

SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC.  
Form 10-Q  
May 16, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 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  
(State or other jurisdiction of incorporation or  
organization)

65-0420146  
(I.R.S. employer identification number)

Kuanggong Road and Tiyu Road 10th Floor,  
Chengshi Xin Yong She, Tiyu Road, Xinhua District,  
Pingdingshan, Henan Province, 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  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 (§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  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   
Non-accelerated filer

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

As of May 12, 2011, the Registrant had 21,087,645 shares of common stock outstanding.

---

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.  
FORM 10-Q

TABLE OF CONTENTS

		Page Number
	SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	3
	PART I. FINANCIAL INFORMATION	4
Item 1.	Financial Statements	4
	Consolidated Balance Sheets as of March 31, 2011 (unaudited) and June 30, 2010	4
	Consolidated Statements of Income and Other Comprehensive Income (Loss) for the Three and Nine Months Ended March 31, 2011 and 2010 (unaudited)	5
	Consolidated Statement of Shareholders' Equity	6
	Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2011 and 2010 (unaudited)	7
	Notes to the Consolidated Financial Statements (unaudited)	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 4.	Controls and Procedures	49
	PART II. OTHER INFORMATION	51
Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	51
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	51
Item 3.	Defaults Upon Senior Securities	51
Item 4.	Reserved	51
Item 5.	Other Information	51

Item 6.	Exhibits	51
SIGNATURES		55

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

## ITEM 1.

## FINANCIAL STATEMENTS

## SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (Unaudited)	June 30, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$5,122,863	\$17,403,008
Restricted cash	19,297,500	22,902,000
Loans receivable	2,075,125	2,513,308
Notes receivable	3,048,700	1,045,830
Accounts receivable, trade, net	15,836,081	5,304,684
Other receivables	3,307,921	479,121
Other receivables - related parties	-	477,052
Inventories	7,419,285	2,261,816
Advances to suppliers	5,136,004	4,995,703
Total current assets	61,243,479	57,382,522
PLANT AND EQUIPMENT, net	27,591,252	20,930,413
<b>OTHER ASSETS</b>		
Prepayments for land use rights	8,852,625	5,074,485
Prepayments for mine acquisitions	17,406,705	8,858,398
Prepayments for construction of new operating plant	7,919,053	17,303,883
Intangible - land use rights, net	1,909,286	1,892,292
Intangible - mineral rights, net	1,576,441	2,629,437
Long-term investment	1,220,000	-
Other assets	116,083	103,110
Total other assets	39,000,193	35,861,605
Total assets	\$127,834,924	\$114,174,540
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable, trade	\$433,107	\$291,750
Notes payable	-	2,946,000
Short term loans - bank	15,250,000	14,730,000
Short term loans - others	-	515,550
Other payables and accrued liabilities	591,180	1,433,121
Other payables - related party	380,622	51,381
Customer deposits	158,252	106,830
Taxes payable	1,646,746	1,229,019
Total current liabilities	18,459,907	21,303,651

## OTHER LIABILITIES

Warrant derivative liability	15,041,496	30,436,087
Total other liabilities	15,041,496	30,436,087
Total liabilities	33,501,403	51,739,738

## COMMITMENTS AND CONTINGENCIES

## SHAREHOLDERS' EQUITY

Common shares, \$0.001 par value, 100,000,000 authorized, 21,090,948 and 20,871,192 issued and outstanding as of March 31, 2011 and June 30, 2010, respectively	21,091	20,871
Additional paid-in capital	3,442,083	67,269
Statutory reserves	2,049,654	1,837,395
Retained earnings	85,004,442	59,373,726
Accumulated other comprehensive income	3,816,251	1,135,541
Total shareholders' equity	94,333,521	62,434,802
Total liabilities and shareholders' equity	\$ 127,834,924	\$ 114,174,540

## SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

	For the three months ended March 31,		For the nine months ended March 31,	
	2011	2010	2011	2010
REVENUE	\$19,872,461	\$15,247,494	\$49,626,255	\$48,140,913
COST OF REVENUE	12,636,751	9,605,889	30,635,815	27,411,765
GROSS PROFIT	7,235,710	5,641,605	18,990,440	20,729,148
OPERATING EXPENSES:				
Selling	75,894	96,549	231,808	400,544
General and administrative	870,284	1,369,063	2,541,924	1,823,661
Total operating expenses	946,178	1,465,612	2,773,732	2,224,205
INCOME FROM OPERATIONS	6,289,532	4,175,993	16,216,708	18,504,943
OTHER INCOME (EXPENSE), NET				
Finance expense, net	(119,311 )	(8,666 )	(689,367 )	(124,629 )
Other income (expense), net	(542 )	109,980	(109,929 )	109,791
Change in fair value of warrants	12,191,235	(39,869,662)	13,663,378	(39,869,662)
Total other income (expense), net	12,071,382	(39,768,348)	12,864,082	(39,884,500)
INCOME(LOSS) BEFORE INCOME TAXES	18,360,914	(35,592,355)	29,080,790	(21,379,557)
PROVISION FOR INCOME TAXES	1,222,473	1,283,907	3,450,074	4,213,029
NET INCOME (LOSS)	17,138,441	(36,876,262)	25,630,716	(25,592,586)
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	2,680,710	29,304	2,680,710	81,976
COMPREHENSIVE INCOME (LOSS)	\$19,819,151	\$(36,846,958)	\$28,311,426	\$(25,510,610)
WEIGHTED AVERAGE NUMBER OF COMMON SHARE				
Basic	21,043,206	15,441,258	20,927,453	14,086,729
Diluted	21,057,332	15,441,258	20,941,252	14,086,729
EARNINGS (LOSS) PER SHARE				
Basic	\$0.81	\$(2.39 )	\$1.22	\$(1.82 )
Diluted	\$0.81	\$(2.39 )	\$1.22	\$(1.82 )





## SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Share Shares	Share Par Value	Additional paid-in capital	Retained earnings Statutory reserves	Unrestricted	Accumulated other comprehensive income	Total
BALANCE, June 30, 2009	13,117,952	\$ 13,118	\$ 3,531,959	\$ 1,127,710	\$ 29,754,451	\$ 779,804	\$ 35,207,042
Shares and warrants issued in reverse merger recapitalization	405,710	406	(406 )				-
Shares and warrants sold for cash	7,344,935	7,345	44,062,265				44,069,610
Offering costs related to shares and warrants sold			(12,015,273)				(12,015,273)
Warrants issued reclassified to derivative liability			(35,578,543)		(8,491,067 )		(44,069,610)
Cumulative effect of reclassification of existing warrants					(631,002 )		(631,002 )
Fractional shares due to the one-for-twenty reverse split	2,595	2	(2 )				-
Net income					(25,592,586)		(25,592,586)
Adjustment of statutory reserve				594,731	(594,731 )		-
Foreign currency translation adjustments						81,976	81,976
BALANCE, March 31, 2010 (Unaudited)	20,871,192	\$ 20,871	\$ -	\$ 1,722,441	\$ (5,554,935 )	\$ 861,780	\$ (2,949,843 )
Net income					64,527,083		64,527,083
Adjustment of statutory reserve				114,954	401,578		516,532
Imputed interests on loans from related parties			67,269				67,269

waived							
Foreign currency translation adjustments						273,761	273,761
BALANCE, June 30, 2010	20,871,192	\$ 20,871	\$ 67,269	\$ 1,837,395	\$ 59,373,726	\$ 1,135,541	\$ 62,434,802
Warrants exercised - cash proceeds	219,756	220	1,318,316				1,318,536
Warrants exercised - derivative value			2,056,498				2,056,498
Net income					25,630,716		25,630,716
Adjustment of statutory reserve				212,259			212,259
Foreign currency translation adjustments						2,680,710	2,680,710
BALANCE, March 31, 2011 (Unaudited)	21,090,948	\$ 21,091	\$ 3,442,083	\$ 2,049,654	\$ 85,004,442	\$ 3,816,251	\$ 94,333,521

## SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the nine months ended March 31, 2011	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$25,630,716	\$(25,592,586)
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:		
Depreciation	1,074,925	1,924,036
Amortization and depletion	1,175,244	2,086,470
Bad debt expense	31,479	-
Change in fair value of warrants	(13,663,378)	39,869,662
Warrants granted for service	325,285	-
Reservation of mine maintenance fee	212,259	-
Change in operating assets and liabilities		
Notes receivable	(1,932,432 )	(2,268,574 )
Accounts receivable, trade	(10,167,772)	(838,340 )
Other receivables	(1,974,874 )	(2,455,188 )
Other receivables - related party	-	30,400
Inventories	(4,991,051 )	(3,275,383 )
Advances to suppliers	26,108	3,687,493
Accounts payable, trade	137,638	(82,926 )
Other payables and accrued liabilities	(876,867 )	91,788
Customer deposits	46,838	(1,956,041 )
Taxes payable	367,959	(1,019,987 )
Net cash (used in) provided by operating activities	(4,577,923 )	10,200,824
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Principal of loans receivable	(2,056,795 )	-
Repayment of loans receivable	2,513,308	-
Long-term investment	(1,199,200 )	-
Payments on equipment and construction-in-progress	(2,022,663 )	(3,157,908 )
Prepayments on construction-in-progress	(515,607 )	(15,883,831)
Refunds of construction prepayments	4,646,900	-
Prepayments on land use rights	(3,537,640 )	-
Prepayments on mine acquisitions	(8,095,177 )	-
Net cash used in investing activities	(10,266,874)	(19,041,739)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in restricted cash	3,747,500	-
Cash proceeds from sale of common stock and warrants	-	44,069,610
Cash proceeds from exercise of warrants	1,318,536	-
Cash offering cost related to common stock	-	(2,263,391 )
Repayments of notes payables	(22,485,000)	-
Proceeds from notes payables	19,487,000	-

Edgar Filing: SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC. - Form 10-Q

Repayments of short-term loans	(524,650 )	(2,808,156 )
Payments to related parties	-	(33,878 )
Proceeds from related parties	800,780	-
Net cash provided by financing activities	2,344,166	38,964,185
EFFECT OF EXCHANGE RATE ON CASH	220,486	24,085
(DECREASE) INCREASE IN CASH	(12,280,145)	30,147,355
CASH, beginning of period	17,403,008	278,399
CASH, end of period	\$5,122,863	\$30,425,754
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	\$3,033,071	\$4,425,065
Cash paid for interest expense, net of capitalized interest	\$393,933	\$106,789
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES		
Warrants issued for placement agent fee	\$-	\$9,751,882
Reclassification of derivative liability to equity related to exercise of warrants	\$2,056,498	\$-
Construction-in-progress acquired with prepayments made in prior period	\$4,873,249	\$2,455,508

- 7 -

---

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011  
(UNAUDITED)

Note 1 – Nature of business and organization

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

On February 5, 2010, the Company completed a share exchange transaction with Top Favour Limited (“Top Favour (BVI)”), and Top Favour (BVI) became a wholly-owned subsidiary of the Company. In connection with the closing of the share exchange transaction, all of the assets and liabilities of Ableauction.com, Inc.’s former business had been transferred to a liquidating trust, including the capital stock of its former subsidiaries. After the share exchange transaction, Top Favour (BVI)’s shareholders owned approximately 97% of the issued and outstanding shares. The management members of Top Favour (BVI) became the directors and officers of the Company. The share exchange transaction was accounted for as a reverse acquisition and recapitalization and as a result, the consolidated financial statements of the Company (the legal acquirer) is, in substance, those of Top Favour (BVI) (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the share exchange transaction. As the share exchange transaction was accounted for as a reverse acquisition and recapitalization, there was no gain or loss recognized on the transaction. The historical financial statements for periods prior to February 5, 2010 are those of Top Favour (BVI) except that the equity section and earnings per share have been retroactively restated to reflect the reverse acquisition (Note 3).

Top Favour (BVI) was incorporated in the British Virgin Islands on July 2, 2008. Top Favour (BVI) owns 100% of Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. (“Hongyuan”), which was formed on March 18, 2009, with registered capital of \$3,000,000 under the laws of the People’s Republic of China (“PRC” or “China”). Through contractual arrangements (Note 2), Hongyuan controls Henan Pingdingshan Hongli Coal & Coking Co., Ltd., (“Hongli”), a PRC company formed on June 5, 1996 with registered capital of \$1,055,248 or 8,080,000 Renminbi (“RMB”). As of March 31, 2011, Hongli had a branch, Baofeng Coking Factory (“Baofeng Coking”), as well as two subsidiaries and a company under its control as follows:

- Baofeng Hongchang Coal, Ltd. (“Hongchang Coal”), a PRC company formed on July 19, 2007 with registered capital of \$396,000 (RMB 3,000,000) and wholly-owned by Hongli;
  - Baofeng Hongguang Power Co., Ltd. (“Hongguang Power”), a PRC company formed on August 1, 2006 with registered capital of \$2,756,600 (RMB 22,000,000) and wholly-owned by Hongli; and
- Zhonghong Energy Investment Company (“Zhonghong”), a PRC company formed on December 30, 2010 with registered capital of \$1,500,000 (RMB 10,010,000), of which \$455,100 (RMB 3,000,000) has been paid and the remaining due by December 20, 2015. The equity interests of Zhonghong are held by three nominees on behalf of Hongli pursuant to share entrustment agreements.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011  
(UNAUDITED)

The Company's business operations consist of producing and selling coke products, coking by-products, coal products, and coal gas-generated electricity in the PRC. Presently, coking related activities are carried out by Baofeng Coking, coal related activities by Hongchang Coal, and electricity generation by Hongguang Power. However, it is the Company's intention to transfer all coal related activities to a joint-venture between Zhonghong and Henan Province Coal Seam Gas Development and Utilization Co., Ltd., (Note 27). As of March 31, 2011, the transfer of the Company's coal related activities to the joint-venture had not been carried out.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

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

Principles of consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries – Top Favour (BVI) and Hongyuan, and its variable interest entities (“VIEs”) – Hongli and its subsidiaries, and Zhonghong. 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.

ASC 810 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;

- 9 -

---



SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011  
(UNAUDITED)

- (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.

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

#### Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions relate to coal reserves that are the basis for future cash flow estimates and units-of-production depletion calculations; asset impairments; valuation allowances for deferred income taxes; reserves for contingencies; and the fair value and accounting treatment of certain financial instruments. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates. In addition, different assumptions or conditions could reasonably be expected to yield different results.

#### Stock-based compensation

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.