SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC.
Form 424B3
February 24, 2012

Filed Pursuant to Rule 424(b)(3)

Registration No. 333-166720

PROSPECTUS SUPPLEMENT NO. 2

(To Prospectus dated October 11, 2011)

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.

11,384,566 shares of Common Stock

This Prospectus Supplement No. 2 is required to be delivered by certain holders of the above-referenced shares or by their transferees, pledges, donees or their successors in connection with the offer and sale of the above-referenced shares.

This Prospectus Supplement supplements the Prospectus dated October 11, 2011 of SinoCoking Coal and Coke Chemical Industries, Inc. (the "Company") with the following additions and changes:

(1) Amend the Selling Security Holder information set forth in the Prospectus; and

(2) Update, amend and supplement the Company's Prospectus dated October 11, 2011 with information in the Company's attached Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2011 as filed with the Securities and Exchange Commission on February 9, 2012.

The attached information modifies and supersedes, in part, the information in the Prospectus. Any information that is modified or superseded in the Prospectus shall not be deemed to constitute a part of the Prospectus except as modified or superseded by this Prospectus Supplement No. 2. This Prospectus Supplement No. 2 should be read in conjunction with the Prospectus.

INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 3 OF THE PROSPECTUS, AND ANY OF OUR OTHER FILINGS INCORPORATED THEREIN BY REFERENCE.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement is February 24, 2012.

AMENDMENT TO SELLING SECURITY HOLDER INFORMATION

This Prospectus Supplement No. 2 is being filed in connection with changes to the Selling Security Holder information as set forth in the Prospectus. Specifically, Heller Capital Investments transferred its warrant for the purchase of up to 10,000 shares of the Company's common stock to another Selling Security Holder, OTA LLC ("OTA") and thus the number of shares underlying warrants that OTA is entitled to purchase increased by 10,000 shares. In addition, Excalibur Special Opportunities, LP, Linda Hechter, Suresh and Sarita Madan and Marc Freeman each transferred their warrants to another Selling Security Holder, Option Opportunities Co. ("Option Opportunities"), and thus the number of shares underlying warrants that Option Opportunities is entitled to purchase increased by 102,000 shares.

As a result, this Prospectus Supplement No. 2 is being filed to amend the Selling Security Holders table in the Prospectus so that it reflects the change of numbers of securities owned by certain Selling Security Holders resulting from the above-described warrant transfers.

All other information in the Prospectus shall remain unchanged. Percentage of beneficial ownership was calculated based on 21,090,948 shares of SinoCoking common stock outstanding as of February 9, 2012. This Prospectus Supplement No. 2 reflects only the total number of Shares registered for resale by the subject Selling Security Holders described herein, and we note that it does not reflect sales of Shares by such Selling Security Holders pursuant to the Prospectus that may have occurred prior to the date of this Prospectus Supplement No. 2.

Name (A)	**Securities Beneficially Owned Prior to Offering (1) (B)**		**Securities Being Offered (C)**		**Securities Beneficially Owned After Offering (2) (D)**	**% Beneficial Ownership After Offering (4) (E)**	
Excalibur Special Opportunities, LP (75)	166,666	(76)	166,666	(76)	0	0	%
Heller Capital Investments (99)	20,000	(100)	20,000	(100)	0	0	%
Linda Hechter (129)	12,500	(130)	12,500	(130)	0	0	%
Marc Freeman (131)	12,334	(132)	12,334	(132)	0	0	%
Option Opportunities Co. (153) (324)	125,750	(154)	125,750	(154)	0	0	%
Suresh Madan & Sarita Madan (181)	12,500	(182)	12,500	(182)	0	0	%
OTA LLC (3) (329)	272,164	(330)	272,164	(330)	0	0	%

(76) Includes 166,666 shares of Common Stock issued to this selling security holder in the Financing, all of which we are registering for resale pursuant to the Securities Purchase Agreement.

(100) Includes 20,000 shares of Common Stock issued to this selling security holder in the Financing, all of which we are registering for resale pursuant to the Securities Purchase Agreement.

(130) Includes 12,500 shares of Common Stock issued to this selling security holder in the Financing, all of which we are registering for resale pursuant to the Securities Purchase Agreement.

(132) Includes 12,334 shares of Common Stock issued to this selling security holder in the Financing, all of which we are registering for resale pursuant to the Securities Purchase Agreement.

(154) Includes 15,833 shares of Common Stock and 109,917 shares of Common Stock underlying the Warrants issued to this selling security holder in the Financing, all of which we are registering for resale pursuant to the Securities Purchase Agreement.

(182) Includes 12,500 shares of Common Stock issued to this selling security holder in the Financing, all of which we are registering for resale pursuant to the Securities Purchase Agreement.

(330) Includes 272,164 shares of Common Stock underlying the Warrants owned by this selling security holder in connection with the Financing, all of which are registered for resale pursuant to the Securities Purchase Agreement.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended **December 31, 2011**

¨ 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	**98-0695811**
(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 þ No ¨

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

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	þ
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of February 9, 2012, the Registrant had 21,090,948 shares of common stock outstanding.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.

FORM 10-Q

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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 23 of our Annual Report on Form 10-K for the year ended June 30, 2011 filed with the SEC on September 13, 2011.

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.

ITEM 1. FINANCIAL STATEMENTS

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	December 31 2011	June 30, 2011
ASSETS		
CURRENT ASSETS		
Cash	$4,284,601	$26,266,687
Restricted cash	10,432,500	8,320,500
Accounts receivable, trade, net	11,855,965	8,489,272
Loans receivable	10,000,637	16,764,390
Notes receivable, trade	5,112,250	-
Other receivables	1,487,951	232,126
Receivable, mine acquisition prepayments	12,248,282	-
Inventories	8,731,766	3,010,926
Advances to suppliers	9,854,042	8,994,833
Advances to suppliers -related party	-	575,700
Total current assets	74,007,994	72,654,434
PLANT AND EQUIPMENT, net	16,723,340	17,157,542
CONSTRUCTION IN PROGRESS	38,983,421	23,204,544
OTHER ASSETS		
Prepayments for land use rights	11,033,400	8,980,335
Prepayments for mine acquisitions	4,719,000	25,546,922
Prepayments for construction	21,641,955	8,134,736
Intangible - land use rights, net	1,918,006	1,919,987
Intangible - mineral rights, net	29,681,308	29,408,865
Long-term investments	2,803,195	2,753,660
Other assets	110,682	108,290
Total other assets	71,907,546	76,852,795

Total assets	$201,622,301	$189,869,315
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short term loans - bank	$5,033,600	$4,950,400
Accounts payable, trade	3,995	144,147
Notes payable, trade	3,146,000	-
Other payables and accrued liabilities	811,608	1,426,285
Other payables - related party	409,048	455,768
Customer deposits	90,306	127,965
Taxes payable	2,820,436	2,856,671
Total current liabilities	12,314,993	9,961,236
LONG TERM LIABILITIES		
Long term loans	56,628,000	55,692,000
Warrants liability	1,206,111	5,569,047
Total long term liabilities	57,834,111	61,261,047
Total liabilities	70,149,104	71,222,283
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common shares, $0.001 par value, 100,000,000 authorized, 21,090,948 and 21,090,948 issued and outstanding as of December 31 and June 30, 2011, respectively	21,091	21,091
Additional paid-in capital	3,442,083	3,442,083
Statutory reserves	3,687,214	3,403,793
Retained earnings	108,718,378	98,004,993
Accumulated other comprehensive income	6,941,231	5,111,872
Total SinoCoking Coal and Coke Chemicals Industries, Inc's equity	122,809,997	109,983,832
NONCONTROLLING INTERESTS	8,663,200	8,663,200
Total equity	131,473,197	118,647,032
Total liabilities and equity	$201,622,301	$189,869,315

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2011	2010	2011	2010
REVENUE	$ 17,297,333	$ 16,745,332	$ 39,448,667	$ 29,753,794
COST OF REVENUE	14,008,015	9,634,955	28,955,472	17,999,064
GROSS PROFIT	3,289,318	7,110,377	10,493,195	11,754,730
OPERATING EXPENSES:				
Selling	43,324	71,447	124,867	155,914
General and administrative	906,367	736,493	1,333,786	1,671,640
Total operating expenses	949,691	807,940	1,458,653	1,827,554
INCOME FROM OPERATIONS	2,339,627	6,302,437	9,034,542	9,927,176
OTHER INCOME (EXPENSE)				
Interest income	218,749	943	777,300	8,030
Interest expense	(315,463)	(230,937)	(731,022)	(273,532)
Other finance expense	(37,767)	(283,112)	(73,433)	(304,554)
Other income (expense), net	8,492	(52,689)	(9,089)	(109,387)
Change in fair value of warrants	1,343,214	(11,447,532)	4,362,936	1,472,143
Total other income (loss)	1,217,225	(12,013,327)	4,326,692	792,700
INCOME (LOSS) BEFORE INCOME TAXES	3,556,852	(5,710,890)	13,361,234	10,719,876
PROVISION FOR INCOME TAXES	911,148	1,278,833	2,406,817	2,227,601
NET INCOME (LOSS)	2,645,704	(6,989,723)	10,954,417	8,492,275
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	640,615	1,055,897	1,829,359	2,202,196
COMPREHENSIVE INCOME (LOSS)	$ 3,286,319	$ (5,933,826)	$ 12,783,776	$ 10,694,471
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				

Basic	21,090,948	20,871,725	21,090,948	20,871,458
Diluted	21,090,948	20,871,725	21,090,948	20,984,101
EARNINGS (LOSS) PER SHARE				
Basic	$ 0.13	$ (0.33)	$ 0.52	$ 0.41
Diluted	$ 0.13	$ (0.33)	$ 0.52	$ 0.40

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,954,417	$ 8,492,275
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation	722,325	717,228
Amortization and depletion	254,771	779,628
Bad debt expense	360,929	31,324
Change in fair value of warrants	(4,362,936)	(1,472,143)
Warrants granted for service	-	325,285
Reservation of mine maintenance fee	43,480	141,911
Equity investment income	(3,238)	-
Change in operating assets and liabilities		
Notes receivable	(5,086,250)	881,315
Accounts receivable, trade	(3,207,619)	(10,274,564)
Other receivables	(1,028,284)	(1,892,010)
Inventories	(5,641,398)	262,624
Advances to suppliers	400,882	(5,789,974)
Accounts payable, trade	(141,847)	224,846
Other payables and accrued liabilities	(628,006)	(780,044)
Customer deposits	(39,607)	22,882
Taxes payable	(182,413)	1,171,547
Net cash used in operating activities	(7,584,794)	(7,157,870)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal advances of loans receivable	(1,896,500)	(2,051,578)
Proceeds from loans receivable	8,745,053	2,513,308
Payments on equipment and construction-in-progress	(15,314,057)	(512,205)
Prepayments on construction-in-progress	(13,302,500)	(735,310)
Refunds of coal mine acquisition prepayments	7,857,865	1,193,280
Prepayments on land use rights	(1,892,461)	(3,520,176)
Prepayments on mine acquisitions	-	(7,458,000)
Net cash used in investing activities	(15,802,600)	(10,570,681)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	(2,065,000)	(4,474,800)
Cash proceeds from exercise of warrants	-	6,000
Proceeds from notes payable	3,130,000	9,397,080

Proceeds from short-term loans - bank	5,008,000	-
Repayments of short-term loans - bank	(5,008,000)	(522,060)
Proceeds from (repayments of) related parties	(53,740)	710,189
Net cash provided by financing activities	1,011,260	5,116,409
EFFECT OF EXCHANGE RATE ON CASH	394,048	167,704
DECREASE IN CASH	(21,982,086)	(12,444,438)
CASH, beginning of period	26,266,687	17,403,008
CASH, end of period	$ 4,284,601	$ 4,958,570
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	$ 1,552,791	$ 1,423,742
Cash paid for interest expense, net of capitalized interest	$ 660,987	$ 273,532
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES		
Transferred from advances to suppliers to other receivables	$ 582,398	$ 1,652,321
Construction-in-progress acquired with prepayments made in prior year	$ -	$ 2,386,560
Reclassification of prepayment for coal mine acquistion to advance to suppliers	$ 1,105,317	$ -
Reclassification of coal mine prepayment made in prior year to other receivables	$ 12,185,990	$ -

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of business and organization

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

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

As a result of the Share Exchange, Top Favour's shareholders owned approximately 97% of the issued and outstanding shares, and the management members of Top Favour became the directors and officers of the Company. The Share Exchange was accounted for as a reverse acquisition and recapitalization and as a result, the consolidated financial statements of the Company (the legal acquirer) is, in substance, those of Top Favour (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the Share Exchange. As the Share Exchange was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction. The historical financial statements for periods prior to the Share Exchange are those of Top Favour except that the equity section and earnings per share have been retroactively restated to reflect the Share Exchange.

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

Due to an accident during the quarter ended December 31, 2011, at one of the mines owned by Yima Coal Group, a state-owned enterprise and one of the six provincial level consolidators in Henan all mid-scale mines are required to undergo mandatory safety checks and inspections by relevant authorities before receiving clearance to resume coal mining operations. This requirement applies to all SinoCoking mines, including the Hongchang and Xingsheng coal mines which were previously awaiting government confirmation to resume operations.

The accompanying consolidated financial statements reflect the activities of the Company and each of the following entities:

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

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Baofeng Hongguang Power Co., Ltd. (“Hongguang Power”)	· A PRC limited liability company · Incorporated on August 1, 2006 · Registered capital of $2,756,600 (RMB 22,000,000) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Xingsheng Coal Co., Ltd. (“ Xingsheng Coal”)	· A PRC limited liability company · Incorporated on December 6, 2007 · Registered capital of $559,400 (RMB 3,634,600) fully funded · 60% of equity ownership acquired by Hongli on May 20, 2011	VIE by contractual arrangements as a 60% owned subsidiary of Hongli
Baofeng Shuangrui Coal Co., Ltd. (“Shuangrui Coal”)	· A PRC limited liability company · Incorporated on March 17, 2009 · Registered capital of $620,200 (RMB4,029,960) fully funded · 60% of equity ownership acquired by Hongli on May 20, 2011	VIE by contractual arrangements as a 60% owned subsidiary of Hongli
Zhonghong Energy Investment Company (“Zhonghong”)	· A PRC company · Incorporated on December 30, 2010 · Registered capital of $7,842,800 (RMB51,000,000)) fully funded Equity interests of 100% held by three nominees on behalf of Hongli pursuant to share entrustment agreements	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Hongrun Coal Chemical Co., Ltd. (“Hongrun”)	· A PRC limited liability company · Incorporated on May 17, 2011 · Registered capital of $ 4,620,000 (RMB30 million) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli

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

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

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

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

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

	December 31, 2011	June 30, 2011
Total current assets	$ 52,079,781	$49,774,889
Total assets	$ 179,693,516	$166,989,770
Total current liabilities	$ 22,959,673	$78,860,160
Total liabilities	$ 79,587,673	$78,860,160

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Presently, the Company's coking related operations are carried out by Baofeng Coking, coal related operations by Hongchang Coal, Shuangrui Coal, Shunli Coal and Xingsheng Coal, and electricity generation by Hongguang Power. However, it is the Company's intention to transfer all coal related operations to a joint-venture between Zhonghong and Henan Province Coal Seam Gas Development and Utilization Co., Ltd. (see Note 13). As of December 31, 2011, the transfer of the Company's coal related operations to the joint-venture had not been carried out, and Shuangrui Coal, Shunli Coal and Xingsheng Coal have had no operations since their acquisitions by the Company (see Note 19).

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 quarterly report on Form 10-Q should be read in conjunction with information included in the annual report on Form10-K for the fiscal year ended June 30, 2011, which was filed with the Securities and Exchange Commission ("SEC") on September 13, 2011 and was subsequently amended on September 29, 2011.

Principles of consolidation

The accompanying unaudited condensed 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 and Hongyuan, and its VIEs – Hongli and its subsidiaries. All significant inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation.

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

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

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

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

(3) a Proxy Agreement, under which the 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.

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

Use of estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions relate to coal reserves that are the basis for future cash flow estimates and units-of-production depletion calculations; asset impairments; allowance for doubtable accounts for accounts receivable; valuation allowances for deferred income taxes; reserves for contingencies; stock-based compensation 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.

Stock-based compensation

The Company records share-based compensation expense based upon the grant date fair value of share-based awards. The value of the award is principally recognized as expense ratably over the requisite service periods. The Company uses the Black-Scholes Merton (“BSM”) option-pricing model, which incorporates various assumptions including volatility, expected life and interest rates to determine fair value. The Company’s expected volatility assumption is based on the historical volatility of Company’s stock. The expected life assumption is primarily based on the simplified method of the terms of the options. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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

Revenue recognition

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

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

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

Shipping and handling costs

Shipping and handling costs related to goods sold are included in selling expense. The Company did not have shipping and handling costs for the three months and six months ended December 31, 2011 and 2010 because the customers paid for such expenses.

Foreign currency translation and other comprehensive income

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

For the subsidiaries and VIEs whose functional currencies are other than the U.S. dollar, all assets and liabilities accounts were translated at the exchange rate on the balance sheet date; shareholders’ equity is translated at the historical rates and items in the statement of operations are translated at the average rate for the period. Items in the cash flow statement are also translated at average translation rates for the period, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of equity. The resulting transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

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The balance sheet amounts, with the exception of equity, at December 31, 2011 and June 30, 2011 were translated at RMB 6.36 to $1 and RMB 6.46 to $1, respectively. The average translation rates applied to income and cash flow statement amounts for the three months ended December 31, 2011 and 2010 were at RMB 6.37 to $1 and RMB 6.65 to $1, respectively, and at RMB 6.39 to $1 and RMB 6.70 to $1 for the six months ended December 31, 2011 and 2010, respectively.

Fair value of financial instruments

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

Level 1	Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2	Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value.

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2011:

	Carrying Value at December 31, 2011	Fair Value Measurement at December 31, 2011

		Level 1	Level 2	Level 3
Warrants liability	$ 1,206,111	$ —	$ —	$ 1,206,111

The following is a reconciliation of the beginning and ending balances of warrants liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2011 and June 30, 2011:

Fair value at June 30, 2010	$30,436,087
Issuance of warrants	325,285
Realized gain recorded in earnings	(23,135,827)
Value of warrants exercised recorded in APIC	(2,056,498)
Fair value at June 30 2011	5,569,047
Realized gain recorded in earnings	(4,362,936)
Fair value at December 31, 2011	$1,206,111

The Company's warrants are not traded on an active securities market; therefore, the Company estimates the fair value of its warrants using the Cox-Ross-Rubinstein binomial model on December 31, 2011 and June 30, 2011.

	December 31, 2011	June 30, 2011
Number of shares exercisable	3,906,853	3,906,853
Exercise price	$ 6.00-48.00	$ 6.00-48.00
Stock price	$ 2.26	$ 4.56
Expected term (year)	3.10-5.28	3.60-5.78
Risk-free interest rate	0.48-1.15 %	1.10-2.05 %
Expected volatility	75 %	75 %

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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 and six months ended December 31, 2011 and 2010, 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.

Cash

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

Balances at financial institutions or state owned banks within the PRC are not covered by insurance. Balances at financial institutions in Hong Kong may, from time to time, exceed Hong Kong Deposit Protection Board's insured limits. As of December 31, 2011 and June 30, 2011, the Company had $14,563,792 and $34,425,040 of cash deposits, including restricted cash, which were not covered by insurance, respectively. The Company has not experienced any losses in such accounts.

Restricted cash

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

Accounts receivables, trade, net

During the normal course of business, the Company extends unsecured credit not exceeding three months to its customers. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records a reserve when management believes collection of amounts due are at risk. Accounts receivables are considered past due after three months from the date credit was granted. Accounts considered uncollectible after exhaustive efforts to collect are written off. The Company regularly reviews the credit worthiness of its customers and, based on the results of the credit review, determines whether extended payment terms can be granted to or, in some cases, partial prepayment is required from certain customers.

Notes receivable, trade

Notes receivable represent trade accounts receivable due from various customers where the customer's banks have guaranteed payments of the receivables. 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.

Loans receivable

Loans receivable represents amount the Company loaned to unrelated parties. The loans either are due on demand or mature within a year, and are either unsecured or secured by the properties of the borrowers or guaranteed by unrelated parties. All loans receivables are subject to interest charges.

Other receivables

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

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Receivable, mine acquisition prepayments

Receivable, mine acquisitions prepayments were made for acquiring coal mines and are refundable upon cancellation of the acquisition agreements.

Inventories

Inventories are stated at the lower of cost or market, using the weighted average cost method. Inventories consist of raw materials, supplies, work in process, and finished goods. Raw materials mainly consist of coal (mined and purchased), rail, steel, wood and additives used by the Company. The cost of finished goods includes (1) direct costs of raw materials, (2) direct labor, (3) indirect production costs, such as allocable utilities cost, and (4) indirect labor related to the production activities, such as assembling and packaging. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. On an ongoing basis, inventories are reviewed for potential write-down for estimated obsolescence or unmarketable inventories equal to the difference between the costs of inventories and the estimated net realizable value based upon forecasts for future demand and market conditions. When inventories are written-down to the lower of cost or market, it is not marked up subsequently based on changes in underlying facts and circumstances. As of December 31, 2011 and June 30, 2011, no allowance for inventory valuation was deemed necessary.

Advances to suppliers

The Company advances monies to certain suppliers for raw material purchases and in connection with 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 and its new coking plant. Interest incurred during the period of construction, if material, is capitalized. For the three and six months ended December 31, 2011, $439,482 and $787,420 in interest were capitalized into CIP, respectively. For the three and six months ended December 31, 2010, $94,963 and $140,120 of interest were capitalized into CIP, respectively. All other interest is expensed as incurred. CIP is not depreciated until such time the assets are completed and put into service. Maintenance, repairs and minor renewals are charged to expense as incurred. Major additions and betterment to property and equipment are capitalized.

Intangible - 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 with finite live are amortized over their useful lives and reviewed at least annually for impairment.

Intangible - mining rights, net

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

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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. As of December 31, 2011 and June 30, 2011, there was no impairment of long-lived assets.

Long-term investment

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

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

The Company evaluates potential impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. For investments carried at cost, the Company recognizes impairment in the event that the carrying value of the investment exceeds the Company’s proportionate share of the net book value of the investee. As of December 31, 2011, management believes no impairment charge is necessary.

Asset retirement cost and obligations

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

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

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

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

The Company did not record such asset retirement obligation as of December 31, 2011 and June 30, 2011 because the Company did not have sufficient information to reasonably estimate the fair value of such obligation. The range of time over which the Company may settle the obligation is unknown and cannot be reasonably estimated. In addition, the settlement method for the obligation cannot be reasonably determined. The amount of the obligation to be determined by the government authorities is affected by several factors, such as the extent of remediation required in and around the mining area, the methods to be used to remediate the mining site, and any government grants which may or may not be credited to the mining companies.

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

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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 and six months ended December 31, 2011 and 2010.

Chinese income taxes

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

Value added tax (“VAT”)

Sales revenue represents the invoiced value of goods, net of VAT. All of the Company’s coal and coke are sold in the PRC and are subject to a Chinese VAT at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing finished products. The

Company records VAT payable and VAT receivable net of payments in the consolidated financial statements. The VAT tax return is filed to offset the payables against the receivables.

Warrants liability

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

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

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

Noncontrolling interests

Noncontrolling interests mainly consist of the 40% equity interests of Xingsheng Coal and Shuangrui Coal owned by unrelated parties. For the three and six months ended December 31, 2011 and 2010, there was no net income or loss attributable to such noncontrolling interests because neither Xingsheng Coal nor Shuangrui Coal was operational during such periods.

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Earnings per share

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

Comprehensive income

FASB's accounting standard regarding comprehensive income establishes requirements for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements. This accounting standard defines comprehensive income to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, it also requires 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.

Recent Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income — Presentation of Comprehensive Income*. ASU2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. It requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU 2011-12, "*Comprehensive Income — Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*," to defer the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other provisions of this update, which are to be applied retrospectively, are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-12 will have no significant impact on our consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, "*Balance Sheet — Disclosures about Offsetting Assets and Liabilities*." ASU 2011-11 requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments and will be applied retrospectively for all comparative periods presented. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company currently believes that this ASU will have no significant impact on its consolidated financial statements

Note 3 – Concentration and credit risk

The Company's operations are all carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

For the three months ended December 31, 2011, 93.3% of the Company's total revenue was from four major customers who individually accounted for 26.6%, 22.3%, 22.2% and 22.2% of total revenue, respectively. For the six months ended December 31, 2011, 87.3% of the Company's total revenue was from the same four major customers who individually accounted for 24.9%, 22.1% and 20.6% and 19.7of total revenue, respectively. Accounts receivable of these four customers were 28.7%, 24.2%, 22.1%, and 20.5% of the total accounts receivable balance at December 31, 2011, respectively. For the three months ended December 31, 2010, 87.2% of the Company's total revenue was from three major customers who individually accounted for 53.3%, 21.9% and 12.0% of total revenue, respectively. For the six months ended December 31, 2010, 91.2% of the Company total revenue was from the same three major customers who individually accounted for 50.4%, 25.3% and 15.6% of total revenues, respectively. Accounts receivable of these three major customers who individually accounted for 52.1%, 27.4% and 9.7% of the total accounts receivable balance at December 31, 2010, respectively.

For the three and six months ended December 31, 2011 and 2010, all of the Company's raw material purchases as well as accounts payable were generated in the PRC.

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For the three months ended December 31, 2011, five major suppliers provided 63.7% of the Company’s total raw material purchases, with each supplier individually accounting for 15.8%, 13.9%, 12.3%, 11.3% and 10.5% of total raw material purchases, respectively. For the three months ended December 31, 2010, six major suppliers provided 75.1% of total raw material purchases, with each supplier individually accounting for 10.4%, 11.8%, 13.8%, 13.4%, 12.7% and 13.0% of total raw material purchases, respectively. For the six months ended December 31, 2011, five major suppliers provided 63.0% of total raw material purchases, with each supplier individually accounting for 15.4%, 14.0%, 11.8%, 11.6% and 10.1% of total purchases, respectively. For the six months ended December 31, 2010, four major suppliers provided 58.4% of total raw material purchases, with each supplier individually accounting for 10.1%, 13.1%, 12.5% and 22.8% of total raw material purchases respectively. As of December 31, 2011 and 2010, the Company did not have payables to any of these suppliers.

The Company held no accounts payable from its major suppliers as of December 31, 2011 and June 30, 2011.

Note 4 – Loans receivable

On June 8, 2011, Top Favour loaned $10,044,200 to Capital Paradise Limited (“CPL”), an unrelated party. This loan matures on June 7, 2012 and is unsecured and bears an annual interest rate of 9.45%. Interest is due every six months. On July 19, 2011, CPL repaid $1,859,053 of the loan principal.

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

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

For the three and six months ended December 31, 2011, the Company wrote off $360,929 of uncollectible other receivables representing interest on the loans to Mr. Qimin Jian and Mr. Chong Chen from the prior fiscal year and for the three months ended September 30, 2011.

In August 2011, Top Favour loaned an additional $801,000 to CPL, This loan is unsecured, interest free, and due on demand.

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

For the three months ended December 31, 2011 and 2010, interest income from loans receivable amounted to $210,815 and $0, respectively. For the six months ended December 31, 2011 and 2010, interest income from loans receivable amounted to $747,928 and $0, respectively.

Note 5 – Other receivables

Other receivables consisted of the following:

	December 31, 2011	June 30, 2011
Receivables from an unrelated company	$ 729,045	$ 125,503
Advances to employees	190,334	42,740
Interest receivable	560,192	-
Miscellaneous	8,380	63,883
Other receivables	$ 1,487,951	$ 232,126

Note 6 – Inventories

Inventories consisted of the following:

	December 31, 2011	June 30, 2011
Raw materials	$ 599,485	$ 179,957
Work in process	4,441,161	751,529

Supplies	75,552	87,430
Finished goods	3,615,568	1,992,010
Total	$ 8,731,766	$ 3,010,926

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Note 7 – Advances to suppliers

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

Advances to suppliers as of December 31, 2011 and June 30, 2011 amounted to $9,854,042 and $8,994,833, respectively.

Note 8 – Prepayments

Prepayments for land use rights

Prepayments for land use rights are monies advanced in connection with acquiring land use rights to expand the site of the Company's new coking plant still under construction. Such prepayments were paid to the former occupants of the land underlying the land use rights, and are not refundable. In July and August 2011, the Company made deposits in aggregate of $1,251,200 (RMB 8 million) to Pingdingshan Bureau of Land and Resources for obtaining the land use right certificates. As of December 31, 2011 and June 30, 2011, prepayments for land use rights amounted to $11,033,400 and $8,980,335, respectively. The Company expects to acquire the land use rights by the fiscal year end June 30, 2012, at an estimated total cost of $11,490,765 (RMB 73, 050,000).

Prepayments for acquisitions

The Company has been in the process of acquiring coal mine companies with annual production capacity of 150,000 to 300,000 metric tons, pursuant to a government-directed coal mine consolidation program. As of June 30, 2011, the Company had prepaid $20,905,922 (RMB 135,138,476) in the aggregate in connection with four potential targets which the Company later decided not to acquire. Pursuant to the Company's agreements with the owners of these four targets entered into in August 2011, the Company's prepayments would be refunded to the Company by December 31, 2011. In August 2011, $7.86 million (RMB 50,210,000) was refunded to the Company and $1.1 million (RMB 7,062,727) was reclassified as coal product purchase deposit. The balance of $12,248,282 is accounted as refund receivable of mine acquisition prepayments in the accompanying consolidated condensed balance sheets as of December 31, 2011. The Company is actively communicating with the local government to ensure that the mine owners repay the remaining balance within the near future.

In December 2010, the Company advanced $4,641,000 (RMB 30 million) to Henan Province Coal Seam Gas Development and Utilization Co., Ltd. ("Henan Coal Seam Gas"), a state-owned enterprise and qualified provincial-level mine consolidator, to form a joint-venture with Zhonghong for the purpose of acquiring coal mines within Henan Province. The joint-venture, Henan Hongyuan Coal Seam Gas Engineering Technology Co., Ltd. ("Hongyuan CSG"), was established on April 28, 2011.

As of December 31, 2011 and June 30, 2011, prepayments for mine acquisitions amounted to $4,719,000 and $25,546,922, respectively.

Prepayments for construction

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

As of December 31, 2011, the Company made prepayments of approximately $20.4 million toward construction of its new coking plant.

In addition, the Company made prepayments of approximately $1.25 million (RMB 8 million) during the year ended June 30, 2010 for constructing new mining tunnels. As of December 31, 2011, this project had not commenced. The Company expects to start this project in late 2012.

The total contract price of construction amounted to approximately $64.5 million. Prepayments for construction, as of December 31, 2011 and June 30, 2011, amounted to $21,641,955 and $8,134,736, respectively.

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Note 9 –Plant and equipment, net

Plant and equipment consisted of the following:

	December 31, 2011	June 30, 2011
Buildings and improvements	$ 10,758,740	$ 10,580,909
Mine development cost	11,366,548	11,178,672
Machinery and equipment	7,270,124	7,149,957
Other equipment	431,722	421,189
Total	29,827,134	29,330,727
Less accumulated depreciation	(13,103,794)	(12,173,185)
Total plant and equipment, net	$ 16,723,340	$ 17,157,542

Depreciation expense amounted to $301,038 and $ 303,534 for the three month ended December 31, 2011 and 2010, respectively, and $722,325 and $717,228 for the six months ended December 31, 2011 and 2010, respectively.

Note 10 – Construction in progress

Construction in progress at December 31, 2011 and June 30, 2011 amounted to $38,983,421 and $23,204,544, respectively. Construction in progress was related to the new coking plant. No depreciation is provided for construction in progress until such time the assets are completed and placed into service.

Project	Total as of December 31, 2011	Estimate cost to complete	Estimated total cost	Estimated completion date
New coking plant	$ 38,983,421	$ 25,489,571	$64,472,992	December 2012

Note 11 – Intangible – land use rights, net

Land use rights, net, consisted of the following:

	December 31, 2011	June 30, 2011
Land use rights	$ 2,466,008	$ 2,425,247
Accumulated amortization	(548,002)	(505,260)
Total land use rights, net	$ 1,918,006	$ 1,919,987

Amortization expense for the three months ended December 31, 2011 and 2010 amounted to $17,103 and $16,376, respectively. Amortization for the six months ended December 31, 2011 and 2010 amounted to $34,076 and $32,478, respectively.

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

Year ending June 30,	Amortization Expense
2012	$ 34,076
2013	68,152
2014	68,152
2015	68,152
2016	68,152
Thereafter	1,611,322
Total	$ 1,918,006

Note 12 – Intangible – mining rights, net

Mining rights, net, consisted of the following:

	December 31, 2011	June 30, 2011
Mining rights	$ 42,696,300	$ 41,990,576
Accumulated depletion	(13,014,992)	(12,581,711)
Total mining rights, net	$ 29,681,308	$ 29,408,865

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Depletion expense for the three months ended December 31, 2011 and 2010 amounted to $0 and $376,731, respectively. Depletion expense for the six months ended December 31, 2011 and 2010 amounted to $220,695 and $747,150. Depletion expenses were charged to cost of revenue in the period incurred using the unit-of-production method. No depletion was incurred due to the shutdown of coal mines for the quarter ended December 31, 2011.

Note 13 – Long-term investments

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

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

In April 2011, Hongyuan CSG was established by Zhonghong (49%) and Henan Coal Seam Gas (51%) as a joint venture. The total registered capital of Hongyuan CSG is approximately $15.47 million (RMB 100 million). As of December 31, 2011, approximately $3.09 million (RMB 20 million) of the registered capital was funded, of which $1.5 million (RMB 9.8 million) was paid by Zhonghong. The remaining registered capital is due on April 20, 2013, of which approximately $6.0 million (RMB 39.2 million) will be paid by Zhonghong. Zhonghong's investment in Hongyuan CSG is accounted for under the equity method.

Note 14 – Short-term loans

Short-term loans represent amounts due to various banks which generally can be renewed.

On June 16, 2011, Hongyuan entered a one-year loan agreement with a local bank to borrow $4,950,400 (RMB 32 million) with per annum interest rate of 6.435%. The collateral of this bank loan was pledged by Top Favour through a bank deposit with the same bank of $6 million with an annual interest rate of 1.3%. The loan was guaranteed by the Company's CEO. The loan was paid off on September 14, 2011, and Hongyuan renewed the loan for another year with the same local bank to borrow $5,033,600 (RMB 32 million) with per annum interest rate of 6.71%. The collateral for this bank loan was pledged by Top Favour through a bank deposit with the same bank of $6.5 million with an annual interest rate of 1.3% and the loan is guaranteed by the Company's CEO.

Note 15 – Long-term loans

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

On April 2, 2011, Hongli entered into a loan agreement with Bairui Trust Co., Ltd. ("Bairui"), an unrelated party, pursuant to which Bairui agreed to loan Hongli the sum of approximately $55.7 million (RMB 360 million) with annual interest of 6.3%, of which approximately $27.8 million (RMB 180 million) is due on April 2, 2013, and approximately $27.8 million (RMB 180 million) on April 2, 2014. The loan was issued on April 3, 2011 and guaranteed by Hongyuan and the Company's CEO.

Average interest rate of the short-term and long-term loans was 5.00% and 4.99% for the three months ended December 31, 2011 and 2010, respectively. Total interest expense on short-term and long-term loans for the three months ended December 31, 2011 and 2010 amounted to $754,945 and $230,937, respectively, of which $439,482 and $0 was capitalized into CIP, respectively.

Weighted average interest rate was 5.01% and 4.94% for the six months ended December 31, 2011 and 2010, respectively. Total interest expense on short-term and long-term loans for the six months ended December 31, 2011 and 2010 amounted to $1,518,442 and $411,306, respectively, of which $787,420 and $137,774 was capitalized into CIP, respectively.

Note 16 – Taxes

Income tax

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

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

As approved by the local tax bureau, Hongchang Coal's total income tax obligation for each of the calendar years 2011 and 2010 and is approximately $380,000 (RMB 2,520,000), regardless of its actual taxable income during such period.

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There are no estimated tax savings from the foregoing reduced tax rate for the three months ended December 31, 2011. The estimated tax savings from the foregoing reduced tax rate amounted to $402,047 for the three months ended December 31, 2010. If the statutory income tax had been applied, the Company would have had increased basic and diluted loss per share from $0.33 to $0.35 for the three months ended December 31, 2010.

The estimated tax savings from the foregoing reduced tax rate amounted to $209,873 and $562,665 for the six months ended December 31, 2011 and 2010, respectively. If the statutory income tax had been applied, the Company would have had decreased basic and diluted earnings per share from $0.52 to $0.51 for the six months ended December 31, 2011, and decreased basic and diluted earnings per share from $0.41 and $0.40, respectively, to $0.38 for the six months ended December 31, 2010.

The provision for income taxes consisted of the following:

	For the three months ended December 31,		For the six months ended December 31,	
	2011	2010	2011	2010
US current income tax expense	$ -	$ -	$ -	$ -
BVI current income tax expense	-	-	-	-
PRC current income tax expense	911,148	1,278,833	2,406,817	2,227,601
Total provision for income taxes	$ 911,148	$ 1,278,833	$ 2,406,817	$ 2,227,601

SinoCoking is incorporated in the U.S. and has incurred a net operating loss for income tax purposes for 2011. As of December 31, 2011, the estimated net operating loss carryforwards for U.S. income tax purposes was approximately $1,587,000, which may be available to reduce future years' taxable income. The net operating loss carry forward will expire through 2031 if not utilized. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at December 31, 2011 and June 30, 2011, respectively. The Company's management reviews this valuation allowance periodically and makes adjustments as necessary.

The following table reconciles the valuation allowance for the three and six months ended December 31, 2011 and 2010.

	For three months ended		For six months ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Beginning balance	$ 508,000	$ 435,000	$ 460,000	$ 276,000
Additions	31,000	7,000	79,000	166,000
Ending balance	$ 539,000	$ 442,000	$ 539,000	$ 442,000

The Company has cumulative undistributed earnings of foreign subsidiaries of approximately $41.4 million as of December 31, 2011, which was included in consolidated retained earnings and will continue to be reinvested in its operations in China. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted in the future.

Value added tax

The Company incurred VAT on sales and VAT on purchases in the PRC amounting to $2,943,738 and $2,818,790 for the three months ended December 31, 2011, respectively, and $3,318,650 and $1,885,137 for the three months ended December 31, 2010, respectively.

The Company incurred VAT on sales and VAT on purchases in the PRC amounting to $7,195,767 and $6,020,705 for the six months ended December 31, 2011, respectively, and $5,978,296 and $3,301,456 for the six months ended December 31, 2010, respectively.

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

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Taxes payable

Taxes payable as of December 31, 2011 and June 30, 2011 consisted of the following:

	December 31, 2011	June 30, 2011
VAT	$ 58,891	$ 888,602
Income tax	2,597,860	1,710,717
Others	163,685	257,352
Total taxes payable	$ 2,820,436	$ 2,856,671

Note 17 – Capital transactions

Increase of registered capital in Hongli

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

Options

2002 Stock Option Plan for Directors

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

2002 Consultant Stock Plan

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

1999 Stock Option Plan

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

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On February 5, 2010, the completion date of the Share Exchange, there were options exercisable for 11,124 shares of the Company's common stock outstanding.

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

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

The following consisted of the outstanding and exercisable options at December 31, 2011

Outstanding Options			Exercisable Options		
Number	Average Remaining	Average	Number	Average Remaining	Average
Of Options	Contract Life	Exercise Price	of Options	Contractual Life	Exercise Price
10,851	2.56 years	$ 86.79	10,851	2.56 years	$ 86.79

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

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

Granted	-
Forfeited	-
Exercised	-
Outstanding, December 31, 2011	10,851

Warrants

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

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

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

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

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

As of December 31, 2011 and June 30, 2011, warrants that were exercisable into 3,906,853 shares of the Company’s common stock were recorded as derivative instruments. The value of warrant liabilities was $1,206,111 and $5,569,047 at December 31, 2011 and June 30, 2011, respectively. The decrease in fair value of warrants was $1,343,214, and $4,362,936 for the three and six months ended December 31, 2011, and was recorded as gain on change in fair value of warrants.

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

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