AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 14, 2015

REGISTRATION STATEMENT NO. 333-178325

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 1 TO FORM S-3

ON

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SINOCOKING COAL AND COKE

CHEMICAL INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Florida	**3312**	**65-0420146**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

Kuanggong Road and Tiyu Road, 10th Floor,

ChengshiXin Yong She, Tiyu Road,

Xinhua District, Pingdingshan, Henan Province

People's Republic of China

467000

Telephone No. +86-3752882999

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Copies to:

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(Name, address and telephone number of agent for service)

Approximate Date of Proposed Sale to the Public: From time to time after the date this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

EXPLANATORY NOTE

The Registrant filed a shelf registration statement on Form S-3 (Registration No. 333-178325) (the "Original Registration Statement") declared effective by the Securities and Exchange Commission on May 10, 2012, which registered shares of common stock of the Registrant. This Post-Effective Amendment No. 1 to Form S-3 on Form S-1 Registration Statement is being filed to amend the Original Registration Statement into a registration statement on Form S-1 to maintain the registration of certain securities previously registered on the Original Registration Statement. Due to a late filing of a quarterly report for the quarter ended March 31, 2014 on Form 10-Q, SinoCoking Coal & Coke Chemical Industries, Inc. (the "Company") was unable to continue to use its existing Form S-3. Consequently, the Registrant is not currently eligible to use Form S-3 in connection with the current offering. The Registrant is filing this Post-Effective Amendment No. 1 to Form S-3 on Form S-1 to amend the Original Registration Statement into a registration statement on Form S-1 to (i) continue the registration of: (a) 1,409,423 Shares of Common Stock issuable upon exercise of the Series A Warrants issued in the September 2014 offering subject to the September 19, 2014 Prospectus Supplement, (b) 1,644,737 Shares of Common Stock issuable upon exercise of the Series B Warrants issued in the September 2014 offering subject to the September 19, 2014 Prospectus Supplement, (c) 1,644,737 Shares of Common Stock issuable upon exercise of options issued in the September 2014 offering subject to the September 19, 2014 Prospectus Supplement, (d) 822,369 Series C Warrants and 822,369 Shares of Common Stock issuable upon exercise of the Series C Warrants issued in the September 2014 offering subject to the September 19, 2014 Prospectus Supplement, (e) 225,508 Shares of Common Stock issuable upon exercise of the Placement Agent Warrants issued in the September 2014 offering subject to the September 9, 2014 Placement Agent Agreement and the September 18, 2014 Securities Purchase Agreement, and (f) up to 131,579 Placement Agent Warrants and 131,579 Shares of Common Stock issuable upon exercise of the options described above, all previously registered on the Original Registration Statement. All filing fees payable in connection with the registration of these securities were previously paid in connection with the filing of the original registration statement.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

THE INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THESE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS DECLARED EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JANUARY 14, 2015

PRELIMINARY PROSPECTUS

SINOCOKING COAL AND COKE

CHEMICAL INDUSTRIES, INC.

5,746,774 Shares of Common Stock

This prospectus covers the sale of up to:

- 1,409,423 Shares of Common Stock issuable upon exercise of the Series A Warrants sold in our September 24, 2014 offering which may be exercised at a price of $6.38 per share.
- 1,644,737 Shares of Common Stock issuable upon exercise of the Series B Warrants sold in our September 24, 2014 offering which may be exercised at a price of $6.08 per share.
- 1,644,737 Shares of Common Stock issuable upon exercise of option issued in the September 2014 offering subject to the September 19, 2014 Prospectus Supplement.
- 822,369 Shares of Common Stock issuable upon exercise of the Series C Warrants sold in our September 24, 2014 offering which may be exercised at a price of $6.08 per share and the issuance of the Series C Warrants.
- 357,087 Shares of Common Stock issuable upon exercise of the Placement Agent Warrants issued in connection with our September 24, 2014 offering which may be exercised at a price of $6.08 per share and the issuance of the Placement Agent Warrants.

Our common stock became eligible for trading on the NASDAQ Capital Market February 17, 2010. Our common stock trades on the NASDAQ Capital Market under the symbol “SCOK”. The closing price of our stock on January 13, 2015 was $2.65.

Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 4 of this prospectus for more information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or the prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _________________.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. This prospectus may be used only where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of securities.

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus; it does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus before making an investment decision.

References to "we," "our," "us," the "Company," the "registrant," or "SinoCoking" refer to SinoCoking Coal and Coke Che Industries, Inc., a Florida corporation, including its consolidated subsidiaries and VIE controlled entities.

Our Business

We are a vertically-integrated coal and coke producer based in Henan Province, People's Republic of China ("PRC" or "China"). Our products currently include raw coal, washed coal, "medium" or mid-coal, coal slurries, coke, coal tar and crude benzol, although we anticipate continuing to reduce our reliance on coal products and expand into the clean energy industry. We also generate electricity from gas emitted during the coking process, which we use primarily to power our operations.

In May 2014, we commenced plans to further extend our coal and coke operations into the clean-burning synthetic gas field. During the beginning of July 2014, we started an investment plan of approximately $7.8 million or RMB 48 million to build a coke gasification facility for the conversion of carbon dioxide into a clean-burning synthetic gas ("syngas"). The construction was completed near the end of September 2014 and commenced its production in the middle of October 2014. The annual capacity of the coke gasification facility is designed at 219,000,000 cubic meters of syngas or 25,000 cubic meters of syngas per hour.

On August 28, 2014, we also entered into a cooperative agreement with North China Institute of Science and Technology regarding underground coal gasification development to refine and implement a technology to convert our coal mines with 2.3 million tons of coal recovery reserves into syngas. At the first phase of this cooperation, we will invest $18 million in building an underground coal gasification facility with an annual production capacity of 525,600,000 cubic meters of syngas or 60,000 cubic meters of syngas per hour. The construction commenced in October 2014 and is expected to complete in February 2015. Our target is to build an underground coal gasification facility with an annual production capacity of 7,708,800,000 cubic meters of syngas or 880,000 cubic meters of syngas per hour. The required funding is expected to come from our operations and loans from financial institutions.

With the coke and coal gasification implementation plans, we plan to transition from being a producer of coal and coke products to a multifunctional energy company engaged in providing coal, coke, and clean-burning syngas.

Our business operations are conducted by Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. (“Hongli”), which we control through contractual arrangements that Hongli and its owners have entered into with Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. (“Hongyuan”), a wholly-owned subsidiary of Top Favour Limited (“Top Favour”), a British Virgin Island company and our wholly owned subsidiary. These contractual arrangements provide for management and control rights, and in addition entitle us to receive the earnings and control the assets of Hongli. Other than our interests in the contractual arrangements, we do not own any equity interests in Hongli.

As of September 30, 2014:

- Coking related operations, including coke gasification, are carried out by Hongli and its branch, Baofeng Coking Factory (“Baofeng Coking”).

- Coal related operations, including underground coal gasification, are under the following three subsidiaries of Hongli, although all mining activities are currently on hold pending the ongoing mining moratorium:

(1) Baofeng Hongchang Coal Co., Ltd. (“Hongchang Coal”);
(2) Baofeng Shuangrui Coal Mining Co., Ltd. (“Shuangrui Coal”), which is wholly owned by Hongchang Coal; and
(3) Baofeng Xingsheng Coal Mining Co., Ltd. (“Xingsheng Coal”).

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

The coal-related activities for the periods discussed below are those of Hongchang Coal only, although its mining operations were halted in September 2011. Our other coal mine companies have halted operations since the provincial-wide mining moratorium was imposed in June 2010. As of the date of this report, we do not know when the mining moratorium will be lifted, or when we can resume our mining operations, if at all.

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

General Information

Our principal executive offices are located at Kuanggong Road and Tiyu Road 10th Floor, Chengshi Xin Yong She, Tiyu Road, Xinhua District, Pingdingshan, Henan Province, China 467000, and our telephone number is +86-3752882999.

The Offering

Issuer	SinoCoking Coal and Coke Chemical Industries, Inc.
Securities offered	This prospectus covers the sale of up to: • 1,409,423 Shares of Common Stock issuable upon exercise of the Series A Warrants which may be exercised at a price of $6.38 per share; • 1,644,737 Shares of Common Stock issuable upon exercise of the Series B Warrants which may be exercised at a price of $6.08 per share; • 1,644,737 Shares of Common Stock issuable upon exercise of option; • 822,369 Shares of Common Stock issuable upon exercise of the Series C Warrants which may be exercised at a price of $6.08 per share and the issuance of the Series C Warrants, and • 357,087 Shares of Common Stock issuable upon exercise of the Placement Agent Warrants which may be exercised at a price of $6.08 per share and the issuance Placement Agent Warrants.
Common stock to be outstanding after this offering	29,838,570 shares (assuming all the warrants and options are exercised)
Use of Proceeds	We will receive proceeds from the exercise of the warrants if the warrants are exercised for cash. See "Use of Proceeds".
Risk Factors	You should carefully read and consider the information set forth under "Risk Factors," together with all of the other information set forth in this prospectus, before deciding to invest in shares of our common stock.
NASDAQ Capital Market symbol	We list our common stock on the NASDAQ Capital Market under the symbol "SCOK".

The number of shares of common stock outstanding before and after the offering is based on 23,960,217 shares outstanding as of September 30, 2014 and excludes:

- 4,102,037 shares of common stock issuable upon the exercise of warrants outstanding at September 30, 2014 with a weighted average exercise price of $6.18 per share,

- 1,644,737 shares of common stock issuable upon the exercise of options outstanding at September 30, 2014 with a weighted average exercise price of $6.08 per share,

- 131,579 shares of common stock issuable upon the exercise of placement agent warrants issuable to the extent of exercise of options outstanding at September 30, 2014 with a weighted average exercise price of $6.08 per share for such placement agent warrants, and

- 2,000,000 shares of common stock reserved for future grants and awards under our equity incentive plans as of September 30, 2014.

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Risk Factors

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

Risks Related To Our Business

If we cannot continue as a going concern, you will lose your entire investment.

In their report in connection with our financial statements for the fiscal year ended June 30, 2014, our independent registered public accounting firm included an explanatory paragraph stating that because we require additional funds to meet our obligations, there is substantial doubt as to our ability to continue as a going concern. If we cannot continue as a going concern, your entire investment may be worthless. Our ability to continue as a going concern will depend, in large part, on our ability to obtain additional financing or extend the terms of our existing financing, neither of which prospect is certain.

If we do not raise additional capital or refinance our debt, we will not be able to achieve our objectives and we may need to curtail or even discontinue operations.

At June 30, 2014, our current assets exceeded current liabilities by over $6.8 million, including $21 million that we owe Bairui Trust Co., Ltd. On September 18, 2014, we sold 2,818,845 shares of our common stock for $14.3 million. However, our cash flow from operating activities during the year ended June 30, 2014 was an outflow of $648,678 and our cash balance was $0.2 million as of June 30, 2014, comparing to our short-term loans of $21 million which will be due in the next 12 months. Our ability to continue as a going concern depends upon our expenditure requirements and repayments of our short-term and long-term loan facilities with Bairui Trust Co., Ltd. (“Bairui Trust”) as and when they fall due. At present, we have no firm commitments for investment capital and no debt facilities. Additional capital may not be available to us or may be available only on terms that are unfavorable. If capital is not available on satisfactory terms, or is not available at all, we may be unable to continue to fully develop our business. In addition, our results of operations may decline from previous levels or may fail to meet expectations. As a result, the price of our publicly traded securities may decline, causing you to lose all or part of your investment.

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

Since our principal revenue source is from the sale of coal and coke in China, our business and operating results are highly dependent on China’s supplies and demands. The Chinese coal and coke markets are cyclical and exhibit fluctuation in supply and demand from year to year. They are subject to numerous factors beyond our control, including, but not limited to, general economic conditions in the PRC and fluctuations in industries with high demand for coal, such as the power and steel industries. These factors are also linked to or influenced by global economic conditions. Supply and demand fluctuations can affect prices, which in turn affect our operating and financial performance. We have seen substantial price fluctuations in the past and believe that such fluctuations may continue. Demand is primarily influenced by the pace of domestic economic growth and development, as measured by the requirements of the power, steel, and construction industries. Supply, on the other hand, is primarily affected by geography, the domestic and international production volumes, tariffs duties and trade controls, value-added taxes imposed on imports, and international freight costs. Alternative fuels such as natural gas, oil and nuclear power, and alternative energy sources, such as hydroelectric power, wind, geothermal and solar, also have influences on supply and demand. Excess supply or significant reduction in demand can adversely affect pricing, which would in turn cause a significant decline in our profitability.

Our coal and coke operations are inherently subject to changing conditions that can affect our profitability.

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

- changes in the laws and/or regulations that we are subject to, including permitting, safety, labor and environmental requirements; and

- labor shortages.

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

Our coal and coke operations, like those of other Chinese natural resources and energy companies, are subject to extensive regulations administered by the PRC government. Central governmental authorities, such as the National Development and Reform Commission, the State Environmental Protection Administration, the Ministry of Land and Resources, the State Administration of Coal Mine Safety, the State Bureau of Taxation, and provincial and local authorities and agencies exercise extensive control over various aspects of our industry, which affect the following material aspects of our operations:

- exploration, exploitation and mining rights and licensing;
- rehabilitation of mining sites after mining is completed;
- recovery rate requirements;
- industry-specific taxes and fees;
- target of our capital investments;
- pension funds appropriation; and
- environmental and safety standards.

We believe that our operations are in compliance with applicable legal and regulatory requirements. However, there can be no assurance that the central, provincial or local governments in the PRC will not impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures by us to comply (see "*We may not be able to resume our coal mining operations in the near future*" below). We may face significant constraints on our ability to implement our business strategies or to carry out or expand business operations. We may also be materially and adversely affected by future changes in certain regulations and policies of the PRC government in respect of the coal or coke industry. New legislation or regulations may be adopted that may materially and adversely affect our operations, our cost structure or demand for our products. In addition, new legislation or regulations or different or more stringent interpretation of existing laws and regulations may also require us to substantially change our existing operations or incur significant costs.

We may not be able to resume our coal mining operations.

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

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

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

A central element of our business plan involves the construction and operation of our new coking plant. As of the date of this Report, however, construction has not yet been completed. As of June 30, 2014, total amount due for the plant's construction was approximately $125.4 million, of which approximately $87 million has been paid, and the remaining $38.4 million will be paid based on construction progress. In light of downturns in the coke market, however, we have had stoppage previously, and have currently slowed down construction. While we intend to resume construction at full pace when market conditions improve, there can be no assurance as to when that will occur.

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

As a producer of coal and coke products, we are subject to significant, extensive, and increasingly stringent environmental protection laws and regulations in China. These laws and regulations:

- impose fees for the discharge of waste substances;
- require the establishment of reserves for reclamation and rehabilitation;
- require the payment of fines for serious environmental offences; and
- allow the Chinese government, at its discretion, to close any facility that fails to comply with environmental regulations or government orders.

Our operations produce waste water, gas and solid waste materials. Currently, the PRC government is moving toward more rigorous enforcement of applicable laws and regulations as well as the adoption and enforcement of more stringent environmental standards. Our current expenditure for environmental regulatory compliance may not be sufficient if additional regulations are imposed and we may need to allocate additional funds for such purpose. If we fail to comply with current or future environmental laws and regulations, we may be required to pay penalties or fines or take corrective actions, any of which may have a material adverse effect on our business operations and financial condition.

In addition, China is a signatory to the 1992 United Nations Framework Convention on Climate Change and the 1997 Kyoto Protocol, which are intended to limit emissions of greenhouse gases. Efforts to control greenhouse gas emission in China could result in reduced use of coal and coke if customers switch to sources of fuel with lower carbon dioxide emissions, which in turn could reduce the revenues of our businesses and have a material adverse effect on results of operations.

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

Demand for coal and coke and the prices that we will be able to obtain for these products are closely linked to consumption patterns of the power generation and steel industries in China. These consumption patterns are influenced by factors beyond our control, including the demand for electricity; demand for steel; government regulation; technological developments and the location, availability, quality and price of competing sources of coal and coke; alternative fuels, such as natural gas, oil and nuclear power, and alternative energy sources, such as hydroelectric power, wind, geothermal and solar. Any reduction in the demand for coal or coke by the domestic power and steel industries may cause a decline in demand and revenue from our products which would reduce our profitability. For much of fiscal 2013 and 2014, the steel industry especially has suffered from tighter governmental control of real estate and land developments, resulting in a soft coke market. Likewise, the general slowdown in the Chinese economy has negatively impacted the coal market, especially in the second half of fiscal 2013 and throughout fiscal 2014.

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

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

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

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

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

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

We operate coal mines and related facilities that may be affected by water, gas, fire or structural problems. As a result, our operations, like other coal mining and coking companies, could experience accidents that cause property damage and personal injuries. Although we have implemented safety measures at our operations, and provide on-the-job training for our employees, and, in accordance with relevant laws set aside approximately 9.6% of employees' total remuneration for employees' health insurance, there can be no assurance that industry-related accidents will not occur in the future.

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

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

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

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

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

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

As of September 29, 2014, approximately 33% of our outstanding common stock was controlled by our founder and Chief Executive Officer, Mr. Jianhua Lv, and one holding entity, of which Mr. Jianhua Lv is a director and beneficiary. Accordingly, Mr. Lv presently has significant relative voting power and influence over any action requiring shareholder approval, including the election of our directors.

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

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

- the effect of any government regulations which relate to the business acquired;
- delays and waiting periods associated with required safety inspections, as well as government licensing or permitting procedures;
- difficulties in disposing of the excess or idle facilities of an acquired company or business and expenses in maintaining such facilities;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the potential impairment of relationships with employees and customers as a result of any integration of new management personnel;

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- potential unknown liabilities associated with acquired businesses and the associated operations, or the need to spend significant amounts to retool, reposition or modify the existing operations; and
- the defense of any litigation, whether or not successful, resulting from actions of the acquired company prior to the acquisition.

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

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

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

We depended on two major customers for a substantial portion of our revenue in fiscal 2014. Nonrenewal or termination of our arrangements with these customers may have a materially adverse effect on our revenue. In the event that any one of our major customers does not renew or terminates its arrangement with us, there can be no assurance that we will be able to enter into another arrangement similar in scope. Additionally, there can be no assurance that our business will not remain largely dependent on a limited customer base accounting for a substantial portion of revenue.

Risks Related to Our Corporate Structure

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

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

The Chinese government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new Chinese laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future Chinese laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

Risks Related To Doing Business in China

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

The political environment in the PRC and the policies of the PRC government may adversely affect our business operations. The PRC has operated as a socialist state since 1949. In recent years, however, the government has introduced economic reforms aimed at creating a "socialist market economy" and policies have been implemented to allow business enterprises greater autonomy in their operations. Changes in the political leadership of the PRC may have a significant effect on laws and policies related to the current economic reforms program, other policies affecting business and the general political, economic and social environment in the PRC, including the introduction of measures to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and remittances abroad, and foreign investment. These effects could substantially impair our business, profits or prospects. Moreover, economic reforms and growth in the PRC have been more successful in certain provinces than in others, and the continuation or increases of such disparities could affect the political or social stability of the PRC.

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

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

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

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

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

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

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

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

Price controls may affect both our revenues and net income.

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

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

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

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

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

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

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

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

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

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

We conduct our business in RMB, thus our functional currency is the RMB, while our reporting currency is the U.S. dollar. The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, the political situation as well as economic policies and conditions. On July 21, 2005, the PRC government changed its decade old policy of pegging its currency to the U.S. currency. Under the current policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximate 20% appreciation of the RMB against the U.S. dollar between July 21, 2005 and June 30, 2014. However, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. To the extent any of our future revenues are denominated in currencies other than the

United States dollar, we would be subject to increased risks relating to foreign currency exchange rate fluctuations which could have a material adverse effect on our financial condition and operating results since operating results are reported in United States dollars and significant changes in the exchange rate could materially impact our reported earnings.

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

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

Risks Related to an Investment in Our Securities

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

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

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

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

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

- actual or anticipated fluctuations in our quarterly operations results;
- changes in financial estimates or projections developed by us or securities research analysts;
- conditions in foreign or domestic coal or coke markets;
- changes in the economic performance or market valuations of other meat processing companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint-ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between the RMB and the U.S. dollar;
- intellectual property litigation; and
- general economic or political conditions in China.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our stock.

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

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

The market for our common stock is expected to be characterized by significant price volatility when compared to seasoned issuers, and we anticipate that our share price will continue to be more volatile than a seasoned issuer for some time. The price at which you purchase our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common stock at or above your purchase price if at all, which may result in substantial losses to you. Volatility in share prices is attributable to a number of factors. In the near future, our common stock is expected to be sporadically and/or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on our share price. The following factors also may add to the volatility in the price of our common stock: actual or anticipated variations in our quarterly or annual operating results; adverse outcomes; additions to or departures of key personnel, as well as other items discussed under this Risk Factor section, as well as elsewhere in our reports, filings and public disclosures. Many of these factors are beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common stock will be at any time, including as to whether our common stock will sustain any particular trading price, or as to what effect the sale of shares or the availability of common shares for sale at any time will have on the then prevailing market price.

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

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

Techniques employed by manipulative short sellers in Chinese small cap stocks may drive down the market price of our common stock.

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

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

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

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

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

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

Internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price. Although we are not required to have an auditor's report on internal controls over financial reporting under current SEC regulations, our management is required to and has assessed our internal control implementation and concluded that our internal controls were ineffective for the fiscal years ended June 30, 2014 and 2013.

Generally, we have not paid any cash dividends to our shareholders and no cash dividends will be paid in the foreseeable future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future and it may not have sufficient funds legally available to pay dividends. Even if the funds are legally available for distribution, we may nevertheless decide or may be unable to pay any dividends. We intend to retain all earnings for our operations.

Activities prior to the Share Exchange relating to our prior business then known as "Ableauctions.com, Inc." may lead to future liability.

Prior to our acquisition of Top Favour on February 5, 2010, we were known as "Ableauctions.com, Inc.," and engaged in businesses unrelated to our current operations. Although certain previously controlling shareholders of Ableauctions.com and its related liquidating trust have provided certain indemnifications against any loss, liability, claim, damage or expense arising out of or based on any breach of or inaccuracy in any of their representations, warranties and covenants made regarding such acquisition, including a $1 million reserve fund set aside by a liquidating trust for purposes of paying any indemnification claims by us, any liabilities relating to such prior business against which we are not completely indemnified may have a material adverse effect on us (and indirectly our shareholders) may not be able to benefit from any funds in reserve.

Reverse merger transactions of the type conducted between us and Top Favour are often heavily scrutinized by the SEC and we may encounter difficulties or delays in obtaining future regulatory approvals.

Historically, the SEC has not generally favored transactions in which a privately-held company merges into a public reporting company with listed securities. The SEC or other regulatory authorities may unexpectedly assert a different interpretation of existing rules than the interpretation we or our advisors relied upon, used and/or considered reasonable, which could increase the cost of, or adversely affect our ability to, file and achieve effectiveness for our registration statements, or interfere with or negate the ability of our shareholders to rely upon Rule 144 or similar rules.

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

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

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

Our articles of incorporation contain specific provisions that eliminate or limit the liability of directors for monetary damages to us and our shareholders, and we are prepared to give such indemnification to our directors and officers to the extent permissible under state law. We may also maintain or enter into, from time to time, agreements that obligate us to indemnify our officers and directors. Such indemnification obligations could result in our incurring substantial expenditures to cover the cost of settlement or damage awards against any such officer or director, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against our officers and directors for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our officers and directors even though such actions, if successful, might otherwise benefit us and our shareholders.

We will need additional capital, and the sale of additional shares or other equity securities could result in additional dilution to our shareholders.

We will require additional cash resources to meet our ongoing obligations. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain additional credit, although we have no firm commitments to do so. The sale of additional equity securities could result in additional dilution to our shareholders. Incurring indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to it, if at all.

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

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

Use of Proceeds

We received approximately $13.1 million from the sale of stock to certain investors (the "Investors"), after deducting estimated offering expenses of approximately $1.2 million. If all the Investors fully exercise their option to subscribe for additional shares during any time after six months and one day from September 24, 2014 and prior to the ten month anniversary thereof (the "Option Period"), we would receive additional aggregate proceeds of $10 million. We will not receive any proceeds from the sale of common stock issuable upon exercise of the Warrants that we are offering unless and until such Warrants are exercised.

If all of the (a) Series A Warrants to purchase 1,409,423 Shares for $6.38 per share and (b) Placement Agent Warrants to purchase 225,508 Shares for $6.08 per share issued in connection with the initial closing are fully exercised for cash, we would receive aggregate proceeds of $10,363,207. If all of the (a) Series A Warrants to purchase 1,409,423 Shares for $6.38 per share, (b) Series B Warrants to purchase 1,644,737 Shares for $6.08 per share, (c) options to purchase 1,644,737 Shares for $6.08 per share, (d) Series C Warrants to purchase 822,369 Shares for $6.08 per share, and (e) Placement Agent warrants to purchase an aggregate of 357,087 Shares for $6.08 per share to be issued upon a full exercise of investor options during the Option Period are exercised in full, we would receive aggregate proceeds of $36,163,213.

We intend to use the net proceeds from the sale of common stock to the Investors (both as to the initial sale and upon any exercise of options or warrants) for general corporate purposes and working capital, including for research and development, general and administrative expenses, and potential ordinary course acquisitions of technologies that complement our business. In the Securities Purchase Agreement we entered into with the investors, we have, subject to certain exceptions, specifically agreed not to use the proceeds to satisfy any existing debt (other than ordinary course trade payables), to redeem any of our outstanding securities, or to settle any litigation.

We have not specifically identified the precise amounts we will spend on each of these areas or the timing of these expenditures. The amounts actually expended for each purpose may vary significantly depending upon numerous factors, including assessments of potential market opportunities and competitive developments. In addition, expenditures may also depend on the establishment of new collaborative arrangements with other companies, the availability of other financing, and other factors. Subject to any agreed upon contractual restrictions under the terms of the purchase agreement, our management will have some discretion in the application of the net proceeds from this offering. Our stockholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds. Moreover, our management may use the net proceeds for purposes that may not result in our being profitable or increase our market value.

Dilution

Our net tangible book value as of September 30, 2014 was $102,747,802 or $4.29 per share of common stock. Net tangible book value per share represents total tangible assets less total liabilities, divided by the number of shares of common stock outstanding. After giving effect to our sale in this offering of 1,409,423 warrants to purchase common stock at an exercise price of $6.38 per share, 2,824,193 warrants to purchase common stock at an exercise price of $6.08 per share, and options to purchase 1,644,737 shares of common stock at a price of $6.08 per share, our net tangible book value as of September 30, 2014 would have been $138,911,015, or $4.66 per share. The following table illustrates this calculation.

Offering price per share of common stock (weighted average price)	$6.15
Net tangible book value per share as of September 30, 2014	$4.29
Increase per share attributable to this offering	$0.37
As adjusted tangible book value per share after this offering	$4.66
Dilution per share to new investors in this offering	$1.49

The number of shares of common stock outstanding used for existing stockholders in the table and calculations above are based on 23,960,217 outstanding as of September 30, 2014 and exclude:

- 4,102,037 shares of common stock issuable upon the exercise of warrants outstanding at September 30, 2014 with a weighted average exercise price of $6.18 per share;
- 1,644,737 shares of common stock issuable upon the exercise of options outstanding at September 30, 2014 with a weighted average exercise price of $6.08 per share;
- 131,579 shares of common stock issuable upon the exercise of placement agent warrants issuable to the extent of exercise of options outstanding at September 30, 2014 with a weighted average exercise price of $6.08 per share for such placement agent warrants; and
- 2,000,000 shares of common stock reserved for future grants and awards under our equity incentive plans as of September 30, 2014.

Capitalization

The following table sets forth our capitalization as of September 30, 2014:

- on an actual basis; and
- on a pro forma basis to give effect to:

- the issuance of 4,233,616 warrants and 1,644,737 options to purchase common stock, and our receipt of $36,163,213 in cash proceeds from that issuance

You should read the information in this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the accompanying notes.

	September 30, 2014	
	Actual (Unaudited)	Pro forma
Cash and cash equivalents	$11,580,213	$47,743,426
Stockholders' equity:		
Common stock, $0.001 par value: 100,000,000 shares authorized, 23,960,217 shares issued and outstanding, actual; 29,838,570 shares issued and outstanding, pro forma	$23,960	$29,839
Additional paid-in capital	6,845,636	41,391,128
Total stockholders' equity	135,038,435	169,589,806
Total capitalization	$123,458,222	$121,846,380

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The number of shares of common stock outstanding used for existing stockholders is based on 23,960,217 shares outstanding as of September 30, 2014 and excludes:

- 4,102,037 shares of common stock issuable upon the exercise of warrants outstanding at September 30, 2014 with a weighted average exercise price of $6.18 per share,
- 1,644,737 shares of common stock issuable upon the exercise of options outstanding at September 30, 2014 with a weighted average exercise price of $6.08 per share,
- 131,579 shares of common stock issuable upon the exercise of placement agent warrants issuable to the extent of exercise of options outstanding at September 30, 2014 with a weighted average exercise price of $6.08 per share for such placement agent warrants, and
- 2,000,000 shares of common stock reserved for future grants and awards under our equity incentive plans as of September 30, 2014.

Business

General Overview

We are a vertically-integrated coal and coke producer based in Henan Province, People’s Republic of China (“PRC” or “China”). Our products currently include raw coal, washed coal, “medium” or mid-coal, coal slurries, coke, coal tar and crude benzol, although we anticipate continuing to reduce our reliance on coal products and expand into the clean energy industry. We also generate electricity from gas emitted during the coking process, which we use primarily to power our operations.

In May 2014, we commenced plans to further extend our coal and coke operations into the clean-burning synthetic gas field. During the beginning of July 2014, we started an investment plan of approximately $7.8 million or RMB 48 million to build a coke gasification facility for the conversion of carbon dioxide into a clean-burning synthetic gas (“syngas”). The construction is expected to completed near the end of September 2014 and commence its production by the middle of October 2014. The annual capacity of the coke gasification facility is designed at 219,000,000 cubic meters of syngas or 25,000 cubic meters of syngas per hour.

On August 28, 2014, we also entered into a cooperative agreement with North China Institute of Science and Technology at underground coal gasification development to refine and implement a technology at converting our coal mines with 2.3 million tons of coal recovery reserves into syngas. At the first phase of this cooperation, we will invest $18 million in building an underground coal gasification facility with an annual production capacity of 525,600,000 cubic meters of syngas or 60,000 cubic meters of syngas per hour. The construction is scheduled to be commenced by October 2014 and completed in February 2015. Our target is to build an underground coal gasification facility with an annual production capacity of 7,708,800,000 cubic meters of syngas or 880,000 cubic meters of syngas per hour. The required funding may come from our operations and loans from financial institutions.

With the plans at coke and coal gasification implementation, we will be able to transition from a producer of coal and coke products to a multifunctional energy company engaged in providing coal, coke, and clean-burning synthetic gas ("syngas").

Our business operations are conducted by Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. ("Hongli"), which we control through contractual arrangements that Hongli and its owners have entered into with Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. ("Hongyuan"), a wholly-owned subsidiary of Top Favour Limited ("Top Favour"), a British Virgin Island company and our wholly owned subsidiary. These contractual arrangements provide for management and control rights, and in addition entitle us to receive the earnings and control the assets of Hongli. Other than our interests in the contractual arrangements, we do not own any equity interests in Hongli.

Currently:

- Coking related operations, including coke gasification, are carried out by Hongli and its branch, Baofeng Coking Factory ("Baofeng Coking").

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- Coal related operations, including underground coal gasification, are under the following three subsidiaries of Hongli, although all mining activities are currently on hold pending the ongoing mining moratorium (see "*Our Products and Operations – Coal – Coal Mining Moratorium*" below):

(1) Baofeng Hongchang Coal Co., Ltd. ("Hongchang Coal");

(2) Baofeng Shuangrui Coal Mining Co., Ltd. ("Shuangrui Coal"), which is wholly owned by Hongchang Coal; and

(3) Baofeng Xingsheng Coal Mining Co., Ltd. ("Xingsheng Coal").

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

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

In addition, once we complete construction of our new coking plant with an annual production capacity of 900,000 metric tons, we intend to operate the plant through Baofeng Hongrun Coal Chemical Co., Ltd. ("Hongrun Coking"), a wholly-owned subsidiary of Hongli. As of the date of this Report, however, construction is not actively proceeding (see "*Our Products and Operations – Coke – New Coking Facility*" below), and Hongrun Coking has not commenced operations.

On December 9, 2013, we entered into a tripartite agreement with Fangda Special Steel Technology Co., Ltd. ("Fangda Steel"), China's largest automobile spring steel producer, and Henan Shenhuo Group ("Shenhuo Group"), one of the six largest state-owned coal enterprises in Henan Province (the "tripartite agreement"). Pursuant to the tripartite agreement, we have agreed to supply up to 6,000 metric tons of grade II coke and 3,000 metric tons of clean coke to Fangda Steel each month at Fangda Steel's order. As of the date of this report, we have received 23,000 metric tons of coal from Shenhuo Group while delivering 36,000 metric tons of Grade II coke to Fangda Steel. Management currently estimates that we will require an additional 367,000 metric tons of washed coal in order to hit our targeted amount of grade II coke available for delivery by the end of calendar year 2014.

On April 8, 2014, we renewed our lease of a coking facility (the "Hongfeng plant") from Pingdingshan Hongfeng Coal Processing and Coking, Ltd. for an additional year. We began leasing the Hongfeng plant in April 2013. The Hongfeng plant has an annual capacity of 200,000 metric tons and is approximately 3 miles from our Baofeng plant.

We believe that the skills we gain from operating such coke ovens will be invaluable for operating our 900,000 metric ton facility that is still under construction (the "new plant").

In July 2014, we started construction to retrofit our existing coking facility to produce clean-burning syngas. The construction of this facility, which included the installation of gas furnaces, electrical equipment and consoles, as well as transporting system, dust removal system, and cooling and purification system, is expected to be completed near the end of September 2014 and will take a 60-day testing and calibration phase. At full capacity, the Company expects that this facility will produce approximately 25,000 cubic meters of syngas per hour or 219,000,000 cubic meters of syngas a year.

As of September 30, 2014, we have working capital of $8,792,853. On September 18, 2014, we sold 2,818,845 shares of our common stock for $14.3 million. However, our cash flow from operating activities during the year ended June 30, 2014 was an outflow of $648,678 and our cash balance was $0.2 million as of June 30, 2014, comparing to our short-term loans of $21 million which will due in the next 12 months. Our ability to continue as a going concern depends upon our expenditure requirements and repayments of our short-term and long-term loan facilities with Bairui Trust Co., Ltd. ("Bairui Trust") as and when they fall due. See "*Risk Factors – Risks Related to Our Business – If we cannot continue as a going concern, you will lose your entire investment*" and *"If we do not raise additional capital or refinance our debt, we will not be able to achieve our objectives and we may need to curtail or even discontinue operations*".

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On October 20, 2014, we began construction on our underground coal gasification construction. The construction is scheduled to complete around February 2015.

History and Corporate Structure

We were incorporated in Florida on September 30, 1996, originally under the name “J. B. Financial Services, Inc.” We changed our name to “Ableauctions.com, Inc.” on July 19, 1999.

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

On March 11, 2010, we completed two private placement financings, pursuant to exemptions under Regulation S and Regulation D, respectively, in which we sold and issued a total of 7,344,935 shares of common stock, and five-year warrants for the purchase of an additional 3,789,631 shares of common stock, resulting in aggregate proceeds of $44 million.

Top Favour

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

Hongyuan

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

Hongli

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

Currently, Hongli has a branch, six subsidiaries and a joint-venture as follows (each a “Hongli company,” and with Hongli collectively “Hongli Group”):

Branch:

- *Baofeng Coking* was established on May 31, 2002 as a branch of Hongli.

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Subsidiaries:

- *Hongchang Coal* is a limited liability company formed in the PRC on July 19, 2007 with registered capital of RMB 3 million. Hongchang Coal is wholly-owned by Hongli and holds the rights to mine Hongchang coal mine. Hongli also holds the rights to mine Shunli coal mine.

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

- *Hongrun Coking* is a limited liability company formed in the PRC on May 17, 2011 with registered capital of RMB 30 million. Hongrun Coking is a wholly-owned subsidiary of Hongli.

- *Shuangrui Coal* is a limited liability company formed in the PRC on March 17, 2009 with registered capital of RMB 4,029,960. Hongchang Coal currently holds 100% of the equity interests of Shuangrui Coal. Hongli initially acquired 60% of such interests on May 20, 2011, and when it acquired the remaining 40% on June 20, 2012, Hongli concurrently transferred all 100% of Shuangrui Coal to Hongchang Coal, which transfer has been registered with the Pingdingshan AIC. As of the date of this Report, Hongli has not yet paid any consideration for the 40% as negotiation with its seller remains ongoing, although we have accrued for such consideration of $4.7 million or RMB 29 million based on its fair market value. Shuangrui Coal holds the rights to mine the Shuangrui coal mine. We intend to dissolve Shuangrui Coal in the future and consolidate its mine assets under Hongchang Coal.

- *Xingsheng Coal* is a limited liability company formed in the PRC on December 6, 2007 with registered capital of RMB 3,634,600. Hongli currently holds 60% of the equity interests of Xingsheng Coal. Xingsheng Coal holds the rights to mine the Xingsheng coal mine.

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

Joint-Venture:

- *Hongyuan CSG* is a joint-venture established in the PRC on April 28, 2011 by Zhonghong (49%) and Henan Coal Seam Gas (51%). Hongli's interests in the joint-venture are held by Zhonghong.

We also acquired 100% of Baofeng Shunli Coal Ming Co., Ltd. ("Shunli Coal") on May 20, 2011. On July 4, 2012, Shunli was dissolved, and we are in the process of applying to transfer its mine assets to, and consolidating them under, Hongchang Coal, which we currently expect to complete by the end of fiscal 2013. Shunli Coal's mine assets consist of the rights to mine Shunli coal mine.

Contractual Arrangements with Hongli Group and its Owners

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

The contractual arrangements, entered into on March 18, 2009, consist of the following:

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

- *Operating Agreement**: Hongyuan provides guidance and instructions for each Hongli company's daily operations, financial management and employment issues. In addition, Hongyuan agrees to guarantee the performance of each Hongli company under any agreements or arrangements relating to its business arrangements with any third party. In return, the Owners must designate Hongyuan's designees as their representatives on each Hongli company's board of directors, and Hongyuan has the right to appoint senior executives of each Hongli company. Additionally, each Hongli company agrees to pledge its accounts receivable and all of its assets to Hongyuan. Moreover, each Hongli company agrees not to engage in any transactions that could materially affect its assets, liabilities, rights or operations without Hongyuan's prior consent, including without limitation, incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party or transfer of any agreements relating to its business operation to any third party. The term of this agreement is the maximum period of time permitted by law unless sooner terminated by any other agreements reached by all parties or upon a 30-day written notice from Hongyuan. The term may be extended only upon Hongyuan's written confirmation prior to the expiration of the agreement, with the extended term to be mutually agreed upon by the parties. Under current applicable PRC law, there is no limitation on the maximum term permitted by law for this agreement.

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

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*Option Agreement**: The Owners irrevocably granted Hongyuan an exclusive option to purchase, to the extent permitted under PRC law, all or part of their equity interests in Hongli Group at a price equal to their initial registered capital contributions or the minimum amount of consideration permitted under PRC law. Hongyuan has sole discretion to decide when to exercise the option, and whether in part or in full. The term of this agreement is ten years from January 1, 2006 and may be extended prior to its expiration by written agreement of the parties.

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

* Re-executed on September 9, 2011, to reflect RMB 20 million of additional registered capital contributed by the Owners in August 2010, and the resulting change in ownership percentages. We were made a party to the re-executed agreements to acknowledge them.

As a result of the foregoing contractual arrangements, we have the ability to effectively control Hongli Group's daily operations and financial affairs, appoint senior executives and decide on all matters requiring the Owners' approval. While the Owners continue to own 100% of equity interests, they have given us their rights attendant to such ownership through the contractual arrangements. Accordingly, we are considered the primary beneficiary of Hongli Group and each Hongli company is deemed our variable interest entity ("VIE").

However, control based on contractual arrangements may ultimately not be as effective as direct ownership, as we will need to enforce our rights through quasi-judicial proceeding in the event Hongli Group fails to perform its contractual obligations. In the event the outcome of such proceeding is unfavorable to us, we may effectively lose control over Hongli Group. See "*Risk Factors – Risks Related to Our Corporate Structure – Our contractual arrangements with Hongli and its owners as well as our ability to enforce our rights thereunder may not be as effective in providing control over Hongli as direct ownership.*" As of September 29, 2014, Mr. Lv held approximately 33% of our issued and outstanding common stock, and 85.40% of the equity interests of Hongli. As such, we believe that our interests remain aligned with the Owners. However, we cannot give assurance that such interests will always be aligned, or that we can effectively control Hongli Group if and when such interests are no longer aligned. See *"Risk Factors - Risks Related to Our Corporate Structure – Management members of Hongli have potential conflicts of interest with us, which may adversely affect our business and your ability for recourse.*"

Our Current Corporate Structure

The following diagram illustrates our current corporate structure:

Our Products and Operations

Overview

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

Coal

We sell coal, including raw (unprocessed) coal, washed coal, mid-coal and coal slurries (see "*Coal Washing*" below), and also use washed coal to make coke. We currently control four coal mines (see "*Property, Plant and Equipment*" below). Until June 2010, we largely extracted coal from Hongchang coal mine to meet our needs, although we also engaged in coal trading. As described under "*Coal Mining Moratorium*" below, however, we have been unable to extract coal since September 2011. We have instead been relying on coal purchased elsewhere, including from Shanxi, Qinghai and Inner Mongolia, to meet our requirements. Our coal purchases for the fiscal years ended June 30, 2013 and 2014 are as follows:

Fiscal Year	Annual Purchases* (metric tons)
2013	384,515
2014	373,112

* Including coal for washing, coking and trading.

Generally, if the coal that we purchase meets coking requirements, we will reserve it for that purpose. Occasionally, however, we sell the coal (also known as coal trading) when market conditions are favorable.

Coal Mining Moratorium

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

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

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

In August 2011, Henan Coal Seam Gas, as a designated SOE consolidator, determined that Hongchang and Xingsheng coal mines were safe to resume operations, and applied with the Henan government to confirm such determination and issue the necessary licenses and permits to resume operations at both mine sites. However, due to an accident in November 2011 at a mine owned by Yima Coal Group, another designated SOE consolidator, the Henan government ordered all targeted mines to undergo further safety inspections and upgrades. We have made approximately $3.2 million in prepayments for works to increase our mining capacity at Hongchang coal mine to 450,000 metric tons, as well as to upgrade the monitoring system (by installing additional detectors), automatic control system (including power controls and ventilation), and escape system (with additional refuge compartments) at Hongchang and

Xingsheng coal mines. Although such works have not commenced, we have submitted the related engineering plans to Henan Coal Seam Gas for its approval and submission to the Henan government. Accordingly, the applications to resume operations at these two mines remain pending as of the date of this Report. As we are also in the process of consolidating Shunli coal mine under Hongchang Coal (see "*History and Corporate Structure – Hongli*" above), the application approval for Hongchang coal mine may be subject to additional delay.

Henan Coal Seam Gas has not yet made a determination as to the safety at Shuangrui and Shunli coal mines, and we do not know when such determination will be made, if at all. In addition, our objective in acquiring Shuangrui Coal, Xingsheng Coal and Shunli Coal is their mining rights, and their sellers were required to dispose of all other assets and liabilities before the transfer of equity interests to us is complete, and to assume all rights and obligations to such assets and liabilities until their disposal, which rights and obligations we would disclaim should any such asset or liability remains in the company after the transfer of equity interests to us is complete. The equity interests have been transferred to us, and the assets and liabilities have been disposed as of the date of this Report.

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

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Coal Washing

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

Approximately 1.33 - 1.38 metric tons of raw coal yield 1 metric ton of washed coal. The bulk of the washed coal we produce is intended for our coking needs, although we sell if the pricing is favorable. In addition to washed coal, the coal-washing process produces two byproducts:

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

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

Our annual production volumes of washed coal, mid-coal and coal slime for the fiscal years ended June 30, 2013 and 2014 are as follows:

	Annual Production (metric tons)		
Fiscal Year	Washed Coal	Mid Coal*	Coal Slurries*
2013	90,461	45,230	15,077
2014	99,164	33,051	16,450

* Estimated based on amount of raw coal used.

Coke

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

We currently produce metallurgical coke, which is primarily used for steel manufacturing. China has exacting national standards for coke, based upon a variety of metrics, including most importantly, ash content, volatilization, caking qualities, sulfur content, mechanical strength and abrasive resistance. Typically, metallurgical coke must have more than 80% fixed carbon, less than 15% ash content, less than 0.8% sulfur content and less than 1.9% volatile matter. Our metallurgical coke is typically 85% fixed carbon, less than 12% ash, less than 1.9% volatile matter and less than 0.7% sulfur.

According to national standards, metallurgical coke is classified into three grades – Grade I, Grade II and Grade III, with Grade I being the highest quality. Generally, our customers do not have specific content requirements, but we may make certain adjustments, such as to moisture content, upon request. The amount of each grade of coke that we produce is based on market demands, although historically our customers have mostly required Grade II coke which has higher profit margin than other types of coke. For the fiscal years ended June 30, 2013 and 2014, we only produced Grade II coke.

We currently operate two plants: the Baofeng plant, which we own, and the Hongfeng plant, which we lease from Pingdingshan Hongfeng Coal Processing and Coking, Ltd. since April 2013. At the Baofeng plant, we produce coke from a series of three WG-86 Type coke ovens lined up in a row with an annual capacity of 250,000 metric tons. The

Hongfeng plant has an annual capacity of 200,000 metric tons and is approximately 3 miles from the Baofeng plant. We commenced production in August 2013. We believe that the skills we gain from operating its ZN-43 type coke ovens will be invaluable for operating our 900,000 metric ton facility still under construction (see "*New Coking Facility*" below).

After being processed at our coal-washing facility, coal is sent to a coal blending room (either the Baofeng plant or the Hongfeng plant), where it is crushed and blended to achieve an optimal coking mixture. Samples are taken from the coal blend and tested for moisture, chemical composition and other properties. The crushed and blended coal is next tamped, or packed, prior to being transported by conveyor to a coal bin to be fed into the waiting oven below. This tamping process allows the use of lower quality washed coal without affecting the quality of the coke produced. After processing through temperature-controlled ovens at temperature of 1,200° C (2,192° F), hot coke is pushed out of the oven chamber onto a waiting coke cart, transported to an adjacent quench tower where it is cooled with water spray, and hauled to a platform area adjacent to our private rail line to be air-dried. Coke samples are taken at several stages during the process and analyzed in our testing facility, and data is recorded daily and kept by technicians. After drying, the coke is sorted according to size to meet customer requirements.

For the fiscal years ended June 30, 2013 and 2014, we produced the following volumes of metallurgical coke:

Fiscal Year	Annual Production (metric tons)
2013	152,384
2014	226,944

Since the mining moratorium and the cessation of our mining operations, we have largely relied on purchased coal to make coke.

Coke Emissions Recycling

In the coke oven, coal’s volatile contents, including water and coal tar, are driven off in gaseous forms, which we capture and recycle. We pipe coal gas into a cooling tower to separate coal tar by condensation, which we sell as a fuel byproduct (see “*Coal Byproducts*” below). We burn the remaining purified coal gas to generate steam that drives steam-powered turbines to produce electricity (see “*Electricity Generation*” below).

Coking Byproducts

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

Our annual production volumes of coal tar for the years ended June 30, 2013 and 2014 are as follows:

Fiscal Year	Annual Production (metric tons)
2013	6,379
2014	9,032

Both the Baofeng and Hongfeng plants produce sulfur and ammonia sulfate, but only the Hongfeng plant produces other byproducts such as crude benzol, benzene, sulfur-based chemicals and methanol.

New Coking Facility

On March 3, 2010, we commenced construction of a new state-of-the-art coking plant on a 460,000 square meter site adjacent to the Baofeng plant. As of the date of this Report, we have completed construction of the shallow foundation, an underground workshop and the furnace and chimney rack, and are in the process of installing the coal preparation, cooling, recycling, and auxiliary systems, as well as framing the coal blending structure and coal yard. Originally anticipated to be completed at the end of December 2011, we have slowed down construction in light of ongoing weak demand for coke. We plan to complete the plant and commence operations once market improves and stabilizes, which we currently expect to be some time in calendar 2015, although there is no guaranty that this will happen.

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

Electricity Generation

After coal tar is separated at the Baofeng plant, the remaining coal gas is piped to two onsite 3,000-kilowatt power stations (the Daying power station and the Sunling power station) to generate electricity, each of which has an estimated maximum generating capacity of 26,280,000 kilowatt-hours per year. The generated electricity primarily powers operations at the Baofeng plant and at Hongchang coal mine. Local state-owned utilities supply electricity to the Hongfeng plant and Shunli coal mine, Xingsheng coal mine and Shuangrui coal mine.

Our annual amounts of electricity generated for the years ended June 30, 2013 and 2014 are as follows:

Fiscal Year	Annual Generation (kilowatt)
2013	5,790,938
2014	5,834,093

Synthetic Gas

New Synthetic Gas Facility

In May 2014, we commenced plans to further extend our coal and coke operations into the clean-burning synthetic gas field. During the beginning of July 2014, we started an investment plan of approximately $7.8 million or RMB 48 million to build a coke gasification facility for the conversion of carbon dioxide into a clean-burning synthetic gas (“syngas”), which included the installation of gas furnaces, electrical equipment and consoles, as well as transporting system, dust removal system, and cooling and purification system. The construction is expected to completed near the end of September 2014 and commence its production by the middle of October 2014. The annual capacity of the coke gasification facility is designed at 219,000,000 cubic meters of syngas or 25,000 cubic meters of syngas per hour.

On August 28, 2014, we also entered into a cooperative agreement with North China Institute of Science and Technology at underground coal gasification development to refine and implement a technology at converting our coal mines with 2.3 million tons of coal recovery reserves into syngas. At the first phase of this cooperation, we will invest $18 million in building an underground coal gasification facility with an annual production capacity of 525,600,000 cubic meters of syngas or 60,000 cubic meters of syngas per hour. The construction is scheduled to be commenced by October 2014 and completed in February 2015. Our target is to build an underground coal gasification facility with an annual production capacity of 7,708,800,000 cubic meters of syngas or 880,000 cubic meters of syngas per hour. The required funding may come from our operations and loans from financial institutions.

Syngas is a clean energy alternative which consists primarily of hydrogen, carbon monoxide, and some carbon dioxide. Syngas is usually a product of gasification and the main application is electrical generation. it can also be used as a fuel of internal combustion engines or used in the Fischer-Tropsch process to produce diesel or converted into methane, methanol and dimethyl ether in catalytic processes.

Sales and Marketing

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

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

Coke Sales

Coke sales for the last two fiscal years in volume, dollar amount and as a percentage of our total revenue, and the weighted average selling price per metric ton for each fiscal year, are as follows:

	Coke Sales			
Fiscal Year	Annual Sales (metric tons)	Annual Sales ($)	% of Revenue	Weighted Average Sale Price Per Metric Ton ($)
2013	149,882	$ 31,171,635	47 %	$ 208
2014	191,303	$ 38,917,211	77 %	$ 203

The coke revenues increased 24.85%, as a result of a 27.64% increase of coke quantity, slightly offset by the coke average price decrease of 2.18%. Although the market demand of coke has been weak since 2013, our revenues from coke products still increased $4.8 million or 12.29%, resulting from demand from special steel customers such as Fangda Steel and also the favorable market and pricing conditions contributed to coal tar and crude benzol revenues.

Raw Coal Sales

Raw coal sales for the last two fiscal years in volume, dollar amount and as a percentage of our total revenue, and the weighted average selling price per metric ton for each fiscal year, are as follows:

	Raw Coal Sales			
Fiscal Year	Annual Sales	Annual Sales ($)	% of Revenue	Weighted Average Sale Price Per Metric Ton ($)

	(metric tons) (1)			
2013	55,102	$ 3,356,797	5 %	$ 61
2014	-	$ -	- %	$ -

Generally, coal's sale price is affected by its thermal value, together with its chemical composition and other properties such as moisture and ash and sulfur contents. Sale prices are also affected by general market conditions and supply and demand. Corresponding to the general slowdown of the Chinese economy, demand for raw coal dropped especially since the second half of fiscal 2013. During the fiscal year of 2014, we terminated business relationship with some coal customers for (1) weak market demand for raw coals in 2014; (2) being unable to reach certain sale terms, including payment terms and selling price. In response to the termination, we stopped to sell raw coal in 2014 but focused on our coke operations for higher profitability.

Washed Coal Sales

Washed coal sales for the last two fiscal years in volume, dollar amount and as a percentage of our total revenue, and the weighted average selling price per metric ton for each fiscal year, are as follows:

	Washed Coal Sales			
Fiscal Year	Annual Sales (metric tons)	Annual Sales ($)	% of Revenue	Weighted Average Sale Price Per Metric Ton ($)
2013	132,930	$ 24,272,969	36 %	$ 183
2014	25,158	$ 4,201,698	8 %	$ 167

In addition to general market conditions and supply and demand, washed coal's sale price is heavily dependent on its quality and composition. Like raw coal, demand for washed coal was weak since fiscal 2013. Thus, we turned to converting raw coal and washed coal to coke which could contribute more stable and profitable margin.

Coal Tar Sales

Coal tar sales for the last two fiscal years ended in volume, dollar amount and as a percentage of our total revenue, and the weighted average selling price per metric ton for each fiscal year, are as follows:

	Coal Tar Sales			
Fiscal Year	Annual Sales (metric tons)	Annual Sales ($)	% of Revenue	Weighted Average Price Per Metric Ton ($)
2013	6,433	$ 1,719,416	3 %	$ 267
2014	9,032	$ 2,884,303	6 %	$ 391

Because we currently lack a separate process to refine and prepare coal tar as a homogenous product, the quality and characteristics of coal tar that we produce can vary, which in turn affect our sale price. General market conditions and supply and demand also affect sale price. As result of the technology upgrade with leasing a recovery stamping coke oven in Hongfeng plant, the Baofeng plant yielded more and better quality coal tar and crude benzol. We started to lease the recovery stamping coke oven in Hongfeng plant which is using an upgrade coking technology and conducted trail production since April 2013. With a one-year learning curve and quality control management, we would be able to produce more qualified crude benzol and coal tar which resulted in our increase in production and revenues in fiscal year 2014 compared to fiscal year 2013.

Customers

We sell our products only in China. The following customers each accounted for 10% or more of our total revenue for fiscal 2014:

Customer	Sales to Customer ($)	Sales to Customer as a % of Revenue	
Wuhan Railway Zhongli Group	$ 11 million	21.23	%
FangDa Special Steel Ltd.	$ 16 million	32.59	%

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The largest customer of each principal product for fiscal 2014 is as follows:

Customer	Product	% of Product Bought by Customer	
FangDa Special Steel Ltd.	Coke	42.09	%
Zhengzhou Baonuo Trading Ltd.	Coal*	8.36	%
Wang Fashun	Coal tar	5.74	%

* Includes both raw and washed coal.

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

Transportation and Distribution

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

We also truck coke from the Hongfeng plant (which is not directly connected by rail) to our platform for loading. Customers can also arrange for trucks to take delivery from both plants.

Competitors

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

Suppliers

We purchase from various suppliers within China. The following suppliers each accounted for 10% or more our total purchases for fiscal 2014:

Supplier	Materials Supplied	Amount of Purchase ($)		% of Total Purchases	
Xin yu Fang Da Special Steel Ltd.	Washed Coal	10,071,724		24.63	%
Henan Shenhuo International Trade Ltd.		5,223,474	*	12.78	%
	Raw Coal	1,356,688		3.32	%
	Washed Coal	3,866,786		9.46	%
Gansu Yiaojie Coal & Electricity Group Ltd.	Raw Coal	4,571,502		11.18	%

* Henan Shenhuo International Trade Ltd.'s total sales of $5,223,474 consists of raw coal sales of $1,356,688 and washed coal sales of $3,866,786, as disclosed in the subsequent two lines.

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

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

We believe that we have established stable cooperative relationships with our suppliers. In light of the mining moratorium, we have been sourcing coal from third parties, both inside and outside Henan. During the 2014 fiscal year, about 26% of our coal purchases were from outside Henan, with the remaining from SOEs in Henan whose mining operations have not been affected by the ongoing mining moratorium and consolidation.

Our other principal raw materials include water and electricity. The Baofeng plant gets its water without charge in the form of treated underground water from the operator of the nearby Hangzhuang coal mines, and its electricity from our own power stations (see "*Electricity Generation*" above). The Hongfeng plant, on the other hand, buys water on the market and electricity from a local state-owned utility. We also require wood and steel for our operations, and source these materials from nearby suppliers on a per purchase order basis. These materials are readily available and there is no shortage of suppliers to choose from.

Employees

The following table sets forth the number of our employees for each of our areas of operations and as a percentage of our total workforce as of June 30, 2014:

	Number of Employees	% of Employees	
Coal-related operations	19	4	%
Coke-related operations	391	79	%
Sales and marketing	4	1	%
Administrative (including management)	86	16	%
TOTAL	500	100	%

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

Research and Development

On June 18, 2013, Pingdingshan Municipal Science and Technology Bureau issued us a “Certificate of Achievement” in connection with advances that we made in coke sintering. Sintering is the process of bonding small particles with heat that does not reach the melting point of such particles. We developed and completed initial testing of a new sintering fuel in November 2012, and commenced trial production in December 2012. After preliminary testing followed by a full evaluation, experts at Henan Province Science and Technology Bureau determined that our sintering fuel, when compared to conventional sintering fuel, can reduce dust and sulfur dioxide emissions at various stages of steel production. In connection with our Certificate of Achievement, we are also approved to commercially produce our sintering fuel, although we have not done so as of the date of this Report.

We are currently working with the Chinese Academy of Agricultural Sciences to evaluate the economic feasibility of extracting humic acid from mid-coal and coal slurries and do not have any progress yet.

Intellectual Property

We have no patents, trademarks, licenses, franchises, or royalty arrangements.

Relevant PRC Regulations

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

Laws and regulations concerning safety of coal mines:

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

- Penalties for Coal Mine Safety Violations

- Penalties for Production Safety Violations

Laws and regulations concerning environmental protection and energy conservation:

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

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

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

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

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

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

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

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

Laws and regulations concerning labor:

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

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

Environmental Protection Measures

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

Safety

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

Property, Plant and Equipment

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

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

Coal Mines and Production Facilities

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

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All four coal mines that we currently control are located at Baofeng County in the central part of Henan Province and are in close proximity to one another as well as to roadways. All are underground mines, and the “room-and-pillar” method is used to extract coal. Under such method, a coal stratum is divided into horizontal planes and the coal is removed from each plane while leaving “pillars” of un-mined materials as supports, working from the uppermost plane down. Each plane is further divided into grids to determine the optimal pillar placements. Drilling and blasting techniques are used to extract the coal.

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

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

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

The extracted coal would be trucked to the Baofeng plant (approximately 1.5 kilometers from Hongchang coal mine) for washing and sorting. Samples would be taken prior to and after washing to analyze and determine coking suitability based primarily on moisture, ash, sulfur and volatile contents.

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

Hongchang Coal Mine

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

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

Shuangrui Coal Mine

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

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

Xingsheng Coal Mine

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

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

Shunli Coal Mine

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

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

Additional information regarding these mines is listed below:

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	Hongchang Mine (6)		Shuangrui Mine (9)		Xingsheng Mine (12)		Shunli Mine (15)
Background data:							
Commencement of construction	1984		1970		1970		1995
Commencement of commercial production	1987		1970		1998		1998
Coalfield area (*square kilometers*)	0.65		0.47		0.19		0.08
Reserve data:(1)							
Total in-place proven and probable reserves (*metric tons*) (2)	2,479,000	(7)	1,674,000	(10)	2,475,000	(13)	1,373,300
Recoverable reserves (*metric tons*) (3)	1,215,100		1,539,000		2,233,000		1,122,000
Coal washing recovery rate (%) (4)	75		75		75		75
Depth of mining (*meters underground*)	10 – 210		40 – 270		80 - 90		100 - 130
Average thickness of main coal seams (*meters*)	Seam B1: 1.14 Seam A4: 5.50	(8)	6.78		Seam A4: 0.70 – 1.08 Seam B1: 4.50 – 14.40	(14)	Seam A4: 2.0 Seam A6: 1.6 Seam B1: 6.5 – 10
Type of coal	Thermal/Metallurgical		Thermal/Metallurgical		Thermal/Metallurgical		Thermal/Metallurg
Assigned/unassigned (5)	Assigned		Assigned		Assigned		Assigned
Sulfur content (%)	Seam B1: 2.64 Seam A4: 0.55		Seam B1: 0.55 (11)		Seam A4: 4.90 Seam B1: 0.55		Seam A4: 1.50 Seam A6: 0.87 Seam B1: 0.55
Water content (%)	Seam B1: 0.83 Seam A4: 1.5		Seam B1: 1.5		N/A		Seam A4: 1.50 Seam A6: 1.08 Seam B1: 1.50
Ash content (%)	Seam B1: 15.3 Seam A4: 14.0		Seam B1: 14		Seam A4: 18.64 Seam B1: 14.00		Seam A4: 16 Seam A6: 33.44 Seam B1: 15
Volatility content (%)	Seam B1: 32.5 Seam A4: 29.0		Seam B1: 29		Seam A4: 38.45 Seam B1: 33.15		Seam A4: 32 Seam A6: 20.59 Seam B1: 29
Thermal Value (*megajoules per kilogram*)	31.9		28.5		31.2		Seam A4: 30.10 Seam A6: 18.56 Seam B1: 31.30
Production data: (*metric tons*)							
Designed raw coal production capacity (*per year*)	150,000		150,000		150,000		150,000

Raw coal production:				
For the year ended June 30, 2014	-	-	-	-
As of June 30, 2014	-	-	-	-
Cumulative raw coal production as of June 30, 2014	-	-	-	-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mining Rights

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

The table below lists our current mining permits:

	Hongchang coal mine	Shuangrui coal mine	Xingsheng coal mine	Shunli coal mine
Issuance date	July 6, 2007	June 4, 2007	May 30, 2007	November 17, 20
Expiration date (unless extended)	September 6, 2013[(1)]	October 4, 2011[(1)]	July 30, 2012[(1)]	September 2011(
Permitted mining amount (metric tons per year)	150,000	150,000	150,000	150,000

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

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

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

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

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

Railway Assets

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

Market Price of Common Stock and Other Stockholder Matters

Our common stock has been trading on the NASDAQ Capital Market under the symbol "SCOK" since February 17, 2010. The following table states the range of the high and low sales prices of our common stock for each of the calendar quarters during the fiscal years ended June 30, 2014 and 2013. These quotations represent inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions. The last price of our common stock as reported on the NASDAQ Capital Market on December 11, 2014 was $2.96 per share. The following table sets forth the high and low bid information for our common stock on the NASDAQ Capital Market:

	The Nasdaq Capital Market Price per Share	
	High	Low
Year Ending June 30, 2015		
Quarter ended December 31, 2014	$ 4.44	$ 2.11
Quarter ended September 30, 2014	7.09	2.77
Year Ended June 30, 2014		
Quarter ended June 30, 2014	$ 1.50	$ 0.83
Quarter ended March 31, 2014	1.52	1.15
Quarter ended December 31, 2013	1.37	1.10
Quarter ended September 30, 2013	1.55	1.27
Year Ended June 30, 2013		
Quarter ended June 30, 2013	$ 1.78	$ 1.09
Quarter ended March 31, 2013	1.30	1.00
Quarter ended December 31, 2012	1.76	1.12
Quarter ended September 30, 2012	2.33	1.60

Holders

As of September 29, 2014, there were approximately 612 shareholders of record of our common stock. This number does not include an indeterminate number of shareholders whose shares are held by brokers in street name.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

Please see the discussion titled "Securities authorized for issuance under equity compensation plans" below.

Recent Sales of Unregistered Securities

On August 1, 2014, the Board of Directors authorized the issuance of 20,000 unregistered shares of common stock to Perceptive Programs, LLC, as compensation for investor relations services provided to the Company. The shares were issued on September 11, 2014. The issuance was not registered under the Securities Act in reliance on an exemption from registration set forth in Section 4(2) thereof as a transaction by the Registrant not involving any public offering. These securities may not be offered or sold in the United States in the absence of an effective registration statement or exemption from the registration requirements under the Securities Act.

Plan of Distribution

We will deliver the shares of common stock being issued to the purchasers electronically upon receipt of purchaser funds for the exercise of the warrants, if any, offered pursuant to this prospectus. We have agreed to indemnify the holders of the warrants against some civil liabilities, including liabilities under the Securities Act and the Exchange Act. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons, we have been advised that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is therefore, unenforceable.

Placement Agent Agreement

We entered into a Placement Agent Agreement (the "Placement Agent Agreement"), dated as of September 9, 2014, with FT Global Capital, Inc. ("FT Global Capital"), pursuant to which FT Global Capital acted as our exclusive placement agent in connection with our September 24, 2014 offering. The Placement Agent Agreement with FT Global Capital was attached as Exhibit 10.2 to a Form 8-K, filed September 18, 2014.

We agreed to indemnify the placement agent and purchasers against liabilities under the Securities Act and to contribute to payments that the placement agent may be required to make in respect of such liabilities.

We entered into a Securities Purchase Agreement, dated as of September 18, 2014 ("Securities Purchase Agreement") with two institutional investors purchasing the units being issued pursuant to the September 24, 2014 offering. The form of the Securities Purchase Agreement is included as an exhibit to our Current Report on Form 8-K filed with the SEC on September 18, 2014. The closing of this offering took place on September 24, 2014, and the following occured:

- we received funds in the amount of the aggregate purchase price;
- the placement agent received the placement agent fees and the Placement Agent Warrants in accordance with the terms of the Placement Agent Agreement; and
- we delivered the units, consisting of the Shares and the Warrants issued at the initial closing. If the investors exercise their option to purchase additional units during the Option Period, we will deliver such additional units and related Warrants at such time.

We agreed to indemnify the investors against certain losses resulting from our breach of any of our representations, warranties, or covenants under agreements with the purchasers as well as under certain other circumstances described in the Securities Purchase Agreement.

The placement agent may be deemed to be an underwriter within the meaning of Section 2(a)(11) of the Securities Act of 1933, as amended, or the Securities Act, and any fees or commissions received by it and any profit realized on the resale of securities sold by it while acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. As an underwriter, the placement agent would be required to comply with the requirements of the Securities Act and the Exchange Act, including, without limitation, Rule 415(a)(4) under the Securities Act and Rule 10b-5 and Regulation M under the Exchange Act. These rules and regulations may limit the timing of purchases and sales of shares of common stock and warrants by the placement agent. Under these rules and regulations, the placement agent: (i) may not engage in any stabilization activity in connection with our securities; and (ii) may not bid for or purchase any of our securities or attempt to induce any person to purchase any of our securities, other than as permitted under the Exchange Act, until it has completed its participation in the distribution.

Fees

In exchange for these placement agent services, we paid the Placement Agent upon the closing of the September 24, 2014 offering (including any additional closings resulting from the investors exercising their right to purchase additional units pursuant to the prospectus) a cash fee equal to 6% of the aggregate purchase price of the units sold under the prospectus and accompanying prospectus. In addition, we paid additional compensation in the form of warrants (the Placement Agent Warrants) to purchase that number of shares which equals 8% of the aggregate number of Shares included in the units sold in the September 24, 2014 offering (including at any additional closings resulting from the investors exercising their right to purchase additional units pursuant to the prospectus) at an exercise price of 120% of the purchase price for such units. Under the Placement Agent Agreement, the placement agent is also entitled to additional tail compensation for any financings consummated within the eighteen (18) month period following September 23, 2014 to the extent that such financing is provided to us by investors that the Placement Agent had introduced to us. The Placement Agent Warrants issued to the placement agent were on the same terms and conditions as the Series A Warrants offered pursuant to the prospectus (but at the same price as the Series B and C Warrants); provided that the Placement Agent Warrants will not provide for certain anti-dilution protections included in the Series A Warrants in accordance with FINRA Rule 5110, will not be exercisable for a period of six months and one day from the date of the offering and will expire four years after they become exercisable. The Placement Agent Warrants and the shares of common stock underlying the Placement Agent Warrants were registered pursuant to the prospectus.

Pursuant to FINRA Rule 5110(g), with limited exceptions, neither the Placement Agent Warrants nor any shares issued upon exercise of the Placement Agent Warrants shall be sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the date of effectiveness or commencement of sales of the September 24, 2014 offering.

We have agreed to indemnify the Placement Agent and purchasers against liabilities under the Securities Act and to contribute to payments that the Placement Agent may be required to make in respect of such liabilities.

The following table shows the price per unit sold to the investors and total placement agent fees we paid to the Placement Agent in connection with the sale of units offered:

	Total
Aggregate Offering Price of units	$14,376,110
Placement agent fees[2]	$862,567

(1) Does not include any amounts we would receive upon exercise of the Warrants issued to the investors.

(2) Does not include any Placement Agent Warrants.

The total offering expenses of associated with this filing that are payable by us, excluding the previously paid placement agent fees paid in connection with the issuance of securities to the selling shareholders and fees paid in connection with the issuance of the Units to such investors, will be approximately $151,110 which include our legal and printing costs, and various other fees.

The foregoing does not purport to be a complete statement of the terms and conditions of the Placement Agent Agreement and the Securities Purchase Agreement. Copies of the each have previously been included, or will be included, as exhibits to our current reports on Form 8-K that have been or will be filed with the SEC and incorporated by reference into the Registration Statement of which the prospectus forms a part.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear in this prospectus. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Where possible, we have tried to identify these forward looking statements by using words such as "anticipate," "believe," "intends," or similar expressions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth under "Risk Factors" in this prospectus.

Overview

We are a vertically-integrated coal and coke producer based in Henan Province, People's Republic of China ("PRC" or "China"). Our products currently include raw coal, washed coal, "medium" or mid-coal, coal slurries, coke, coal tar and crude benzol, although we anticipate continuing to reduce our reliance on coal products and expand into the clean energy industry. We also generate electricity from gas emitted during the coking process, which we use primarily to power our operations.

Our business operations are conducted through Hongli, a PRC company that we control by a series of contractual arrangements between Hongli and Hongyuan. Hongyuan is a PRC company wholly-owned by Top Favour, a British Virgin Island company and our wholly-owned subsidiary.

In May 2014, we commenced plans to further extend our coal and coke operations into the clean-burning synthetic gas field. During the beginning of July 2014, we started an investment plan of approximately $7.8 million or RMB 48 million to build a coke gasification facility for the conversion of carbon dioxide into a clean-burning synthetic gas ("syngas"). The construction was completed near the end of September 2014 and commenced its production in the middle of October 2014. The annual capacity of the coke gasification facility is designed at 219,000,000 cubic meters of syngas or 25,000 cubic meters of syngas per hour.

On August 28, 2014, we also entered into a cooperative agreement with North China Institute of Science and Technology regarding underground coal gasification development to refine and implement a technology to convert our coal mines with 2.3 million tons of coal recovery reserves into syngas. At the first phase of this cooperation, we will invest $18 million in building an underground coal gasification facility with an annual production capacity of 525,600,000 cubic meters of syngas or 60,000 cubic meters of syngas per hour. The construction commenced in October 2014 and is expected to complete in February 2015. Our target is to build an underground coal gasification facility with an annual production capacity of 7,708,800,000 cubic meters of syngas or 880,000 cubic meters of syngas per hour. The required funding is expected to come from our operations and loans from financial institutions.

With the coke and coal gasification implementation plans, we plan to transition from being a producer of coal and coke products to a multifunctional energy company engaged in providing coal, coke, and clean-burning syngas.

Our business operations are conducted by Henan Province Pingdingshan Hongli Coal & Coke Co., Ltd. ("Hongli"), which we control through contractual arrangements that Hongli and its owners have entered into with Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. ("Hongyuan"), a wholly-owned subsidiary of Top Favour Limited ("Top Favour"), a British Virgin Island company and our wholly owned subsidiary. These contractual arrangements provide for management and control rights, and in addition entitle us to receive the earnings and control the assets of Hongli. Other than our interests in the contractual arrangements, we do not own any equity interests in Hongli.

As of September 30, 2014:

- Coking related operations, including coke gasification, are carried out by Hongli and its branch, Baofeng Coking Factory ("Baofeng Coking").

- Coal related operations, including underground coal gasification, are under the following three subsidiaries of Hongli, although all mining activities are currently on hold pending the ongoing mining moratorium:

(1) Baofeng Hongchang Coal Co., Ltd. (“Hongchang Coal”);

(2) Baofeng Shuangrui Coal Mining Co., Ltd. (“Shuangrui Coal”), which is wholly owned by Hongchang Coal; and

(3) Baofeng Xingsheng Coal Mining Co., Ltd. (“Xingsheng Coal”).

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

The coal-related activities for the periods discussed below are those of Hongchang Coal only, although its mining operations were halted in September 2011. Our other coal mine companies have halted operations since the provincial-wide mining moratorium was imposed in June 2010. As of the date of this report, we do not know when the mining moratorium will be lifted, or when we can resume our mining operations, if at all.

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

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

In April 2013, we began leasing a coking facility from Pingdingshan Hongfeng Coal Processing and Coking, Ltd. for one year. The leased facility (the “Hongfeng plant”) has an annual capacity of 200,000 metric tons, using the new coking technology of recovery stamping coke oven which is the same as our 1,200,000 metric ton facility still under construction (the “new plant”). The leased plant approximately 3 miles from our existing plant. Production began at the Hongfeng plant in August 2013, and we believe that the skills we gain from operating its coke ovens will be invaluable for operating our new plant. On April 8, 2014, we renewed the lease for another year.

On December 9, 2013, we entered into a tripartite agreement with Fangda Special Steel Technology Co., Ltd. (“Fangda Steel”), China’s largest automobile spring steel producer, and Henan Shenhuo Group (“Shenhuo Group”), one of the six largest state-owned coal enterprises in Henan Province (the “tripartite agreement”). Pursuant to the tripartite agreement, we have agreed to supply up to 6,000 metric tons of grade II coke and 3,000 metric tons of clean coke to Fangda Steel each month at Fangda Steel’s order. As of the date of this report, we have received 23,000 metric tons of coal from Shenhuo Group while delivering 36,000 metric tons of grade II coke to Fangda Steel. Management currently estimates that we will require an additional 367,000 metric tons of washed coal in order to hit our targeted amount of grade II coke available for delivery by the end of calendar year 2014.

Results of Operations

Three Months Ended September 30, 2014 and 2013

Our revenue for the three months ended September 30, 2014 decreased by approximately 22.33% from a year ago as sales of most products slowed, largely as a result of government policies aimed at reducing pollution and softness in the real estate markets which affected demand for steel and as result, coal and coke products. We derived 89% of our revenue from coke products for the three months ended September 30, 2014, as compared to 73% for the three months ended September 30, 2013, and 11% from coal products for the three months ended September 30, 2014 as compared to 27% for the three months September 30, 2013.

On a macro level, management has observed the following trends, which may have a direct impact on our operations in the near future: (1) China's domestic coke market can be expected to remain soft until the Chinese steel industry can work through its oversupply of crude steel, which may take some time absent any sudden, sharp uptick in the economy; and (2) the slower economy, along with an oversupply of mid-coal starting in early 2013, will continue to keep mid-coal price down.

Comparison of the three months ended September 30, 2014 and 2013

Revenue

Revenue decreased by $3,902,134 as compared to the same period last year. Such decrease mainly resulted from decreased sales of coke, washed coal, coke power, coke tar, coal slurry and mid coal, offset by increased sales of crude benzol. Revenue and quantity sold by product type for the three months ended September 30, 2014 and 2013 are as follows:

	Revenues Coke products	Coal products	Total
Revenue			
Three months ended September 30, 2013	$12,776,121	$4,699,849	$17,475,970
Three months ended September 30, 2014	12,034,328	1,539,508	13,573,836
Increase (decrease) in $	$(741,793)	$(3,160,341)	$(3,902,134)
Increase (decrease) in %	(5.81)%	(67.24)%	(22.33)%
Quantity sold (metric tons)			
Three months ended September 30, 2013	58,274	36,763	95,037
Three months ended September 30, 2014	60,357	18,515	78,872
Increase (decrease) in metric tons	2,083	(18,248)	(16,165)
Increase (decrease) in %	3.57%	(49.64)%	(17.01)%

Coke products include finished coke (a key raw material for producing steel), coke powder (a smaller-grained coke that can be produced along with coke and used by non-ferrous metallurgical industry), coal tar, and crude benzol. Coal tar and crude benzol are byproducts of the coke manufacturing process with various industrial applications.

Coal products include unprocessed metallurgical coal, processed or washed coal, mid-coal and coal slurries, which are by-products of the coal washing process and used primarily to generate electricity and for heating. As used in this discussion and analysis, unless otherwise indicated, "coke" includes both coke and coke powder, and "raw coal" includes coal that is unwashed and relatively unprocessed, as well as mid-coal and coal slurries.

Average selling prices per metric ton of our products are as follows for the periods indicated:

Average Selling Price of Coke Products

	Coke	Coal tar	Crude benzol	Coke powder
Three months ended September 30, 2013	$220	$ 314	$345	$ 172
Three months ended September 30, 2014	191	319	1,041	N/A
Increase (decrease) in $	$(29)	$ 5	$696	$ N/A
Increase (decrease) in %	(13.18)%	1.59 %	201.74%	N/A

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Average Selling Price of Coal Products

	Coal slurries	Mid-coal	Washed coal	Raw coal
Three months ended September 30, 2013	$41	$48	$166	$N/A
Three months ended September 30, 2014	28	49	146	N/A
Increase (decrease) in $	$(13)	$1	$(20)	$N/A
Increase (decrease) in %	(31.71)%	2.08%	(12.05)%	N/A

Generally, our selling prices are driven by a number of factors, including the particular composition and quality of the coal or coke we sell, their prevailing market prices locally and throughout China, as well as in the global marketplace, timing of sales, delivery terms, and our relationships with our customers and our negotiations of their purchase orders. Coke, coal slurries and washed coal selling prices decreased over the three months ended September 30, 2014 and 2013 and coal tar and mid-coal selling price increased over the three months ended September 30, 2014 and 2013.

However, the increase of $696 or 201.74% at our crude benzol selling price over the three months ended September 30, 2014 and 2013 was due not only to the factors stated above, but also to our crude benzol production quality and quantity. We started to produce crude benzol using new coking ovens and technology in April 2013. As we gained more experience producing crude benzol, we produced more and higher quality crude benzol which gave us more bargaining power with our customers for higher selling prices.

The average price of coke was calculated based on the weighted average price of coke and coke powder. The average price of raw coal was calculated based on the weighted average price of unprocessed coal, coal byproducts and mixed thermal coal. We note that the average selling prices for coal products are also influenced by changes in the coal mixtures (with different grades and heat content) that we sell to our customers.

Revenue and quantity sold of each coke product are as follows for the periods indicated:

Coke Products

	Coke	Coal tar	Crude benzol	Coke powder	Total
Revenue					
Three months ended September 30, 2013	$11,261,070	$605,348	$68,994	$840,709	$12,776,121

Three months ended September 30, 2014	11,190,216	465,322	378,790	-	12,034,328
Increase in $	$(70,854)	$(140,026)	$309,796	$(840,709)	$(741,793)
Increase in %	(0.63)%	(23.13)%	449.02 %	(100.00)%	(5.81)%
Quantity sold (metric tons)					
Three months ended September 30, 2013	51,261	1,929	200	4,884	58,274
Three months ended September 30, 2014	58,535	1,458	364	-	60,357
Increase in metric tons	7,274	(471)	164	(4,884)	2,083
Increase in %	14.19 %	(24.42)%	82.00 %	(100.00)%	3.57 %

Coke revenues decreased 0.63%, resulting from a 14.19% increase of coke quantity by weight, offset by an average coke price decrease of 13.18%. Due to the market price of and demand for our coke products, we did not produce or sell any coke powder in the three months ended September 30, 2014. Coal tar byproduct revenues decreased by 23.13%, while crude benzol revenues increased by 449.02%. The increase in crude benzol products resulted from an 82.00% increase in the quantity by weight sold and a 201.74% increase in average selling price.

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Because the market demand of coke is still weak, we believe coke product revenues will not recover unless we can contract with special customers such as Fangda Steel or we can produce higher quality products for which market demand is strong, such as crude benzol and other byproducts.

Revenues and quantity of each coal product sold are as follows for the period indicated:

Coal Product

	Coal slurries	Mid-coal	Washed coal	Total
Revenue				
Three months ended September 30, 2013	$158,471	$375,608	$4,165,770	$4,699,849
Three months ended September 30, 2014	101,954	362,264	1,075,290	1,539,508
Increase in $	$(56,517)	$(13,344)	$(3,090,480)	$(3,160,341)
Increase in %	(35.66)%	(3.55)%	(74.19)%	(67.24)%
Quantity sold (metric tons)				
Three months ended September 30, 2013	3,828	7,777	25,158	36,763
Three months ended September 30, 2014	3,674	7,460	7,381	18,515
Increase in metric tons	(154)	(317)	(17,777)	(18,248)
Increase in %	(4.02)%	(4.08)%	(70.66)%	(49.64)%

Our coal revenues continued to suffer from raw coal supply from our coal mine created by the ongoing mining moratorium. We cannot anticipate whether or when the moratorium will end. We received no raw coal revenues for the three months ended September 30, 2014 and 2013.

Because we cannot produce raw coal on our own, we purchase raw coal from third parties and wash coal for our coking processing. In response to the higher price of raw coal used to make washed coal, we have adapted our coal washing process to increase washed coal yield. Doing so has also resulted in less mid-coal and coal slurries being produced, which when combined with the effect of selling price changes, resulted in revenue decreases for both mid-coal and coal slurries.

Our lower washed coal revenue for the three months ended September 30, 2014 resulted from the limited amount of washed coal sold to our customers due to the limited availability of raw coal with which to produce washed coal. In addition, the quarter saw the continued deterioration in the per-ton price of such products, a trend we have seen in recent quarters.

<u>Cost of Revenue</u>

Cost of revenue decreased by 21.46%, from $14,378,669 to $11,292,494 compared to the same period last year. This was mainly driven by lower sales volumes for most of our products and coal tar and coke powder, and the cheaper cost of obtaining raw coal, as compared to the same period of last year.

Gross Profit

Gross profit was $2,281,342, a decrease of $815,959 or 26.34% from $3,097,301 for the same period of 2013, mainly because coke prices declined and sales of washed coal dropped. Despite total sales decreases as stated above, gross profit margin remained stable at 16.81% compare to 17.72% in the same period of last year, mainly due to higher profit margins of certain coke products, such as crude benzol.

Operating Expenses

Operating expenses, which consist of selling expenses and general and administrative expenses, were $921,959, an increase of $277,504 or 43.06% from $644,455 in the same period of 2013. Selling expenses decreased by $6,710, or 16.42%, to $34,164, from a slight reduction in expenses relating to selling activities. General and administrative expenses increased by $284,214 or 47.09%, to $887,795, due to: (1) an increase of $120,000 in our payroll, and (2) an increase in bad debt expense for doubtful accounts of $116,359.

Other Income and Expense

Other income and expense includes finance expense (which consists of interest and other finance expenses, net of interest income), income and expense not related to our principal operations, and change in fair value of warrants. Finance expense was $1,395,625, an increase of $737,408 or 112.03% from the same period a year ago. This is largely due to the following: (1) we incurred an additional $718,446 in interest expense in connection with extending Hongli's loan with Bairui Trust Co., Ltd. ("Bairui Trust"), due to an average interest rate increase from 6.2% to 11.8%; (2) bank service charges decreased by $61,880, or 98.94%, for the same period of a year ago as our banking transactions decreased, and (3) interest income from loans receivable decreased by $80,842, because we collected $4.5 million in principal during August 2014.

We also recorded other expenses from the change of fair value of warrants in the amount of $2,027,162 for the three months ended September 30, 2014 compared to other income of $12 in the same period of last year, mainly as a result of the increased volatility of our stock price during the three months ended September 30, 2014 and newly issued warrants and options related to the September 24, 2014 Security Purchase Agreement, pursuant to which we issued 2,818,845 shares of common stock attached with Series A warrants to purchase an aggregate of 1,409,423 common shares and Series B warrants to purchase an aggregate of 1,644,737 common shares.

As a result of the foregoing, we had other expense of $3,422,787 for three months ended September 30, 2014 as compared other expense of $658,205 for the same period of 2013.

Provision for Income Taxes

Provision for income taxes over the three months ended September 30, 2014 decreased by $143,904 to $489,853 from the same period a year ago, reflecting our lower taxable income.

Net income (loss)

We recorded a net loss of $2,553,257, including the increasein fair value of warrants of $2,027,162 for the three months ended September 30, 2014, as compared to net income of $1,160,884 for the same period a year ago.

Years Ended June 30, 2014 and 2013

Our revenue in fiscal 2014 decreased by approximately 24.62% from a year ago as sales of most products slowed, largely as a result of government policies aimed at reducing pollution and softness in the real estate markets, which affected demand for steel and, as a result, coal products. 87% of the revenue was derived from coke products as compared to 59% in fiscal 2013, and 13% from coal products as compared to 41% in fiscal 2013. The change in product mix was largely due to decreased market demand for coal, counterbalanced by a small number of coke product customers continuing to cooperate with our company. Our coke product customers participate in specialty steel industries, including automotive, military and other non-construction industries; if our coke customers were focused in the construction industries, we believe our coke sales would have been negatively impacted.

On a macro level, management has observed the following trends, which may have a direct impact on our operations in the near future: (1) domestic coke market can be expected to remain soft until the Chinese steel industry can work through its oversupply of crude steel, which may take some time absent any sudden, sharp uptick in the economy; and (2) the slower economy, along with an oversupply of mid-coal starting in early 2013, will continue to keep mid-coal prices down.

Comparison of Years ended June 30, 2014 and 2013

<u>Revenue</u>

Revenue decreased by $16,418,608 as compared to fiscal year 2013. Such decrease mainly resulted from decreased sales of raw coal, coal slurries, mid-coal, coke powder, and washed coal, offset by increased sales of coke, coal tar and crude benzol. Revenue and quantity sold by product types for fiscal 2014 and 2013 are as follows:

	Revenues Coke products	Coal products	Total
Revenue			
Fiscal year 2013	$39,056,535	$27,629,766	$66,686,301
Fiscal year 2014	43,857,331	6,410,362	50,267,693
Increase (decrease) in $	$4,800,796	$(21,219,404)	$(16,418,608)
Increase (decrease) in %	12.29 %	(76.80)%	(24.62)%
Quantity sold (metric tons)			
Fiscal year 2013	196,575	187,943	384,518
Fiscal year 2014	209,074	74,659	283,732
Increase (decrease) in metric tons	12,499	(113,284)	(100,786)
Increase (decrease) in %	6.36 %	(60.28)%	(26.21)%

Coke products include finished coke (a key raw material for producing steel), coke powder (a smaller-grained coke that can be produced along with coke and used by non-ferrous metallurgical industry), coal tar, and crude benzol. Coal tar and crude benzol are byproducts of the coke manufacturing process with various industrial applications.

Coal products include unprocessed metallurgical coal, processed or washed coal, mid-coal and coal slurries, which are by-products of the coal washing process and used primarily to generate electricity and for heating. As used in this discussion and analysis, unless otherwise indicated, “coke” includes both coke and coke powder, and “raw coal” includes coal that is unwashed and relatively unprocessed, as well as mid-coal and coal slurries.

Average selling prices per metric ton of our products during fiscal 2014 and 2013 are as follows:

Average Selling Price of Coke Products

	Coke	Coal tar	Crude benzol	Coke powder
Fiscal year 2013	$208	$267	$339	$ 152
Fiscal year 2014	203	319	891	159
Increase (decrease) in $	$(5)	$52	$552	$ 7
Increase (decrease) in %	(2.18)%	19.48 %	162.48%	4.35 %

Average Selling Price of Coal Products

	Coal slurries	Mid-coal	Washed coal	Raw coal
Fiscal year 2013	$ 49	$ 58	$ 183	$ 114
Fiscal year 2014	36	49	167	-
Increase (decrease) in $	$ (13)	$ (10)	$ (16)	$ (114)
Increase (decrease) in %	(26.30)%	(16.50)%	(8.53)%	(100)%

Generally, our selling prices are driven by a number of factors, including the particular composition and quality of the coal or coke we sell, their prevailing market prices locally and throughout China, as well as in the global marketplace, timing of sales, delivery terms, and our relationships with our customers and our negotiations of their purchase orders. However, the increase of $552 or 162.48% at our crude benzol selling prices over the fiscal years of 2014 and 2013 was contributed from our production quality and quantity of crude benzol. During the year ended June 30, 2014, our production of crude benzol increased from 180 metric tons in fiscal 2013 to 911 metric tons, and we were able to improve the quality of our crude benzol product, both of which gave us more bargaining power with our customers for higher selling prices. Additionally, we started to produce crude benzol using new coking ovens and technology in April 2013. After a one-year learning curve and quality control management, we produced higher quality crude benzol in fiscal 2014.

The average price of coke was calculated based on the weighted average price of coke and coke powder. The average price of raw coal was calculated based on the weighted average price of unprocessed coal, coal byproducts and mixed thermal coal. We note that the average selling prices for coal products are also influenced by changes in the coal mixtures (with different grades and heat content) that we sell to our customers.

Revenue and quantity sold of each coke product for fiscal 2014 and 2013 are as follows:

Coal Product

	Coke	Coal tar	Crude benzol	Coke powder	Total
Revenue					
Fiscal year 2013	$31,171,635	$1,719,416	$61,108	$6,104,376	$39,056,535
Fiscal year 2014	38,917,211	2,884,303	811,806	1,244,011	43,857,331
Increase in $	$7,745,576	$1,164,887	$750,698	$(4,860,365)	$4,800,796
Increase in %	24.85%	67.75%	1,228.48%	(79.62)%	12.29%
Quantity sold (metric tons)					
Fiscal year 2013	149,882	6,433	180	40,080	196,575
Fiscal year 2014	191,303	9,032	911	7,828	209,074
Increase in metric tons	41,421	2,599	731	(32,252)	12,499
Increase in %	27.64%	40.40%	406.13%	(80.47)%	6.36%

The coke revenues increased 24.85% as a result of a 27.64% increase of coke quantity, slightly offset by the coke average price decrease of 2.18%. Due to lower demand from our sodium hydroxide and carbon electrode customers for coke powder, revenues from coke powder decreased 79.62%. Revenues of byproduct of coal tar increase 67.75% and revenues of crude benzene increased by 1,228.48%.

As result of the technology upgrade with leasing a recovery stamping coke oven in Hongfeng plant, the Baofeng plant yielded more and better quality coal tar and crude benzol. We started to lease a recovery stamping coke oven in Hongfeng plant which is using an upgraded coking technology and conducted trial production in April 2013. With one-year learning curve and quality control management, we were able to produce higher quality crude benzol and coal tar, which resulted in increased production and revenues in fiscal year 2014 compared to fiscal year 2013.

Although the market demand of coke has been weak since 2013, our revenues from coke products still increased $4.8 million or 12.29%, resulting from demand from special steel customers such as Fangda Steel, and favorable market and pricing conditions contributed to coal tar and crude benzol revenues.

Revenue and quantity sold of each coal product for fiscal 2014 and 2013 are as follows:

Coal Product

	Coal slurries	Mid-coal	Washed coal	Raw coal	Total
Revenue					
Fiscal year 2013	$ 819,134	$ 1,933,332	$ 24,272,969	$ 604,331	$ 27,629,766
Fiscal year 2014	598,638	1,610,026	4,201,698	-	6,410,362
Increase in $	$ (220,496)	$ (323,306)	$ (20,071,271)	$ (604,331)	$ (21,219,404)
Increase in %	(26.92)%	(16.72)%	(82.69)%	(100)%	(76.80)%
Quantity sold (metric tons)					
Fiscal year 2013	16,589	33,141	132,930	5,283	187,943
Fiscal year 2014	16,450	33,051	25,158	-	74,659
Increase in metric tons	(139)	(90)	(107,772)	(5,283)	(113,284)
Increase in %	(0.84)%	(0.27)%	(81.07)%	(100)%	(60.28)%

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Our coal revenue continued to suffer from raw coal supply from our coal mine created by the ongoing mining moratorium. We are unable to predict whether or when the moratorium is likely to end. No raw coal revenues were generated for fiscal year 2014.

We purchase raw coal from third parties and wash it for our coking processing. During fiscal 2014, our business relationships with some of our coal customers terminated due to (1) weak market demand for raw coals and washed coals in 2014 and (2) inability to reach certain sale terms, including payment terms and selling price. In response to the termination, our revenues from raw coal and washed coal had been declined significantly, compared with our performance in 2013. When combined with the effect of lower selling prices, our coal product revenues decreased significantly. We believe this trend may continue for at least the near term, if not long term future, as a result of government initiatives aimed at increasing uses of clean energy. This is one reason we have been focusing on moving into the clean energy industry.

Cost of Revenue

Cost of revenue decreased to $41,275,791 from $58,478,301 a year ago. This was mainly driven by lower sale volumes for most of our coal products.

Gross Profit

Gross profit was $8,991,902, an increase of $783,902 or 9.55% from $8,208,000 a year ago, despite decreased revenues as discussed above. Gross profit margin increased to 17.89% from approximately 12.09% for the prior fiscal year, mainly due to stable demand of our coke and improved quality and production capacity of byproducts during the coking procedure, coal tar and crude benzol.

Operating Expenses

Operating expenses, which consist of selling expenses and general and administrative expenses, was $2,276,565, a decrease of $811,838 or 26.29% from a year ago. Selling expenses decreased by $9,111 or 5.56%, to $154,716, from slight reduction in expenses relating to selling activities. General and administrative expenses decreased by $802,727 or 27.45%, to $2,121,849, due to the following factors: (1) our rental expense decreased by $114,000, from closing our Beijing office; (2) consulting expenses decreased by $382,000 with engaging new consultants with lower charges;

(3) lower investor relations expenditures, which were reduced by approximately $163,000, and (4) payroll expense was reduced by $90,000 as well as $54,000 reduction from entertainment expense and travel expense due to our cost control policy.

Other Income and Expense

Other income and expense includes finance expense (which consists of interest and other finance expenses, net of interest income), income and expense not related to our principal operations, and change in fair value of warrants. Finance expense was $3,982,378, an increase of $626,199 or 18.66% from a year ago. This is largely due to the following factors: (1) we incurred an additional $602,020 in interest in connection with extending Hongli’s loans with Bairui Trust Co., Ltd. (“Bairui Trust”) due to average interest rate increase from 7.01% to 8.88% and the penalty interest for overdue interest payment; (2) the bank service charge decrease $193,218, or 72.89% for a year ago. The decrease over our bank service charge was from lower bank acceptance note use as a payment tool in fiscal year 2014, and (3) the interest income from $8,032,037 in loan receivable decreased by $217,397, due to collections of $10.8 million in loan receivable and re-loans of $10 million during the fiscal year 2013.

We had incomes unrelated to our principal operations of $109,100 in fiscal year 2014, compared to $229,036 in fiscal year 2013. The decrease was mainly from a dividend of $191,160 from our investment in Pingdingshan Rural Cooperative Bank (“PRCB”) – Xinhua District Branch in fiscal year 2013.

We also recorded other income from the gain in fair value of warrants in the amount of $5 in fiscal year 2014 compared to $716,627 in fiscal year 2013.

As a result of the foregoing, we had other expense of $3,873,273 as compared other expense of $2,410,516 a year ago.

Provision for Income Taxes

Provision for income taxes decreased by $190,094 from a year ago, reflecting our higher taxable incomes from Chinese operations.

Net income

Net income, including the change in fair value of warrants, was $990,582, as compared to $1,047,693 a year ago.

Liquidity and Capital Resources

Three Months Ended September 30, 2014 and 2013

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations and otherwise operate on an ongoing basis. At September 30, 2014 our working capital was $8,792,853 as compared to $6,760,391 at June 30, 2014, reflecting the $13.2 million capital contribution from a private placement concluded during the three months ended September 30, 2014, $7 million investment in our underground gasification construction, and an increase from the current portion of warrants liability of $4 million.

In summary, our cash flows for the quarters ended September 30, 2014 and 2013 are as follows:

	For the three months ended September 30,	
	2014	2013
Net cash used in operating activities	$ (1,384,668)	$ (565,804)
Net cash used in investing activities	$ (2,526,661)	$ -
Net cash provided by financing activities	$ 15,220,921	$ -

Net Cash Used in Operating Activities

Net cash used in operating activities for the three months ended September 30, 2014 was approximately $1.38 million as compared to net cash used in operating activities of approximately $0.57 million for the same period last year. Except for $2,448,560 in non-cash adjustments, such as $279,032 in depreciation, $17,674 in amortization and depletion, $116,359 in bad debt allowance and $2,027,162 in change in fair value of warrants which increased our derivative liabilities as well as the relevant losses from this valuation, net operating inflow for the three months ended September 30, 2014 resulted from the following factors: (1) inventories decreased by $3,224,546 as our grant of an increased credit line to two new customers enabled them to purchase more of our products, thereby reducing inventory; (2) advances to suppliers decreased by $263,038, due to greater control of our prepayment policy; (3) our taxes payable increased by $925,584 due to VAT payable, which was paid in October 2014. Cash inflow was mainly offset as follows: (1) our accounts receivable increased by $2,641,476, due to Hongli's extension of an increased credit line to its two new customers during the period; (2) accounts payable decreased by $2,303,148, mainly due to lower raw material purchases during the period; and (3) other payables and accrued liabilities decreased by $675,686 due to the payment of interest related to Bairui Trust over the period.

Net cash used in operating activities for the three months ended September 30, 2013 was approximately $0.57 million, including the non-cash adjustments of $280,236 in depreciation, $17,659 in amortization and depletion and $85,938 in write-off other receivables and advances to suppliers. Net operating inflow also resulted from: (1) inventories decreased $753,639 due to the increase of coke sales (in particular, crude benzol sales), and (2) increase of accounts payable of $194,299. Cash inflow was mainly offset as follows: (1) other receivables increased by $1,333,864 due to an additional deposit of $1,637,000 to bid at an auction for some non-performing assets, including certain mining rights subject to the ongoing mine consolidation program, valued collectively at $19.5 million (RMB 120 million). Should Hongli win the auction, the deposit would be applied against Hongli's bid price for the assets. Otherwise, PRCCU would refund the deposit back to Hongli before December 31, 2013. On December 30, 2013, the parties entered into a supplemental agreement to postpone the auction date and to extend the deposit refund date to December 31, 2014. As of September 30, 2013, the total deposit made for this auction was $3,256,000; (2) other payables and accrued liabilities decreased by approximately $1.1 million due to the payment of interest of $852,030 to Bairui Trust and service charge payments of $226,000 for compensation payable to the our Chief Executive Officer and Chief Financial Officer.

Net Cash Used in Investing Activities

Net cash used in investing activities for three months ended September 30, 2014 was approximately $2.5 million. We collected loans receivable of $4.5 million from Capital Paradise Limited ("CPL") and invested $7,026,661 in underground gasification construction.

For the three months ended September 30, 2013, we had no cash flows from investing activities.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was approximately $15.2 million. During the three months ended September 30, 2014, we completed a registered sale of 2,818,845 shares of our common stock with net consideration of $13.2 million and obtained additional loans from our shareholder and the CEO, Mr. Lv Jianhua, of approximately $2.0 million. Such loans have not been reduced to writing but are made without interest and are payable on demand.

For the three months ended September 2013, we had no cash flows from financing activities.

Capital Resources

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

On April 2, 2011, Hongli entered into a loan agreement with Bairui Trust, pursuant to which Bairui Trust agreed to loan Hongli RMB 360 million (approximately $57.06 million), of which RMB 180 million was due on April 2, 2013, and RMB 180 million on April 2, 2014, with an annual interest rate of 6.3%. Bairui Trust made the loan to Hongli on April 3, 2011. On November 30, 2011, Hongli entered into a supplemental agreement with Bairui Trust to amend the terms such that RMB 30 million (approximately $4.8 million) would be due on October 2, 2012, RMB 100 million (approximately $15.8 million) on April 2, 2013, RMB 50 million (approximately $7.9 million) on October 2, 2013, and RMB 180 million (approximately $28.5 million) on April 2, 2014. We made the October 2, 2012 payment on December 25, 2012, including outstanding interest charge for late payment. We repaid $3.2 million (RMB 20 million) on April 3, 2013, and entered into another supplemental agreement with Bairui Trust on April 23, 2013 to extend the due date for the remaining $12.7 million (RMB 80 million). Of such remaining principal, the due date for $3.2 million

(RMB 20 million) has been extended to December 2, 2013 with an annual interest rate of 6.3% starting from April 23, 2013. The due date for $4.8 million (RMB 30 million) has been extended to January 2, 2014 with an annual interest rate of 6.3% starting from April 23, 2013. The due date for $4.8 million (RMB 30 million) has been extended to February 2, 2014 with an annual interest rate of 6.3% starting from April 23, 2013. Between April 3, 2013 and April 23, 2013, Bairui Trust charged a 9.45% annual interest rate on the entire $12.7 million outstanding.

On October 1, 2013, the parties executed an extension agreement, for the remaining balance of approximately $50.7 million (RMB 310 million) with 9.9% interest rate as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 8,185,000	¥ 50,000,000	October 2, 2016	October 3, 2013 – October 2, 2016
3,274,000	20,000,000	December 2, 2016	December 3, 2013 – December 2, 2016
4,911,000	30,000,000	January 2, 2017	January 3, 2014 – January 2, 2017
4,911,000	30,000,000	February 2, 2017	February 3, 2014 – February 2, 2017
29,466,000	180,000,000	April 2, 2017	April 3, 2014 – April 2, 2017
$ 50,747,000	¥ 310,000,000		

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On April 2, 2014, the parties entered into another supplement agreement, which replaced the extension agreement dated October 1, 2013, as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 3,245,752	¥18,000,000	April 2, 2015	December 3, 2013 – April 2,2015
4,868,628	30,000,000	April 2, 2015	January 3, 2014 – April 2,2015
4,868,628	30,000,000	April 2, 2015	February 3, 2014 – April 2,2015
8,114,380	50,000,000	January 2, 2015	October 3, 2013 –January 2,2015
29,211,770	180,000,000	October 2, 2015	April 3, 2014 – October 2, 2015
$ 50,309,158	¥308,000,000		

According to the new supplement agreement, the annual interest rate was changed from 9.9% to 11.88% and, for the period between December 3, 2013 and April 2, 2014, Bairui Trust charged an additional 7.2% annual interest rate on $12.9 million (RMB 80 million) of the outstanding $50.3 million (RMB 310 million) loan principal. We paid back Bairui Trust RMB 2,000,000 in April 2014 after the supplemental agreement.

We intend to negotiate with Bairui Trust to further extend the maturity dates by an additional two to three years, and to repay the loan through our operational cash flow. We have no guaranty that we will ultimately be successful with such negotiations or the final terms of such negotiations in the event we are successful.

Our business plan involves growing our business through:

(1) Expand production capability of higher margin coke products such as crude benzol and other derivative byproducts in order to hedge against the unfavorable market conditions for coal and coke that we are facing;

(2) Look for opportunities to build long-term relationship with quality coal producers to ensure our supply. To that end, Shenhuo Group is already supplying us under a tripartite agreement with Shenhuo Group and Fangda Steel. Under such arrangement, we do not need to make any prepayments or purchase inventory until all coke products ordered by Fangda Steel are delivered, and our receivables from Fangda Steel are settled. As such, we can increase coke sales without significant demand on our working capital;

(3) Develop and install the system of green facility for the conversion of carbon dioxide into a clean-burning synthetic gas (syngas) to expand our product into the high margin product of syngas. Syngas, a clean-burning fuel, is increasingly utilized as a clean-energy alternative to burning coal. Comprised primarily of hydrogen and carbon monoxide, syngas can also be used to produce a range of widely-used industrial products such as fertilizers, solvents and assorted synthetic materials. This coke gasification facility project was completed and turned to

commissioning and trial production stage as the filling of the report.

The following is expected to require capital resources:

- *New Coking Facility*. We intend to use existing cash, cash flow from operations, bank loans, collection of our loan receivables, along with other finance arrangements such as extending our long-term loan from Bairui Trust, to complete the construction of our new coking facility. Due to ongoing market conditions, however, we have once again slowed down construction, but plan to resume at full pace if and when market conditions improve.

- *Coal Mine Safety Improvement Project.* The total estimated cost for government-mandated safety upgrades is approximately $31.5 million. We will be responsible for approximately 70% of the total estimated cost, approximately $22.0 million, under the structure of our joint venture with Henan Coal Seam Gas. These projects have not commenced as of the date of this Report, and we are not sure when it will commence at this time.

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- *Coal Underground Gasification Project*. On August 28, 2014, we entered in a cooperative agreement with North China Institute of Science and Technology for an underground coal gasification development project to refine and implement technology designed to convert our coal mines with 2.3 million tons of coal recovery reserves into syngas. During the first stage, we plan to invest $18 million in building an underground coal gasification facility.

Years Ended June 30, 2014 and 2013

As of June 30, 2014, our working capital was $6,760,391 as compared to negative working capital of $24,312,407 at June 30, 2013, due to reclassification of part of Bairui Trust's short-term loans of $29,243,566 to long-term loans. Our accounts have accordingly been prepared in accordance with U.S. GAAP on a going concern basis. The going concern basis assumes that assets are realized and liabilities are extinguished in the ordinary course of business at amounts disclosed in the financial statements. Our ability to continue as a going concern depends upon expenditure requirement and repayments of our short-term loan and long-term loan facilities with Bairui Trust as and when they become due.

In an effort to improve our financial position, we intend to negotiate with Bairui Trust to extend our loan maturity date, and to increase sales of higher margin products such as coal tar and crude benzol. In the meantime, we are still waiting for the mining moratorium to conclude. If and when that occurs, we should be able to obtain a line of credit to facilitate additional liquidity by pledging our mining rights. Management believes that these and other actions taken can provide us the opportunity to continue as a going-concern.

In summary, our cash flows are as follows:

	Year ended June 30,	
	2014	2013
Net cash provided by (used in) operating activities	$(648,578)	$6,627,554
Net cash provided by investing activities	$-	$866,920
Net cash provided by (used in) financing activities	$59,320	$(8,815,001)

Net Cash Provided by (Used in) Operating Activities

Net cash used in operating activities for fiscal 2014 was approximately $0.65 million, as compared to net cash used in operating activities of approximately $6.6 million for fiscal 2013. Except for $1,311,859 in non-cash adjustment such as depreciation, amortization and depletion, bad debt, change in fair value of warrants, inventory impairment, and gain from forgiven payables which increased our cash-based net income, net operating inflow for fiscal 2014 resulted from the following factors: (1) our accounts receivable decreased by $427,486, due to improved collection of receivables from our customers; (2) advances to suppliers decreased by $128,205, due to tightening control of our prepayments; (3) our accounts payable decreased by $2,800,529 due to more credit from the suppliers; and (4) our other payables and liabilities increased by $323,870, including interest payables to Bairui Trust, salary payables, and others related to general and administrative expenses. Cash inflow was mainly offset by the following factors: (1) other receivable increase by $1,558,667 mainly due to a security deposit we made in connection with a not-yet-completed land use right auction; (2) inventory increased by $4,568,625 mainly due to soft market demand for our products, and (3) tax payable decreased by $373,545 due to less VAT payables recognized at the end of fiscal year 2014 because of reduction of our revenues during the same period.

Net cash provided by operating activities for fiscal 2013 was approximately $6.6 million, as compared to net cash used in operating activities of approximately $12.2 million for fiscal 2012. Except for $1,107,666 in non-cash adjustment such as depreciation, amortization and depletion, bad debt and change in fair value of warrants which increased our cash-based net income, net operating inflow for fiscal 2013 resulted from the following factors: (1) our account receivable decreased by $2,757,701, due to improved collection of receivables from our customers; (2) advances to suppliers decreased by $3,681,517, due to tightening control of our prepayments; (3) we did not have prepaid expense, which increased our cash inflow by $636,908; and (4) our other payables and liabilities increased by $1,405,131, including interest payables to Bairui Trust, salary payables, and others related to general and administrative expenses. Cash inflow was mainly offset as follows: (1) notes receivable decreased by $398,250 due to the maturity and cashing of such notes; (2) inventory increased by $576,227 mainly due to soft market demands for our products; and (3) tax payable decreased by $414,772 due to lower taxable income in the fourth quarter of fiscal 2013, as compare to the same period last year.

Net Cash Provided by Investing Activities

We had no cash provided by or used in investing activities in fiscal year 2014.

Net cash provided by investing activities for fiscal 2013 reflects: (1) $9,558,000 in loan receivable to an unrelated party, which was repaid in April 2013; and (2) $1,234,300 in loan receivable we collected from a borrower.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities in fiscal year 2014 included: (1) restricted cash release from the notes payable maturity amount to $9,770,396; (2) a $385,000 loan from the CEO; and (3) a short-term loan from an individual of $163,700, offset by (A) repayment of the notes payable in the same amount $9,770,396; (B) $325,680 repaid loan to Barirui Trust in April 2014; and (C) a repayment of $163,700 on October 2013.

Net cash used in financing activities for fiscal 2013 included: (1) $9,558,000 in notes payable we obtained from Shanghai Pudong Development Bank ("SPDB") in February 2013, which matured and was fully repaid in August 2013; (2) a loan of $9,558,000 we received from SPDB, which was fully repaid in April 2013; (3) $4,779,000 in notes payable from SPDB that we repaid in September and October 2012 when they matured; and (4) $5,734,800 of Hongyuan's loan from SPDB that was repaid in June 2013. We also repaid a total of $7,965,000 to Bairui Trust in December 2012 and April 2013.

Capital Resources

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

On April 2, 2011, Hongli entered into a loan agreement with Bairui Trust, pursuant to which Bairui Trust agreed to loan Hongli RMB 360 million (approximately $57.06 million), of which RMB 180 million was due on April 2, 2013, and RMB 180 million on April 2, 2014, with annual interest rate of 6.3%. Bairui Trust made the loan to Hongli on April 3, 2011. On November 30, 2011, Hongli entered into a supplemental agreement with Bairui Trust to amend the terms such that RMB 30 million (approximately $4.8 million) would be due on October 2, 2012, RMB 100 million (approximately $15.8 million) on April 2, 2013, RMB 50 million (approximately $7.9 million) on October 2, 2013, and RMB 180 million (approximately $28.5 million) on April 2, 2014. We made the October 2, 2012 payment on December 25, 2012, including outstanding interest charge for late payment. We repaid $3.2 million (RMB 20 million) on April 3, 2013, and entered into another supplemental agreement with Bairui Trust on April 23, 2013 to extend the due date for the remaining $12.7 million (RMB 80 million). Of such remaining principal, the due date for $3.2 million (RMB 20 million) has been extended to December 2, 2013 with an annual interest rate of 6.3% starting from April 23, 2013. The due date for $4.8 million (RMB 30 million) has been extended to January 2, 2014 with an annual interest rate of 6.3% starting from April 23, 2013. The due date for $4.8 million (RMB 30 million) has been extended to February 2, 2014 with an annual interest rate of 6.3% starting from April 23, 2013. Between April 3, 2013 and April 23, 2013, Bairui Trust charged a 9.45% annual interest rate on the entire $12.7 million outstanding.

On October 1, 2013, the parties executed an extension agreement, for the remaining balance of approximately $50.7 million (RMB 310 million) with 9.9% interest rate as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 8,185,000	¥50,000,000	October 2, 2016	October 3, 2013 – October 2, 2016
3,274,000	20,000,000	December 2, 2016	December 3, 2013 – December 2, 2016
4,911,000	30,000,000	January 2, 2017	January 3, 2014 – January 2, 2017
4,911,000	30,000,000	February 2, 2017	February 3, 2014 – February 2, 2017
29,466,000	180,000,000	April 2, 2017	April 3, 2014 – April 2, 2017
$ 50,747,000	¥310,000,000		

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On April 2, 2014, the parties entered into another supplement agreement which replaced the extension agreement dated October 1, 2013, as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 3,245,752	¥18,000,000	April 2, 2015	December 3, 2013 – April 2,2015
4,868,628	30,000,000	April 2, 2015	January 3, 2014 – April 2,2015
4,868,628	30,000,000	April 2, 2015	February 3, 2014 – April 2,2015
8,114,380	50,000,000	January 2, 2015	October 3, 2013 –January 2,2015
29,211,770	180,000,000	October 2, 2015	April 3, 2014 – October 2, 2015
$ 50,309,158	¥308,000,000		

According to the new supplement agreement, the annual interest rate was changed from 9.9% to 11.88% and, for the period between December 3, 2013 and April 2, 2014, Bairui Trust charged an additional 7.2% annual interest rate on $12.9 million (RMB 80 million) of the outstanding $50.3 million (RMB 310 million) loan principal. We paid back Bairui Trust RMB2,000,000 on April 2014 after the supplement.

We intend to negotiate with Bairui Trust to further extend the maturity dates by an additional two to three years, and to repay the loans through our operational cash flow. We cannot guarantee that we will be successful in negotiating to extend such maturity dates.

Our business plan involves growing our business through:

(1) Expand production capability of higher margin coke products such as crude benzol and other derivative byproducts in order to hedge against the unfavorable market conditions for coal and coke that we are facing;

(2) Look for opportunities to build long-term relationships with quality coal producers to ensure our supply. To that end, Shenhuo Group is already supplying us under the tripartite agreement. Under such arrangement, we do not need to make any prepayments or purchase inventory until all coke products ordered by Fangda Steel are delivered, and our receivables from Fangda Steel are settled. As such, we can increase coke sales without significant demand on working capital;

(3) Develop and install the system of green facility for the conversion of carbon dioxide into a clean-burning synthetic gas (syngas) to expand our product into the high margin product of syngas. Syngas, a clean-burning fuel, is increasingly utilized as a clean-energy alternative to burning coal. Comprised primarily of hydrogen and carbon monoxide, syngas can also be used to produce a range of widely-used industrial products such as fertilizers, solvents and assorted synthetic materials.

The following are expected to require further capital resources:

- *New Coking Facility*. We intend to use existing cash, cash flow from operations, bank loans, collection of our loan receivables, along with other finance arrangements such as extending our long term loan from Bairui Trust, to complete the construction of our new coking facility. Due to ongoing market conditions, however, we have once again slowed down construction, but plan to resume at full pace if and when the market improves.

- *Coal Mine Safety Improvement Project.* The total estimated cost for government-mandated safety upgrades is approximately $31.5 million. We will be responsible for approximately 70% of the total estimated cost, approximately $22.0 million, under the structure of our joint-venture with Henan Coal Seam Gas. These projects have not commenced as of the date of this Report, and we are not sure if or when it will commence at this time.

Off-balance Sheet Arrangements

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

Critical Accounting Policies

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

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

<u>Revenue recognition</u>

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

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

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

Accounts receivables, trade

During the normal course of business, we extend unsecured credit not exceeding three months to our customers. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records allowance when management believes collection of amounts due are at risk. Accounts receivables are considered past due after three months from the date credit was granted. Accounts considered uncollectible after exhaustive efforts to collect are written off. We regularly review the credit worthiness of our customers and, based on the results of such credit review, determine whether extended payment terms can be granted to or, in some cases, partial prepayment is required from certain customers. As of September 30, 2014 and June 30, 2014, $286,030 and $140,158 allowance for doubtful accounts was provided, respectively.

Intangible assets - mining rights, net

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

Long-term investment

Entities in which we have the ability to exercise significant influence, but do not have a controlling interest, are accounted for under the equity method. Significant influence is generally considered to exist when we have between 20% and 50% of ownership interest in the voting stock, but 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.

Impairment of long-lived assets

We evaluate long-lived tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows, in accordance with the accounting guidance regarding "Disposal of Long-Lived Assets." Recoverability is measured by comparing an asset's carrying value to the related projected undiscounted cash flows generated by the long-lived asset or asset group, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. When the carrying value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss to the extent that the carrying value exceeds its fair value. As of September 30, 2014, there was no impairment of long-lived assets. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and/or third party independent appraisals.

Recently issued accounting pronouncements

In July 2013, the FASB issued Accounting Standards Update 2013-11, "Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). The objective of ASU 2013-11 is to eliminate diversity in practice of presenting unrecognized tax benefits as a liability or presenting unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances by requiring that an unrecognized tax benefit be presented in the financial statements as a reduction to deferred tax assets excluding certain exceptions. ASU 2013-11 will be effective prospectively for the Company in its first quarter of 2014. The Company does not expect ASU 2013-11 to have a material effect on its financial statements.

In April 2014, the Financial Accounting Standards Board (the "FASB") issued an accounting standard that raises the threshold for disposals to qualify as discontinued operations and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The standard revised the definition of a discontinued operation to cover only asset disposals that are considered to be a strategic shift with a major impact on an entity's operations and finances, such as the disposal of a major geographic area or a significant line of business. Application of the standard, which is to be applied prospectively, is required for fiscal years beginning on or after December 15, 2014, and for interim periods within that year. The Company currently plans to adopt the standard in January 2015.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-9, “Revenue from Contracts with Customers” (“ASU 2014-9”). ASU 2014-9 provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The updated guidance related to revenue recognition which affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for us starting on January 1, 2017. We are currently evaluating the impact this guidance will have on our combined financial position, results of operations and cash flows.

Directors, Executive Officers, Promoters and Control Persons

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

Name	Age	Position Held	Officer/Director since
Jianhua Lv	46		