Hongli Clean Energy Technologies Corp.
Form 10-Q
February 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended **December 31, 2015**

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**

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.
(Exact name of registrant as specified in its charter)

Florida	**98-0695811**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
Kuanggong Road and Tiyu Road 10th Floor	**467000**

Chengshi Xin Yong She, Tiyu Road, Xinhua District

Pingdingshan, Henan Province

People's Republic of China
(Address of principal executive offices) (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 þ No ¨

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

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

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

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

As of February 12, 2016, the registrant had 23,960,217 shares of common stock outstanding.

TABLE OF CONTENTS

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 26 of the registrant's annual report on Form 10-K for the year ended June 30, 2015 filed with the Securities and Exchange Commission (the "SEC") on October 13, 2015 (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 (UNAUDITED)

HONGLI CLEAN ENERGY TECHNOLOGIES CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2015 (Unaudited)	June 30, 2015
ASSETS		
CURRENT ASSETS		
Cash	$46,832	$81,605
Accounts receivable, net	13,654,667	13,970,451
Other receivables and deposits	8,605	4,928,967
Inventories	1,772,932	3,191,605
Advances to suppliers	2,689,182	8,216,127
Prepaid expenses	-	16,670
Total current assets	18,172,218	30,405,425
PLANT AND EQUIPMENT, net	21,076,180	18,750,242
CONSTRUCTION IN PROGRESS, net	32,194,455	65,420,768
OTHER ASSETS		
Prepayments	18,513,600	19,674,034
Intangible assets, net	33,687,664	56,355,185
Long-term investments	2,748,002	2,920,247
Other assets	107,830	114,589
Total other assets	55,057,096	79,064,055
Total assets	$126,499,949	$193,640,490
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current maturity of long term loans	$40,016,826	$44,471,220
Accounts payable, trade	390,564	70,164
Other payables and accrued liabilities	2,859,271	4,503,689

Other payables - related party	496,074	736,596
Acquisition payable	-	4,747,250
Customer deposits	75,570	80,306
Taxes payable	1,329,366	907,472
Current portion of warrants liability	-	289,481
Total current liabilities	45,167,671	55,806,178
LONG TERM LIABILITIES		
Warrants liability	111,094	2,626,168
Total long term liabilities	111,094	2,626,168
Total liabilities	45,278,765	58,432,346
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, $0.001 par value, 100,000,000 shares authorized, 23,960,217 shares issued and outstanding as of December 31 and June 30, 2015, respectively	23,960	23,960
Additional paid-in capital	6,846,397	6,846,397
Statutory reserves	3,689,941	3,689,941
Retained earnings	61,850,183	108,831,633
Accumulated other comprehensive income	4,479,103	11,484,613
Total Hongli Clean Energy Technologies Corp.'s equity	76,889,584	130,876,544
NONCONTROLLING INTERESTS	4,331,600	4,331,600
Total equity	81,221,184	135,208,144
Total liabilities and equity	$ 126,499,949	$ 193,640,490

The accompanying notes are an integral part of the consolidated financial statements

HONGLI CLEAN ENERGY TECHNOLOGIES CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(UNAUDITED)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2015	2014	2015	2014
REVENUE	$ 5,364,361	$ 12,677,319	$ 11,806,599	$ 26,251,155
COST OF REVENUE	3,181,705	9,989,469	7,519,026	21,281,963
GROSS PROFIT	2,182,656	2,687,850	4,287,573	4,969,192
OPERATING EXPENSES:				
Selling	6,272	35,091	31,938	69,255
General and administrative	49,422,945	2,129,454	50,583,244	3,017,249
Total operating expenses	49,429,217	2,164,545	50,615,182	3,086,504
INCOME (LOSS) FROM OPERATIONS	(47,246,561)	523,305	(46,327,609)	1,882,688
OTHER INCOME (EXPENSE)				
Interest income	25	62,856	57	165,107
Interest expense	(1,255,062)	(1,502,341)	(2,532,043)	(2,999,554)
Other finance expense	(59,900)	(51,236)	(64,845)	(51,899)
Other income, net	-	-	-	-
Change in fair value of warrants	269,143	5,452,865	2,804,555	3,425,703
Total other income (expense), net	(1,045,794)	3,962,144	207,724	539,357
INCOME (LOSSES) BEFORE INCOME TAXES	(48,292,355)	4,485,449	(46,119,885)	2,422,045
PROVISION FOR INCOME TAXES	397,057	503,591	861,565	993,444
NET INCOME (LOSS)	(48,689,412)	3,981,858	(46,981,450)	1,428,601
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	(1,593,614)	175,539	(7,005,510)	170,505

COMPREHENSIVE INCOME (LOSS)	$ (50,283,026)	$ 4,157,397	$ (53,986,960)	$ 1,599,106
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				
Basic and diluted	23,960,217	23,960,217	23,960,217	22,642,611
EARNINGS (LOSSES) PER SHARE				
Basic and diluted	$ (2.03)	$ 0.17	$ (1.96)	$ 0.06

The accompanying notes are an integral part of the consolidated financial statements

5

HONGLI CLEAN ENERGY TECHNOLOGIES CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (46,981,450)	$ 1,428,601
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation	787,571	652,208
Amortization and depletion	370,835	35,408
Impairment loss on intangible assets	19,489,408	-
Impairment loss on equipment	2,094,259	-
Impairment loss of CIP	23,820,387	-
Loss from inventories LCM	1,870,436	-
Bad debt expense	1,731,583	1,549,034
Change in fair value of warrants	(2,804,555)	(3,425,703)
Amortization of prepaid expenses	16,670	33,332
Change in operating assets and liabilities		
Accounts receivable, net	(1,047,699)	(9,093,126)
Other receivables	4,752,481	(135,855)
Inventories	(607,144)	5,035,275
Advances to suppliers	3,972,159	(1,106,222)
Prepaid expenses	-	(5,000)
Accounts payable, trade	333,209	(2,975,332)
Other payables and accrued liabilities	(1,504,640)	1,778,225
Taxes payable	488,119	1,263,983
Net cash provided by (used in) operating activities	6,781,629	(4,965,172)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collection of loans receivable	-	4,500,000
Increase of loans receivable	-	(200,000)
Payments of gasification equipment	-	(14,497,925)
Payments of coal mine acquisition	(4,586,576)	-
Net cash provided by (used in) investing activities	(4,586,576)	(10,197,925)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term loans - CPL	1,638,416	-
Repayment of short-term loans - CPL	(3,601,712)	-

Proceeds from issuance of common stock	-	13,204,538
Proceeds from (payment to) related parties	(205,250)	2,019,836
Net cash provided by (used in) financing activities	(2,168,546)	15,224,374
EFFECT OF EXCHANGE RATE ON CASH	(61,280)	63,698
INCREASE (DECREASE) IN CASH	(34,773)	124,975
CASH, beginning of period	81,605	191,992
CASH, end of period	$ 46,832	$ 316,967
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	$ 772,264	$ 827,448
Cash paid for interest expense, net of capitalized interest	$ 4,113,540	$ 2,127,570
NON-CASH TRANSACTIONS OF INVESTING AND FINANCING ACTIVITIES		
Common stock issued for a service fee	$ -	$ 100,000
Issuance of warrants related to the sale of common stock	$ -	$ 10,048,116
Transfer of construction in progress into plant and equipment	$ 6,331,704	$ 7,987,721

The accompanying notes are an integral part of the consolidated financial statements

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of business and organization

Hongli Clean Energy Technologies Corp. (“CETC” or the “Company”) (formerly known as SinoCoking Coal and Coke Chemical Industries, Inc.) was organized on December 31, 1996, under the laws of the State of Florida. Hongli Clean Energy Technologies Corp. was formerly named SinoCoking Coal and Coke Chemical Industries, Inc. The Company changed its name from SinoCoking Coal and Coke Chemical Industries, Inc. to Hongli Clean Energy Technologies Corp., effective on July 28, 2015 in NASDAQ.

The Company is an energy producer which is in the processing of transformation from providing multifunctional energy products to focus on providing clean burning energy located in the People Republic of China (“PRC” or “China”). The Company currently generates only one of its products, synthetic gas, although it could also produce raw coal, washed coal, “medium” or mid-coal and coal slurries, coke, coke powder, coal tar, crude benzol and electricity before the Company closed its coal and coke production on December 2015. All of the Company’s business operations are conducted by a variable interest entity (“VIE”), Henan Pingdingshan Hongli Coal & Coking Co., Ltd., (“Hongli”), which is controlled by Top Favour’s wholly-owned subsidiary, Pingdingshan Hongyuan Energy Science and Technology Development Co., Ltd. (“Hongyuan”), through a series of contractual arrangements.

Due to the continuing provincial-wide consolidation program in Henan since 2010, 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 the Company’s mines. No raw coal mined since the mandatory safety checks applied to the Company since 2011. The Company is in the processing of seeking ways to restructure or resume the coal mine operations.

The Company used to wash coal purchased from third parties and generate coke products by using the coking factory leased from a third party. Due to increasing stringent environments requirements and the declining of the price of coke products, the Company decided to suspend the production of washed coal and coke products since the beginning of December 2015. The Company plan to restructure the assets related to washed coal and coking operations to promote the Company’s strategy of transformation to a clean energy provider.

The Company also generated electricity from gas emitted during the coking process, which is used primarily to power the Company's operations. As Hongguang Power mainly uses the gas produced during coking process from our Baofeng plant to generate electricity, it has been temporarily closed following the closing of the Baofeng coking in July 2014. Thus, The Company has not generated any electricity since July 2014, but plan to resume Hongguang Power operation in the future when we can do so.

The Company generates synthetic gas ("Syngas") which is converted from coke using the coke gasification facility since October 2014. Synthetic gas is clean-burning fuel which was encouraged by the government. Syngas is the only products that the Company produces currently.

On August 28, 2014, the Company entered into a cooperative agreement with North China Institute of Science and Technology regarding the current underground coal gasification ("UCG") development to refine and implement a technology to convert the Company's coal mines into Syngas. The UCG project was approved by a local governmental agency to be Science & Technology Practice Project. The UCG project was in the preliminary stage of construction and is expected to be complete in September 2016. Upon the relevant UCG construction completed and ensures that the new gasification facility can achieve economic efficiency, the Company will be able to implement the same techniques to the Company's coal mines. However, if the new gasification facility cannot reach economic efficiency, the Company may not be able to resume its coal mine operations with the way of UCG.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Name	Background	Ownership
Top Favour	· A British Virgin Islands company · Incorporated on July 2, 2008	100%
Hongyuan	· A PRC limited liability company and deemed a wholly foreign owned enterprise ("WFOE") · Incorporated on March 18, 2009 · Initial registered capital of $3 million as registration , further increased to 12.5 million at November 2014, fully funded	100%
Hongli	· A PRC limited liability company · Incorporated on June 5, 1996 · Initial registered capital of $1,055,248 or 8,808,000 Renminbi ("RMB"), further increased to $4,001,248 (RMB 28,080,000) on August 26, 2010, fully funded · 85.40% of equity interests held by Jianhua Lv, the Company's Chief Executive Officer ("CEO") and Chairman of the Board of Directors · Operates a branch, Baofeng Coking Factory ("Baofeng Coking")	VIE by contractual arrangements
Baofeng Hongchang Coal Co., Ltd. ("Hongchang	· A PRC limited liability company	VIE by contractual arrangements as a wholly-owned subsidiary of

Coal")	· Incorporated on July 19, 2007 · Registered capital of $396,000 (RMB 3,000,000) fully funded	Hongli
Baofeng Shunli Coal Co., Ltd.("Shunli Coal")	· A PRC limited liability company · Incorporated on August 13, 2009 · Registered capital of $461,700 (RMB 3,000,000) fully funded · Acquired by Hongchang Coal on May 20, 2011 · Dissolved on July 4, 2012 and the mining right transferred to Hongchang.	VIE by contractual arrangements as an indirect wholly-owned subsidiary of Hongli
Baofeng Hongguang Power Co., Ltd. ("Hongguang Power")	· A PRC limited liability company · Incorporated on August 1, 2006 · Registered capital of $2,756,600 (RMB 22,000,000) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Xingsheng Coal Co., Ltd. ("Xingsheng Coal")	· A PRC limited liability company · Incorporated on December 6, 2007 · Registered capital of $559,400 (RMB 3,634,600) fully funded · 60% of equity ownership acquired by Hongli on May 20, 2011	VIE by contractual arrangements as a 60% owned subsidiary of Hongli
Baofeng Shuangrui Coal Co., Ltd. ("Shuangrui Coal")	· A PRC limited liability company · Incorporated on March 17, 2009 · Registered capital of $620,200 (RMB 4,029,960) fully funded · 60% of equity ownership acquired by Hongli on May 20, 2011	VIE by contractual arrangements as a 100% owned subsidiary of Hongchang

8

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	· 100% of equity ownership acquired by Hongchang on June 20, 2012	
Zhonghong Energy Investment Company ("Zhonghong")	· A PRC company · Incorporated on December 30, 2010 · Registered capital of $7,842,800 (RMB 51,000,000) fully funded equity interests of 100% held by three nominees on behalf of Hongli pursuant to share entrustment agreements	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli
Baofeng Hongrun Coal Chemical Co., Ltd. ("Hongrun")	· A PRC limited liability company · Incorporated on May 17, 2011 · Registered capital of $4,620,000 (RMB 30 million) fully funded	VIE by contractual arrangements as a wholly-owned subsidiary of Hongli

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

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

	December 31, 2015	June 30, 2015
Total current assets	$5,125,357	$7,938,342
Total assets	$110,372,231	$176,470,756
Total current liabilities	$77,053,121	$90,206,205
Total liabilities	$77,053,121	$90,206,205

Presently, the Company’s coke gasification related operations are carried out by Baofeng Coking. Except for coke gasification, other operations were halted as of December 31, 2015. Other operations includes: coking operation should be carried out by Baofeng. Coking coke and coal trading activities should be carried out by Hongli, electricity generation should be carried out by Hongguang Power, and coal related operations should be carried out by Hongchang Coal, Shuangrui Coal and Xingsheng Coal, respectively.

The Company originally planned to transfer all coal related operations to a joint-venture between Zhonghong and Henan Province Coal Seam Gas Development and Utilization Co., Ltd. (“Henan Coal Seam Gas”) (see Note 12), However, due to the imposition of the provincial-wide mining moratorium since June 2010 in China, and the change of the Company’s original plan from developing coal mining operations to produce Syngas, the plan to transfer the related operations is halted and the Company will decide whether to execute the original plan based on the mining moratorium status and Syngas business development in the future. As of December 31, 2015 and the date of this filing, the Company’s coal related operations had not been transferred to the joint-venture, and Shuangrui Coal and Xingsheng Coal had no operations since their acquisitions by the Company (see Note 20).

Liquidity and going concern

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the Company as 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. The Company’s ability to continue as a going concern depends upon the liquidation of current assets. As of December 31, 2015, the Company reported a working capital deficit in the amount to $26,995,453, which has substantial doubt about the Company’s ability to continue as a going concern.

In an effort to improve its financial position, the Company is working to obtain new loans from banks, renew its current loans, reconstruct its outstanding loans, and to increase sales of its higher profit margin products syngas. In addition, the Company keeps investing in developing the underground coal gasification techniques which may be able to apply to its mining assets. Management believes that if successfully executed, the foregoing actions would enable the Company to continue as a going-concern.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of significant accounting policies

Basic of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included. Operating results for the six months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2016. The information included in this Form 10-Q should be read in conjunction with the "Management's Discussion and Analysis" section, and the financial statements and notes thereto, included in the Annual Report.

Principles of consolidation

The accompanying unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The unaudited consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries – Top Favour and Hongyuan, and its VIEs – Hongli and its subsidiaries. All significant inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation.

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

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

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

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

(3) a Proxy Agreement, under which the equity holders of the Operating Companies have vested their voting control over the Operating Companies to Hongyuan and will only transfer their equity interests in the Operating Companies to Hongyuan or its designee(s);

(4) an Option Agreement, under which the equity holders of the Operating Companies have granted Hongyuan the irrevocable right and option to acquire all of its equity interests in the Operating Companies, or, alternatively, all of the assets of the Operating Companies; and

(5) an Equity Pledge Agreement, under which the equity holders of the Operating Companies have pledged all of their rights, title and interest in the Operating Companies to Hongyuan to guarantee the Operating Companies' performance of their respective obligations under the Consulting Services Agreement.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Use of estimates

The preparation of the unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions relate to materials that may contain coal that are the basis for future cash flow estimates and units-of-production depletion calculations; asset impairments; allowance for doubtful accounts and loans receivable; valuation allowances for deferred income taxes; reserves for contingencies; stock-based compensation and the fair value and accounting treatment for warrants. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ significantly from these estimates.

Stock-based compensation

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

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

Revenue recognition

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

Substantially, if not all, of the electricity generated by Hongguang Power is typically used internally by Baofeng Coking. Supply of surplus electricity generated by Hongguang Power to the national power grid is mandated by the local utilities board. The value of the surplus electricity supplied, if it exists, is calculated based on actual kilowatt-hours produced and transmitted and at a fixed rate determined under contract. During the six months ended December 31, 2015 and 2014, the Company did not generate any electricity power because Hongguang Power was temporally closed since July 2014.

The Company generally sells syngas under long-term agreements at fixed vending prices. In some cases, syngas may be sold with periodic price adjustments. Revenues are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured.

Coal, coke and syngas 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.

Foreign currency translation and other comprehensive income

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

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the subsidiaries and VIEs whose functional currencies are other than the U.S. dollar, all assets and liabilities accounts were translated at the exchange rate on the balance sheet date; shareholders' equity is translated at the historical rates and items in the statement of operations are translated at the average rate for the period. Items in the cash flow statement are also translated at average translation rates for the periods, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of equity. The resulting transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations.

The balance sheet amounts, with the exception of equity, at December 31 and June 30, 2015 were translated at RMB 6.49 to $1 and RMB 6.11 to $1, respectively. The average translation rates applied to income and cash flow statement amounts were at RMB 6.32 to $1 and RMB 6.15 to $1 for the six months ended December 31, 2015 and 2014, respectively.

Fair value of financial instruments

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

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

The Company determined that the carrying value of its long-term loans approximated their fair value using level 2 inputs by comparing the stated loan interest rate to the rate charged by the Bairui Trust on similar loans (see Note 13).

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2015:

	Carrying value at December 31, 2015	Fair value measurement at December 31, 2015		
		Level 1	Level 2	Level 3
Warrants liability	$ 111,094	$ -	$ 111,094	$ -

The following is a reconciliation of the beginning and ending balances of warrants liability measured at fair value on a recurring basis using observable inputs as of December 31 and June 30, 2015:

	December 31, 2015	June 30, 2015
Beginning fair value	$2,915,649	$16
Realized gain recorded in earnings	(2,804,555)	(7,131,724)
Granted financial instrument	-	10,047,357
Ending fair value	$111,094	$2,915,649

	December 31, 2015	June 30, 2015
Number of shares exercisable	1,671,664	1,721,664
Range of exercise price	$6.38-48.00	$6.08-48.00
Stock price	$0.45	$1.75
Expected term (years)	1.28-3.23	0.00-3.24
Risk-free interest rate	0.72-1.41%	0.02-1.34%
Expected volatility	95.61-103.14%	51-88%

12

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company is required to record certain financial assets and liabilities at fair value on a non-recurring basis. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. For the six months ended December 31, 2015 and 2014, the Company's two long term investments were not considered impaired.

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

Cash

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

Balances at financial institutions or state owned banks within the PRC are not covered by insurance. Balances at financial institutions in Hong Kong may, from time to time, exceed Hong Kong Deposit Protection Board's insured limits. As of December 31 and June 30, 2015, the Company had $9,122 and $37,911 of cash deposits, which were not covered by insurance, respectively. The Company has not experienced any losses in such accounts.

Accounts receivable, net

During the normal course of business, the Company extends unsecured credit not exceeding three months to its customers. Management regularly reviews aging of receivables and changes in payment trends by its customers, and records an 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. The Company regularly reviews the credit worthiness of its customers and, based on the results of the credit review, determines whether extended payment terms can be granted to or, in some cases, partial prepayment is required from certain customers. As of December 31 and June 30, 2015, $717,257 and $217,905 allowance for doubtful accounts was provided, respectively.

Other receivables and deposit

Other receivables include security deposit made for auction of purchasing non-performing assets, advances to employees for general business purposes and other short term non-traded receivables from unrelated parties, primarily as unsecured demand loans, with no stated interest rate or due date. Management regularly reviews aging of receivables and changes in payment trends and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off after exhaustive efforts at collection. There were $805 and $0 of allowances for doubtful accounts provided as of December 31 and June 30, 2015, respectively.

Inventories

Inventories are stated at the lower of cost or market, using the weighted average cost method. Inventories consist of raw materials, supplies, work in process, and finished goods. Raw materials mainly consist of coal (mined and purchased), rail, steel, wood and additives used by the Company. The cost of finished goods includes (1) direct costs of raw materials, (2) direct labor, (3) indirect production costs, such as allocable utilities cost, and (4) indirect labor related to the production activities, such as assembling and packaging. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. On an ongoing basis, inventories are reviewed for potential write-down for estimated obsolescence or unmarketable inventories equal to the difference between the costs of inventories and the estimated net realizable value based upon forecasts for future demand and market conditions. When inventories are written-down to the lower of cost or market, they are not marked up subsequently based on changes in underlying facts and circumstances. Starting from December 1, 2015, the Company suspended its coke operations which may substantially impair the value of its coke related inventories. Thus, the Company reported an impairment loss of $1,870,436 and $0 at its inventory during the six months ended December 31, 2015 and 2014. As of December 31 and June 30, 2015, amount to $1,863,737 and $44,597 was reported as allowance for impairment.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Advances to suppliers

The Company advances monies or may legally assign its notes receivable-trade (which are guaranteed by banks) to certain suppliers for raw material purchases. Such advances are interest-free and unsecured. Management regularly reviews aging of advances to suppliers and changes in materials receiving trends and records an allowance when management believes collection of materials due are at risk. Advances aged over one year and considered uncollectible are written off after exhaustive efforts at collection. As of December 31 and June 30, 2015, $2,597,078 and $1,512,785 allowance for doubtful accounts was provided, respectively.

Plant and equipment, net

Plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred, while additions, renewals and betterments that extend the useful life are capitalized. When items of plant and equipment are retired or otherwise disposed, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Mine development costs are capitalized and amortized by the units of production method over estimated total recoverable proven and probable materials that may contain coal. Depreciation of plant and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

	Estimated useful life
Building and plant	20 years
Machinery and equipment	10-20 years
Other equipment	1-5 years
Transportation equipment	5-7 years

Construction-in-progress (“CIP”) includes direct costs of constructions for coke gasification facility, UCG underground safety improvement, and the Company’s new coking plant. Interest incurred during the period of construction, if material, is capitalized. For the six months ended December 31, 2015 and 2014, no interests were capitalized into CIP for construction is halted during the period. All other interest is expensed as incurred. CIP is not depreciated until such time the asset in question is completed and put into service.

Security deposit

A deposit was made to Henan Coal Seam Gas and is related to its joint venture with Zhonghong (see Note 12). Management regularly reviews aging of the deposit and changes in payment trends and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off after exhaustive efforts at collection. As of December 31 and June 30, 2015, $4,621,286 and $4,887,984 allowance for doubtful accounts was provided, respectively.

Intangible assets

Costs to obtain land use rights are recorded based on the fair value at acquisition and amortized over 36 to 40 years, the contractual period of the rights. Intangible assets with finite lives are amortized over their useful lives and reviewed at least annually for impairment.

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

Impairment of long-lived assets

The Company evaluates 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. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary. During the three months and six months ended December 31, 2015, the Company reported impairment losses of $45,404,054 against its long-lived assets, including $19,489,408 reported as part of the amortization expense of the Company's intangible assets, $2,094,259 at its plant and equipment, and $23,820,387 at its construction in progress. During the three months and six months ended December 31, 2014, the Company recorded no impairment loss. The impairment losses were reported as part of the Company's general and administrative expense.

14

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Long-term investments

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

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

The Company evaluates potential impairment whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. For investments carried at cost, the Company recognizes impairment in the event that the carrying value of the investment exceeds the Company’s proportionate share of the net book value of the investee. Management believes that no impairment charge was necessary as of December 31 and June 30, 2015.

Asset retirement cost and obligations

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

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

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

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

The Company did not record any asset retirement obligation as of December 31 and June 30, 2015 because the Company did not have sufficient information to reasonably estimate the fair value of such obligation. The range of time over which the Company may settle the obligation is unknown and cannot be reasonably estimated. In addition, the settlement method for the obligation cannot be reasonably determined. The amount of the obligation to be determined by the relevant authorities is affected by several factors, such as the extent of remediation required in and around the mining area, the methods to be used to remediate the mining site, and any government grants which may or may not be credited to the mining companies.

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

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Income taxes

Deferred income taxes are provided on the asset and liability method for temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probably that taxable profit will be available against which deductible temporary differences can be utilized. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes were incurred during the six months ended December 31, 2015 and 2014.

Chinese income taxes

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

Value added tax (“VAT”)

Sales revenue represents the invoiced value of goods, net of VAT. All of the Company's coal and coke are sold in the PRC and subject to a VAT at a rate of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing finished products. The Company records VAT payable and VAT receivable net of payments in its consolidated financial statements. The VAT tax return is filed to offset the payables against the receivables.

Warrants liability

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

In connection with the Company's share exchange transaction in February 2010 with Top Favour, whereby Top Favour became a wholly-owned subsidiary of the Company (the "Share Exchange"), the Company adopted the provisions of an accounting standard regarding instruments that are indexed to an entity's own stock. This accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in equity in the statement of financial position would not be considered a derivative financial instrument. It provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception within the standards. As a result of adopting this accounting standard, all warrants issued after the Share Exchange are recorded as a liability because their strike price is denominated in U.S. dollars, while the Company's functional currency is denominated in RMB.

All warrants issued before the Share Exchange, which were treated as equity pursuant to the derivative treatment exemption prior to the Share Exchange, are also no longer afforded equity treatment for the same reason. Since such warrants are no longer considered indexed to the Company's own stock, all future changes in their fair value will be recognized currently in earnings until they are exercised or expire.

Noncontrolling interests

As further discussed in Note 20, noncontrolling interests mainly consist of a 40% equity interest of Xingsheng Coal owned by unrelated parties. For the six months ended December 31, 2015 and 2014, there was no net income or loss attributable to such noncontrolling interests because Xingsheng Coal was not operational during such periods.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Earnings (losses) per share

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

Comprehensive income

Accounting standard regarding comprehensive income establishes requirements for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements. This accounting standard defines comprehensive income to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, it also requires all items recognized under current accounting standards as components of comprehensive income to be reported in financial statement that is presented with the same prominence as other financial statements. The Company's only current component of comprehensive income is foreign currency translation adjustments.

Reclassifications

Certain reclassifications have been made to the prior periods’ financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or the sum of retained earnings and statutory reserves.

Recently issued accounting pronouncements

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.

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs. This new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This new guidance will be effective for us beginning July 1, 2016. We are currently evaluating the impact of this standard on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Entities are currently required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance is to be applied prospectively to measurement period adjustments that occur after the effective date of the guidance with earlier application permitted for financial statements that have not been issued. The Company elected to adopt ASU 2015-16 early, effective in the six months ended December 31, 2015.

17

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Concentration risk

For the three months ended December 31, 2015, 83.0% of the Company's total revenues were from a main customer. For the six months ended December 31, 2015, 66.3% of the Company's total revenues were from two main customers who individually accounted for 47.9%, and 18.4% of total revenues, respectively. For the three months ended December 31, 2014, 63.7% of the Company's total revenues were from four main customers who individually accounted for 19.8%, 16.7%, 13.9% and 13.3% of total revenues, respectively. For the six months ended December 31, 2014, 70.9% of the Company's total revenues were from four major customers who individually accounted for 22.5%, 19.7%, 18.2% and 10.5% of total revenues, respectively. Accounts receivable from the Company's two main customers were 36.6% and 6.1% of the total accounts receivable balance at December 31, 2015, respectively. Accounts receivable of four main customers were 34.7%, 0.1%, 2.3%, and 20.7% of the total accounts receivable balance at June 30, 2015, respectively.

For the three months ended December 31, 2015, the Company has no raw material purchases. For the six months ended December 31, 2015, four main suppliers provided 50.5% of total raw material purchases, with each supplier individually accounting for 15.8%, 12.8%, 11.7% and 10.2% of total raw material purchases, respectively. For the three months ended December 31, 2014, two main suppliers provided 49.1% of total raw material purchases, with each supplier individually accounting for 36.1% and 13.0% of total raw material purchases, respectively. For the six months ended December 31, 2014, three main suppliers provided 50.8% of total raw material purchases, with each supplier individually accounting for 24.1%, 14.4% and 12.3% of total raw material purchases, respectively. Accounts payables related to the four main suppliers were 3.4%, 3.9%, 6.2% and 4.0% of total accounts payable balance at December 31, 2015, respectively. Accounts payable of two main suppliers were 7.3% and 7.2% of total accounts payable balance at June 30, 2015, respectively.

Note 4 – Other receivables and deposit

Other receivables and deposit consisted of the following:

	December 31, 2015	June 30, 2015
Security deposit for auction	$ -	$4,910,949
Advances to employees	9,410	18,018
	9,410	4,928,967
Less: allowance for doubtful accounts	(805)	-
	$ 8,605	$4,928,967

Security deposit for auction

On January 26, 2013, Hongli entered into an agreement with Pingdingshan Rural Credit Cooperative Union (“PRCCU”) to pay $3,249,285 (RMB 20 million) as a security deposit 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 September 18, 2013, the parties entered into a supplemental agreement to postpone the auction date and to extend the deposit refund date to December 31, 2013. On September 26, 2013, the parties entered into another agreement for Hongli to pay $1,637,000 (RMB 10 million) as additional security deposit. Should Hongli win the auction, this additional deposit would also 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. On January 23, 2015, PRCCU issued a notice indicating that the transaction is terminated due to PRCCU’s internal problems. On September 25, 2015, the Company had fully received the deposit of $4,910,949 or RMB 30 million from PRCCU.

Note 5 – Loans receivable

On June 8, 2011, Capital Paradise Limited (“CPL”) or previously known as Ziben Tiantang Co., Ltd., an unrelated party, borrowed $10,044,200 from Top Favour, one of the Company’s consolidated entities, in an unsecured loan at an annual interest rate of 9.45%, with interest due every six months. The loan matured on June 7, 2012. On June 8, 2012, Top Favour and CPL entered into a supplemental agreement to extend the maturity date to December 7, 2012, and to decrease the interest rate to 7% annually.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On December 8, 2012, both parties entered into another supplemental agreement to extend the maturity date to June 8, 2013, with 7% annual interest rate. On June 8, 2013 both parties entered into another supplemental agreement to extend the maturity date to December 7, 2013, with 7% annual interest rate.

In August and September 2012, Top Favour loaned an additional $350,000 to CPL. This loan is unsecured and has an annual interest rate of 7%, and is due on August 11, 2013. On August 2, 2013, the Company and CPL entered into a supplemental agreement to extend the remaining balance due to December 31, 2013.

On October 7, 2014, Top Favour loaned an additional $200,000 to CPL with a short term maturity date on January 31, 2015. The additional loan of $200,000 was free of the interest charge and had been fully repaid in January 2015.

On January 27, 2014, both parties agreed on a repayment schedule whereby CPL will repay 50% of the outstanding principal and accrued interest thereon before June 30, 2014, and the balance and accrued interest thereon before December 31, 2014.

On August 2014, the Company collected $4.5 million from CPL as a repayment and all remaining principal was settled on January 15, 2015. On January 28, 2015 all outstanding interest payable, which both parties agreed accrued as of December 31, 2014, was cleaned.

For the three months ended December 31, 2015 and 2014, interest incomes from loans receivable amounted to $0 and $62,856, respectively. For the six months ended December 31, 2015 and 2014, interest incomes from loans receivable amounted to $0 and $165,107, respectively.

Note 6 – Inventories

Inventories consisted of the following:

	December 31, 2015	June 30, 2015
Raw materials	$ -	$ 31,074
Work in process	-	839,729
Supplies	6,872	21,177
Finished goods	3,629,797	2,344,222
Total	3,636,669	3,236,202
Less: allowance for impairment	(1,863,737)	(44,597)
Total inventories, net	$ 1,772,932	$ 3,191,605

Note 7 – Advances to suppliers

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

Advances to suppliers amounted to $2,689,182 and $8,216,127 as of December 31 and June 30, 2015, respectively. As of December 31 and June 30, 2015, the Company reported $2,597,078 and $1,512,785 as allowances for doubtful advance to suppliers accounts. For the three months ended December 31, 2015 and 2014, the Company provided allowance for the long-term outstanding advances amounted to $1,347,024 and $1,234,705 respectively. For the six months ended December 31, 2015 and 2014, the Company provided allowance for long-term outstanding advances amounted to $1,204,869 and $1,234,707, respectively.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Plant and equipment, net

Plant and equipment consisted of the following:

	December 31, 2015	June 30, 2015
Buildings and improvements	$10,535,963	$11,196,358
Mine development cost	11,131,186	11,828,890
Machinery and equipment	20,924,905	15,606,700
Other equipment	389,062	413,449
Total	42,981,116	39,045,397
Less: accumulated depreciation	(17,566,126)	(17,852,012)
Less: impairment reserve	(4,338,810)	(2,443,143
Total plant and equipment, net	$21,076,180	$18,750,242

During the fiscal year 2015, the Company accrued an impairment reserve over its plant and equipment in amount to $2,443,143 against its old coking facilities. During the six months ended December 31, 2015, the Company accrued an additional impairment reserve over its plant and equipment related to the Company’s suspended coking operations since December 1, 2015 in the amount of $2,094,259. No impairment reserve was accrued for the six months ended December 31, 2014.

Depreciation expense amounted to $406,218 and $373,176 for the three months ended December 31, 2015 and 2014, respectively, and $787,571 and $652,208 for the six months ended December 31, 2015 and 2014, respectively. No depreciation expense was incurred for mining-related assets due to the shutdown of all coal mine operations since September 2011.

Note 9 – Construction in progress (“CIP”)

CIP at December 31 and June 30, 2015 amounted to $32,194,455 and $65,420,768, respectively. CIP included the following projects:

1) Construction project to build a new coking plant with annual production capacity of 900,000 tons of cokes was commenced on February 2010. Due to a lack of funding and change of market situation, the Company placed construction on hold at October 2012. On January 25, 2016, the Company entered into an Assets Transfer Agreement to transfer assets related to this incomplete new coking plant to a third party for consideration of RMB 45,692,140 or approximately $7 million. As such, the Company accrued impairment reserve over this construction in the amount of $23,820,387 for the six months ended December 31, 2015. As of December 31 and June 30, 2015, the Company reported $3,881,378 and $28,779,513 as the value of its incomplete coking plant to be included in the construction in progress account.

2) Upgrade project to increase annual production capacity of the coke gasification facilities was commenced on November 2014, which is to reform the coke gasification equipment and to double the production capacity. The project was completed at July 2015. As of December 31 and June 30, 2015, the Company reported $0 and $6,553,513, respectively, in the construction in progress account.

3) UCG underground safety construction was commenced in June 2015 to ensure that the Company's coal mines will be complying with the legal safety requirements for underground coal gasification operations. As of December 31 and June 30, 2015, the Company reported $28,313,077 and $30,087,742 in the construction in progress account. The UCG underground safety construction was estimated to be completed in the fiscal year of 2016.

The new coking plant, with an estimated construction cost of approximately $90.79 million or RMB 578 million originally, invested in $68.59 million, including payments of $22.0 million for the land use rights, $27.1 million reported in construction in progress, and $19.5 million prepayments made for constructions as of December 31, 2015. Upon the Company disposed the construction in progress on January 25, 2016, no further investment funding for the construction. Coke gasification equipment upgrade project with an estimated construction cost of approximately $6.37 million or RMB 41 million originally, which was completed at July 2015. No additional funding requires for the UCG underground safety construction.

Note 10 – Prepayments

Prepayments presented advance for constructions which was consisted of the following:

	December 31, 2015	June 30, 2015
Baofeng new coking plant (1)	$19,493,381	$20,715,228
Gasification facility - Baofeng (2)	2,464,686	2,619,172
	21,958,067	23,334,400

Less: allowance for doubtful accounts	(3,444,467)	(3,660,366
Total	$18,513,600	$19,674,034

20

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) At October, 2012, the Company had made prepayments of approximately $19.5 million (RMB 126.5 million) toward construction of its new coking plant. These prepayments were restructured and sold on January 10, 2016 through a Credits and Debts Transfer Agreement. (see Note 25)

(2) The Company entered into a construction agreement on June 16, 2015 to build underground coal gasification ("UCG") facility which was approved by the Science and Technology Bureau of Baofeng County as an advanced technology development project with using the refining technology authorized from North China Institutes of Science and Technology. The Company made prepayments of approximately $2,464,686 (RMB 16 million) in June 2015 to a contractor and the construction is scheduled to be completed at September 2016.

Note 11 – Intangible assets

Intangible assets consisted of the following:

	December 31, 2015	June 30, 2015
Land use rights (1)	$24,882,096	$26,441,707
Mining rights	41,812,205	44,432,997
Total intangible assets	66,694,301	70,874,704
Accumulated amortization – land use rights	(20,114,963)	(819,795)
Accumulated depletion – mining rights	(12,891,674)	(13,699,724)
Total intangible assets, net	$33,687,664	$56,355,185

(1) Included the land use right of $22,467,151 used for Baofeng new coking plant. Its useful life was likely determined, through the certificate of the land use right which should be grant by the relevant authorities, is in the processing of granting. On January 25, 2016, the Company disposed the land use right along with its incomplete coking plant for a consideration of RMB 45,692,140 or approximately $7 million (see Note 25). Thus, the Company accrued an impairment loss of $19,489,408 for the land use right related to Baofeng coking plant.

Amortization expense for the three months ended December 31, 2015 and 2014 amounted to $19,697,099, and $17,734, respectively. Amortization expense for the six months ended December 31, 2015 and 2014 amounted to

$19,860,243, and $35,408, respectively. During the three months ended December 31, 2015, the Company recorded an additional amortization of $19,489,408 for the land use right related to the Baofeng new coking plant according to an Assets Transfer Agreement the Company made on January 25, 2016. No depletion was incurred due to the shutdown of all coal mine operations since September 2011. Depletion expense will be charged to cost of revenue in the period incurred using the unit-of-production method.

Amortization expense of the land use rights for the next five years and thereafter is as follows:

Year ending June 30,	Amortization expense
2016	$ 34,437
2017	68,874
2018	68,874
2019	68,874
2020	68,874
Thereafter	4,457,200
Total	$ 4,767,133

21

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 12 – Long-term investments and security deposit

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

In February 2011, the Company invested approximately $1.3 million (RMB 8 million) in Pingdingshan Xinhua District Rural Cooperative Bank ("Cooperative Bank"). This investment represents 2.86% interest in Cooperative Bank, and is accounted for under the cost method. No investment income was received and recognized for the three and six months ended December 31, 2015 and 2014.

In April 2011, Hongyuan CSG was established by Zhonghong (49%) and Henan Coal Seam Gas (51%) as a joint venture. The total registered capital of Hongyuan CSG is approximately $15.85 million (RMB 100 million). As of June 30, 2012, approximately $3.17 million (RMB 20 million) was funded, of which $1.6 million (RMB 9.8 million) was paid by Zhonghong. The remaining registered capital was due on April 20, 2013, of which approximately $6.2 million (RMB 39.2 million) should be paid by Zhonghong. Zhonghong's investment in Hongyuan CSG is accounted for under the equity method since Zhonghong has significant influence but not control. As of the date of this report, Zhonghong has not contributed the remaining registered capital, $6.2 million or RMB 39.2 million, as Hongyuan CSG has remained inactive.

In addition, a deposit of $4,881,224 (RMB 30,000,000) was made on December 23, 2011 to Henan Coal Seam Gas in connection with the joint venture. Due to management's review of the collectability of the deposit, the Company recognized $4,881,224 allowance against this deposit. At September 2015, the Company sued Henan Coal Seam Gas local court to repay the security deposit, the Company cannot anticipate if Henan Coal Seam Gas will repay the deposit at the date this report.

For the three and six months ended December 31, 2015 and 2014, there was no equity investment income or loss.

Note 13 – Loans

Loans from Bairui Trust

On April 2, 2011, Hongli entered into a loan agreement with Bairui Trust pursuant to which Bairui Trust agreed to loan Hongli approximately $58.4 million (RMB 360 million) with annual interest of 6.3%, of which approximately $29.2 million (RMB 180 million) would be due on April 2, 2013, and approximately $29.2 million (RMB 180 million) on April 2, 2014. The loan was issued on April 3, 2011 and is guaranteed by Hongyuan and the Company's CEO.

On November 30, 2011, the parties entered into a supplemental agreement pursuant to which approximately $4.88 million (RMB 30 million) with annual interest of 6.3% became due on October 2, 2012, approximately $16.23 million (RMB 100 million) with annual interest of 6.3%, became due on April 2, 2013, approximately $8.11 million (RMB 50 million) with annual interest of 6.3% became due on October 2, 2013, and approximately $29.2 million (RMB 180 million) with annual interest of 6.3% became due on April 2, 2014.

For the loan due October 2, 2012, the parties entered into a separate agreement on October 8, 2012 to extend the due date to April 2, 2013 with an annual interest rate of 8.7% starting October 3, 2012. Such payment was repaid in full on December 25, 2012.

For the loan due April 2, 2013, the Company repaid $3.25 million (RMB 20 million) on April 3, 2013, and entered into a separate agreement with Bairui Trust on April 23, 2013 to extend the due date for the remaining $13.01 million (RMB 80 million) as follows: (a) $3.25 million (RMB 20 million) was extended to December 2, 2013 with an annual interest rate of 6.3% starting April 23, 2013; (b) $4.88 million (RMB 30 million) was extended to January 2, 2014 with an annual interest rate of 6.3% starting April 23, 2013; and (c) $4.88 million (RMB 30 million) was extended to February 2, 2014 with an annual interest rate of 6.3% starting April 23, 2013. For the period between April 3, 2013 and April 23, 2013, Bairui Trust charged an additional 9.45% annual interest rate on the entire $13.01 million outstanding.

On October 1, 2013, the parties executed an extension agreement, for the remaining balance of approximately $50.3 million (RMB 310 million) with 9.9% annual interest rate as follow:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 8,114,380	¥50,000,000	October 2, 2016	October 3, 2013 – October 2, 2016
3,245,752	20,000,000	December 2, 2016	December 3, 2013 – December 2, 2016
4,868,628	30,000,000	January 2, 2017	January 3, 2014 – January 2, 2017
4,868,628	30,000,000	February 2, 2017	February 3, 2014 – February 2, 2017
29,211,770	180,000,000	April 2, 2017	April 3, 2014 – April 2, 2017

$ 50,309,158	¥310,000,000

22

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

On April 2, 2014, the Company entered into another supplement agreement with Bairui Trust which replaced the extension agreement dated October 1, 2013, and repaid the principal $324,929 (RMB 2,000,000). Per the supplement agreement, loans from Bairui Trust were changed as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 2,928,734	¥ 18,000,000	April 2, 2015	December 3, 2013 – April 2, 2015
4,881,224	30,000,000	April 2, 2015	January 3, 2014 – April 2, 2015
4,881,224	30,000,000	April 2, 2015	February 3, 2014 – April 2, 2015
8,135,373	50,000,000	January 2, 2015	October 3, 2013 – January 2, 2015
29,287,340	180,000,000	October 2, 2015	April 3, 2014 – October 2, 2015
$ 50,113,895	¥ 308,000,000		

According to the new supplement agreement dated April 2, 2014, 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 the Company 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.

On January 20, 2015, Hongli repaid the loan of $8,135,373 (RMB 50,000,000) to Bairui Trust which was due on January 2, 2015.

On April 3, 2015, Hongli and Bairui Trust reached an agreement to extend the outstanding loans of $12,743,849 (RMB 78,000,000) which due on April 2, 2015 to April 2, 2016 with the annual interest rate of 11.88%.

On October 8, 2015, the Company and Bairui Trust entered into a supplemental agreement to extend the due date of one of its outstanding loans. The extended loan of $29,287,340 or RMB 180 million was due on October 2, 2015. In accordance with the supplemental agreement, the due date was re-scheduled to April 2, 2016.

As of December 31, 2015, the loans from Bairui Trust were as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Due Date	Interest Rate	
$ 12,015,343	¥78,000,000	April 2, 2016	11.88	%
27,727,714	180,000,000	April 2, 2016	11.88	%
$ 39,743,057	¥258,000,000			

The principal of the loan from Bairui Trust and its related accrued interest payable were restructured and sold to a third party by a Credits and Debts Transfer Agreement on January 10, 2016. (see Note 25)

Loan from Capital Paradise Limited

On January 26, 2015, Top Favour and Capital Paradise Limited entered into an unsecured loan agreement in the amount of $2,960,000 with an annual interest rate of 7% and due on January 27, 2016. As of December 31, 2015, the outstanding loan from Capital Paradise Limited was $273,769.

Weight average interest rate and interest expense

Weighted average interest rate was 11.68% and 11.8% for the three months ended December 31, 2015 and 2014, respectively. Interest expense for the three months ended December 31, 2015 and 2014 was $1,255,062 and $1,502,341, respectively. No interest was capitalized for the three months ended December 31, 2015 and 2014.

Weighted average interest rate was 11.74% and 11.8% for the six months ended December 31, 2015 and 2014, respectively. Total interest expense for the six months ended December 31, 2015 and 2014 was $2,532,043 and $2,999,554, respectively. No interest was capitalized for the six months ended December 31, 2015 and 2014.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Other payables and accrued liabilities

Other payables and liabilities mainly consisted of retention payable, accrued registration fee, accrued salaries, interest payable, utilities, professional services and other general and administrative expenses.

Other payables and accrued liabilities consisted of the following:

	December 31, 2015	June 30, 2015
Retention payable (1)	$ 898,994	$955,343
Registration payable (2)	447,895	475,969
Other payable	300,812	200,933
Interest payable	965,557	2,658,239
Accrued liabilities (3)	246,013	213,205
Total	$ 2,859,271	$4,503,689

(1) As of December 31, 2015, $898,994 or RMB 5,836,000 of construction deposit was retained by the Company for the security of the construction of the first stage coke gasification facility which was completed in September 2014. The amount of deposit will be paid one year after the construction was completed, if no quality defection occurs during the period.

(2) At December 31, 2015, the Company accrued a payable of $447,895 or RMB 2,907,600 for land use right registration with relevant authorities to obtain the certificate, which was used as part of Baofeng new coking plant and was sold to a third party on January 10, 2016. (see Note 26).

(3) As of December 31 and June 30, 2015, $110,000 and $90,000 of salary payables included in accrued liabilities were payables to the Company’s CFO. As of December 31 and June 30, 2015, $85,000 and $0 of salary payables included in accrued liabilities were payables to the Company’s CEO.

Note 15 – Related party payables

Other payables-related parties represent advances from the Company's CEO for working capital purpose. Advances from the CEO amounted to $496,074 and $736,596 at December 31 and June 30, 2015, respectively. Such advances are interest free, due on demand and will be settled in cash.

During the six months ended December 31, 2015, the Company borrowed $7,908 from Mr. Jianhua Lv, the CEO of the Company, mainly used to pay off daily expenses, and an amount of $213,158 advances from Mr. Jianhua Lv had been repaid before December 31, 2015. During the six months ended December 31, 2014, Mr. Lv repaid the interest payable of $2,017,946 to Bairui Trust on behalf of the Company.

Note 16 – Acquisition payables

On August 10, 2010, Hongli acquired 60% of the equity interest of Shuangrui Coal (see Note 20). During the year ended June 30, 2012, Hongli agreed to acquire the remaining 40%. The title thereof was transferred to Hongli, and Hongli had full control of Shuangrui Coal by June 30, 2012. The purchase price thereof was tentatively set at approximately $4,544,053 (RMB 28 million), subject to certain price adjustments to be finalized at closing. The balance is due on demand. As of December 31, 2015 and June 30, 2015, acquisition payable was $0 and $4,747,250, respectively, which represented the accrued purchase price for the remaining 40% of Shuangrui Coal. On September 25, 2015, the Company paid $4,747,250 to the former shareholders of Shuangrui Coal.

Note 17 – Taxes

Income tax

CETC is subject to the United States federal income tax provisions. Top Favour is a tax-exempt company incorporated in the British Virgin Islands.

All of the Company's businesses are conducted by its PRC subsidiary and VIEs, namely Hongyuan, Hongli, Baofeng Coking, Hongchang Coal, Xingsheng Coal, Shuangrui Coal, Hongguang Power and Zhonghong. All of them are subject to 25% enterprise income tax rate in China.

The provision for income taxes consisted of the following:

	For the three months ended December 31,		For the six months ended December 31	
	2015	2014	2015	2014
U.S. current income tax expense	$-	$-	-	-
BVI current income tax expense	-	-	-	-
PRC current income tax expense	397,057	503,591	861,565	993,444
Total	$397,057	$503,591	$861,565	$993,444

CETC has incurred a net operating loss for income tax purposes for 2015. As of December 31, 2015, the estimated net operating loss carry forwards for U.S. income tax purposes was approximately $3,063,000, which may be available to reduce future years taxable income. The net operating loss carry forward will expire through 2035 if not utilized. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's limited operating history and continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at December 31 and June 30, 2015, respectively. Management reviews this valuation allowance periodically and makes adjustments as necessary.

The following table reconciles the valuation allowance for the three months and six months ended December 31, 2015 and 2014 which consisted of the following:

	For the three months ended December 31,		For the six months ended December 31,	
	2015	2014	2015	2014
Beginning balance	$1,042,000	$1,731,000	$1,042,000	$1,042,000
Additions	-	(689,000)	-	-
Ending balance	$1,042,000	$1,042,000	$1,042,000	$1,042,000

<u>Value added tax</u>

The Company incurred VAT on sales and VAT on purchases in the PRC as follows:

	For the three months ended December 31,		For the six months ended December 31,	
	2015	2014	2015	2014
VAT on sales	$981,051	$4,055,270	$2,673,686	$7,925,052
VAT on purchase	$99,447	$3,130,537	$1,801,026	$5,953,310

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

Taxes payable

Taxes payable consisted of the followings:

	December 31, 2015	June 30, 2015
VAT	$449,337	$101,327
Income tax	682,734	633,098
Others	197,295	173,047
Total	$1,329,366	$907,472

25

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 18 – Capital transactions

Common Stock:

On September 24, 2014, the Company completed a registered sale of its common stock with two institutional investors under its shelf registration statement on Form S-3 pursuant to a Securities Purchase Agreement executed on September 18, 2014. Gross proceeds from the offering were approximately $14.3 million in exchange of 2,818,845 shares of the Company’s common stock. After payment of expenses, the Company received approximately $13.2 million in net proceeds. In addition, the Company issued to the investors Series A warrants (“Warrants A”) to purchase an aggregate of 1,409,423 common shares and Series B warrants (“Warrants B”) to purchase an aggregate of 1,644,737 common shares. Under the Purchase Agreement, the investors also had an option to purchase additional 1,644,737 shares of the Company’s common stock and warrants – Series C (“Warrants C”) to purchase 822,369 shares of the Company’s common stock. If fully exercised, the Company would receive aggregate gross proceeds from the warrants of approximately $36.2 million.

Options:

Under the 2002 Stock Option Plan for Directors, options exercisable for 1,666 shares of the Company’s common stock at $36.00 per share were granted on October 11, 2002, and expired on October 15, 2012. Options exercisable for 3,126 shares of the Company’s common stock at $96.00 per share were granted on November 16, 2004, and expired on November 16, 2014.

Under the 1999 Stock Option Plan, options exercisable for 6,059 shares of the Company’s common stock at $96.00 per share were granted on November 14, 2004, and expired on November 14, 2014. Such options were fully vested before the Share Exchange on February 5, 2010.

On September 24, 2014, the Company closed an initial offering with two institutional investors pursuant to a securities purchase agreement (“Purchase Agreement) date on September 18, 2014. Under the Purchase Agreement, the investors also had an option to purchase additional 1,644,737 shares of the Company’s common stock and warrants – Series C (“Warrants C”) to purchase 822,369 shares of the Company’s common stock for a period beginning six months and one day from September 24, 2014 and ending ten months from September 24, 2014. The expiration date for Warrants C will be the fourth anniversary of September 24, 2014, if the related option was exercised. This option was expired on July 24, 2015 without exercising.

The following is a summary of changes in options activities:

	Outstanding options		
	Exercisable	Un-exercisable	Total
Outstanding, June 30, 2014	9,185	-	9,185
Granted	1,644,737	-	-
Forfeited	(9,185	-	-
Exercised	-	-	-
Outstanding, June 30, 2015	1,644,737	-	1,644,737
Granted		-	
Forfeited	(1,644,737)	-	(1,644,737)
Exercised	-	-	-
Outstanding, December 31, 2015	-	-	-

Warrants

As of December 31, 2015 and June 30, 2015, warrants that were exercisable for 1,671,664 shares and 1,721,664 shares, respectively, of the Company’s common stock were recorded as derivative instruments. The value of warrant liabilities was $200,848 and $2,915,649 at December 31, 2015 and June 30, 2015, respectively. The decrease (increase) in fair value of warrants was $179,389 and $5,452,865 for the three months ended December 31, 2015 and 2014, respectively, and $2,714,801 and $3,425,703 for the six months ended December 31, 2015 and 2014, respectively, was recorded as gain (loss) on change in fair value of warrants.

On September 24, 2014, the Company closed an initial offering with two institutional investors pursuant to a securities purchase agreement (“Purchase Agreement”) dated on September 18, 2014. The initial offering included Warrants A and Warrants B. The Warrants A grants investors to purchase an aggregate of 1,409,423 shares of the Company’s common stock, which is exercisable immediately as of the date of the issuance, which was September 24, 2014, at an exercise price of $6.38 per common share and will be expired after four years from the date of issuance. Warrants B to purchase 1,644,737 shares of common stock at an exercise price of $6.08 are exercisable for six months starting from September 24, 2014 and may become exercisable only to the extent that the Company does not have an effective registration statement available for the shares underlying such warrants and in any event expire after certain registration conditions are satisfied. The expiration date for Warrants B will be (1) if no registration failure has occurred, the date will be July 25, 2015, or (2) if a registration failure has occurred, the date will be September 24,

2018. As of December 31, 2015, Warrants B were not exercisable.

Under the Purchase Agreement, the investors also had an option to purchase additional 1,644,737 shares of the Company's common stock and Warrants C to purchase 822,369 shares of the Company's common stock for a period beginning six months and one day from September 24, 2014 and ending ten months from September 24, 2014. The expiration date for Warrants C will be the fourth anniversary of September 24, 2014, if the related option was exercised. However, the option was expired on July 24, 2015 without exercising. As a result, Warrant C was expired accordingly.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of changes in warrant activities:

	Existing Warrants at $48 (1)	Investor Warrants at $12 (2)	Callable Warrants at $12 (3) (6)		Callable Warrants at $6 (4) (6)	Callable Warrants at $15 (5) (6)	Warrants A at $6.38 (7)	Placement Agent Warrants at $6.38 (8)	Warrants B at $6.08 (9)	Warrant C at $6.0 (10)
Outstanding, June 30, 2014	36,973	590,446	3,082,027	117,163	30,244	50,000	-	-	-	-
Granted	-	-	-	-	-	-	1,409,423	225,268	1,644,737	822,369
Forfeited	-	(590,446)	(3,082,027)	(117,163)	(30,244)	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-	-	-
Outstanding, June 30, 2015	36,973	-	-	-	-	50,000	1,409,423	225,268	1,644,737	822,369
Granted	-	-	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	50,000	-	-	1,644,737	822,369
Exercised	-	-	-	-	-	-	-	-	-	-
Outstanding December 31, 2015	36,973	-	-	-	-	-	1,409,423	225,268	-	—

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) The warrants underlying 36,973 shares are exercisable at any time until April 9, 2017, with remaining contractual term of 1.27 years as of December 31, 2015.

(2) The warrants underlying 590,446 shares are exercisable at any time until February 5, 2015. This warrant was forfeited without exercising as of December 31, 2015.

(3) The warrants underlying 3,082,027 shares and 117,163 shares are exercisable at any time until March 11, 2015 and March 18, 2015, respectively, this warrant was forfeited without exercising as of December 31, 2015.

(4) The warrants underlying 30,244 shares are exercisable until March 11, 2015, this warrant was forfeited without exercising as of December 31, 2015.

(5) The warrants underlying 50,000 shares are exercisable until July 1, 2015. This warrant was forfeited without exercising December 31, 2015.

(6) The callable warrants are exercisable for a period of five years from the date of issuance, and are callable at the Company's election six months after the date of issuance if the Company's common stock trades at a price equal to at least 150% of the exercise price with an average trading volume of at least 150,000 shares of common stock (as adjusted for any stock splits, stock dividends, combination and the like) per trading date for at least 10 consecutive trading days, and the underlying shares of common stock are registered.

(7) Warrants A underlying 1,409,423 shares are exercisable at any time until September 24, 2018, with remaining contractual term of 2.73 years as of December 31, 2015.

(8) The warrants issued to the placement agent underlying 225,268 shares are exercisable at any time until September 24, 2018, with remaining contractual term of 2.73 years as of December 31, 2015.

(9) Warrants B to purchase 1,644,737 shares of common stock are exercisable for six months starting from September 24, 2014 and may become exercisable only to the extent that the Company does not have an effective registration statement available for the shares underlying such warrants and in any event expire after certain registration conditions are satisfied. The expiration date for Warrants B will be (1) if no registration failure has occurred, the

date will be July 25, 2015, or (2) if a registration failure has occurred, the date will be September 24, 2018. As of December 31, 2015, Warrants B were not exercisable.

(10) Under the Share Purchase agreement, the investors were granted an option to purchase additional 1,644,737 shares of the Company's common stock and Warrants C to purchase 822,369 shares of the Company's common stock for a period beginning March 25, 2015 and ending July 24, 2015. The expiration date for Warrants C will be the fourth anniversary of September 24, 2014, if the related option was exercised. Because that the option was expired on July 24, 2015 without exercising. As a result, Warrant C was expired accordingly.

Note 19 – Earnings (losses) per share

The following is a reconciliation of the basic and diluted earnings (losses) per share computation:

	For the three months ended December 31,		For the six months ended December 31,	
	2015	2014	2015	2014
Net income (loss)	$(48,689,412)	$3,981,858	$(46,981,450)	$1,428,601
Weight average shares used in basic and diluted computation	23,960,217	23,960,217	23,960,217	22,642,611
Earnings (losses) per share – basic and diluted	$(2.03)	$0.17	$(1.96)	$0.06

28

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company had warrants and options exercisable for 1,671,664 shares and 5,833,507 shares of common stock in the aggregate at December 31 and June 30, 2015, respectively. For the three and six months ended December 31, 2015 and 2014, all outstanding options and warrants were excluded from the diluted earnings (losses) per share calculation since they were anti-dilutive.

Note 20 - Coal mine acquisitions

On May 20, 2011, the Company acquired 60% of the equity interests of Shuangrui Coal and Xingsheng Coal, and 100% of the equity interests of Shunli Coal.

In August and September 2011, the Company entered into supplemental agreements with the sellers of these three companies (collectively the “Supplement Agreements”) to memorialize certain agreed terms that were not reflected in the original purchase agreements. Specifically, all assets and liabilities of each company on or before the closing of the Company’s acquisition, other than such company’s mining rights, would be disposed of and assumed by the sellers as soon as practicable. At June 30, 2011, the Company’s acquisition of these three companies included only their mining rights, as all other assets and liabilities were being disposed of by the sellers, and none of the three companies was operational. Therefore, the operating results of these three companies (other than with respect to their mining rights) from May 20, 2011 through June 30, 2015, which were mainly from disposing assets and liabilities (other than their mining rights), are not included in the accompanying consolidated financial statements.

Although the Company has acquired the equity interests of these three entities, the parties’ intention, as memorialized in the Supplemental Agreements, is for the Company to acquire only their mining rights while all other assets and liabilities remain with the sellers. Thus, the respective purchase prices have been allocated solely to the mining rights.

<u>Acquisition of Shuangrui Coal</u>

On August 10, 2010, Hongli entered into an equity purchase agreement to acquire 60% of Shuangrui Coal, which operates Shuangrui coal mine, for a consideration of approximately \$6.4 million (RMB 42 million), payable in cash. Transfer of such equity interests to Hongli, and registration of such transfer with the appropriate PRC authorities, were completed on May 20, 2011. As memorialized in the Supplement Agreement with the sellers, all assets and liabilities of Shuangrui Coal at the time of Hongli's acquisition, other than its mining rights, are to be disposed of and/or assumed by the sellers. As such, Hongli's acquisition consideration is equivalent to the purchase price for 60% ownership of Shuangrui's mining rights. As of June 30, 2015, approximately \$6.66 million (RMB 41 million) was paid. During the year ended June 30, 2012, Hongli acquired the remaining 40% and then transferred 100% of its ownership to Hongchang. As a result, the Company accrued \$4,463,200 (RMB 28 million) payable to Shuangrui Coal's sellers (see Note 16) which had been fully repaid at September 25, 2015.

Acquisition of Xingsheng Coal

On August 10, 2010, Hongli entered into an equity purchase agreement to acquire 60% of Xingsheng Coal, which operates the Xingsheng Mine, for a consideration of approximately \$6.7 million (RMB 42 million), payable in cash. Transfer of such equity interests to Hongli, and registration of such transfer with the appropriate PRC authorities, were completed on May 20, 2011. As memorialized in the Supplement Agreement with the sellers, all assets and liabilities of Xingsheng Coal at the time of Hongli's acquisition, other than its mining rights, are to be disposed of and/or assumed by the sellers. As such, Hongli's acquisition consideration is equivalent to the purchase price for 60% ownership of Xingsheng's mining rights. The purchase price was paid in full in June 2011.

29

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Acquisition of Shunli Coal

On May 19, 2011, Hongchang Coal entered into an equity purchase agreement to acquire 100% of Shunli Coal, which operates the Shunli Mine, for a consideration of approximately $6.7 million (RMB 42 million), payable in cash. Transfer of such equity interests to Hongchang, and registration of such transfer with the appropriate PRC authorities, were completed on May 20, 2011. As memorialized in the Supplement Agreement with the sellers, all assets and liabilities of Shunli Coal at the time of Hongli's acquisition, other than its mining rights, were to be disposed of and/or are assumed by the sellers. As such, Hongli's acquisition consideration is equivalent to the purchase price for 100% ownership of Shunli's mining rights. The purchase price was paid in full in June 2011. On July 2, 2012, Shunli Coal and Hongchang Coal entered into an agreement to transfer all of Shunli Coal's mining rights to Hongchang Coal, in connection with the Company's plans to consolidate mining areas under Hongchang Coal for future production. On July 4, 2012, Shunli Coal was dissolved.

Since the initial accounting for these acquisitions were for the mining rights only, the entire purchase price was allocated to the mining rights. The mining rights acquired are not being amortized because the businesses have not commenced any operations since their acquisitions.

Note 21 – Commitments and contingencies

Lease agreement

On April 12, 2013, the Company signed a lease agreement with Pingdingshan Hongfeng Coal Processing and Coking, Ltd., ("Hongfeng Coal"). Per the agreement, the Company may utilize Hongfeng Coal's coke production facility, which has an annual capacity of 200,000 metric tons. In exchange, the Company agreed to pay Hongfeng Coal $9.60 (RMB 60) per metric ton of coke produced from the leased facility. This agreement was terminated on November 30, 2015.

On November 25, 2015, the Company entered into a new lease agreement with Pingdingshan Hongfeng Coal Processing and Coking Ltd. (“Hongfeng Coal”) to lease in an area for our coke gasification facilities which built in there. Per the agreement, the Company will pay Hongfeng Coal for the land use right leased in amount to $7,908 (RMB 50,000) per month.

Purchase commitment

The Company entered into several contracts with contractors and suppliers for Baofeng new coking plant, which had been sold in January 2016 (see note 25), no further payment were necessary for these contracts. :

Note 22 – Statutory reserves

Applicable PRC laws and regulations require that before a foreign invested enterprise can legally distribute profits, it must first satisfy all tax liabilities, provide for losses in previous years, and make allocations, in proportions determined at the discretion of the board of directors, after the statutory reserves. The statutory reserves include the statutory surplus reserve fund and the enterprise expansion fund.

Each of the Company’s subsidiary and VIEs in the PRC is required to transfer 10% of its net income, as determined in accordance with the PRC Company Law, to a statutory surplus reserve fund until such reserve balance reaches 50% of each such entity’s registered capital. The transfer must be made before distribution of any dividends to shareholders. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years’ losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The enterprise fund may be used to acquire plant and equipment or to increase the working capital to expend on production and operation of the business. No minimum contribution is required

As of December 31, 2015, the statutory surplus reserves of Hongchang Coal and Hongli had reached 50% of each entity’s registered capital. Hongguang Power, Shuangrui Coal, Xingsheng Coal and Shunli Coal did not make any contribution to the statutory reserve due to their respective operating loss. Zhonghong and Hongrun did not make any contribution as neither entity had operations.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Hongchang Coal is required by the PRC government to reserve safety and maintenance expense to the cost of production based on the actual quantity of coal exploited. The amount of reserves is determined within the unit price range provided by Ministry of Finance of PRC. Currently, Hongchang Coal reserves at RMB 6 per metric ton for safety expense and RMB 8.5 per metric ton for maintenance expense. Shuangrui Coal, Xingsheng Coal and Shunli Coal had no such reserve as of December 31, 2015.

The component of statutory reserves and the future contributions required pursuant to PRC Company Law are as follows:

	December 31, 2015	June 30, 2015	50% of registered capital	Future contributions required as of June 30, 2015
Hongli	$ 2,067,215	$2,067,215	$ 2,064,905	$ -
Hongguang Power	-	-	1,514,590	1,514,590
Hongchang Coal	218,361	218,361	218,361	-
Shuangrui Coal	-	-	310,105	310,105
Xingsheng Coal	-	-	279,682	279,682
Hongrun	-	-	2,310,000	2,310,000
Hongyuan	-	-	1,500,000	1,500,000
Zhonghong	-	-	1,521,990	1,521,990
Statutory surplus reserve	2,285,576	2,285,576	9,719,633	7,436,367
Mine reproduction reserve	1,404,365	1,404,365	-	-
Total	$ 3,689,941	$3,689,941	$ 9,719,633	$ 7,436,367

Note 23 – Revenues by products

The Company considers itself, including its coal mining and coking operations and the sales of its coal and coke products, to be operating within one reportable segment. All of the Company’s products are sold within the PRC. Major products and respective for the six months ended December 31, 2015 and 2014 are summarized as follows:

	For three months ended December 31,		For the six months ended December 31,	
	2015	2014	2015	2014
Coke	$496,735	$7,752,836	$2,696,429	$18,943,052
Coal tar	238,252	406,112	588,085	871,434
Crude benzol	109,168	291,774	257,532	670,564
Coal slurries	-	-	-	101,954
Mid-coal	-	402,855	217,893	765,119
Washed coal	-	1,684,571	-	2,759,861
Syngas	4,520,206	2,139,171	8,046,660	2,139,171
Total	$5,364,361	$12,677,319	$11,806,599	$26,251,155

Note 24 – Litigation and contingency

The company is involved in a legal proceeding in the ordinary course of its business. The proceeding, described in the paragraph below, is a claim for a commercial dispute. Although management of the Company cannot predict the ultimate outcome of the legal proceeding with certainty, it believes that the ultimate resolution of the Company's legal proceeding, including any amounts it may be required to pay in excess of amount reserved, will not have a materials effect on the Company's consolidated financial statements.

On May 26, 2015, the Company filed a complaint against Henan Province Coal Seam Gas Development and Utilization Co., Ltd. (Henan Coal Seam Gas") with the Intermediated People's Court in Zhengzhou City. In the complaint the Company indicated that Henan Coal Seam Gas should pay back a loan from the Company of $4,712,584 or RMB 30,000,000, with interest of RMB 8,592,326.04 plus the interest from May 27, 2015 to actual payment date. An unfavorable outcome in this litigation, which management does not believe is probable, could not have a material effect on the Company's business, financial condition or results of operations.

HONGLI CLEAN ENERGY TECHNOLOGIES CORP.

(FORMERLY KNOWN AS SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 25 – Subsequent events

On January 10, 2016, the Company entered into a Credits and Debts Transfer Agreement with an unrelated third party, Wuhan Guangyao New Energy Automobile Operation Co., Ltd. ("Guangyao"). As of December 31, 2015, the Company had certain credit assets (advance payments, including short-term and long-term portions, and accounts receivable) with a book value of RMB 254,160,210.59 and outstanding debts (accounts payable, interest payable, and short-term loans) with a book value of RMB 274,167,269.37. According to the Credits and Debts Transfer Agreement, the Company transferred those credit assets and debts valued at December 31, 2015 to Guangyao in a lump sum. Guangyao will conduct the collection and the clearance by itself. The Company shall compensate Guangyao regarding the difference of RMB 20,007,058.78 between the book value of the transferred credit assets and debts. The Company shall pay RMB 20,007,058.78 to Guangyao within 6 months after this Credits and Debts Transfer Agreement becomes effective. If it is not paid off timely, Guangyao has the right to charge the Company at an annual interest rate of 4.5% for the then unpaid amount after 6 months of the effective date of this agreement, until it is cleared. With regards to the Credits and Debts Transfer Agreement, Guangyao will be responsible to discuss and negotiate with the Company's creditors and debtors, and get unanimous consents from the creditors and debtors including Bairui Trust Co., Ltd. Guangyao is also responsible for arbitration and lawsuits with other creditors and debtors during the performance process of this agreement, and enforce the decisions of arbitration and lawsuits.

On January 25, 2016, the Company entered into an Assets Transfer Agreement for 900,000 Tons of Coking Asset in Construction with Guangyao. As of December 31, 2015, the Company's 900,000 tons of stamp-charging coking assets in construction are worth RMB 319,531,307.61. Based on the agreement, the Company agrees to transfer to Guangyao the 900,000 tons of stamp-charging coking assets in construction for RMB 45,692,140. Guangyao shall pay the Company all the payment agreed in this agreement within 6 months after this agreement becomes effective. If it is not paid off timely, Guangyao will be charged at an annual interest rate of 4.5% for the then unpaid amount after 6 months of the effective date of this agreement, until it is cleared.

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

The following discussion and analysis of the results of our operations and financial condition for the three and six months ended December 31, 2015 and 2014 should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Report. All monetary figures are presented in U.S. dollars, unless otherwise indicated.

Overview

We are an energy producer which is in the process of transforming from providing multifunctional energy products to focusing on providing clean energy products located in Henan Province, People's Republic of China ("PRC" or "China"). We currently generate only one of our products—synthetic gas ("syngas"), although we had the capability to generate raw coal, washed coal, "medium" or mid-coal, coal slurries, coke, coke powder, coal tar, crude benzol and electricity before we suspended our coal and coke productions at December 1, 2015. Our raw coal mining has been halted since 2011 due to a provincial-wide consolidation program in Henan province. We temporarily closed electricity generation due to the closing of the Baofeng coking facility in July 2014. Washed coal and coking productions were suspended in December 2015 due to stricter environmental requirements from the government, a decline in selling prices and a decline in demand for coal and coke.

The construction of the coke gasification facility to further process coke into a clean-burning synthetic gas was completed at the ended of September 2014 and commenced its production in October 2014 ("Stage I facility"), which allowed us to extend the operations into the clean-burning synthetic field. The Stage I facility has initially designed with annual capacity of 219,000,000 cubic meters of syngas or 25,000 cubic meters of syngas per hour. In November 2014, with one month operating experience at running the Stage I facility, we conducted a technique upgrade on the Stage I facility to increase the designed capacity of the facility (Stage II facility). The upgrade project was started from November 2014 and fully completed on July 2015. With the completion of the technique upgrade, the Stage I facility's designed annual coke gasification capacity was expanded to 438,000,000 cubic meters of syngas or 50,000 cubic meters of syngas per hour.

With more experience and the improvement of technology of the coke gasification from running our existing facilities, we believe that we could further expand our operations to other demanding areas with installation of more coke gasification facilities to overcome syngas distribution limitations.

On August 28, 2014, we entered into a cooperative agreement with the North China Institute of Science and Technology regarding underground coal gasification ("UCG") technique development to refine and implement advanced techniques to convert our coal into syngas. Our ultimate target is to build a UCG facility with an annual production capacity of 7,708,800,000 cubic meters of syngas or 880,000 cubic meters of syngas per hour in all four of our coal mines. The UCG project was approved by the Science and Technology Bureau of Baofeng County as a local Scientific and Technological Practical Project, and it was granted the privilege to refine the coal under Baofeng Coking Factory as a trial project for UCG technique development. We commenced the construction of the trial project in June 2015. This UCG trial project is under supervision of the Science and Technology Bureau of Baofeng County and North China Institute of Science and Technology ("Supervisors") and requires further tests and approval from the Supervisors upon our completion of construction and equipment installation. This UCG trial project is divided into several stages and each stage requires a periodical acceptance test conducted by the Supervisors. It is anticipated that the construction of this trial project will be completed in September 2016, and is estimated to cost up to $5 million to complete construction. Once the construction is completed, it requires another 6 months of preliminary operations for final testing which will be monitored by the Supervisors. With the final approval from the Supervisors, we will be able to implement our UCG techniques in our coal mines.

We also commenced our underground safety project, which initially we implemented for coal mining safety construction, in all of our existing coal mines to comply with legal safety requirements. Once we obtain the final approval from the Supervisors at Baofeng Scientific and Technological Practical Project, we would be able to implement our UCG techniques in our coal mines.

With the coke and coal gasification implementation plans and suspension of our coal washing and coking productions in December 2015, we transformed from being a producer of coal and coke products to a clean energy producer providing 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 December 31, 2015:

- Coke gasification operations were carried out by Hongli’s branch, Baofeng Coking plant (“Baofeng Coking”) from October 2014 using the coke gasification facility built in Pingdingshan Hongfeng Coal Processing and Coking Ltd. (“Hongfeng”) Factory, which was leased from Hongfeng.

- Coking and coal washing related operations should be carried out by Hongli and Baofeng Coking. Starting in July 2014, the Baofeng Coking plant has been temporarily closed as its older facilities cannot comply with the new country-wide coking industry standards. It is now pending for upgrade in order to better assist the UCG project development in the future. Coking operations in the coking facility leased from Pingdingshan Hongfeng Coal Processing and Coking Ltd. were suspended in December 2015 due to bad market conditions making continuing the operations economically infeasible.

- Coal related operations, including potential underground coal gasification, are conducted under the following three subsidiaries of Hongli, although all mining activities are currently on hold as a result of 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. As Hongguang Power mainly uses the gas produced during coking from our Baofeng plant to generate electricity, it has been temporarily closed following the Baofeng plant closing in July 2014.

The coal-related activities for the periods discussed below are those coal trading activities of Hongli and Baofeng Coking. Hongchang Coal's mining operations were halted in September 2011 and 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 are in the process of developing the UCG technique project. If we can obtain success in developing the UCG techniques to allow us to convert our coal materials into syngas, we could be able to apply the techniques to all our existing coal mines.

We initially 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. However, due to the imposition of the provincial-wide mining moratorium since June 2010, and the change of the Company's original plan from developing coal mining operations to producing syngas, the plan to transfer the related operations was halted and we will decide whether to execute the original plan based on the mining moratorium status and syngas business development in the future.

Results of Operations

Our revenue for the three months ended December 31, 2015 decreased by approximately 57.69% from a year ago, while our revenues for the six months ended December 31, 2015 decreased by approximately 55.02% from a year ago as a result of government policies aimed at reducing fuel consumption and pollution in popular industries and the softened demand in the real estate markets which, in turn, affected demand for steel and coal and coke products. In addition, the provincial environmental protection inspections carried out by the government since September 2015 weakened the demand for coal and coke which directly caused the cessation of our coal and coke operations in December 2015. The decrease of revenues from coal and coke products was offset partly by revenues from our clean-burning syngas product which we began generating and selling in October 2014.

We derived 16% of our revenue from coke products for the three months ended December 31, 2015, as compared to 67% for the three months ended December 31, 2014; 0% of our revenue from coal products for the three months ended December 31, 2015 as compared to 16% for the three months ended December 31, 2014; and 84% of our revenue from syngas products for the three months ended December 31, 2015 as compared to 17% for the three months ended December 31, 2014.

We derived 30% of our revenue from coke products for the six months ended December 31, 2015, as compared to 78% for the six months ended December 31, 2014; 2% of our revenue from coal products for the six months ended December 31, 2015 as compared to 14% for the six months ended December 31, 2014; and 68% of our revenue from syngas products for the six months ended December 31, 2015 as compared to 8% for the six months ended December

31, 2014.

We have extended our business into clean-burning products since October 2014. Our strategy is to completely transform our business to clean-burning syngas operations and build an environmentally friendly energy products company. With the improvement of our operating technology and expansion of the production capacity of clean-burning gas, we expect syngas will contribute higher proportions of our revenues going forward. We stopped our coal washing and coking productions at December 31, 2015 leaving syngas operations as our only working operations from then on. In the future, all our revenues will come from clean-burning syngas.

On a macro level, management has observed the following trends, which may have a direct impact on our current operations in the near future: (1) Slowing growth of the Chinese domestic economy and a reduction in energy consumption in unit GDP continues to reduce demands on total energy, coupled with environmental protection policies which we expect will restructure the market for energy products; (2) Cutting overcapacity in and restructuring the coal and crude steel industries have become important national policies; (3) The Chinese government is likely to continue to encourage and support the development of China’s clean-energy industry, including clean-burning syngas.

35

Comparison of the three and six months ended December 31, 2015 and 2014.

Revenue

For the three months ended December 31, 2015, revenues decreased by $7,312,958 or 57.69% to $5,364,361 as compared to the same period last year. Such decrease resulted from decreased sales of coal and coke products, offset by increased sales of syngas. Revenue and quantity sold by product type for the three months ended December 31, 2015 and 2014 are as follows:

	Revenues			
	Coke	Coal	Syngas	Total
Revenue				
Three months ended December 31, 2014	$ 8,450,722	$ 2,087,426	$ 2,139,171	$ 12,677,319
Three months ended December 31, 2015	844,155	-	4,520,206	5,364,361
Increase (decrease) in $	$ (7,606,567)	$ (2,087,426)	$ 2,381,035	$ (7,312,958)
Increase (decrease) in %	(90.01)%	(100.00)%	111.31 %	(57.69)%
Quantity sold (metric tons/ cubic meter)				
Three months ended December 31, 2014	49,529	18,202	21,376,386	21,444,117
Three months ended December 31, 2015	6,283	-	46,832,764	46,839,047
Increase (decrease) in metric tons(T)/ cubic meter (M^3)	T (43,246)	T (18,202)	M^3 25,456,378	25,394,930
Increase (decrease) in %	(87.31)%	(100.00)%	119.09 %	118.42 %

We derived 16% of our revenue from coke products for the three months ended December 31, 2015, as compared to 67% in the same period last year; 0% of our revenue from coal products for the three months ended December 31, 2015 as compared to 16% in the same period last year; and 84% of our revenue from syngas products for the three months ended December 31, 2015 as compared to 17% in the same period last year.

For the six months ended December 31, 2015, revenues decreased by $14,444,556 or 55.02% to $11,806,599 as compared to the same period last year. Such decrease resulted from decreased sales of coal and coke products, offset by increased sales of Syngas. Revenues and quantity sold by product type for the six months ended December 31, 2015 and 2014 are as follows:

Revenue	Revenues Coke	Coal	Syngas	Total
Six months ended December 31, 2014	$ 20,485,050	$ 3,626,934	$ 2,139,171	$ 26,251,155
Six months ended December 31, 2015	3,542,046	217,893	8,046,660	11,806,599
Increase (decrease) in $	$ (16,943,004)	$ (3,409,041)	$ 5,907,489	$ (14,444,556)
Increase (decrease) in %	(82.71)%	(93.99)%	276.16 %	(55.02)%
Quantity sold (metric tons/ cubic meter)				
Six months ended December 31, 2014	109,886	36,717	21,376,386	21,522,989
Six months ended December 31, 2015	27,066	7,600	82,675,816	82,710,482
Increase (decrease) in metric tons(T)/ cubic meter (M^3)	T (82,820)	T (29,117)	M^3 61,299,430	61,187,493
Increase (decrease) in %	(75.37)%	(79.30)%	286.76 %	284.29 %

36

We derived 30% of our revenue from coke products for the six months ended December 31, 2015, as compared to 78% in the same period last year; 2% of our revenue from coal products for the six months ended December 31, 2015 as compared to 14% in the same period last year; and 68% of our revenue from syngas products for the three months ended December 31, 2015 as compared to 8% in the same period last year.

The shifting percentages reflect changes from our current operating status and our strategies, market conditions, and the effect of changes in Chinese government policies. The stricter environmental requirements and the weaker performance of the real estate industry weakened demands for coal and coke. We closed our coal and coke operations in December 2015. Through the transformation of our operating strategies and product portfolios, we expect our products will be closer to future market demands. We believe that this change will bring in positive contribution to our future business development.

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.

Syngas products were generated from our coke gasification facility, which was completed and commenced its production in October 2014. Syngas is widely used in various industries as well as used as heating fuel in the residential areas.

Average selling prices per metric ton of our coal and coke products, and average selling prices per cubic meter of syngas for the period indicated are as follows:

Average Selling Price of Coke Products

	Coke	Coal tar	Crude benzol
Three months ended December 31, 2014	$164	$237	$ 656

Three months ended December 31, 2015	103	206	373
Increase (decrease) in $	$(61)	$(31)	$ (283)
Increase (decrease) in %	(37.20)%	(13.08)%	(43.14))%
Six months ended December 31, 2014	$179	$275	$ 829
Six months ended December 31, 2015	113	224	390
Increase (decrease) in $	$(66)	$(51)	$ (439)
Increase (decrease) in %	(36.87)%	(18.55)%	(52.96)%

37

Average Selling Price of Coal Products

	Coal slurries	Mid-coal	Washed coal
Three months ended December 31, 2014	$ N/A	$ 50	$ 167
Three months ended December 31, 201	N/A	-	-
Increase (decrease) in $	$ N/A	$ (50)	$ (167)
Increase (decrease) in %	N/A	(100)%	(100)%
Six months ended December 31, 2014	$ 28	$ 49	$ 158
Six months ended December 31, 2015	-	29	-
Increase (decrease) in $	$ (28)	$ (20)	$ (158)
Increase (decrease) in %	(100)%	(40.82)%	(100)%

Average Selling Price of Syngas

	Syngas
Three months ended December 31, 2014	$ 0.10
Three months ended December 31, 2015	0.10
Increase (decrease) in $	$ -
Increase (decrease) in %	0.00 %
Six months ended December 31, 2014	$ 0.10
Six months ended December 31, 2015	0.10
Increase (decrease) in $	$ -
Increase (decrease) in %	0.00 %

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. The selling prices of all coke products and coal products decreased over six months ended December 31, 2015 compared to the same period in 2014 resulting from the oversupply of coke and coal products in the market.

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 slurries and mid-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.

Average price of syngas was contracted approximately at $0.10 or RMB 0.62 per cubic meter (M^3). We had long-term syngas supply agreements with our customers to provide syngas at a fixed vending price of $0.10 or RMB 0.62 per cubic meter (M^3). In some cases, syngas may be sold with periodic price adjustments.

Revenue and quantity sold of each coke product for the three months ended December 31, 2015 and 2014 are as follows:

	Coke	Coal tar	Crude benzol	Total
Revenues				
Three months ended December 31, 2014	$7,752,836	$406,112	$ 291,774	$8,450,722
Three months ended December 31, 2015	496,735	238,252	109,168	844,155
Increase (decrease) in $	$(7,256,101)	$(167,860)	$ (182,606)	$(7,606,567)
Increase (decrease) in %	(93.59)%	(41.33)%	(62.58)%	(90.01)%
Quantity sold (metric tons)				
Three months ended December 31, 2014	47,368	1,716	445	49,529
Three months ended December 31, 2015	4,834	1,156	293	6,283
Increase (decrease) in metric tons	(42,534)	(560)	(152)	(43,246)
Increase (decrease) in %	(89.79)%	(32.63)%	(34.16)%	(87.31)%

For the three months ended December 31, 2015, compared to the same period of 2014, coke revenues decreased 93.59% resulting from a 89.79% decrease in the coke quantity and a 37.20% decrease in the coke average selling price. Due to demand structure and the price of the coke products, no coke powder has been produced or sold since the beginning of fiscal year 2015. Our byproduct revenues from coal tar decreased 41.33% which resulted from a 32.63% decrease in the coal tar quantity and a 13.08% decrease from the coke tar average selling price. Our revenues from crude benzol decreased by 62.58% resulting from a 34.16% decrease in the crude benzol quantity and a 43.14% decreased in the crude benzol average selling price.

Revenues and quantity sold of each coke product for the six months ended December 31, 2015 and 2014 are as follows:

	Coke	Coal tar	Crude benzol	Total
Revenues				
Six months ended December 31, 2014	$18,943,052	$871,434	$ 670,564	$20,485,050
Six months ended December 31, 2015	2,696,429	588,085	257,532	3,542,046
Increase (decrease) in $	$(16,246,623)	$(283,349)	$ (413,032)	$(16,943,004)
Increase (decrease) in %	(85.77)%	(32.52)%	(61.59)%	(82.71)%
Quantity sold (metric tons)				
Six months ended December 31, 2014	105,903	3,174	809	109,886
Six months ended December 31, 2015	23,782	2,624	660	27,066

Increase (decrease) in metric tons	(82,121)	(550)	(149)	(82,820)
Increase (decrease) in %	(77.54)%	(17.33)%	(18.42)%	(75.37)%

For the six months ended December 31, 2015, compared to the same period of 2014, coke revenues decreased 85.77% resulting from a 77.54% decrease in the coke quantity and a 36.87% decrease in the coke average selling price. Due to demand structure and the price of the coke products, no coke powder has been produced or sold since the beginning of fiscal year 2015. Our byproduct revenues from coal tar decreased 32.52% resulting from a 17.33% decrease in the coal tar quantity and a 18.55% decrease from the coke tar average selling price. Our revenues from crude benzol decreased by 61.59% resulting from a 18.42% decrease in the crude benzol quantity and a 52.96% decrease in the crude benzol average selling price.

Since the demand for coke and the selling price have been decreasing, we suspended our coke production in December 2015. We used coke to produce our new clean-burning syngas and as a result our revenues from coke products have decreased continuously.

Revenue and quantity sold of each coal product for the three months ended December 31, 2015 and 2014 are as follows:

	Coal slurries	Mid-coal	Washed coal	Total
Revenues				
Three months ended December 31, 2014	$ N/A	$402,855	$1,684,571	$2,087,426
Three months ended December 31, 2015	N/A	-	-	-
Increase (decrease) in $	$ N/A	$(402,855)	$(1,684,571)	$(2,087,426)
Increase (decrease) in %	N/A	(100)%	(100)%	(100)%
Quantity sold (metric tons)				
Three months ended December 31, 2014	N/A	8,114	10,088	18,202
Three months ended December 31, 2015	N/A	-	-	-
Increase (decrease) in metric tons	N/A	(8,114)	(10,088)	(18,202)
Increase (decrease) in %	N/A	(100)%	(100)%	(100)%

Revenue and quantity sold of each coal product for the six months ended December 31, 2015 and 2014 are as follows:

	Coal slurries	Mid-coal	Washed coal	Total
Revenues				
Six months ended December 31, 2014	$ 101,954	$765,119	$2,759,861	$3,626,934
Six months ended December 31, 2015	-	217,893	-	217,893
Increase (decrease) in $	$ (101,954)	$(547,226)	$(2,759,861)	$(3,409,041)
Increase (decrease) in %	(100)%	(71.52)%	(100)%	(93.99)%
Quantity sold (metric tons)				
Six months ended December 31, 2014	3,674	15,574	17,469	36,717
Six months ended December 31, 2015	-	7,600	-	7,600

Increase (decrease) in metric tons	(3,674)	(7,974)	(17,469)	(29,117)
Increase (decrease) in %	(100)%	(51.20)%	(100)%	(79.30)%

We could not produce raw coal since our coal mine operations were halted by the ongoing mining moratorium since 2011. We purchased raw coal from third parties and traded to others or washed coal for our coking processing beginning from 2011. In response to the unstable supply 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 coal slurries but more mid-coal being produced, which resulted in the revenue fluctuations for both mid-coal and coal slurries for the six months ended December 31, 2015 and 2014. The market softening made our coal operation more unprofitable over time, so we suspended all our coal and coke production in December 2015. We had no coal revenues for the three months ended December 31, 2015.

Revenue and quantity sold of syngas product for the three months ended December 31, 2015 and 2014 are as follows:

	Syngas	
Revenue		
Three months ended December 31, 2014	$2,139,171	
Three months ended December 31, 2015	4,520,206	
Increase (decrease) in $	$2,381,035	
Increase (decrease) in %	111.31	%
Quantity sold (metric tons)		
Three months ended December 31, 2014	21,376,386	
Three months ended December 31, 2015	46,832,764	
Increase (decrease) in metric tons	25,456,378	
Increase (decrease) in %	119.09	%

Revenue and quantity sold of syngas product for the six months ended December 31, 2015 and 2014 are as follows:

	Syngas	
Revenue		
Six months ended December 31, 2014	$2,139,171	
Six months ended December 31, 2015	8,046,660	
Increase (decrease) in $	$5,907,489	
Increase (decrease) in %	276.16	%
Quantity sold (metric tons)		
Six months ended December 31, 2014	21,376,386	
Six months ended December 31, 2015	82,675,816	
Increase (decrease) in metric tons	61,299,430	
Increase (decrease) in %	286.76	%

For the three months ended December 31, 2015, syngas revenues increased by 111.31%, as compared to the same period of last year, resulting from a 119.09% increase in quantity of syngas sold and change of exchange rate without any change of the selling price of syngas in RMB. For the six months ended December 31, 2015, syngas revenues increased by 276.16%, as compared to the same period last year, resulting from a 286.76% increase in the quantity of syngas sold and change of exchange rate without any change of the selling price of syngas in RMB.

Our syngas operation was launched in October 2014. Our revenues from syngas have kept increasing since commencing in October 2014. All sales of syngas were delivered by the pipeline and all syngas was delivered as it was generated in our conversion ovens. Our coke gasification capacity has kept increasing from month to month since October 2014 to December 31, 2015. We believe that revenues from syngas will keep increasing along with the improvement of our production techniques and the expansion of the production capacity.

Cost of Revenue

Cost of revenues decreased by 68.15%, from $9,989,469 to $3,181,705 for the three months ended December 31, 2015 compared to the same period last year. Cost of revenues decreased by 64.67%, from $21,281,963 to $7,519,026 for the six months ended December 31, 2015 compared to the same period last year. The decrease was mainly driven by lower sale volumes for our coal and coke products. However, the decrease from our coal and coke sales was partially offset by the increasing sales from our syngas operations whose revenues contributed higher gross profit margin.

Gross Profit

Gross profit was $2,182,656, a decrease of $505,194 or 18.80% from $2,687,850, for the three months ended December 31, 2015 as compared to the same period last year. The decrease was mainly because the sales of coal and coke declined despite the higher gross profit contributed from the sales of syngas which raised our annual gross margin from 21.20% to 40.69% for the period.

Gross profit was $4,287,573, a decrease of $681,619 or 13.72% from $4,969,192, for the six months ended December 31, 2015 as compared to the same period last year. The decrease was mainly because the sales of coal and coke declined despite of the higher gross profit contributed from the sales of syngas which raised our annual gross margin from 18.93% to 36.32%.

Operating Expenses

Operating expenses, which consist of selling expenses and general and administrative expenses, was $49,429,217 for the three months ended December 31, 2015, an increase of $47,264,672 or 2183.58% from $2,164,545 as compared to the same period a year ago. Selling expenses decreased by $28,819 or 82.13% to $6,272, from slight reduction in expenses relating to selling activities. General and administrative expenses increased by $47,293,491 or 2220.92%, to $49,422,945, mainly due to the closing of coal and coking productions at December 31, 2015 which resulted in: 1) impairment loss of $23,820,387 from construction in progress of our new coking plant which had been sold on January 25, 2016, 2) impairment loss of $2,094,646 from plant and equipment related to our discontinued coal and coking productions, and 3) impairment loss of $19,489,408 included in the amortization expense related to the land use right of the new coking plant which had been sold on January 25, 2016.

Operating expenses, which consist of selling expenses and general and administrative expenses, was $50,615,182 for the six months ended December 31, 2015, an increase of $47,528,678 or 1539.89% from $3,086,504 as compared to the same period a year ago. Selling expenses decreased by $37,317 or 53.88%, to $31,938, from a slight reduction in expenses relating to selling activities. General and administrative expenses increased by $47,565,995 or 1576.47%, to $50,583,244, mainly due to the closing of coal and coking operations at December 31, 2015 which resulted in: 1) an impairment loss of $23,820,387 from construction in progress of our new coking plant which was sold on January 25, 2016, 2) an impairment loss of $2,094,646 from plant and equipment related to our discontinued coal and coking productions, and 3) an impairment loss of $19,489,408 included in the amortization expense related to the land use right of the new coking plant which was sold on January 25, 2016.

Other Income and Expense

Other income and expense includes interest expense, interest income and other finance expenses, income and expense not related to our principal operations, and change in fair value of warrants.

For the three months ended December 31, 2015, interest expense, which mainly results from interest accrued for the loans from Bairui and Capital Paradise Limited (“CPL”), was $1,255,062, a decrease of $247,279 or 16.46%, from $1,502,341 as compared to the same period a year ago, which decrease mainly resulted from the decrease of the total average principal of the loans. Interest income mainly consisted of interest income accrued from cash deposits in financial institutions for the three months ended December 31, 2015. Interest income consist of interest income accrued from the loan to CPL and interest income from cash deposits in financial institutions for the three months ended December 31, 2014. Interest income was $25, which is a decrease of $62,831 or 99.96%, from $62,856 a year ago, due to the loan collection from CPL on August 2014 and January 2015. Other finance expenses for the three months ended December 31, 2015, which consists of bank service fees and currency exchange gain or loss, were $59,900, an increase of $8,664 or 16.91% as compared to the same period a year ago.

For the six months ended December 31, 2015, interest expense, which mainly results from interest accrued for the loans from Bairui and Capital Paradise Limited ("CPL"), was $2,532,043, a decrease of $467,511 or 15.59%, from $2,999,554 as compared to the same period a year ago, which decrease mainly resulted from the decrease of the total average principal of the loans. Interest income mainly consisted of interest incomes accrued from cash deposits in financial institutions for the six months ended December 31, 2015. Interest income consists of interest income accrued from the loan to CPL and interest income from cash deposits in financial institutions for the six months ended December 31, 2014. Interest income was $57, which was a decrease of $165,050 or 99.97%, from $165,107 a year ago, due to the loan collection from CPL on August 2014 and January 2015. Other finance expenses for the six months ended December 31, 2015, which consists of bank service fees and currency exchange gain or loss, were $64,845, an increase of $12,946 or 24.94% as compared to the same period a year ago.

We also recorded the income from change of fair value of warrants in the amount of $269,143 for the three months ended December 31, 2015, compared to the expense of $5,452,865 for the three months ended December 31, 2014. For the six months ended December 31, 2015 we recorded the income from change of fair value of warrants in the amount of $2,804,555 as compared to income of $3,425,703 in the same period of last year. The income from change of fair value of warrants mainly resulted from the increase in volatility of our stock price during the comparable period and the issuance of warrants and options related to the September 24, 2014 Security Purchase Agreement under which we issued 2,818,845 shares of common stock, 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 $1,045,794 for the three months ended December 31, 2015 compared to other income of $3,962,144 for the same period a year ago. We had other income of $207,724 for the six months ended December 31, 2015 compared to other income of $539,357 for the same period a year ago.

Provision for Income Taxes

Provision for income tax over the three months ended December 31, 2015 decreased by $106,534 to $397,057 from the same period a year ago due to the decrease of our taxable operating incomes from our consolidated subsidiaries.

Provision for income tax over six months ended December 31, 2015 decreased by $131,879 to $861,565 from the same period a year ago due to the decrease of our taxable operating incomes from our consolidated subsidiaries.

Net income (loss)

We reported net loss of $48,689,412, including the change of $269,143 in fair value of warrants, for the three months ended December 31, 2015, as compared to net income of $3,981,858 for the same period a year ago.

We reported net loss of $46,981,450, including the change of $2,804,555 in fair value of warrants, for the six months ended December 31, 2015, as compared to net income of $1,428,601 for the same period a year ago.

Liquidity and Capital Resources

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 December 31, 2015, we had a working capital deficit in the amount of $26,995,453 as compared to working capital deficit in the amount to $25,400,753 at June 30, 2015. The change of working capital deficit resulted from the follow factors: 1) our operations contributed working capital of $3,966,520 which reflected a net loss of $46,981,450, depreciation and amortization of $20,647,814 which included an impairment loss of $19,489,408 from our intangible assets related to our disposed coking plant deal made on January 25, 2016, impairment losses of $25,914,646 in total over CIP and equipment and plant, an impairment loss of $1,870,436 from our inventories due to our discontinued coal and coke operations, and change of long-term warrants values of $2,515,074; 2) coal acquisition payment of increased working capital deficit by $4,586,576; and 3) the effect on the exchange rate contributed working capital by $1,493,517.

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 requirements and repayments of our short-term loans and long-term loans with Bairui Trust and CPL 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 syngas, 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:

	For the six months ended December 31,	
	2015	2014
Net cash provided by (used in) operating activities	$ 6,781,629	$ (4,965,172)
Net cash used in investing activities	$ (4,586,576)	$ (10,197,925)
Net cash provided by (used in) financing activities	$ (2,168,546)	$ 15,220,921

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities for the six months ended December 31, 2015 was approximately $6.78 million as compared to net cash used in operating activities of approximately $4.97 million for the six months ended December 31, 2014. Except for $47,376,594 in non-cash adjustments such as depreciation, amortization and depletion, bad debt expenses, impairment reserves and change in fair value of warrants which increased our cash-based net loss, net operating inflow for the six months ended December 31, 2015 resulted from the following factors: (1) other receivables decreased by $4,752,481 due to the collection of deposits for an assets auction, (2) advances to suppliers decreased by $3,972,159, due to the receipt of raw material, which is prepaid in advance, (3) accounts payable increased by $333,209, (4) our taxes payable increased by $488,119 due to the payables of VAT tax and income tax which were scheduled to be paid in February 2016. Cash inflow was mainly offset as follows: (1) our accounts receivable increased by $1,047,699, due to the increase in credit line the Company extended to two new customers during the period, (2) inventories increased by $607,144 due to a marked decrease in sales and (3) a decrease of $1,504,640 from other payables and accrued liabilities mainly due to the repayment of interest payable.

Net cash used in operating activities for the six months ended December 31, 2014 was approximately $4.97 million as compared to net cash used in operating activities of approximately $0.76 million for the same period last year. Except for $1,155,721 in non-cash adjustments such as depreciation, amortization and depletion, bad debt allowance and change in fair value of warrants which increased our cash-based net income, net operating inflow for the six months ended December 31, 2014 resulted from the following factors: (1) inventories decreased by $5,035,275 due to a credit line increase to two new customers and sales to these customers, and a decrease in finished goods; (2) other payables and accrued liabilities increased by $1,778,225, due to the increase of construction deposit of $0.88 million, accrued unpaid interest of $0.88 million and salary payables of $0.12 million, (3) our taxes payable increased by $1,263,983 due to VAT payable and income tax which was paid on time in January 2015. Cash inflow was mainly offset as follows: (1) our accounts receivable increased by $9,093,126, due to Hongli's increase in its credit line for its customers during the period to promote the sales; (2) advances to suppliers increased by $1,106,222, due to the postponement of the delivery of materials purchased during the period; (3) accounts payable decreased by $2,975,332 mainly due to decreased raw materials purchases during the period.

Net Cash Used in Investing Activities

Net cash used in investing activities for the six months ended December 31, 2015 was approximately $4.59 million. During the six months ended December 31, 2015, we repaid $4.59 million related to our coal acquisitions made in prior years.

Net cash used in investing activities for six months ended December 31, 2014 was approximately $10.20 million. We collected loan receivable of $4.5 million from CPL and invested $14,497,925 in coke gasification construction.

Net Cash Provided by (Used in) Financing Activities

Net cash used in financing activities was approximately $2.17 million. During the six months ended December 31, 2015, we repaid loans from our shareholder and the CEO, Mr. Lv Jianhua, in an amount of approximately $0.21 million. During the same period, we obtained an additional loan from CPL for $1.64 million and repaid loans from CPL of $3.6 million.

Net cash provided by financing activities was approximately $15.22 million. During the six months ended December 31, 2014, we completed a registered sale of 2,818,845 shares of our common stock with net consideration of $13.2 million and obtained an additional loan from our shareholder and the CEO, Mr. Lv Jianhua, in an amount equal to approximately $2.02 million.

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 and funds raised in private placements of our securities.

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 $50.3 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
$ 8,114,380	¥ 50,000,000	October 2, 2016	October 3, 2013 – October 2, 2016
3,245,752	20,000,000	December 2, 2016	December 3, 2013 – December 2, 2016
4,868,628	30,000,000	January 2, 2017	January 3, 2014 – January 2, 2017
4,868,628	30,000,000	February 2, 2017	February 3, 2014 – February 2, 2017
29,211,770	180,000,000	April 2, 2017	April 3, 2014 – April 2, 2017
$ 50,309,158	¥ 310,000,000		

On April 2, 2014, the Company entered into another supplement agreement with Bairui Trust which replaced the extension agreement dated October 1, 2013, and repaid the principal $324,929 (RMB 2,000,000). Per the supplement agreement, loans from Bairui Trust were changed as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Extended Loan Repayment Date	New Interest Rate Period
$ 2,928,734	¥18,000,000	April 2, 2015	December 3, 2013 – April 2,2015
4,881,224	30,000,000	April 2, 2015	January 3, 2014 – April 2,2015
4,881,224	30,000,000	April 2, 2015	February 3, 2014 – April 2,2015
8,135,373	50,000,000	January 2, 2015	October 3, 2013 –January 2,2015
29,287,340	180,000,000	October 2, 2015	April 3, 2014 – October 2, 2015
$ 50,113,895	¥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.

On January 20, 2015, Hongli repaid the loan of $8,132,990 (RMB 50,000,000) to Bairui Trust which was due on January 2, 2015.

On April 3, 2015, Hongli and Bairui Trust reached an agreement to extend the loans of approximately $12.74 million (RMB 78,000,000) to April 2, 2016 with the annual interest of 11.88%.

On October 8, 2015, the Company and Bairui Trust entered into a supplemental agreement to extend the due date of one of its outstanding loans. The extended loan of $29,287,340 or RMB 180 million was due on October 2, 2015. In accordance with the supplemental agreement, the due date was re-scheduled to April 2, 2016.

As of December 31, 2015, the loans from Bairui Trust were as follows:

Loan Amount (in USD)	Loan Amount (in RMB)	Due Date	Interest Rate	
$ 12,015,343	¥78,000,000	April 2, 2016	11.88	%
27,727,714	180,000,000	April 2, 2016	11.88	%
$ 39,743,057	¥258,000,000			

The principal of the loans from Bairui Trust and the related accrued interest payable were restructured and sold to a third party by a Credits and Debts Transfer Agreement made on January 10, 2016.

On January 26, 2015, Top Favour and Capital Paradise Limited entered into a loan agreement of $2,960,000 with an annual interest rate of 7% and due on January 27, 2016. This loan is not secured by any collateral or guarantee. As of December 31, 2015, the outstanding loan from Capital Paradise Limited was $273,769.

Our business plan involves growing our business through:

Developing and installing a facility for the conversion of coal and coke into a clean-burning synthetic gas (syngas). We plan to expand our coke gasification capacity as we gain more experience in this field. We also started construction of underground coal gasification project, which is approved and supported by the local government as a Scientific and Technological Practical Project. Once the UCG project is completed, we hope to be one of the leading companies in China for UCG, which will help us execute our green energy strategy.

The following is expected to require capital resources:

- *Coke gasification project.* We had completed installation of our first stage coke gasification equipment on October 2014, which cost us approximately $8 million or RMB 49 million in total. After then, we invested an additional $6.6 million to commence a technology upgrade project on the existing coke gasification equipment to double the total production capacity to 50,000 cubic meters per hour. We are seeking other locations which have enough syngas demands in that area to expand our coke gasification business. We plan to determine whether to invest in more equipment, totaling approximately $30 million, within the coming two years based on our syngas operation development and market situation. All the investment will be funded from our operating cash flow, loans from third parties, or cooperation with other investors using our experience and technology.

- *Coal underground gasification project*. On August 28, 2014, we entered in a cooperative agreement with North China Institute of Science and Technology at underground coal gasification development to refine and implement a technology at converting underground coals into syngas. Our ultimate target is to build a UCG facility with an annual production capacity of 7,708,800,000 cubic meters of symgas or 880,000 cubic meters of syngas per hour in all four coal mines.

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:

Revenue recognition

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.

The Company generally sells syngas under long-term agreements at fixed vending prices. In some cases, syngas may be sold with periodic price adjustments. Revenues are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectability is reasonably assured.

Coal, coke and syngas 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 December 31 and June 30, 2015, $717,257 and $217,905 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 December 31 and June 30, 2015, we have recognized impairment of $45,404,054 (including an impairment loss of $19,489,408 reported as part of our amortization expense) and $2,431,718 against 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 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.

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs. This new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This new guidance will be effective for us beginning July 1, 2016. We are currently evaluating the impact of this standard on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Entities are currently required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance is to be applied prospectively to measurement period adjustments that occur after the effective date of the guidance with earlier application permitted for financial statements that have not been issued. The Company elected to adopt ASU 2015-16 early, effective in the six months ended December 31, 2015.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

We do not use derivative financial instruments and have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents, trade accounts receivable, accounts payable, and short-term and long-term obligations. We generally consider investments in highly liquid instruments purchased with a remaining maturity of 90 days or less at the date of purchase to be cash equivalents.

Currency Fluctuations and Foreign Currency Risk

Substantially all of our operations are conducted in China. All of our sales and purchases are conducted within China in RMB, which is the official currency of China. As a result, the effect of the fluctuations of exchange rates is considered minimal to our business operations.

Substantially all of our revenues and expenses are denominated in RMB. However, we use the United States dollar for financial reporting purposes. Conversion of RMB into foreign currencies is regulated by the People’s Bank of China through a unified floating exchange rate system. Although the PRC government has stated its intention to support the value of RMB, there can be no assurance that such exchange rate will not again become volatile or that RMB will not devalue significantly against the U.S. dollar. Exchange rate fluctuations may adversely affect the value, in U.S. dollar terms, of our net assets and income derived from our operations in China.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term and long-term obligations. Accordingly, fluctuations in applicable interest rates would not have a material impact on the fair value of these securities. At December 31, 2015, we had $46,832 in cash. A hypothetical 2% increase or decrease in applicable interest rates would not have a material impact on our earnings or loss, or the fair market value or cash flows of these instruments.

Commodity Price Risk

Although we are endeavoring to expand our business into clean energy, our business is currently affected by prevailing market prices for coal and coke. However, we do not currently engage in any hedging activities, such as futures, forwards, or options contracts, with respect to any of our inputs or products.

Credit Risk

We are exposed to credit risk from our cash at bank and fixed deposits and accounts receivable. The credit risk on cash at bank and fixed deposits is limited because the counterparties are recognized financial institutions. Accounts receivable are subjected to credit evaluations. An allowance has been made for estimated irrecoverable amounts which have been determined by reference to past default experience and the current economic environment.

Inflation

Inflationary factors, such as increases in the cost of our products and overhead costs, could impair our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of sales revenue if the selling prices of our products do not increase with these increased costs.

Company’s Operations are Substantially in Foreign Countries

Substantially all of our operations are conducted in China and are subject to various political, economic, and other risks and uncertainties inherent in conducting business in China. Among other risks, our operations are subject to the risks of restrictions on transfer of funds; export duties, quotas, and embargoes; domestic and international customs and tariffs; changing taxation policies; foreign exchange restrictions; and political conditions and governmental regulations. Additional information regarding such risks can be found under the heading "*Risk Factors*" in this Report.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Controls and Procedures

Regulations under the Securities Exchange Act of 1934 (the "Exchange Act") require public companies to maintain "disclosure controls and procedures," which are defined as controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We conducted an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2015. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2015, our disclosure controls and procedures were ineffective. The ineffectiveness is due to the scarcity of qualified employees who are capable of assisting the company to fulfill its US Securities Law Reporting obligations.

(b) Changes in Internal Control over Financial Reporting

There were no changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None

ITEM 1A. RISK FACTORS.

There have been no material changes to the Company's risk factors which are included and described in our Annual Report. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. MINE SAFETY DISCLOSURES

The disclosures required by Item 4 are not applicable to our operations, as the Company has no mining operations in the United States.

ITEM 5. OTHER INFORMATION.

As management views the current market for steel, coke and coal as weak, in order to better orient the Company toward clean energy production, and to increase the low income and profits of the Company, on November 25, 2015, the Company entered into a Termination of Coking Operation Lease and New Lease on Land with Pingdingshan Hongfeng Coal Processing and Coking Ltd. ("Hongfeng"). According to this agreement, the Company terminated its lease of the No. 1 coke oven in Pingdingshan Hongyetai Industry and Trade Co., Ltd. ("Hongyetai"), which will effectively terminate in April 2016. Since November 2015, the Company has stopped producing any coke. The agreement also provides that starting from January 1, 2016, the Company will begin leasing a lot of 50,000 square meters north of the Hongyetai factory, where the aboveground coke gasification facilities are located, in order to produce syngas. The new lease has a term of one year, and a monthly rent of 50,000 RMB.

On January 10, 2016, the Company entered into a Credits and Debts Transfer Agreement with an unrelated third party, Wuhan Guangyao New Energy Automobile Operation Co., Ltd. ("Guangyao"). As of December 31, 2015, the Company had certain credit assets (advance payments, including short-term and long-term portions, and accounts receivable) with a book value of RMB 254,160,210.59 and outstanding debts (accounts payable, interest payable, and short-term loans) with a book value of RMB 274,167,269.37. According to the Credits and Debts Transfer Agreement, the Company transferred those credit assets and debts valued at December 31, 2015 to Guangyao in a lump sum. Guangyao will conduct collection efforts and the clearance by itself. The Company shall compensate Guangyao regarding the difference of RMB 20,007,058.78 between the book value of the transferred credit assets and debts. The Company shall pay RMB 20,007,058.78 to Guangyao within 6 months after this Credits and Debts Transfer Agreement becomes effective. If it is not paid off timely, Guangyao has the right to charge the Company at an annual interest rate of 4.5% for the then unpaid amount after 6 months of the effective date of this agreement, until it is cleared. With regard to the Credits and Debts Transfer Agreement, Guangyao will be responsible for negotiating with the Company's creditors and debtors, and get unanimous consents from the creditors and debtors including Bairui Trust Co., Ltd. Guangyao is also responsible for arbitration and lawsuits with other creditors and debtors during the performance of this agreement, and for enforcement of any arbitration or lawsuits.

On January 25, 2016, the Company entered into an Assets Transfer Agreement for 900,000 Tons of Coking Asset in Construction with Guangyao. As of December 31, 2015, the Company's 900,000 tons of stamp-charging coking assets in construction had a book value of RMB 319,531,307.61. Based on the agreement, the Company agrees to transfer to Guangyao the 900,000 tons of stamp-charging coking assets in construction for RMB 45,692,140. Guangyao shall pay the Company all the payment agreed in this agreement within 6 months after this agreement becomes effective. If it is not paid off timely, Guangyao will be charged at an annual interest rate of 4.5% for the then unpaid amount after 6 months of the effective date of this agreement, until it is cleared.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Articles of Incorporation, as amended (1)
3.2	Articles of Amendment to Articles of Incorporation (2)
3.3	Articles of Amendment to Articles of Incorporation (3)
3.4	Bylaws (1)
3.5	Amended and Restated By-laws (3)
4.1	Specimen Stock Certificate of Hongli Clean Energy Technologies Corp. (3)
10.1	Translation of Termination of Coking Operation Lease and New Lease on Land by and between Pingdingshan Hongfeng Coal Processing and Coking Ltd. and Henan Province Pingdingshan Hongli Coal & Coking Co., Ltd. dated November 25, 2016*
10.2	Credits and Debts Transfer Agreement by and among Henan Province Pingdingshan Hongli Coal & Coking Co., Ltd., Baofeng Coking Factory of Henan Province Pingdingshan Hongli Coal & Coking Co., Ltd. and Wuhan Guangyao New Energy Automobile Operation Co., Ltd. dated January 10, 2016.*
10.3	Assets Transfer Agreement for 900,000 Tons of Coking Asset in Construction by and among Henan Province Pingdingshan Hongli Coal & Coking Co., Ltd., Baofeng Coking Factory of Henan Province Pingdingshan Hongli Coal & Coking Co., Ltd. and Wuhan Guangyao New Energy Automobile Operation Co., Ltd. dated January 25, 2016.*
31.1	Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
99.1	Press release dated February 16, 2016 *

101. INS	XBRL Instance Document *
101. SCH	XBRL Taxonomy Extension Schema Document *
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101. DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101. LAB	XBRL Taxonomy Extension Label Linkbase Document*
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed herewith.

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

(2) Incorporated by reference to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on February 8, 2011.

(3) Incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended June 30, 2015 filed by the Company with the SEC on October 13, 2015.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	HONGLI CLEAN ENERGY TECHNOLOGIES CORP.
Dated: February 16, 2016	By: /s/ Jianhua Lv Jianhua Lv Chief Executive Officer (Principal Executive Officer)
Dated: February 16, 2016	By: /s/ Song Lv Song Lv Chief Financial Officer (Principal Financial and Accounting Officer)