

SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC.

Form 10-Q

November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2013**

or

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

For the transition period from _____ to _____

Commission File Number: **001-15931**

SinoCoking Coal and Coke Chemical Industries, Inc.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or

organization)

98-0695811

(I.R.S. Employer Identification Number)

Kuanggong Road and Tiyu Road 10th Floor

Chengshi Xin Yong She, Tiyu Road, Xinhua District

Pingdingshan, Henan Province

People's Republic of China

(Address of principal executive offices)

467000

(Zip Code)

+86-3752882999

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of November 6, 2013, the registrant had 21,121,372 shares of common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this report, other than statements of historical facts, that address future activities, events or developments, are forward-looking statements, including, but not limited to, statements containing the words “believe,” “anticipate,” “expect,” “project,” “may,” “might,” “will,” the negative forms thereof, and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties, certain of which are beyond our control. Actual results, performance or achievements may differ materially from those expressed or implied by forward-looking statements depending on a variety of important factors, including, but not limited to, weather, local, regional, national and global coke and coal price fluctuations, levels of coal and coke production in the region, the demand for raw materials such as iron and steel which require coke to produce, availability of financing and interest rates, competition, changes in, or failure to comply with, government regulations, costs, uncertainties and other effects of legal and other administrative proceedings, and other risks and uncertainties. Such risks and uncertainties are described in greater details in the “*Risk Factors*” section beginning on page 21 of the registrant’s annual report on Form 10-K for the year ended June 30, 2013 filed with the Securities and Exchange Commission (the “SEC”) on September 30, 2013 (the “Annual Report”).

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the registrant’s business operations. The registrant is not undertaking to update or revise any forward-looking statement, whether as a result of new information, future events or circumstances or otherwise.

PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

	September 30, 2013	June 30, 2013
ASSETS		
CURRENT ASSETS		
Cash	\$ 289,045	\$ 782,018
Restricted cash	-	9,708,000
Accounts receivable, trade	9,278,327	9,474,197
Other receivables	5,609,859	4,334,370
Loans receivable	8,032,037	8,032,037
Inventories	2,281,139	3,018,909
Advances to suppliers	9,449,497	8,791,837
Prepaid expenses	270,655	-
Total current assets	35,210,559	44,141,368
PLANT AND EQUIPMENT, net	15,082,867	15,269,766
CONSTRUCTION IN PROGRESS	40,473,429	40,224,821
OTHER ASSETS		
Refundable deposit	4,884,000	4,854,000
Prepayments	61,943,378	61,562,890
Intangible assets, net	32,425,631	32,244,071
Long-term investments	2,904,223	2,886,383
Other assets	113,960	113,260
Total other assets	102,271,192	101,660,604
Total assets	\$ 193,038,047	\$ 201,296,559
LIABILITIES AND EQUITY		

CURRENT LIABILITIES		
Current maturity of long term loan	\$-	\$50,158,000
Accounts payable, trade	379,657	183,504
Notes payable	-	9,708,000
Other payables and accrued liabilities	901,107	2,229,362
Other payables - related parties	379,182	140,465
Acquisition payable	4,721,200	4,692,200
Customer deposits	128,706	208,815
Taxes payable	1,211,101	1,133,450
Total current liabilities	7,720,953	68,453,796
LONG TERM LIABILITIES		
Long term loan	50,468,000	-
Total long term liabilities	50,468,000	-
Total liabilities	58,188,953	68,453,796
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, \$0.001 par value, 100,000,000 shares authorized, 21,121,372 shares issued and outstanding	21,121	21,121
Additional paid-in capital	3,592,053	3,592,053
Statutory reserves	3,689,941	3,689,941
Retained earnings	112,465,709	111,304,825
Accumulated other comprehensive income	10,748,670	9,903,223
Total SinoCoking Coal and Coke Chemicals Industries, Inc's equity	130,517,494	128,511,163
NONCONTROLLING INTERESTS	4,331,600	4,331,600
Total equity	134,849,094	132,842,763
Total liabilities and equity	\$ 193,038,047	\$ 201,296,559

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(UNAUDITED)

	For the Three Months Ended September 30,	
	2013	2012
REVENUE	\$ 17,475,970	\$ 17,562,194
COST OF REVENUE	14,378,669	15,652,938
GROSS PROFIT	3,097,301	1,909,256
OPERATING EXPENSES:		
Selling	40,874	43,581
General and administrative	603,581	626,828
Total operating expenses	644,455	670,409
INCOME FROM OPERATIONS	2,452,846	1,238,847
OTHER INCOME (EXPENSE)		
Interest income	183,093	222,640
Interest expense	(778,767)	(1,021,604)
Other finance expense	(62,543)	(72,244)
Change in fair value of warrants	12	673,530
Total other expense, net	(658,205)	(197,678)
INCOME BEFORE INCOME TAXES	1,794,641	1,041,169
PROVISION FOR INCOME TAXES	633,757	381,256
NET INCOME	1,160,884	659,913
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment	845,447	(288,695)
COMPREHENSIVE INCOME	\$ 2,006,331	\$ 371,218
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
Basic and diluted	21,121,372	21,121,372
EARNINGS PER SHARE		

Basic and diluted

\$ 0.05

\$ 0.03

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$1,160,884	\$659,913
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	280,236	320,043
Amortization	17,659	17,212
Write-off of other receivables and advances to suppliers	85,938	-
Change in fair value of warrants	(12) (673,530)
Change in operating assets and liabilities		
Accounts receivable, trade	253,487	361,536
Notes receivable, trade	-	(15,557,964)
Other receivables	(1,333,864)	775,616
Inventories	753,639	(1,165,156)
Advances to suppliers	(601,098)	13,674,890
Prepaid expenses	(269,658)	240,245
Accounts payable, trade	194,299	(3,445)
Other payables and accrued liabilities	(1,096,598)	76,740
Customer deposits	(81,100)	-
Taxes payable	70,384	(604,198)
Net cash used in operating activities	(565,804)	(1,878,098)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal advances of loans receivable	-	(350,000)
Repayment of loans receivable	-	316,500
Payments on equipment and construction in progress	-	(575)
Net cash used in investing activities	-	(34,075)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	9,732,000	1,581,000
Payments of note payable	(9,732,000)	(1,581,000)
Proceeds from related parties	-	33,201
Net cash provided by financing activities	-	33,201
EFFECT OF EXCHANGE RATE ON CASH	72,831	(77,152)
DECREASE IN CASH	(492,973)	(1,956,124)

CASH, beginning of period	782,018	2,366,718
CASH, end of period	\$ 289,045	\$ 410,594
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	\$ 222,990	\$ 513,866
Cash paid for interest expense	\$ 1,900,455	\$ 793,082
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES		
Construction-in-progress acquired with prepayments made by note receivables, trade	\$ -	\$ 15,493,800
Construction-in-progress acquired with prepayments made by note receivables, mine acquisition	\$ -	\$ 9,138,180
Reclassification of note receivables, trade to advances to suppliers	\$ -	\$ 8,774,550
Repayment of loan receivables through note receivables, trade	\$ -	\$ 948,600
Reclassification of salary payable to related parties to other payable to related parties	\$ 236,890	\$ -

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

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of business and organization

SinoCoking Coal and Coke Chemical Industries, Inc. (“SinoCoking” or the “Company”) was organized on September 30, 1996, under the laws of the State of Florida.

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

Due to the continuing provincial-wide consolidation program in Henan, all small to mid-scale mines are required to be consolidated and undergo mandatory safety checks and inspections by relevant authorities before receiving clearance to resume coal mining operations. This requirement applies to all SinoCoking mines.

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

Name	Background	Ownership
Top Favour	<ul style="list-style-type: none"> · A British Virgin Islands company · Incorporated on July 2, 2008 	100%
Hongyuan	<ul style="list-style-type: none"> · A PRC limited liability company and deemed a wholly foreign owned enterprise (“WFOE”) · Incorporated on March 18, 2009 · Registered capital of \$3 million fully funded 	100%
Hongli	<ul style="list-style-type: none"> · A PRC limited liability company · Incorporated on June 5, 1996 · Initial registered capital of \$1,055,248 or 8,808,000 Renminbi (“RMB”), · further increased to \$4,001,248 (RMB 28,080,000) on August 26, 2010, fully funded 	VIE by contractual arrangements

85.40% of equity interests held by Jianhua Lv, the Company's Chief Executive Officer ("CEO") and Chairman of the Board of Directors Operates a branch, Baofeng Coking Factory ("Baofeng Coking")

<p>Baofeng Hongchang Coal Co., Ltd. ("Hongchang Coal")</p>	<ul style="list-style-type: none"> · A PRC limited liability company · Incorporated on July 19, 2007 · Registered capital of \$396,000 (RMB 3,000,000) fully funded 	<p>VIE by contractual arrangements as a wholly- owned subsidiary of Hongli</p>
<p>Baofeng Shunli Coal Co., Ltd. ("Shunli Coal")</p>	<ul style="list-style-type: none"> · A PRC limited liability company · Incorporated on August 13, 2009 	<p>VIE by contractual arrangements as an indirect</p>
<p>&nbs</p>		