment for mine acquisitions

The Company was in the process of acquiring several coal mines with annual production scale equal or less than 150,000 to 300,000 metric tons. As of September 30, 2010, the Company had prepaid $11,996,730 to six potential acquisition targets, and no acquisition was complete as of September 30, 2010.

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Prepayment for construction of new operating plant

Prepayments for construction are mainly monies advanced to contractors or equipment suppliers related to the new operating plant that is expected to produce up to 900,000 metric tons of coke per year, coal gas-generated power, and other chemical refinery by-products.

In addition, the Company made prepayment of approximately $1.8 million during the year ended June 30, 2010 to improve Hongchang's existing mining tunnel. As of September 30, 2010, this project has not been started yet.

The total contract price amounted to approximately $32,680,000. Prepayments for construction, as of September 30, 2010 and June 30, 2010, amounted to $16,651,197 and $16,789,806, respectively.

Note 13 –Plant and equipment, net

Plant and equipment as of September 30, 2010 and June 30, 2010 consisted of the following:

	September 30, 2010 (unaudited)	June 30, 2010
Buildings and improvements	$ 10,238,928	$ 10,074,777
Mine development cost	10,817,370	10,643,945
Machinery and equipment	5,764,265	5,678,274
Other Equipment	537,189	482,716
Total	27,357,752	26,879,712
Less accumulated depreciation	(10,357,162)	(9,779,099)
Construction-in-progress	4,973,229	3,829,800
Total, net	$ 21,973,819	$ 20,930,413

Depreciation expense for the three months ended September 30, 2010 and 2009 amounted to $413,694 and $713,242, respectively.

Construction-in-progress ("CIP") at September 30, 2010 was related to the new coking factory. No depreciation is provided for CIP until such time the assets are completed and placed into service.

Project	Total in CIP as of 9/30/2010	Estimate cost to Complete	Estimated Total Cost	Estimated Completion Date
New coking factory	$ 4,973,229	$ 53,707,000	$ 58,680,000	June 2011

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Note 14 – Intangible – land use rights, net

Land use rights, net consisted of the following as of September 30, 2010 and June 30, 2010:

	September 30, 2010 (Unaudited)	June 30, 2010
Land use rights	$ 2,346,862	$ 2,309,237
Accumulated amortization	(440,037)	(416,945)
Total land use rights, net	$ 1,906,825	$ 1,892,292

Amortization expense for the three months ended September 30, 2010 and 2009 amounted to $16,102 and $15,961, respectively.

Amortization expense for the next five years and thereafter is as follows:

Year ended June 30,	Amortization Expense
2011	$ 48,305
2012	64,407
2013	64,407
2014	64,407
2015	64,407
thereafter	1,600,892
Total	$ 1,906,825

Note 15 – Intangible - mineral rights, net

Mineral rights, net, consisted of the followings as of September 30, 2010 and June 30, 2010.

	September 30, 2010 (unaudited)	June 30, 2010
Mineral rights	$ 13,388,014	$ 13,173,377
Accumulated depletion	(11,090,663)	(10,543,940)
Total, net	$ 2,297,351	$ 2,629,437

Depletion expense for the three months ended September 30, 2010 and 2009 amounted to $370,419 and $983,186, respectively. Depletion expenses were charged to cost of revenue in the period incurred using unit-of-production method.

Note 16 – Notes payable

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

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The bank required the Company to deposit 50% of the notes payable balance at the bank as a guarantee deposit which is classified on the balance sheet as restricted cash. In addition, notes payables were guaranteed either by the Company's Chief Executive Officer ("CEO"), Hongli or an unrelated company. The bank charged processing fees based on 0.05% of the face value of the note. Notes payable as of September 30, 2010 consisted of the following:

Issuing bank	Amount	From	To	Restricted cash	Other guarantee
Shanghai pudong development bank	$ 2,994,000	6/17/2010	12/18/2010	$ 1,497,000	Hongli and CEO
Rural credit union	4,491,000	7/2/2010	1/2/2011	2,245,500	An unrelated company
Rural credit union	4,491,000	7/22/2010	1/22/2011	2,245,500	An unrelated company
Rural credit union	4,491,000	8/18/2010	2/18/2011	2,245,500	An unrelated company
Rural credit union	2,994,000	8/27/2010	2/27/2011	2,245,500	An unrelated company
Total	$ 19,461,000			$ 10,479,000	

As of September 30, 2010 and June 30, 2010, notes payable amounted to $19,461,000 and $2,946,000, respectively, and the related restricted cash was $10,479,000 and $5,892,000, respectively.

Note 17 – Short-term loans

Short-term loans represent amounts due to various banks and individuals and are due either on demand or normally within one year. These loans generally can be renewed with the banks or the individual creditors.

Short-term loans - Bank

The Company had short-term bank loans amounted to $14,970,000 and $14,730,000 at September 30, 2010 and June 30, 2010, respectively.

On May 30, 2010, Hongyuan entered a one-year loan agreement with a local bank to borrow $14,970,000 (RMB100 million) with per annum interest rate of 4.301%, or 90% of the interest rate of the same-term bank loan announced by the People's Bank of China, which was 4.779% at the time of signing the loan agreement and September 30, 2010. This bank loan matures on May 30, 2011 and collateral was pledged by Top Favour (BVI) through a bank deposit with the same bank of $17,010,000 with an interest rate of 1.3%. The loan was also guaranteed by the Company's CEO Mr. Jianhua Lv.

In connection with this one-year bank loan, on May 15, 2010, the Company entered into a forward currency exchange contract with a local bank. Pursuant to the agreement, at the Company's option, the Company is able to exchange $20,000,000 into RMB with the exchange rate at $1 to RMB6.7 on October 31, 2010. As of September 30, 2010, and October 31, 2010, the Company did not execute such option.

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Weighted average interest rate was 4.89% and 8.36% for the three months ended September 30, 2010 and 2009, respectively. Total interest expense on short term loans for the three months ended September 30, 2010 and 2009 amounted to $223,225 and $96,724, of which $180,630 and $0 was capitalized into CIP, respectively.

Note 18 – Other payables and accrued liabilities

Other payables mainly consisted of customer deposits to be returned, and accrued liabilities mainly consisted of salary, utility, professional service, and other general and administrative expenses incurred.

Other payables and accrued liabilities consisted of the following as of September 30, 2010 and June 30, 2010:

	September 30, 2010 (unaudited)	June 30, 2010
Customer deposits to be returned	$ -	$ 823,241
Accrued liabilities	532,053	609,880
Total	$ 532,053	$ 1,433,121

Note 19 – Taxes

Income Tax

The PRC does not allow consolidation or group filing for corporate income tax purposes. Income and losses from members of the same consolidated group (for financial reporting purposes) are not allowed to offset one another. Therefore, total taxable income (loss) subject to actual PRC corporate tax within the consolidated group does not necessarily equal to the consolidated net income before income tax of the consolidated group. The PRC tax administration system does not necessarily retroactively recognize or allow accounting adjustments that are discovered and posted after the income tax returns are filed as additional taxable income or deductions for the tax year to which such post-filing accounting adjustments relate. The Company considers any US GAAP adjustments to its financial statements made after the statutory tax returns are filed to be permanent differences for the purpose of reconciling differences of income tax provision and actual PRC income tax liabilities.

SinoCoking is subject to the United States federal income tax provisions. Top Favour (BVI), however, is a tax-exempt company incorporated in the British Virgin Islands, and conducts all of its business through its subsidiaries and VIEs, Hongyuan, Hongli, Baofeng Coking, Hongchang Coal and Hongquang Power.

Hongyuan, Hongli, its division and subsidiaries Baofeng Coking, Hongchang Coal and Hongguang Power are subject to 25% enterprise income tax rate in China.

As approved by a local tax bureau, Hongchang Coal owed total income tax for the 12-month ended December 31, 2010 and 2009 of approximately $373,000 each calendar year, regardless the actual taxable income in that period.

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The estimated tax savings due to the reduced tax rate for the three months ended September 30, 2010 and 2009 amounted to $160,618 and $197,910, respectively. If the statutory income tax had been applied, the Company would have decreased basic and diluted earnings per share from $0.74 to $0.73 and from $0.73 to $0.72 for the three months ended September 30, 2010, respectively, and decreased basic and diluted earnings per share from $0.50 to $0.48 for the three months ended September 30, 2009.

The provision for income taxes consisted of the following for the three months ended September 30, 2010 and 2009:

	For the three months ended September 30,	
	2010 (unaudited)	2009 (unaudited)
US current income tax expense	$ -	$ -
BVI current income tax expense	-	-
PRC current income tax expense	948,768	1,988,990
Total provision for income taxes	$ 948,768	$ 1,988,990

The following table reconciles the statutory rates to the Company's effective tax rate for the three months ended September 30, 2010 and 2009:

	2010 (unaudited)	2009
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	(3.6)%	(2.3)%
Other item (1)	(15.6)%	0.6%
Effective rate	5.8%	23.3%

(1) The (15.6%) for the three months ended September 30, 2010 mainly represents gain on change in fair value of warrants of $12,919,675 incurred by SinoCoking was not subject to the income tax. 0.6% for the three months ended September 30, 2009 represents operating losses incurred by Hongguang and Hongchang. Management believes the losses may not be recovered through future operations.

SinoCoking is incorporated in the U.S. and has incurred a net operating loss for income tax purposes for 2010. As of September 30, 2010, the estimated net operating loss carryforwards for U.S. income tax purposes was approximately $1,280,000 which may be available to reduce future years' taxable income. These carryforwards will expire, if not utilized, beginning in 2010 and continue through 2030. 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 September 30, 2010. The valuation allowance at September 30, 2010 was approximately $435,000. The Company's management reviews this valuation allowance periodically and makes adjustments as necessary.

The Company has cumulative undistributed earnings of foreign subsidiaries of approximately $19.4 million as of September 30, 2010, 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.

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Value Added Tax

The Company incurred VAT on sales and VAT on purchases in the PRC amounting to $2,659,646 and $1,416,319 for the three months ended September 30, 2010, and $3,316,347 and $1,677,978 for the three months ended September 30, 2009, respectively.

Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

Taxes Payable

Taxes payable as of September 30, 2010 and June 30, 2010 consisted of the following:

	September 30, 2010 (unaudited)	June 30, 2010
VAT	$ 530,866	$ 59,848
Income tax	1,119,559	723,966
Others	513,672	445,205
Total taxes payable	$ 2,164,097	$ 1,229,019

Note 20 – Private placement equity financing

Simultaneously with the reverse acquisition, on February 5, 2010, immediately following the 1-for-20 reverse stock split and share exchange, the Company executed a private placement financing in which it sold and issued 1,180,892 units for the aggregated proceeds of $7,085,352, at a purchase price of $6.00 per unit, to 34 non-U.S. investors. Each unit consists of one share of common stock and a warrant (“Investor warrants”) for the purchase of 0.5 shares of common stock with an exercise price of $12.00 per whole share. The Investor warrants are exercisable for a period of five years from the date of issuance.

On March 11, 2010, the Company conducted a subsequent closing of its private placement financing in which it sold and issued 6,164,043 of its units at a purchase price of $6.00 per unit, to both U.S. and non-U.S. investors. The gross proceeds from this subsequent closing of the private placement was approximately $37 million, each unit consists of one share of common stock and a warrant (“Callable investor warrants”) for the purchase of 0.5 shares of common stock with an exercise price of $12.00 per share. The Callable investor 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 treads at a price equal to at least 150% of the exercise price (or $18.00 per share) 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.

In connection with the foregoing, the Company entered into a registration rights agreement with the U.S. investors under with the Company agreed to file a registration statement to register both the shares of common stock, and the common stock underlying the warrants, that were issued to the U.S. investors in the financing, within 60 days after the closing date of March 11, 2010. The Company agreed to use its best efforts to have this registration statement declared

effective by the Commission within 120 days, subject to certain exceptions. The Company also agreed to undertake commercially reasonable efforts to register the shares of common stock and warrants issued to the non-U.S. investors in the initial closing on February 5, 2010, was well as the securities issued to non-U.S. investors on March 11, 2010. The registration statement was filed with SEC on May 11, 2010 and was declared effective by the SEC on September 13, 2010.

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Madison Williams & Company, LLC and Rodman & Renshaw, LLC, acted as joint placement agents in connection with the March 11, 2010 equity financing. Under an agreement with the placement agents, the Company agreed to pay the placement agents a cash fee equal to 7% of the aggregate gross proceeds from the sales of securities to the U.S. accredited investors, plus reimbursement of fees and expenses, and reasonable fees and expenses of placement agent legal counsel. In addition, the Company agreed to issue warrants (“Callable agent warrants”) for the purchase of up to 250,000 shares of common stock, with an exercise price of $6.00 per share. In addition, the Company issued $117,163 callable warrants to Madison Williams & Company on March 18, 2010, with an exercise price of $12.00 per share, in connection with the second closing of the financing on March 11, 2010. Warrants issued to placement agents contain terms and provisions otherwise similar to the terms provided under the Callable investor warrants described above. The Company used the Cox-Ross-Rubinstein binomial model to value the warrants issued, which amounted to $9,751,886. In addition, the placement agents received cash payment of $2,188,391. $3,524,206 of total payments made to the placement agents was capitalized, and $8,491,067 was charged to retained earnings.

The following table summarizes the securities issued and expenses incurred in connection with this equity financing.

	# of shares of underlying common stock	Value
Investor warrants@$12.00 per share	590,446	$ 11,898,728
Callable investor warrants@$12.00 per share	3,082,027	72,324,038
Total warrants to investors	3,672,473	84,222,766
Gross cash proceeds from equity financing $44,069,610		
Gross cash proceeds allocated to warrants		(44,069,610)
Exceeded amount charged to current period expense		$ 40,153,156
Common stock issued to investors	7,344,935	$ -
Callable agent warrants @$6.00 per share	250,000	$ 6,791,519
Callable agent warrants @$12.00 per share	117,163	2,960,363
7% cash fee paid to placement agents		2,188,391
Legal fee in connection with Equity financing		75,000
Total issuance costs		12,015,273
Less beginning balance in paid in capital		(3,524,206)
Remaining amount of issuance costs charged to retained earnings		$ 8,491,067

Note 21 – Capital transactions

Stock split

On February 5, 2010, the Company effected a 1-for-20 reverse splits of its outstanding common shares. All references to share and per-share data for all periods presented in the consolidated financial statements have been adjusted to give effect to the 1-for-20 common share reverse split.

Issuance of capital stock

Immediately before the closing reverse acquisition disclosed in Note 3, the Company had 405,710 shares of outstanding common stock on February 5, 2010.

In connection with the reverse acquisition, on February 5, 2010, the Company issued 13,117,952 shares of the Company's common stock.

In connection with the private placement equity financing disclosed in Note 20, the Company issued 1,180,892 and 6,164,043 shares of the Company's common stock to investors at the first closing date February 5, 2010, and the second closing date of March, 11, 2010, respectively.

The Company issued 2,593 round-up shares of common stock in connection with the reverse acquisition and private placement equity financing.

Options

2002 Stock Option Plan for Directors

In 2002, the 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 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 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 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 a 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.

On February 5, 2010, the completion date of the reverse acquisition disclosed in Note 3, there were options exercisable for 11,124 shares of the Company's common stock outstanding.

Under the Directors Plan, there were 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 exercise price of $36.00 per share and on 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 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 exercise price of $96.00 per share and expire on November 14, 2014. Options exercisable for 273 shares of the Company's common stock were granted on May 2, 2003, with an exercise price of $60.00 per share and expired on May 2, 2010.

Those outstanding options were fully vested before the reserve acquisition was completed on February 5, 2010, and through September 30, 2010 no additional options have been granted.

The following consisted of the outstanding and exercisable options at September 30, 2010:

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	3.77 years	$ 86.00	10,851	3.77 years	$ 86.00

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

	Options
Outstanding, June 30, 2009	-
Granted	11,124
Forfeited	273
Exercised	-
Outstanding, June 30, 2010	10,851
Granted	-
Forfeited	-
Exercised	-
Outstanding, September 30, 2010 (unaudited)	10,851

Warrants

In connection with the equity financing disclosed in Note 20, 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 underlying 50,000 shares of the Company's common stock to exchange for consulting service. Warrants expire on July 1, 2015 with exercise price of $20.00. The fair value of the those warrants was $325,285, and was charged to general and administrative expense for the three months ended September 30, 2010

The Company adopted the provisions of an accounting standard regarding instrument 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 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, the Existing warrants previously treated as equity pursuant to the derivative treatment exemption are no longer afforded equity treatment because the strike price of the warrants is denominated in US dollar, a currency other than the Company's functional currency RMB. Therefore the 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 time as the warrants are exercised or expire. The Company reclassified the fair value of the Existing warrants of $631,002 from equity to liability status as if these warrants were treated as a derivative liability at February 5, 2010. All of the Company's other warrants that are exercisable into 4,089,636 shares of the Company's common stock were also recorded as derivative instruments on the corresponding issuance dates.

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The value of warrant liabilities was $17,841,697 and $30,436,087 at September 30, 2010 and June 30, 2010, respectively. The decrease of fair value of warrants was $12,594,390, of which $12,919,675 was recorded as gain on change in fair value of warrants, and $325,285 was the fair value of the 50,000 warrants at the issuance date of July 1, 2010 which was charged to the general and administrative expense.

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

	Existing warrants @$48.00 (1)	Investor warrants @12.00 (2)	Callable warrants @$12.00 (3)(6)	Callable warrants @6.00 (4)(6)	Callable warrants@20.00 (5)(6)	Total
Outstanding, June 30, 2009	-	-		-	-	-
Granted	36,973	590,446	3,199,190	250,000	-	4,076,609
Forfeited	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding, June 30, 2010	36,973	590,446	3,199,190	250,000	-	4,076,609
Granted					50,000	50,000
Forfeited						
Exercised						
Outstanding, September 30, 2010 (unaudited)	36,973	590,446	3,199,190	250,000	50,000	4,126,609

(1) The warrants underlying 36,973 shares of the Company's common stock are exercisable at any time until April 9, 2017 and with remaining contractual term of 6.53 years as of September 30, 2010.

(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 4.36 years as of September 30, 2010.

(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 4.45 and 4.47 years as of September 30, 2010, respectively.

(4) The warrants underlying 250,000 shares of the Company's common stock are exercisable until March 11, 2015, with remaining contractual term of 4.45 years as of September 30, 2010.

(5) The warrants underlying 50,000 shares of the Company's common stock are exercisable until July 1, 2015, with remaining contractual terms of 4.75 years as of

September 30, 2010

(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 treads 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.

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Note 22 – Earnings per Share

The following is a reconciliation of the basic and diluted earnings per share computation for the three months ended September 30, 2010 and 2009:

		2010		2009
Net income for earnings per share	$	15,481,998	$	6,547,377
Weighted average shares used in basic computation		20,871,192		13,117,952
Diluted effect of warrants		417,768		-
Weighted average shares used in diluted computation		21,288,960		13,117,952
Earnings per share - Basic	$	0.74	$	0.50
Earnings per share – Diluted	$	0.73	$	0.50

As of September 30, 2010, the Company had warrants and option exercisable in aggregate of 4,137,460 of the Company's common stock. For the three months ended September 30, 2010, all outstanding options were excluded from the diluted earnings per share calculation due to the anti-dilution feature while warrants underlying 4,039,636 shares of the Company's common stock were included in the diluted earnings per share calculation using treasury method. The Company had no warrants and options outstanding on September 30, 2009, and therefore no diluted effect on the earnings per share calculation for the three months ended September 30, 2009.

Note 23- Coal mine acquisition

On August 10, 2010, Hongli entered two equity purchase agreements to acquire 60% of equity interests of Baofeng Shuangrui Coal Co., Ltd., which operates Shuangrui Coal Mine, and Baofeng Xingsheng Coal Co., Ltd., which operates Xingsheng Coal Mine, for total consideration of approximately $12.6 million (RMB84million). The coal mines, located in Baofeng County, Henan Province, are similar in size, each with 2 million metric tons of estimated coal reserves. Each mining company's annual coal production is currently 150,000 metric tons.

Pursuant to the Agreements, Hongli will pay the owners of each mining company an aggregate purchase price of $6.2 million (RMB42million) in cash

The purchase will be made under the following schedule for each mining company:

1) $1.80 million (RMB12 million) within 30 business days from August 10, 2010;
2) $0.7 million (RMB5million) within 20 business days from the completion of the transfer of equity interests to Hongli;
3) $0.7 million(RMB5million) within six months from the completion of the transfer of equity interests to Hongli;

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4) The remaining balance within one year from the completion of the transfer of equity interests to Hongli;
5) If total annual output is less than 150,000 metric tons, Hongli is entitled to an additional 10% of equity interests; and
6) If coal reserves are less than 2 million metric tons, Hongli is entitled to an additional 10% of equity interests.

As of September 30, 2010, the company has prepaid refundable deposit of $5.99 million (RMB40 million) relating to those two acquisitions to examine the financial information, licenses, and reserve data and as of September 30, 2010, those two coal mine acquisition had not been completed.

Note 24 – Commitments and contingencies

Lease agreement:

The Company entered into a lease agreement to lease 3 office units in Beijing from June 15, 2010 to June 14, 2013 with monthly lease payment of $21,524 (RMB145,529) and monthly management fee of $3,798 (RMB25,681).

As of September 30, 2010, total future minimum lease payments for the unpaid portion under an operating lease were as follows:

Year ended June 30,	Amount
2011	$ 303,864
2012	303,864
2013	151,932
Total	$ 759,659

Purchase Commitment

The Company entered into several contracts with contractors and suppliers for the construction of the new coking facility and purchasing equipment. As of September 30, 2010, the total contract amount was approximately $32,680,000. The Company had make payments for approximately of $21,114,300, and the remaining $11,537,000 will be paid based on the construction progress.

Increase of registered capital in Hongli

In order for Hongli, the Company's VIE, to retain its coal trading license, the local government required Hongli to increase its registered capital. To facilitate the retention of its coal trading license, the shareholders of Hongli satisfied the required payments for Hongli's increased registered capital of $2,946,000 (RMB 20,000,000) effectively on August 26, 2010. Hongli is in the process of registering the capital with the appropriate legal authority. The shareholders of Hongli and Top Favour (BVI), through Hongyuan, are also in the process of amending the Contractual Arrangements in relation to the increased registered capital, voting control, and the right and option to acquire the additional equity interests in the Operating Companies.

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Note 25 – 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.

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC Company Law, to the statutory surplus reserve fund until such reserve balance reaches 50% of the Company'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 September 30, 2010, the Company's VIE Hongli and Hongchang's statutory surplus reserves both had reached 50% of each entity's registered capital and Hongguang did not make any contribution to the statutory reserve resulting from their net operating losses.

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.

The component of statutory reserves and the future contributions required pursuant to PRC Company Law are as follows as of September 30, 2010 and June 30, 2010:

	September 30, 2010 (unaudited)	June 30, 2010	50% of registered capital	Future contributions required as of September 30, 2010
Hongli	$ 548,204	$ 548,204	$ 548,204	$ -
Hongguang	-	-	1,514,590	1,514,590
Hongchang	218,361	218,361	218,361	-
Hongyuan	-	-	1,500,000	1,500,000
Statutory surplus reserve	766,565	766,565	3,781,155	3,014,590
Mine reproduction reserve	1,139,520	1,070,830	-	-
Total statutory reserve	$ 1,906,085	$ 1,837,395	$ 3,781,155	$ 3,014,590

Note 27 – Related party transactions

Other receivables from related parties at September 30, 2010 and June 30, 2010 amounted to $0 and $477,052, respectively. Balance at June 30, 2010 represented advanced funds of $418,410 to Mr. Hui Zheng, the Director and Vice President of Operation, for him to perform business and acquisition developments activities on behalf the Company and the over repayment of $58,642 to Mr. Liuchang Yang, Director and Vice President of the Company.

The Company received funds from Mr. Jianhua Lv, a majority shareholder, President and CEO of the Company. Payables to Mr. Lv amounted to $298,599 and $51,381 at September 30, 2010 and June 30, 2010, respectively. Those payables were interest free, due on demand and will be settled by cash payment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of our operations and financial condition for the three months ended September 30, 2010 and 2009, should be read in conjunction with 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

SinoCoking Coal and Coke Chemical Industries, Inc. (the "Company") is a vertically integrated coal and coke producer based in Henan Province, People's Republic of China ("PRC" or "China"). We use coal from both of our own mines and that of third-party mines to produce basic and value-added coal products such as thermal coal, washed metallurgical coal, and chemical and metallurgical coke for steel manufacturers, power generators, and various industrial users. We also produce and sell coal, including raw (unprocessed) and washed coal (which is coal that has been prepared for coking or thermal uses), medium coal and coal slurries (by-products of the coal-washing process), and coal tar (a by-product of the coke manufacturing process).

We are engaged in the coal energy business through our wholly owned subsidiary Top Favour Limited, a corporation incorporated under the laws of the British Virgin Islands ("Top Favour"), which is a holding company that, through its wholly owned subsidiary Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. ("Hongyuan"), controls Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. ("Hongli"), a coal and coal-coke producer in Henan Province in the central region of the PRC. Hongli produces coke, coal, coal byproducts and electricity through its branch operation, Baofeng Coking Factory, and its wholly owned subsidiaries, Baofeng Hongchang Coal Co., Ltd. and Baofeng Hongguang Environment Protection Electricity Generating Co., Ltd., which we refer to collectively as the "Baofeng Subsidiaries." We refer to Hongli and Baofeng Subsidiaries collectively as "Hongli Group." Top Favour controls Hongli Group through contractual arrangements with Hongli Group and its owners. These contractual arrangements provide for management and control rights, and in addition entitle Top Favour to receive the earnings and control the assets of Hongli Group. Other than the interests in these contractual arrangements, neither Top Favour nor Hongyuan has any equity interests in Hongli Group. We refer to Top Favour, Hongyuan and Hongli Group collectively as "SinoCoking."

On July 17, 2009, the Company entered into a Share Exchange Agreement with Top Favour, subsequently amended in November 2009, under which it agreed to acquire 100% of the issued and outstanding shares of capital stock of Top

Favour, and in exchange, the Company agreed to issue up to approximately 13.2 million shares of common stock to the former shareholders of Top Favour. The reverse takeover under the Share Exchange Agreement was accounted for as reverse acquisition. The legal acquiror was the Company and the accounting acquiror was Top Favour. The remaining assets and liabilities outstanding of the Company prior to the reverse takeover were disposed of prior to the closing. The financial statements of the combined company are in substance, the financial statements of Top Favour.

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 under the section above titled "Financial Statements," we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating this management discussion and analysis:

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; valuation allowances for deferred income taxes; reserves for contingencies and litigation and the fair value and accounting treatment of certain financial instruments. 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. In addition, different assumptions or conditions could reasonably be expected to yield different results.

Estimate of recoverable coal reserves. SinoCoking capitalizes its mineral rights 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 recoverable coal. The Hongchang Mine was acquired in 2005 for a book value of $13,102,000 with estimated total recoverable coal of 1,215,000 metric tons ($10.78 per metric ton). If the estimated recoverable coal reserves were to increase or decrease, future depletion expense would decrease or increase accordingly.

Estimate of asset impairment. The Company evaluates long lived tangible and intangible assets for impairment, at least annually, but more often 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 Financial Accounting Standard Board's (FASB's) accounting guidance regarding "Disposal of Long-Lived Assets." Recoverability is measured by comparing the asset's net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, and market trends. If the net book 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. Based on its review, the Company believes that, as of September 30, 2010, there was no impairment of long lived assets.

Estimate of valuation allowances for deferred income taxes. Effective January 1, 2007, the Company adopted FASB's accounting standard which indicates a 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 has a greater than 50% likelihood of being realized on

examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. SinoCoking is incorporated in the United States and has incurred a net operating loss for as of September 30, 2010, which may be available to reduce future years' taxable income. 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 September 30, 2010 and June 30, 2010. The Company's management reviews this valuation allowance periodically and makes adjustments as necessary.

Estimate of reserves for contingencies and litigation. From time to time, the Company is involved in legal matters arising in the ordinary course of business. Management currently is not aware of any legal matters or pending litigation that would have a significant effect on the Company's consolidated financial statements as of September 30, 2010.

Estimate of the fair value and accounting treatment of certain financial instruments. The Company uses the FASB's accounting standard 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 and significant to the fair value.

The Company's warrants are not traded in an active securities market; therefore the Company estimates the fair value of those warrants using the Cox-Ross-Rubinstein binomial model on the issuance dates and September 30, 2010 using the Level 3 valuation hierarchy.

Due to the short trading history of the Company's stock, expected volatility is based primarily on other similar public companies' historical volatilities, which are traded on United States stock markets. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the warrants. The Company believes this method produces an estimate that is representative of the Company's expectations of future volatility over the expected term of these warrants. The Company currently has no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the warrants.

Revenue Recognition

The Company recognizes revenue from the sale of coal and coke, its 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 of the Company exist and collectability is reasonably assured. This generally occurs when coal is loaded onto trains or trucks at one of the Company's 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.

Hongguan Power, subsidiary of Hongli, generates electricity which is mostly used internally by Baofeng Coking. The accounting effect of this activity is that the Company includes the cost of production of electricity in its overall operating costs. Any surplus electricity generated by Hongguang Power is required by local regulation to be supplied and sold to the national power grid. The value of the surplus electricity would be calculated based on actual kilowatt-hours produced and transmitted and at a fixed rate determined under contract.

Accounts Receivables

During the normal course of business, the Company extends short-term unsecured credit to its customers, however, collection normally occurs within 90 days. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off. The Company regularly reviews the creditworthiness 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.

In the past two fiscal years, based on management's judgment regarding collectability, and based on its judgment no reserve for uncollectable accounts has been made. If the composition and nature of SinoCoking's customer base were to significantly change, if the Company began to extend longer term credit to its customers, if conditions became apparent that prompt management to question the collectability of accounts receivable, or any combination of these or

other similar factors arise, then this could oblige management to establish a reserve for uncollectible accounts, which would have an adverse effect of the value of reported accounts receivable.

Intangible - Mineral Rights

SinoCoking capitalizes its mineral rights 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 recoverable coal.

Mining and mine assets are a significant portion of SinoCoking's business, and SinoCoking's use of the "units-of-production" method of amortization has important effects on how its mining activities and assets are reported. Under this method, the tonnage of actual coal extracted, as a percentage of estimated recoverable coal, is used to calculate depletion expense for a given period. The remainder of estimated recoverable coal in the ground is reported as an intangible asset on the Company's balance sheet, also based on the percentage of estimated recoverable coal that remains in the ground. See also our discussion of estimates of recoverable coal above in "Use of Estimates."

The Hongchang Mine was acquired for, and has a book value of $13,102,000, and an estimated total recoverable coal of 1,215,000 metric tons. For the three months ended September 30, 2010, the Company extracted a total of 31,645 metric tons of coal from the Hongchang Mine, which is 2.6 % of the total estimated recoverable coal. The Company recorded a depletion expense of $370,419 in this period.

Recently Issued Accounting Phronouncements

In January 2010, FASB issued ASU No. 2010-01– Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this ASU did not have impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51." If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and

settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2010, FASB issued ASU No. 2010-9 –Amendments to Certain Recognition and Disclosure Requirements. This update addresses certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures, removes the requirement that public companies disclose the date of their financial statements in both issued and revised financial statements. According to the FASB, the revised statements include those that have been changed to correct an error or conform to a retrospective application of U.S. GAAP. The amendment is effective for interim and annual reporting periods in fiscal year ending after June 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In March 2010, FASB issued ASU No. 2010-10 –Amendments for Certain Investment Funds. This update defers the effective date of the amendments to the consolidation requirements made by FASB Statement 167 to a reporting entity's interest in certain types of entities. The deferral will mainly impact the evaluation of reporting enterprises' interests in mutual funds, private equity funds, hedge funds, real estate investment entities that measure their investment at fair value, real estate investment trusts, and venture capital funds. The ASU also clarifies guidance in Statement 167 that addresses whether fee arrangements represent a variable interest for all service providers and decision makers. The ASU is effective for interim and annual reporting periods in fiscal year beginning after November 15, 2009. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In March 2010, FASB issued ASU No. 2010-11 –Scope Exception Related to Embedded Credit Derivatives. Embedded credit-derivative features related only to the transfer of credit risk in the form of subordination of one financial instrument to another are not subject to potential bifurcation and separate accounting as clarified by recently issued FASB guidance. Other embedded credit-derivative features are required to be analyzed to determine whether they must be accounted for separately. This update provides guidance on whether embedded credit-derivative features in financial instruments issued by structures such as collateralized debt obligations (CDOs) and synthetic CDOs are subject to bifurcation and separate accounting. The guidance is effective at the beginning of a company's first fiscal quarter beginning after June 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-13, "Compensation—Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades," or ASU 2010-13. ASU 2010-13 provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial porting of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update 2010-20 which amends "Receivables" (Topic 310). ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. While ASU 2010-20 will not have a material impact on our consolidated financial statements, we expect that it will expand our disclosures related to Loans receivable.

Results of Operations

	For the three months ended September 30,	
	2010	2009
REVENUE	$ 13,008,462	$ 18,129,461
COST OF REVENUE	8,364,109	9,069,065
GROSS PROFIT	4,644,353	9,060,396

OPERATING EXPENSES		(1,019,614)		(427,116)
OTHER INCOME (EXPENSE), NET		12,806,027		(96,913)
INCOME BEFORE INCOME TAXES		16,430,766		8,536,367
PROVISION FOR INCOME TAXES		(948,768)		(1,988,990)
NET INCOME		15,481,998		6,547,377
EARNINGS PER SHARE				
Basic	$	0.74	$	0.50
Diluted	$	0.73	$	0.50

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General. In the first quarter of fiscal 2011, when the market demand for coke began increasing, the Company increased its coke production and sales, therefore, positively affected both the Company's revenue, gross profit. However, because of the limited coal supply in the local area in Henan province due to the consolidation and mines moratorium, the Company's sales of coal products dramatically decreased, compared with same period ended September 30, 2009, and resulted in the decrease of the total revenue, and gross profit, In the first quarter of the fiscal year 2011, 70.15% of the revenue was from coke products and 29.85% was from its coal products, compared with the 33.0% and 67.0% from its coke and coal products, respectively, for the three month period ended September 30, 2009.

In late June 2010, Henan Province authorities and related government bureaus conducted industry-wide coal mine safety inspections as a part of the government's efforts to reduce mining accidents and improve safety before mine consolidations are finalized. The Baofeng Mines operations were temporarily halted and remain closed. The mines will be reopened upon completion of the government directed consolidation, and inspections thereafter. Generally, raw coal extracted from the Company's own mines has lower cost per metric ton compared to raw coal purchased on the open market from third party suppliers. The government's mine consolidation program in Henan province has had a negative impact on the total local production of the coal, and thus the raw coal and washed coal prices increased, which, in turn, caused the Company's average cost of production to increase accordingly in the three months period ended September 30, 2010. Management does not immediately anticipate any additional safety inspections or pending stoppages of mining activities by the government after the mine consolidations are completed in Henan province. However, it has no means of predicting the timing, frequency or duration of safety inspections, or whether additional inspections will be conducted in the near or long term future, except that mine safety and design inspections are generally required as a routine part of the mine consolidation process, when additional mining properties are acquired.

On a macro level, management has observed the following trends, which may have a direct impact on the Company's operations in the near future: (1) the consolidation process in Henan province affected the total supply of the metallurgical coal supply in the region, and therefore affected the prices of coal products to increase; (2) government-initiated policies to consolidate the coking industry are expected to accelerate, hastening the closure of small-sized and less-efficient coking facilities in China, and (3) the central government has continued to pursue policies to provide economic stimulus as necessary in order to maintain momentum and growth in domestic consumption. Management believes these factors have been working to restore demand levels of all coal related product, especially for coke, in the long term.

Revenues. SinoCoking's revenues decreased by $5,120,999 or 28.25%, in three months period ended September 30, 2010, with total revenues of $13,008,462 as compared to the same period ended September 30, 2009 with total revenues of $18,129,461.

The fluctuation was caused primarily by a sharp decrease of the revenue from the coal products selling by 68.04%, or $8,267,580, partially offset by an increase of coke selling in the amount of $3,146,581, or 52.63%. Starting from the second quarter of fiscal 2010, the Henan province government started its consolidating process for all local coal mines with the annual production capacity within the range between 150,000 metric tons and 300,000 metric tons, in order to increase the efficiency of the coal mining, as well as decrease the risks of future mining accidents. Within the period of consolidation, all mines falling into the range between the 150,000 and 300,000 production capacity per annum are forced to temporarily stop operation. Such moratorium resulted in a decrease in the available coal supply in the market and prices for coal increased accordingly. The Company's Hongchang mine operation was affected accordingly. In order to keep the safety stock of raw material, the Company reduced its raw coal and washed coal selling. On the contrary, in the three months period ended September 30, 2009, the Company increased its coal products selling, due to the weak demand in the market for the coke. The two opposite strategies performed in two periods resulted in the decrease of coal products selling. In the three months period ended September 30, 2010, the demand and the price of the coke product increased, and this trend resulted in the revenue increase of the coke products by 52.63%, or $3,146,581.

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SinoCoking's revenues for the three months period ended September 30, 2010 and 2009, respectively, categorized by product type (coke products and coal products), were as follows:

	Revenues		
	Coke Products (1)	Coal Products (2)	Total
Revenues			
Three Months Ended September 30, 2009	$ 5,978,403	$ 12,151,058	$ 18,129,461
Three Months Ended September 30, 2010	9,124,984	3,883,478	13,008,462
Increase (decrease) in US$	$ 3,146,581	$ (8,267,580)	$ (5,120,999)
% Increase (decrease) in US$	52.63%	-68.04%	-28.25%
Quantity Sold (metric tons)			
Three Months Ended September 30, 2009	29,908	134,297	164,205
Three Months Ended September 30, 2010	40,322	52,856	93,178
Increase (decrease)	10,414	(81,441)	(71,027)
% Increase (decrease)	34.82%	-60.64%	-43.25%

(1) Coke products include finished coke, a key raw material for producing steel, and coal tar, a byproduct of the coke manufacturing process which can be used for various industrial applications.

(2) Coal products include washed and raw coal, which is used by customers primarily for electricity generation and heating applications. As used in this discussion and analysis, the "raw coal" category includes both thermal and metallurgical coal that is unwashed and relatively unprocessed, in addition to coal washing byproducts such as coal slurry.

Average sale prices for the Company's four principal products for the three months ended September 30, 2010 and 2009, were as follows,

Average Sale Prices	Coke	Coal Tar	Raw Coal	Washed Coal
Three Months Ended September 30, 2009	$ 204	$ 190	$ 68	$ 128
Three Months Ended September 30, 2010	226	238	60	151
Increase (decrease) in US$	$ 22	$ 48	$ -8	$ 23
% Increase (decrease) in US$	10.78%	25.26%	-11.7%	17.96%

Average sale prices are driven by a number of factors, including the particular composition and grade or quality of the coal or coke sold by the Company, prevailing market prices for these products in the Chinese local and national market, prevailing market prices in the global marketplace, timing of sales, delivery terms, purchase order negotiations between the Company and its customers, and relationships with those customers. Management believes that the changes in average selling prices in the three months ended September 30, 2010, compared with the same period ended September 30, 2009, were primarily driven by external market forces, changes in coal product composition, and the timing of sales by the Company.

Management generally sells coal inventory and sells the Company's 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 the weight of the unprocessed coal, coal by products from coal washing process, and mixed thermal coal. Since the raw coal market price was correspondingly stable, the change of the price in raw coal category reflects the weight changes among the different coal product other than washed coal. Management notes that average selling prices for coal products are also influenced by changes in the mixtures of coals (with different grades and heat content) that is sold to customers. As noted below in this discussion, SinoCoking changed the composition of the coal mixtures for its coal products sold in the three month periods ended September 30, 2010, specifically, due to relatively strong demand for thermal coal, which enabled the Company to sell coal mixtures of lower thermal grade without major reductions in price per metric ton.

Coke product revenues for the three months ended September 30, 2010 and 2009 were as follows:

	Coke Products		
	Coke	Coal Tar	Total
Revenues			
Three Months Ended September 30, 2009	$ 5,717,599	$ 260,804	$ 5,978,403
Three Months Ended September 30, 2010	8,709,145	415,838	9,124,984
Increase in US$	2,991,546	155,034	3,146,581
% Increase in US$	52.32%	59.44%	52.63%
Quantity Sold (metric tons)			
Three Months Ended September 30, 2009	28,511	1,397	29,908
Three Months Ended September 30, 2010	38,577	1,745	40,322
Increase	10,066	348	10,414
% Increase	35.31%	24.91%	34.82%

In the three months period ended September 30, 2010, the Company's revenue from the sales of coke products increased by $2,991,546, or 52.32%, as compared to the same period ended September 30, 2009. The increase for the period in 2010 was mainly due to the increasing demand of the coke, as well as the increasing price of such commodity. Starting from late July 2010, the Chinese coke market started to recover, due to the tight material supply and increasing coal price; therefore the company sold most of its coke stock. This trend is expected to continue, the management started increasing its coke production, and keeping certain coke stock, and expects obtaining more margins in the winter time with higher coke price.

The coal tar revenue was also increased by 59.44% in the three months ended September 30, 2010, or $155,034, as compared to $260,804 for same period in 2009. This increase was primarily driven by an increase in the unit sales price of coal tar, from $190 in the three months ended September 30, 2009 to $238 in the three months ended September 30, 2010. The increase in unit sales price was mainly due to an increase in the quality of coal tar sold, and prices for fossil-fuel-related products also generally rebounded in the period. What is more, the company also increased its coal tar sales volume in the three month period ended September 30, 2010, by 24.91%, and it positive affected the increase of the coal tar revenue as well.

Coal product revenues for the three months end September 30, 2010 and 2009 were as follows:

	Coal Products		
	Raw Coal	Washed Coal	Total
Revenues			
Three Months Ended September 30, 2009	$ 5,122,129	$ 7,028,929	$ 12,151,058
Three Months Ended September 30, 2010	2,663,592	1,219,886	3,883,478
Decrease in US$	$ (2,458,537)	$ (5,809,043)	$ (8,267,580)
% decrease in US$	-48.00%	-82.64%	-68.04%
Quantity Sold (metric tons)			
Three Months Ended September 30, 2009	78,700	55,596	134,296
Three Months Ended September 30, 2010	44,751	8,105	52,856
Decrease	(33,949)	(47,491)	(81,440)
% Decrease	-43.14%	-85.42%	-60.64%

SinoCoking dramatically decreased its sales volume of the coal products by 68.04% in the three months period ended September 30, 2010, compared with the same period in 2009, and this leaded to the dramatic coal products revenue decrease, in spite of the increase of the price of coal products. During the period ended September 30, 2010, raw coal and washed coal market prices trend upward, due to lack of coal products supply in the market with the reason of the small scale mines moratorium under the policies of consolidation in Henan province, as well as the pending winter consumption peak of the coal. Management viewed this period in 2009 as a favorable environment for coal trading, increased its coal products selling, and achieved $5,122,129 raw coal product revenue and $7,028,929 washed coal revenue. However, in the three month period ended September 30, 2010, the company could not source enough coal material to support its coal trading business, due to the reason that the whole local market is under tight supply of coal product; therefore the sales volume decreased by 43.14% for raw coal and 85.42% for washed coal, down to the level of 44,751 metric tons of raw coal selling and 8,105 metric tons of washed coal selling, despite the strong demand in the market.

Cost of Revenue. Cost of revenue decreased from $9,069,065 to $8,364,109 for the first quarter of fiscal 2011 ended September 30, 2010, as compared to the same period of fiscal 2010. The decrease in cost of revenue was primarily a result of a sharp decrease of cost of coal products sold, due to the fact of the dramatic decrease of the coal products selling, moderately offset by the increase of cost of coke product sold. The increase of the cost of coke product sold was based on two facts: (a) sales volume increase increased the total cost of coke sold; (b). unit cost of coke sold increased from $90, to the level of $153, due to the reason that the company's own mining section stopped delivering the coal, and purchase price of raw coal in the open market increased.

Gross Profit. Gross profit decreased by $4,416,043 or 48.74%, to $4,644,353 in the three month period ended September 30, 2010 from $9,060,396 in the same period in fiscal year 2010. The main reason for the decrease of the gross profit was the decrease of our coal products revenue, and the increase of the unit cost coke sold. Gross profit margin decreased from 50.0% for the three months ended September 30, 2009 to 35.70% for the three months ended September 30, 2010. This decrease is mainly because the Company purchased more coals from the external suppliers with higher costs to produce coke products and clean coal products during the first quarter of fiscal year 2011, resulting in the GP% of coke product decreased from 55.7% to 32.8%, and the GP% of washed coal product decreased from 51.6% to 38.2% from the three months ended September 30, 2009 to the same period ended September 30, 2010, respectively.

Operating Expenses. Operating expenses, which consisted of selling expenses and general and administrative expenses, increased by $592,498, or 138.72% in three month period ended September 30, 2010, as compared to the same period in 2009. The selling expense decreased by $110,810 because the Company changed its selling policy, which, in turn, led to a decrease in transportation expenses. In addition, with demand for coke improving, the expenses for marketing decreased as well. The general and administrative cost increased from $231,839, to $935,147 in the three month period ended September 30, 2010. The increase was mainly due to the expenses related to the public company maintenance expenses in amount of approximately $564,000.

Other Income and Expense. Other income and expense contains finance expense, net, income and expense not directly related to the Company's main operations, and change in fair value of warrants.

Finance expense decreased by $39,774, or 41.12% from $96,724 to $56,950 for three month period ended September 30, 2010. This decrease was mainly because of an $180,630 interest expense in relation to the Company's short term bank loan of $14.97 million at end of May 2010 was capitalized into construction-in-progress.

The Company had net other expense of $56,698 in the first quarter of fiscal 2011 as compared to $189 in the same period in fiscal 2010, decrease of $56,509.

Change in fair value of warrants amounted to $12,919,675 for the three months period ended September 30, 2010. The Company had no such gain in prior year. The Company's functional currency is RMB, and therefore the Company's warrants are not considered indexed to the Company's own common stock, and as such, all future changes in the fair value of those warrants need to be recognized currently in earnings and the warrants are recorded as derivative instruments. The Company used the Cox-Ross-Rubinstein binomial model to value the warrants. The fair value of the warrants at September 30, 2010 and June 30, 2010 was $17,841,697 and $30,436,087, a decrease of $12,594,390, of which $12,919,675 was recorded as other income and $325,285 was charged to general and administrative expense since it represented the fair value of the warrants granted on July 1, 2010 for consulting service.

Provision for Income Tax. . Provision for income taxes decreased by $1,040,222, for the three month period ended September 30, 2010, as compared to the same period ended September 30, 2009, due primarily to the Company's decrease of the gross profit and increase of the operating expenses.

Net income. Net income, including the change on fair value of warrants, was $15,481,998 for three month period ended September 30, 2010, as compared to $6,547,377 for the same period in 2009.

The Company uses non-GAAP adjusted net income to measure the performance of the Company's business internally by excluding non-cash charges related to warrants, and believes that the non-GAAP adjusted financial measure allows the Company 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 the Company uses 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 the Company's performance using the same methodology and information as that used by the Company's 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, the Company compensates for these limitations by providing the relevant disclosure of the items excluded.

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

	Three months ended September 30			
		2010		2009
Net income	$	15,481,998	$	6,547,377
Change in fair value of warrant liabilities		(12,919,675)		-
Adjusted net income	$	2,562,323	$	6,547,377
Earnings per share- basic	$	0.74	$	0.50
Earnings per share- diluted	$	0.73	$	0.50
Adjusted earnings per share - basic	$	0.12	$	0.50
Adjusted earnings per share - diluted	$	0.12	$	0.50
Weighted average number of common shares - basic		20,871,192		13,117,952
Weighted average number of common shares - diluted		21,288,959		13,117,952

Excluding those non-cash expenses, adjusted net income of the three month period ended September 30, 2010 and 2009 were approximately $2.6 million and $6.5 million, respectively, and resulted in $0.12 and $0.50 basic earnings per share, and $0.12 and $0.50 diluted earnings per share for the three month period ended September 30, 2010 and 2009, respectively.

Liquidity and Capital Resources

In summary, our cash flows are as follows:

	Three months ended September 30	
	2010	2009
Net cash provided by (used in) operating activities	$ (4,525,463)	$ 5,422,519
Net cash provided by (used in) investing activities	(7,214,359)	(3,114,495)
Net cash provided by (used in) financing activities	496,213	$ (1,766,967)

Net Cash Provided by Operating Activities

Net cash used in operating activities was $4,525,463 in the three months period ended September 30, 2010, a decrease of $9,947,982, as compared with the net cash inflow of $5,422,519 for the same period in 2009.

During the three month period ended September 30, 2010, the cash increase was mainly due to a decrease in note receivables of $1,020,510, a decrease in inventories of $829,288, and an increase of tax payables in the amount of $904,050. The decrease in inventories was primarily due to the better coke market condition, and company's decreasing of its coal stock, due to the tight market supply, and the moratorium of its own mine.

The cash increase was offset by the following factors: (1) an increase in accounts receivables of $3.82 million, an increase in advance to suppliers of $4.91 million, an increase in other receivables of $1.44 million, and a decrease in other payables of $0.92 million. The increase in advances to suppliers reflected the current tight coal supply in Henan province since the suppliers required more deposit. Furthermore, the prepayment to Hengzhou Coal group as required by the state owned company, in order to secure 3 million metric tons of coal product supply, resulted in increasing the amount of prepayment to suppliers by $4.6 million.

Net Cash Used in Investing Activities

During the three month period ended September 30, 2010 the Company had net cash used for investing activities of approximately $7.21 million, and in the same period in 2009, it had capital expenditures of approximately 3.11 million. For the three months ended September 30, 2010, the Company made payments of: (1) approximately $2.04 million loans to two third parties, and one unrelated party repaid in the amount of approximately $1.5 million till the date September 30, 2010, (2) approximately $3.49 million toward the expansion and redevelopment of adjacent formerly residential land, (3) approximately $2.96 million was paid for the mine acquisitions, and (4) approximately $0.2 million in construction-related expenditures for its new coking facility. The increase in capital expenditures in this period as compared to the same period in 2009 was mainly due to the construction and land redevelopment expenditures, as well as the mine acquisitions. In three months period ended September 30, 2009, the Company spent approximately $3.11 million to pay for the new coking facility construction.

Net Cash Used in Financing Activities

The net cash provided by financing activities was $496,213 for the three month period ended September 30, 2010, as compared with the net cash used in financing activities in the amount of $1,766,967 for the same period in 2009. The Company deposited approximately $4.4 million to obtain the credit in the form of 6 months notes in the amount of $8.9 million in order to finance its further investment for its 900,000 metric tons coking facility construction project, and trading business with Zhengzhou Coal Group. The company used its notes payables for the payment in the amount of approximately $4.7 million. In the three months period ended September 30, 2010, the Company also repaid $0.5 million short term loan. In the first quarter of fiscal year 2009, the Company had the net use of cash from financing activities. The main usage of the cash was to repay a related party loan in the amount of approximately $0.06 million, and repay a matured bank loan of approximately $1.7 million.

Capital Resources

Funding for the Company’s business activities has historically been provided by cash flow from operations, short-term bank loan financing, and loans from individuals including from its major shareholder Mr. Lv and Mr. Liuchang Yang, who is a director of the Company.

The Company does not have any outstanding loans under any lines of credit.

The business plan of the Company involves growing its business through (1) expansion and modernization of its 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 production of more high value-added chemical products; (3) acquisition of other coal mines to source raw materials; (4) strategic cooperation with Zhengzhon Coal Industry Group in order to indirectly control the coal resource and also secure the Company's internal material requirements and stable supply for coal product trading; and (5) purifying and selecting level 10 washed coal, which is highly demanded in the market from the 2 million metric tons of raw coal provided by Zhengzhon Coal, in order to increase the Company's product categories, secure sufficient raw coal material for the 900,000 metric tons coking facility project, and increase the Company's profitability. Any future facility expansion 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;

SinoCoking has commenced action on two major initiatives as a part of its growth plan, that are expected to require capital resources:

1. New Coking Facility. On March 3, 2010, SinoCoking announced that it began construction of its new coking facility to be located beside the Company's current facilities in Pingdingshan City. The Company estimates that the new coking facility will cost approximately $70 million to complete, and as described elsewhere in this Form 10-Q, is expected to begin production of metallurgical and chemical coke, coal gas and various chemical products by first half of 2011.

2. Mine Acquisitions. On February 19, 2010, SinoCoking announced its plan of acquisition, in which it will seek consolidation of coal mines in the Henan province, as a part of a general policy in the coal mining industry in Henan Province to improve production efficiency and improve safety. On that date, SinoCoking announced 22 private company targets with an aggregate licensed production capacity of 3.3 million metric tons of coal per year. The Company intends to acquire a controlling stake in selected private mine-owning companies using cash, its common stock, or a combination of both as consideration for these acquisitions.

In the quarter ended December 31, 2009, the Company obtained a non-binding letter of intent from the Pingdingshan Rural Cooperative Bank, confirming the bank's intention to loan the Company up to 300 million RMB (approximately USD $42 million), unsecured at an annual interest rate of 6.24% to finance the construction of its new coking facility. This letter of intent expired on June 30, 2010. On October 12, 2010, this letter of intent was extended with the same terms till October 11, 2011. The loan remains subject to approval of a formal loan application submitted by the Company.

SinoCoking's management presently anticipates that its recent equity issuance, its access to credit, and cash flow from operations, together will provide sufficient capital resources to pursue and complete the construction of its new coking facility and proposed mine acquisitions. We intend to utilize existing cash, cash flow from operations and bank loans, to finance the cash portion of the consideration to be paid for our acquisitions. We may consider the issuance of additional debt and/or equity securities in order to finance our mine acquisitions.

We have not experienced any material losses since inception relating to accidents or other similar events. Please refer to the risk factor entitled "We may suffer losses resulting from industry-related accidents and lack of insurance" of our annual report on Form 10-K for the fiscal year ended June 30, 2010.

Capital Expenditures

During the three month period ended September 30, 2010, the Company had capital expenditures of $6.67 million, and in the same period in 2009, it had capital expenditures of approximately $3.1 million. These capital expenditures were made in order to purchase vehicles, mining equipment and coking equipment for the Company's new 900,000 metric tons per year coking facility currently under construction, as well as expansion of the land for the new project. Specifically, for the three months ended September 30, 2010, the Company made payments of approximately $3.5 million toward the expansion and redevelopment of adjacent formerly residential land, approximately $3.0 million was paid for the mine acquisitions, and approximately $0.22 million in construction-related expenditures for its new coking facility. The increase in capital expenditures in this period as compared to the same period in 2009 was mainly due to the construction and land redevelopment expenditures. Continued high levels of capital expenditures are anticipated over the whole fiscal year 2011, and until completion of the new coking facility, which the Company plans to complete by 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not use derivative financial instruments and has no foreign exchange contracts. The Company's financial instruments consist of cash and cash equivalents, trade accounts receivable, accounts payable and long-term obligations. The Company generally considers investments in highly liquid instruments purchased with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents. However, in order to manage the foreign exchange risks, the company may in the future engage in hedging activities to manage its financial exposure related to currency exchange fluctuation. In these hedging activities, the Company might use fixed-price, forward, futures, financial swaps and option contracts traded in the over-the-counter markets or on exchanges, as well as long-term structured transactions when feasible. Currently the Company does not engage in any of these types of currency hedging transactions.

Interest Rates. The Company's exposure to market risk for changes in interest rates relates primarily to its short-term obligations. Accordingly, fluctuations in applicable interest rates would not have a material impact on the fair value of these securities. At September 30, 2010, the Company had approximately $33.7 million in cash. A hypothetical 10% increase or decrease in applicable interest rates would not have a material impact on the Company's earnings or loss, or the fair market value or cash flows of these instruments.

Foreign Exchange Rate. All of the sales and inputs of the Company are transacted in Renminbi ("RMB"). As a result, changes in the relative values of U.S. Dollars and RMB affect the company's reported levels of revenues and profitability as the results are translated into U.S. Dollars for reporting purposes. However, since the Company conducts its sales and purchases inputs in RMB, fluctuations in exchange rates are not expected to significantly affect financial stability, or gross and net profit margins. The Company does not currently expect to incur significant foreign exchange gains or losses, or gains or losses associated with any foreign operations.

Commodity Prices. The Company is a coal and coke producer, and as discussed elsewhere in this report, its business is affected by prevailing market prices for coal and coke. However, the Company does not currently engage in any hedging activities, such as futures, forwards, or options contracts, with respect to any of its inputs or the products it sells.

Off-Balance Sheet Arrangements

The Company has 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, the Company does 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. The Company does not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to the Company or engages in leasing, hedging or research and development services with the Company.

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our 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 engages in leasing, hedging or research and development services with us.

ITEM 4. 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.

The Company conducted an evaluation, with the participation of its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures as of September 30, 2010. Based on that evaluation, its Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2010, the Company's disclosure controls and procedures were not effective due to the material weaknesses described in the "Management's Report on Internal Control over Financial Reporting" section below.

Notwithstanding management's assessment that our internal control over financial reporting was ineffective as of September 30, 2010 due to the material weaknesses described in the "Management's Report on Internal Control over Financial Reporting" section below, we believe that the consolidated financial statements included in this Quarterly Report on Form 10-Q correctly present our financial condition, results of operations and cash flows for the fiscal years covered thereby in all material respects.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the issuer; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's 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 the end of its most recent fiscal year, management as then constituted 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 that evaluation, management concluded that, as of September 30, 2010, such internal control over financial reporting was not effective because of the material weakness described below.

A material weakness is a control deficiency, or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness; yet important enough to merit attention by those response

The specific material weaknesses identified by its Chief Executive Officer and Chief Financial Officer are described as follows:

a) Inadequate U.S. GAAP expertise - The current staff in the accounting department is inexperienced in applying the United States generally accepted accounting principles ("U.S. GAAP") standard and they were primarily engaged in ensuring compliance with PRC accounting and reporting requirement for our operating subsidiaries. The staff needs substantial training to meet the higher demands of being a U.S. public company. The current staff's accounting skills and their understanding as to how to fulfill the requirements of U.S. GAAP-based reporting, including their skills related to subsidiary financial statements consolidation, is inadequate and resulted in a number of audit adjustments identified by our independent auditors.

b) Inadequate internal audit resources - The Company lacks qualified resources to perform the internal audit functions properly. In addition, the scope and effectiveness of the Company's internal audit function are yet to be developed. We are committed to establishing the internal audit functions but due to the limited qualified resources in the region, we were not able to hire sufficient internal audit resources to perform the internal audit functions properly.

c) Inadequate control on corporate governance - During this fiscal year, we made certain material amount of purchases and a short term third party loan without proper preapproval process in accordance with the internal control policy over cash disbursements.

Management's Remediation Initiatives

In order to remediate this weakness, we are increasing the number of our accounting staff and professionals, and we also plan to hire an experienced financial adviser who is familiar with U.S. GAAP. We are also planning to hire professionals to help the Company implement a more efficient internal control system over financial reporting using COSO internal control framework. Until we are able to hire additional employees to remediate this weakness, management chose to address the above-described weaknesses by reporting more frequently to its audit committee and by having members of its audit committee review the Company's control procedures on a regular basis. In addition, we are planning to use an Enterprise Resource Planning ("ERP") system to improve our financial and internal control system. We have already started due diligence work with UFIDA, Chinese biggest ERP system provider, and we expect to install and implement an efficient ERP system in the near future.

Changes in Internal Control over Financial Reporting

Other than the changes described above, there have been no changes in its internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Exchange Act) during the first quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None

ITEM 1A. RISK FACTORS.

Smaller reporting companies such as the Company are not required to disclose the information set forth under this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. (REMOVED AND RESERVED.)

ITEM 5. OTHER INFORMATION.

None

ITEM 6. EXHIBITS

Exhibit No.	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 (13)
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 (17)
3.1	Articles of Incorporation, as amended (incorporated by reference to Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5 of the Registration Statement on Form 10-SB) (1)
3.2	Articles of Amendment to Articles of Incorporation (2)
3.3	Bylaws (Incorporated by reference to Exhibit 3.6 of the Registration Statement on Form 10-SB) (1)
4.1	Specimen Stock Certificate of SinoCoking Coal and Coke Chemical Industries, Inc. (2)
10.1	1999 Stock Option Plan (Incorporated by reference to Exhibit 4.2 of the Registration Statement on Form S-8 (4)
10.2	2002 Stock Option Plan for Directors (3)
10.3	2002 Consultant Stock Plan (5)
10.4	Joint Venture Agreement dated July 28, 2006 between Stanford Development Corporation, Canitalia Industries Ltd. and 44991 B.C. Ltd. (6)
10.5	Employment Agreement dated April 1, 2002 between Abdul Ladha and the Company**
10.6	Securities Purchase Agreement dated April 9, 2007 (7)**
10.7	Warrant Agreement dated April 9, 2007 (7)**
10.8	Letter Agreement between Axion Investment Corp. and Royal Bank of Canada (8)
10.9	

	Development Agreement dated October 6, 2008 between the Company, Abdul Ladha, Overture Development Corporation, Surrey Central City Holdings Ltd. and Bullion Reef Holdings Ltd. (9)**
10.10	First Amendment dated October 22, 2008 to Development Agreement dated October 6, 2008 (10)**
10.11	Second Amendment dated October 27, 2008 to Development Agreement dated October 6, 2008 (11)**
10.12	Third Amendment dated January 13, 2009 to Development Agreement dated October 6, 2008 (12)**
10.13	License Agreement dated May 15, 2009 between the Company and iCollector Technologies Ltd. and ABC Live Auction World Ltd. (15)
10.14	License Agreement dated June 1, 2009 between the Company and RapidFusion, Inc. and Pacific Amber Technologies, Inc. (15)
10.15	Voting Agreement dated July 17, 2009 between Abdul Ladha and Hanifa Ladha and Top Favour Limited (13)
10.16	Sample indemnity agreement between Ableauctions.com, Inc. and each of its directors (14)
10.17	Agreement establishing the Able (U.S.) Liquidating Trust (15)

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10.18	Agreement establishing the Able (U.S.) Distribution Trust (15)
10.19	Agreement establishing the Able (Canada) Distribution Trust (15)
10.20	Transfer and Assignment of Assets and Assumption of Liabilities (15)
10.21	Form of Securities Purchase Agreement (Regulation S) (2)
10.22	Form of Warrant dated February 5, 2010 (Regulation S) (2)
10.23	Form of Director's Offer and Acceptance Letter (2)
10.24	Form of Officer's Offer and Acceptance Letter (2)
10.25	Consulting Services Agreement (2)
10.26	Operating Agreement (2)
10.27	Equity Pledge Agreement (2)
10.28	Option Agreement (2)
10.29	Voting Rights Proxy Agreement (2)
10.30	Lease Agreement (2)
10.31	Form of Warrant dated March 11, 2010 (Regulation S) (18)
10.32	Form of Securities Purchase Agreement (Regulation D) (18)
10.33	Form of Registration Rights Agreement (18)
10.34	Form of Warrant dated March 11, 2010 (Regulation D) (18)
10.35	Placement Agent Agreement (18)
10.36	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 as of August 10, 2010 (20)
10.37	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 as of August 10, 2010 (20)
14	Code of Ethics (16)
21.2	Subsidiaries of SinoCoking Coal and Coke Chemical Industries, Inc. (15)
31.1	Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

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* Filed herewith.
** Denotes an agreement with management.

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

(2) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission 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 Securities and Exchange Commission on March 27, 2003.

(4)

Incorporated by reference to the Form S-8 Registration Statement filed by the Company with the Securities and Exchange Commission on June 13, 2003.

(5) Incorporated by reference to the Form S-8 Registration Statement filed by the Company with the Securities and Exchange Commission on May 8, 2002.

(6) Incorporated by reference to the Quarterly Report on Form 10-QSB for the period ended September 30, 2006 filed by the Company on November 13, 2006.

(7) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on April 11, 2007.

(8) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on July 30, 2007.

(9) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on October 9, 2008.

(10) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on October 23, 2008.

(11) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on November 3, 2008.

(12) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on January 15, 2009.

(13) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on July 17, 2009.

(14) Incorporated by reference to the registration statement on Form S-1 filed by the Company with the Securities and Exchange Commission on July 2, 2002.

(15) Incorporated by reference to the registration statement on Form 10-K filed by the Company with the Securities and Exchange Commission on March 31, 2010.

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

(17) Incorporated by reference to the Form 8-K Current Report filed by the Company with the Securities and Exchange Commission on November 25, 2009.

(18) Incorporated by reference to the Form 8-K Current Report filed by the Company with the Securities and Exchange Commission on March 15, 2010.

(19) Incorporated by reference to the registration statement on Form S-1 filed by the Company with the Securities and Exchange Commission on May 11, 2010.

(20) Incorporated by reference to the Form 8-K Current Report filed by the Company with the Securities and Exchange Commission on August 10, 2010.

SIGNATURES

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

Dated: November 15, 2010

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.

By: /s/ Jianhua Lv
Jianhua Lv
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Zan Wu
Zan Wu
Chief Financial Officer
(Principal Financial and Accounting Officer)