

LETTER TO SHAREHOLDERS

September 23, 2011

Dear Shareholders:

As you may be aware, a negative blog report was published on September 20, 2011 by a disclosed short-seller in SinoCoking's stock.

We immediately issued a news release stating that we strongly disagree with the assertions made by this author. Since there are a number of material misstatements and inaccuracies in the blog, we have prepared a point-by-point response to the article.

Here are the points raised by the author and our response
(an expanded explanation is available in the following pages of this letter)

- **POINT RAISED BY THE AUTHOR:** *SCOK's Mine Consolidation is Just a Dream. The reality is that SCOK was never appointed as a coalmine consolidator by the Henan government. Regulations Prevent SCOK and its Subsidiaries from Owning or Operating Mines.*

SINOCOKING'S RESPONSE: *SinoCoking was awarded consolidator status by the Baofeng county government and the Pingdingshan municipal government in February 2010 and April 2010, respectively, to acquire coal mines in Pingdingshan.*

- **POINT RAISED BY THE AUTHOR:** *As a Result, Majority Ownership of SCOK's Mines Must be Transferred to a State-Owned Consolidator. Future Income from SCOK's Mines Cannot Be Consolidated into its Operating Results*

SINOCOKING'S RESPONSE: *As required by the Henan provincial government, the responsibility for safety and production at coal mines must be borne by one of the six provincial level state-owned consolidators appointed by the Henan provincial government. Our joint-venture with Henan Province Coal Seam Gas Development and Utilization Co., Ltd. ("Henan Coal Seam Gas") will allow us to comply with this mandate while retaining majority control in all mines that we control.*

- **POINT RAISED BY THE AUTHOR:** *Where is the coal? Video Surveillance and Government Documents Indicate the Hongchang Mine is Not Producing Any Coal, Contradicting Management's Current Claims*

SINOCOKING'S RESPONSE: *Since the mining moratorium, SinoCoking's Hongchang Coal Co., Ltd. ("Hongchang Coal") has been operating Hongchang coal mine at 50% capacity to produce coal.*

- *POINT RAISED BY THE AUTHOR: SCOK's Planned 900,000 ton New Coking Plant was Just a Hole in the Ground on May 16th 2011 When the CEO Told Investors on a Conference Call the Plant would be Completed the Following Month*

SINOCOKING'S RESPONSE: The construction of the new plant is progressing and is scheduled to be completed by the end of 2011 calendar year.

Now, we would like to address each of the above allegations in greater detail, starting with a timeline of and the progress made in our consolidation of coal mines.

Coal Mine Consolidation Timeline

- **In late 2009 – The Henan provincial government directed consolidation of the province's coal industry**
 - All small mining companies in Henan producing 150,000 - 300,000 metric tons annually were required to be consolidated into qualified consolidators or shut down
 - SinoCoking's Hongchang Coal, which operates Hongchang coal mine, was subject to consolidation mandate
- **In March 2010 – The Henan provincial government designated six state-owned enterprises ("SOEs") as provincial-level consolidators**
 - The official document (Yu Zheng (2010) No. 32 (the "Notice")), can be found here:
 - <http://www.gsxzf.gov.cn/zhengwugongkai/shangjiwenjian/shengjiwenjian/2010/0325/22874.html>
 - The responsibility for the safety and operation at each consolidated mine required to be borne by one of the six SOE consolidators
- **June 2010 – The Pingdingshan municipal government imposed mining moratorium in connection with coal mine consolidation**
 - The moratorium was imposed pursuant to the Notice, which requires all municipalities within Henan to shut down all small coal mines (150,000 to 300,000 metric tons annual production) within their jurisdictions until these mines are consolidated and can satisfy safety requirements
 - Since the moratorium, Hongchang coal mine has been operating at approximately 50% capacity
- **July 2010 - SinoCoking designated a coal mine consolidator by Baofeng county government and Pingdingshan municipal government**
 - The official documents can be found here:
 - <http://edg1.vcall.com/IR/NA019385/sinocoking1.pdf>
 - <http://edg1.vcall.com/IR/NA019385/sinocoking2.pdf>
- **Second Half 2010 – Several acquisition targets identified**
 - Entered into agreements in August 2010 to acquire 60% of Shuangrui Coal and Xingsheng Coal
- **April 2011 – SinoCoking's joint-venture with the state-owned coal mine consolidator Henan Coal Seam Gas received its business license (see more details about the joint-venture below)**

Under the joint-venture structure:

- Henan Coal Seam is the majority shareholder with 51% of Hongyuan CSG, allowing it to assume responsibility for the safety and production of all coal mines under the joint-venture as required under the Notice
- SinoCoking will place 51.0% of the equity interests it currently controls in Hongchang Coal and Shunli Coal, and 30.6% of the equity interests it currently controls in Shuangrui Coal and Xingsheng Coal, into Hongyuan CSG
- Henan Coal Seam Gas will provide its management and mining teams to operate the mines
- Potential disruptions from future coal mining policy changes from the central government can be mitigated through Henan Coal Seam Gas’ interests in Hongyuan CSG
- We can gain access to mines that are only available to SOE consolidators such as Henan Coal Seam Gas, as well as the possibility of entering into the field of coal seam gas extraction and development

As illustrated in the table below, the aggregate equity interests that SinoCoking will control in each of the four coal companies (that we currently control) will be more than 50% under the joint-venture structure.

	Hongchang Coal	Xingsheng Coal	Shunli Coal	Shuangrui Coal
Current equity interests controlled by SinoCoking	100.00%	60.00%	100.00%	60.00%
Equity interests <u>to be contributed</u> into joint-venture	51.00%	51.00%*	51.00%	51.00%*
Equity interests <u>not to be contributed</u> to joint-venture and <u>retained under the control of SinoCoking</u>	49.00%	29.40%**	49.00%	29.40%**
Equity interests to be controlled by SinoCoking through the joint-venture	24.99%***	24.99%***	24.99%***	24.99%***
The aggregate equity interest to be controlled by SinoCoking after transfer to joint-venture	73.99%	54.39%	73.99%	54.39%

* The 51.00% to be contributed to the joint-venture will comprise of 30.60% from the 60.00% controlled by SinoCoking, and 20.40% from the 40.00% controlled by unrelated minority owners. As these mines cannot otherwise operate, the cooperation of the minority owners to contribute to the joint-venture is assured

** 60.00% - 30.60% = 29.40%

*** SinoCoking to control 49.00% of the 51.00% (equal to 24.99%) equity interest to be contributed to the joint-venture

Thus, we will continue to be able to consolidate their revenues in our financial results under the joint-venture, contrary to the allegations in the blog-post.

New Coking Plant

On March 3, 2010, we commenced construction of a new state-of-the-art coking plant on a 460,000 square meter site adjacent to our current plant in Pingdingshan.

Initially, we expected to complete the construction of the facility by June 2011 but because of inclement weather conditions throughout late 2010 and early 2011, we experienced delays in completing the concrete foundation and underground workshop (concrete will freeze below 25° F, thereby reducing its potential strength by up to 50% and adversely affecting its durability). The situation was exacerbated by delays from the heat-proof brick suppliers and some other key equipments providers.

These issues are now behind us, and as of the date of this letter, we have completed the construction of the shallow foundation, an underground workshop and the furnace and chimney rack, and are in the process of building furnaces and installing equipment and machinery.

We currently expect to complete the plant by the end of calendar year 2011 and commence operations immediately thereafter. When completed as planned, this new plant is expected to have an estimated coke producing capacity of up to 900,000 metric tons per year, as well as the ability to generate power and distill chemicals such as crude benzol, sulfur and ammonium sulfate from the coking process. We are equipping the plant with modern equipment capable of processing lower-grade, less expensive washed coal that tends to be more readily available.

The new plant is also expected to produce purified coal gas, which we intend to sell as a fuel source to local residents through the state-owned gas grid for which we have received approval from the government of Daying Village in Baofeng County.

Equipment for our new plant is being provided by:

Dalian DHI-DCW Group Co (“Dalian Group”)

大连华锐重工焦炉车辆设备有限公司（大连重工·起重集团）

<http://www.dhidcw.com/dhidcw/en/index.htm>

Pictures of the equipment are below (pictures taken on June 20, 2011 at Dalian Group’s facilities)



Coal loading (charging) cart



Coke guiding machine



Quenching cart



Smoke guiding cart



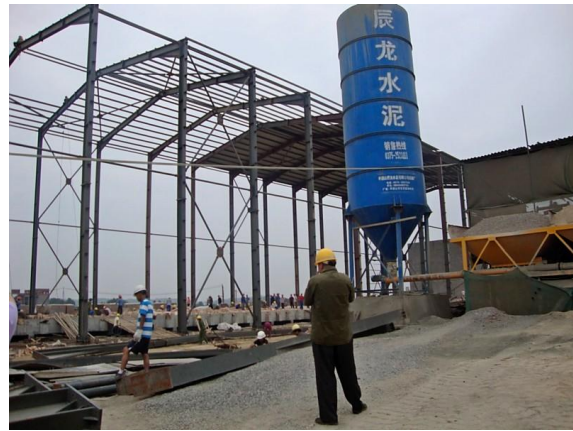
Coke pushing machine

Construction progress of the new coking plant

Pictures taken in mid-June 2011



Quenching tower



Main frame of the coking oven



Coal storage unit



Main frame of the coking oven

Pictures taken on September 21, 2011



Coal storage unit



Interior of the coking oven: coking chambers



Chimney



Coking oven and quenching tower



Coking oven



Interior of the coking oven: coking chambers

We also intend to provide updates of the construction progress by posting photographs on our website at least once every month until the plant is completed.

Headquarters, Mines and Plant location

SinoCoking welcomes any current shareholder, potential investor, or member of the accredited press to learn more about the Company by visiting any of our current facilities at the following addresses:

- Corporate offices: 10th Floor, Bank of Pingdingshan, Kuangong Road and Tiyu Road, Xinhua District, Pingdingshan City, Henan Province, 467000 China
Phone: +86-3752882999
- Hongchang Mine: Zhaozhuangcun, Dayingzhen, Baofeng
- Xingsheng Mine: Zhaozhuangcun Southwest, Dayingzhen, Baofeng
- Shuangrui Mine: Lipingcun, Dayingzhen, Baofeng
- Shunli Mine: Zhaozhuangcun West, Dayingzhen, Baofeng
- Coking Plant: Zhaozhuangcun, Dayingzhen, Baofeng



Pictures of current facility taken in mid-June 2011



Coking plant



Coal processing facility (building in blue)



Coal processing facility (tall building in blue)



Coke yard and railway

I hope that this letter has addressed any questions raised by the blog posting, particularly with respect to the viability of SinoCoking's business model and the strength and integrity of our management team, and that any doubt as to the soundness of our business has been dismissed.

On behalf of SinoCoking's senior management team and our Board of Directors, I thank you for your continued support.

Sincerely,

Mr. Jianhua Lv,
Chairman and CEO of SinoCoking