Yulong Eco-Materials Ltd
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

o **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: **001-37459**

YULONG ECO-MATERIALS LIMITED

(Exact name of registrant as specified in its charter)

Cayman Islands	**N/A**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Eastern End of Xiwuzhuang Village

Jiaodian Town, Xinhua Area

Pingdingshan, Henan Province

People's Republic of China
(Address of principal executive offices) (Zip Code)

+86-375-8888988
(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 o

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (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 o No þ

As of February 3, 2016, the registrant had 11,997,184 shares of ordinary shares outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this report, other than statements of historical facts, that address future activities, events or developments, are forward-looking statements, including, but not limited to, statements containing the words “believe,” “anticipate,” “expect,” “project,” “may,” “might,” “will,” the negative forms thereof, and words of similar import. These staten 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 20 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 September 28, 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

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

ASSETS

	December 31, 2015	June 30, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 29,729,771	$ 16,470,299
Accounts receivable	10,065,705	9,329,495
Deposits and other receivables	1,064,962	286,153
Inventories	558,409	364,254
Advances to suppliers	25,676	17,421
Prepaid expenses and other	79,298	373,617
Total current assets	41,523,821	26,841,239
PLANT AND EQUIPMENT, net	39,102,439	41,267,655
OTHER ASSETS		
Prepayments	3,315,566	3,658,748
Intangible assets, net	4,569,085	4,913,376
Deferred tax asset	597,850	520,147
Long-term deposit	634,642	397,300
Total other assets	9,117,143	9,489,571
Total assets	$ 89,743,403	$ 77,598,465
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short term loan - bank	$ 7,350,570	$ 7,972,190
Accounts payable, trade	747,253	1,726,158

Other payables and accrued liabilities	5,395,350	4,817,399
Other payables - related parties	196,894	2,584,104
Customer deposits	78,132	-
Taxes payable	1,927,055	1,098,093
Capital lease obligation-current portion	4,161,885	4,615,083
Dividends payable	-	7,994,125
Warrant liabilities	332,606	-
Total current liabilities	20,189,745	30,807,152
LONG TERM LIABILITIES		
Capital lease obligation-net of current portion	100,941	138,952
Total long term liabilities	100,941	138,952
Total liabilities	20,290,686	30,946,104
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Common stock, $0.00125 par value, 100,000,000 shares authorized, 11,869,938 and 8,000,000 shares issued and outstanding at December 31, 2015 and June 30, 2015, respectively	14,838	10,000
Subscription receivable	(10,000)	(10,000)
Additional paid-in capital	40,166,016	19,011,464
Statutory reserves	3,922,228	3,922,228
Retained earnings	26,888,761	21,211,829
Accumulated other comprehensive (loss) income	(1,529,126)	2,506,840
Total equity	69,452,717	46,652,361
Total liabilities and equity	$ 89,743,403	$ 77,598,465

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

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YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(UNAUDITED)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2015	2014	2015	2014
REVENUES				
Bricks	$3,431,281	$3,899,094	$7,466,382	$8,075,328
Concrete	7,241,359	7,624,775	14,579,688	15,125,456
Recycling	1,919,020	-	3,896,458	-
TOTAL REVENUES	12,591,660	11,523,869	25,942,528	23,200,784
COST OF REVENUES				
Bricks	1,533,857	1,555,768	3,319,481	3,188,208
Concrete	5,429,785	5,819,960	10,825,943	11,731,023
Recycling	838,435	-	1,561,760	-
TOTAL COST OF REVENUES	7,802,077	7,375,728	15,707,184	14,919,231
GROSS PROFIT	4,789,583	4,148,141	10,235,344	8,281,553
OPERATING EXPENSES:				
Selling	106,262	169,805	250,910	365,763
General and administrative	1,363,588	993,093	2,142,213	1,599,667
Total operating expenses	1,469,850	1,162,898	2,393,123	1,965,430
INCOME FROM OPERATIONS	3,319,733	2,985,243	7,842,221	6,316,123
OTHER INCOME (EXPENSE), net				
Interest income	26,134	11,490	46,037	28,421
Interest expense	(217,505)	(322,630)	(485,670)	(650,014)
Change in fair value of warrant liabilities	(205,425)	-	142,774	-
Foreign exchange transaction gain (loss)	3,699	-	(2,235)	-
Other finance expense	(341)	(447)	(16,851)	(758)
Other income (expense), net	155,842	(49,880)	205,176	(85,852)
Total other expense, net	(237,596)	(361,467)	(110,769)	(708,203)
INCOME BEFORE INCOME TAXES	3,082,137	2,623,776	7,731,452	5,607,920
PROVISION FOR INCOME TAXES	985,888	812,373	2,054,520	1,448,796

NET INCOME	2,096,249	1,811,403	5,676,932	4,159,124
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustments	(1,384,464)	46,124	(4,035,966)	49,145
COMPREHENSIVE INCOME	$711,785	$1,857,527	$1,640,966	$4,208,269
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				
Basic and diluted	11,869,938	8,000,000	11,869,938	8,000,000
EARNINGS PER SHARE				
Basic and diluted	$0.18	$0.23	$0.48	$0.52

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

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YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$5,676,932	$4,159,124
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	1,152,720	774,567
Amortization	62,971	27,542
Deferred tax benefit	(110,945)	(96,090)
Change in fair value of warrant liabilities	(142,774)	-
Stock based compensation expense	145,000	-
Gain from disposal of equipment	1,909	-
Change in operating assets and liabilities		
Accounts receivable	(1,315,806)	(5,845,179)
Deposits and other receivables	(1,067,778)	(342,735)
Inventories	(220,972)	(202,265)
Advances to suppliers	(9,076)	(550,391)
Prepaid expense and other	309,588	(60,828)
Accounts payable, trade	(899,889)	(1,205,472)
Other payables and accrued liabilities	71,201	236,966
Customer deposits	80,110	(334,865)
Taxes payable	915,968	(179,693)
Net cash provided by (used in) operating activities	4,649,159	(3,619,319)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for equipment and construction in progress	(367,467)	(376,332)
Proceeds from disposal of equipment	6,320	-
Prepayments for construction-in-progress	(55,377)	(1,418,559)
Repayments from related parties	-	26,625
Payment for land use rights	(5,398)	-
Net cash used in investing activities	(421,922)	(1,768,266)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term loans - bank	4,977,000	3,170,700
Payments of short-term loans - bank	(5,135,000)	(2,634,120)
Repayments to related parties	(208,215)	(5,801,464)
Principal payments on capital lease obligations	(526,964)	(1,042,793)

Proceeds from issuance of IPO shares	11,510,157	-
Net cash provided by (used in) financing activities	10,616,978	(6,307,677)
EFFECT OF EXCHANGE RATE ON CASH	(1,584,743)	17,019
CHANGES IN CASH AND CASH EQUIVALENTS	13,259,472	(11,678,243)
CASH AND CASH EQUIVALENTS, beginning of period	16,470,299	19,732,770
CASH AND CASH EQUIVALENTS, end of period	$29,729,771	$8,054,527
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	$1,622,865	$1,650,958
Cash paid for interest	$137,426	$668,927
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Reclassification of construction-in-progress from prepayments-construction	$187,251	$2,747,443
Additions to plant and equipment, and construction-in-progress through other payables	$763,949	$589,165
Acquisition of machinery and equipment by capital leases	$309,174	$2,178,287
Repayments from related parties offset with other payable-related parties	$-	$910,560
Conversion of shareholders' debt to 1,593,538 ordinary shares	$9,959,613	$-
Issuance of ordinary shares for deferred compensation	$20,000	$-
Valuation of 112,500 warrants allocated to warrant liabilities from additional paid-in capital	$475,380	$-
Reclassification of payables for litigations from other payables - related parties	$205,564	$-

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

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 – Nature of business and organization

Yulong Eco-Materials Limited ("Yulong Eco-Materials" or the "Company") is a holding company incorporated on March 10, 2011, under the laws of the Cayman Islands. The Company has no substantive operations other than owning all of the outstanding share capital of China Xing De (BVI) Limited ("Yulong BVI"). In turn, Yulong BVI is a holding company that owns all of the outstanding share capital of China Xing De (Hong Kong) Limited ("Yulong HK"). Yulong HK is also a holding company that owns all of the outstanding equity capital of Zhengzhou Xing De Enterprise Management & Consulting Co., Ltd. ("Yulong WFOE").

The Company is a vertically integrated manufacturer of eco-friendly building products. The Company operates principally from the city of Pingdingshan, Henan Province, in the People's Republic of China (the "PRC" or "China"). The Company produces fly-ash bricks and ready-mixed concrete, and in April 2015, launched its construction waste management, or CWM, business which includes hauling and processing construction waste, and producing crushed construction waste or recycled aggregates, and bricks made from recycled aggregates, or recycled bricks. All of the Company's business activities are carried out by domestic Chinese companies that the Company controls through contractual arrangements as follows: (1) Henan Jianyida Industrial Co., Ltd. ("Yulong Bricks"), which carries out the bricks business, (2) Pingdingshan Hengji Concrete Co., Ltd. ("Yulong Concrete") and Pingdingshan Hengji Industrial Co., Ltd. ("Yulong Transport"), which carry out the concrete business, and (3) Pingdingshan Xulong Renewable Resource Co., Ltd. ("Yulong Renewable"), which carries out the CWM business. The contractual arrangements are comprised of a series of agreements entered into by each of these four companies and their shareholders, on the one hand, and Yulong WFOE on the other hand (see "Contractual Arrangements" and "Note 3 – Variable Interest Entities" below).

Contractual Arrangements

Although current PRC regulations do not restrict or prohibit foreign investment in domestic Chinese companies that engage in businesses such as those of Yulong Bricks, Yulong Concrete, Yulong Transport and Yulong Renewable (each a "Yulong operating company" and collectively the "Yulong operating companies"), there is substantial uncertainty regarding the interpretation and application of such regulations. As such, the Yulong operating companies are controlled through contractual arrangements in lieu of direct equity ownership by the Company or any of its subsidiaries. Such contractual arrangements are a series of four agreements (collectively the "Contractual

Arrangements”) which significant terms are as follows:

Exclusive Consulting Services and Operating Agreements

Pursuant to the exclusive consulting and service agreement among Yulong WFOE, each Yulong operating company and its shareholders, Yulong WFOE is engaged as exclusive provider of management consulting services to such Yulong operating company. For such services, the Yulong operating company agrees to pay service fees determined based on all of its net profit after tax payments to Yulong WFOE or Yulong WFOE has obligation to absorb all of the Yulong operating companies’ losses. The agreement remains in effect until and unless all parties agree to its termination. Until such termination, the Yulong operating company may not enter into another agreement for the provision of management consulting services without the prior consent of Yulong WFOE.

Option Agreements

Pursuant to the exclusive equity option agreement between the shareholders of each Yulong operating company and Yulong WFOE, such shareholders jointly and severally grant Yulong WFOE an option to purchase their equity interests in such Yulong operating company. The purchase price shall be the lowest price then permitted under applicable PRC laws. If the purchase price is greater than the registered capital of such Yulong operating company, the shareholders are required to immediately return any amount in excess of the registered capital to Yulong WFOE or its designee. Yulong WFOE may exercise such option at any time until it has acquired all equity interests of such Yulong operating company, and freely transfer the option to any third party. The agreement will terminate at the earlier of (i) the date on which all of the equity interests of such Yulong operating company has been transferred to Yulong WFOE or its designee or (ii) the unilateral termination by Yulong WFOE.

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Equity Pledge Agreements

Pursuant to the equity interest pledge agreement between the shareholders of each Yulong operating company and Yulong WFOE, such shareholders pledge all of their equity interests in such Yulong operating company to Yulong WFOE as collateral to secure the obligations of such Yulong operating company under the exclusive consulting services and operating agreement. The shareholders may not transfer or assign transfer or assign the pledged equity interests, or incur or allow any encumbrance that would jeopardize Yulong WFOE's interests, without Yulong WFOE's prior approval. In the event of default, Yulong WFOE as the pledgee will be entitled to certain rights and entitlements, including the priority in receiving payments by the evaluation or proceeds from the auction or sale of whole or part of the pledged equity interests of such Yulong operating company. The agreement will terminate at the earlier of (i) the date the shareholders have transferred all of their pledged equity interests pursuant to the option agreement or (ii) two years from the satisfaction by such Yulong operating company of all its obligations under the exclusive consulting and service agreement.

Voting Rights Proxy and Financial Supporting Agreements

Pursuant to the voting rights proxy and financial supporting agreement between the shareholders of each Yulong operating company and Yulong WFOE, such shareholders have given Yulong WFOE an irrevocable proxy to act on their behalf on all matters pertaining to such Yulong operating company and to exercise all of their rights as shareholders of such Yulong operating company, including the right to attend shareholders meeting, to exercise voting rights and to transfer all or a part of their equity interests in such Yulong operating company. In consideration of such granted rights, Yulong WFOE agrees to provide the necessary financial support to such Yulong operating company whether or not such Yulong operating company incurs loss, and agrees not to request repayment if such Yulong operating company is unable to do so. The agreement will terminate at the earlier of (i) the date on which all of the equity interests of such Yulong operating company have been transferred to Yulong WFOE or (ii) the unilateral termination by Yulong WFOE.

As a result of the foregoing contractual arrangements, which give Yulong WFOE effective control of the Yulong operating companies, obligate Yulong WFOE to absorb all of the risk of loss from their activities, and enable Yulong WFOE to receive all of their expected residual returns, the Company accounts for each Yulong operating company as a variable interest entity ("VIE"). Additionally, as the parent company of Yulong WFOE, the Company is considered the primary beneficiary of the Yulong operating companies. Accordingly, the Company consolidates the accounts of the Yulong operating companies for the three and six months ended December 31, 2015 and 2014, in accordance with Regulation S-X-3A-02 promulgated by the Securities Exchange Commission ("SEC"), and Accounting Standards Codification ("ASC") 810-10, *Consolidation*.

The accompanying condensed consolidated financial statements reflect the activities of Yulong Eco-Materials and each of the following entities:

Name	Background	Ownership
Yulong BVI	A British Virgin Islands company Incorporated on June 15, 2011	100%
Yulong HK	A Hong Kong company Incorporated on July 21, 2011	100%
Yulong WFOE	A PRC limited liability company and deemed a wholly foreign owned enterprise ("WFOE") Incorporated on September 2, 2011 Registered capital of $9,935,303 fully funded	100%
Yulong Bricks	A PRC limited liability company Incorporated on September 20, 2006 Registered capital of $4,395,000 (RMB 30,000,000) fully funded	VIE by contractual arrangements
Yulong Concrete	A PRC limited liability company Incorporated on December 7, 2004 Registered capital of $2,830,000 (RMB 20,000,000) fully funded	VIE by contractual arrangements
Yulong Transport	A PRC limited liability company Incorporated on July 13, 2009 Registered capital of $1,465,464 (RMB 10,010,000) fully funded	VIE by contractual arrangements
Yulong Renewable	A PRC limited liability company Incorporated on August 16, 2011 Registered capital of $9,510,000 (RMB 60,000,000) fully funded	VIE by contractual arrangements

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YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 2 – Summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information pursuant to the rules and regulations of the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the financial statements have been included. Interim results are not necessarily indicative of results to be expected for the full year. The information included in this Form 10-Q should be read in conjunction with information included in the Company's annual report on Form 10-K for the year ended June 30, 2015, that was filed with the SEC on September 28, 2015

Principles of consolidation

The condensed consolidated financial statements include the accounts of the Company, its subsidiaries, and the VIEs. All intercompany transactions and balances between the Company, its subsidiaries and the VIEs are eliminated upon consolidation.

Use of estimates and assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying condensed consolidated financial statements and footnotes. Significant accounting estimates reflected in the condensed consolidated financial statements include the useful lives and impairment of property, plant and equipment, collectability of receivables, realization of deferred tax assets, inventory valuation, warrant liabilities, stock-based compensation, and the present value of the net minimum lease payments of the capital lease. Actual results could differ from these estimates.

Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The Company's Chinese subsidiary and the VIEs use the local currency, Renminbi (RMB), as their functional currency as determined based on the criteria of ASC 830, *Foreign Currency Translation*. Assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China (the "PBOC") at the end of the period. Income and expense accounts are translated at the average translation rates and the equity accounts are translated at historical rates. Translation adjustments resulting from this process are included in accumulated other comprehensive income in the statement of equity. 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 as incurred.

Translation adjustments included in accumulated other comprehensive income amounted to a loss of ($1,529,126) and income of $2,506,840 as of December 31 and June 30, 2015, respectively. The balance sheet amounts, with the exception of equity, at December 31 and June 30, 2015 were translated at 6.49 RMB and 6.11 RMB to $1.00, respectively. The equity accounts were stated at their historical rate. The average translation rate applied to statement of income and other comprehensive income accounts for the three months ended December 31, 2015 and 2014 was 6.39 RMB and 6.14 RMB, respectively. The average translation rate applied to statement of income and other comprehensive income accounts for the six months ended December 31, 2015 and 2014 was 6.33 RMB and 6.15 RMB, respectively. Cash flows are also translated at the average translation rate for the periods; therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheet.

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and time deposits placed with banks or other financial institutions which are unrestricted as to withdrawal and use and have original maturities of less than three months.

Accounts and other receivables

During the normal course of business, the Company extends unsecured credit to its customers and others. Management reviews its accounts and other receivables balances each reporting period to determine if an allowance for doubtful accounts is required. Customer accounts are considered past due over 90 days. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Bad debts are written off against the allowance after all collection efforts have ceased. The Company determined that no allowance is necessary at the balance sheet dates based on historical experience.

Inventories

Inventories consist of raw materials and finished goods and are stated at the lower of cost or market, as determined using the weighted average cost method. 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, it is not marked up subsequently based on changes in underlying facts and circumstances. As of December 31 and June 30, 2015, the Company determined that no reserves for obsolescence were necessary.

Advances to suppliers

The Company advances money to certain suppliers for raw material purchases. Such advances are interest-free and unsecured. Management regularly reviews the aging of such advances as well as delivery trends of purchased materials, and records an allowance when it believes that delivery of materials due is at risk. Advances aged over one year and considered uncollectible are written off after exhaustive efforts at collection. No allowance for doubtful accounts was considered necessary at the balance sheet dates.

Plant and equipment

Plant and equipment are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method over the useful lives of the assets are as follows:

	Useful Life
Buildings and improvements	10-30 years
Machinery and equipment	5-10 years
Transportation equipment	5-10 years
Office equipment	3-5 years

The Company accounts for all significant leases as either operating or capital. At lease inception, if the lease meets any of the following four criteria, the Company will classify it as a capital lease: (a) transfer of ownership to lessee at the end of the lease term, (b) bargain purchase option, (c) lease term is equal to 75% or more of the estimated economic life of the leased property, or (d) the present value of the minimum lease payments is 90% or more of the fair value of the leased asset. Otherwise, the lease will be treated as an operating lease.

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the condensed consolidated statements of income and comprehensive income. Construction-in-progress represents labor costs, materials, and capitalized interest incurred in connection with the construction. Interest incurred during construction is capitalized into construction in progress. All other interest is expensed as incurred. No depreciation is provided for construction in progress until it is completed and placed into service. Expenditures for maintenance and repairs are charged to earnings as incurred while additions, renewals and betterments are capitalized.

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Prepayments

Prepayments represent advances made to certain suppliers for equipment purchases or advance made to contractors in connection with the Company’s construction-in-progress. Prepayments also include advances made to a village committee in connection with acquiring land use rights. Management regularly reviews aging of prepayments and records an allowance when management believes collection of equipment, land use rights, or services to be performed due are at risk. Advances aged over one year and considered uncollectible are written off after exhaustive efforts at collection. No allowance for doubtful accounts is considered necessary at the balance sheet dates.

Intangible assets

Intangible assets are carried at cost less accumulated amortization.

The Company accounts for all significant leases of land use rights for purposes of classification as either operating or capital. At lease inception, if the lease meets either of the following two criteria, the Company will classify it as a capital lease: (a) transfer of ownership to lessee at the end of the lease term, or (b) bargain purchase option. Otherwise, the lease will be treated as an operating lease.

Intangible assets with finite useful lives are amortized using a straight-line method of amortization that reflects the estimated pattern in which the economic benefits of the intangible asset are to be consumed. The original estimated useful life for the land use rights of the following Yulong operating companies is as follows:

Entity	Description of assets	Estimated useful life
Yulong Bricks	Land use right	50
Yulong Concrete	Land use right	50

Yulong Renewable	Land use right	50

Intangible assets are reviewed at least annually, more often when circumstances require, to determine whether their carrying values have become impaired. The Company considers an asset to be impaired if its carrying value exceeds the future projected cash flows from related operations. The Company also re-evaluates the periods of amortization to determine whether subsequent events and circumstances warrant revised estimates of useful lives.

Impairment for long-lived assets

Long-lived assets, including buildings and improvements, equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be recoverable. The Company assesses the recoverability of the assets based on the undiscounted future cash flows the assets are expected to generate and recognize an impairment loss when estimated discounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When the Company identifies an impairment, the Company reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flows approach or, when available and appropriate, to comparable market values. As of December 31 and June 30, 2015, management believes there was no impairment.

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Fair Values of Financial Instruments

ASC Topic 825, *Financial Instruments* (“Topic 825”), requires disclosure of fair value information of financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Topic 825 excludes certain financial instruments and all non-financial assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts do not represent the underlying value of the Company.

The accounting standards define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement and enhance disclosure requirements for fair value measures. The three levels are defined as follow:

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 and significant to the fair value.

The Company considers the carrying amount of cash, accounts receivable, other receivables, accounts payable, notes payable and other short-term payables, to approximate their fair values because of the short period of time between the origination of such instruments and their expected realization. The Company determined that the carrying value of the noncurrent capital lease obligations approximated their fair value using level 2 inputs by comparing the stated loan interest rate to the rate charged by the PBOC on similar loans.

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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
Warrant liabilities	$ 332,606	$-	$-	$332,606

Certain inputs used in the valuation of the Company's warrants are observable and therefore considered level 2. However, as the Company is a newly listed public reporting company and thus lacks historical volatility data, management concluded that level 3 fair valuation measurement is appropriate.

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

	December 31, 2015
Beginning fair value	$ -
Recognized fair value at issuance on July 1, 2015	475,380
Realized gain recorded in earnings	(142,774)
Ending fair value	$ 332,606

<u>Revenue recognition</u>

The Company recognizes revenue in accordance with ASC 605, *Revenue Recognition*, regarding revenue recognition which specifies that revenue is realized or realizable and earned. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, the Company has no other obligations and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are recorded as customer deposits.

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The Company sells concrete and bricks primarily to major local real estate development and/or construction companies. Sales agreements are signed with each customer. Each agreement has specific terms and conditions with the exception of delivery date and quantity, which are provided when the customer issues an order pursuant to the agreement. The Company does not sell products to customers on consignment basis. There is no right of return after products are delivered and accepted by the customer.

Revenue represents the invoiced value of goods, net of a value added tax (“VAT”).

Revenue from the CWM business includes sales of recycled aggregates and recycled bricks. Sales agreements are signed with each customer. Revenue is recognized similar to sales of concrete and bricks.

CWM revenue also includes hauling construction waste. The Company operates a fleet of trucks to haul the waste, consisting primarily of bricks and concrete, from construction and demolition sites. Revenue is recognized upon completion of hauling per truckload.

CWM revenue also includes processing construction waste at mobile recycling stations. Revenue is recognized either per cubic meter of waste processed or when processing at a jobsite is completed, depending on the contract terms.

The Company also provides transportation services for its concrete customers. Revenue is recognized upon delivery of the concrete. Transportation services revenue is immaterial to the Company’s consolidated revenues for the periods presented in the accompanying condensed consolidated financial statements.

Shipping and handling

Shipping and handling costs pertaining to raw material purchases are included in cost of revenue.

Shipping costs incurred in the delivery of products and depreciation expenses for transportation equipment (under Yulong Transport) are included in selling expense. Shipping costs amounted to $58,403 and $100,012 for the three months ended December 31, 2015 and 2014, respectively, and $140,014 and $195,171 for the six months ended December 31, 2015 and 2014, respectively. Depreciation expense amounted to $3,851 and $42,213 for the three months ended December 31, 2015 and 2014, respectively, and $41,070 and $107,698 for the six months ended December 31, 2015 and 2014, respectively.

Concentration of risk

Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. As of December 31 and June 30, 2015, $29,650,779 and $16,393,414 were deposited with various major financial institutions located in the PRC, respectively. While management believes that these financial institutions are of high credit quality, it also continually monitors their credit worthiness. Historically, deposits in Chinese banks are secure due to state policy to protect depositor interests. However, China promulgated a Bankruptcy Law in August 2006 that came into effect on June 1, 2007, which contains a separate article expressly stating that the State Council may promulgate implementation measures to provide for the bankruptcy of Chinese banks based on the Bankruptcy Law. Under the current Bankruptcy Law, a Chinese bank may file bankruptcy if it deems itself to be insolvent. In addition, since China's concession to the World Trade Organization, foreign banks have been gradually permitted to operate in China and have intensified competition in many aspects, especially since the opening of the RMB business to foreign banks in late 2006. Therefore, the risk of bankruptcy at the institutions that the Company maintains deposits has increased. In the event of bankruptcy, the Company is unlikely to reclaim its deposits in full since it is unlikely to be classified as a secured creditor under PRC laws.

Accounts receivable are typically unsecured and derived from revenue earned from customers, thereby exposed to credit risk. The risk is mitigated by the Company's assessment of customer creditworthiness and ongoing monitoring of outstanding balances. The Company maintains reserves for estimated credit losses if necessary, and such losses have generally been within expectations.

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Customer and vendor concentration risk

For the three months ended December 31, 2015, no customer accounted for more than 10% of the Company's total revenues. For the three months ended December 31, 2014, one customer accounted for 13% of the Company’s total revenues. For the six months ended December 31, 2015, no customer accounted for more than 10% of the Company’s total revenues. For the six months ended December 31, 2014, one customer accounted for 14% of the Company’s total revenues.

As of December 31, 2015, one customer accounted for more 14% of the Company’s total accounts receivable. As of June 30, 2015, two customers accounted for 12% and 11% of the Company’s total accounts receivable, respectively.

For the three months ended December 31, 2015, three suppliers accounted for 23%, 21% and 17% of the Company’s total purchases, respectively. For the three months ended December 31, 2014, five suppliers accounted for 20%, 15%, 15%, 15% and 11% of the Company's total purchases, respectively. For the six months ended December 31, 2015, four suppliers accounted for 27%, 17%, 16% and 10% of the Company’s total purchases, respectively. For the six months ended December 31, 2014, four suppliers accounted for 18%, 18%, 14% and 14% of the Company’s total purchases, respectively.

As of December 31, 2015, three suppliers accounted for 44%, 21% and 15% of the Company’s accounts payable balances, respectively. As of June 30, 2015, three suppliers accounted for 32%, 23% and 18% of the Company’s accounts payable balances, respectively.

Income taxes

The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The

Company records a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company applies ASC 740, *Accounting for Income Taxes*, to account for uncertainty in income taxes and the evaluation of a tax position is a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met.

As of December 31, 2015, Yulong WFOE and the VIEs had each filed income tax returns in China for the years ended December 31, 2010 to 2014. All such tax returns are subject to examination by the Chinese taxing authorities.

Warrant liabilities

A contract is designated as an asset or a liability and is carried at fair value on a company's balance sheet, with any changes in fair value recorded in a company's 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 condensed consolidated statements of income and other comprehensive income as "change in fair value of warrant liabilities".

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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 ordinary shares and (b) classified in stockholders' 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. All warrants issued with the strike price denominated in US dollar were recorded as derivative liability because the strike price of the warrants is denominated in US dollar, a currency other than the Company's functional currency RMB.

Earnings per share

Earnings per share are calculated in accordance with ASC 260-10, *Earnings per Share*. Basic earnings per share are computed by dividing net income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per ordinary share reflect the potential dilution that could occur if securities to issue ordinary shares were exercised. The dilutive effect of outstanding share-based awards is reflected in the diluted earnings per share by application of the treasury stock method.

Comprehensive income

Comprehensive income is defined to include all changes in shareholders' equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220-10, *Comprehensive Income*, requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company adopted ASU No. 2011-05 by presenting items of net income and other comprehensive income in one continuous statement, the condensed consolidated statements of income and comprehensive income.

Employee benefit

The full-time employees of Yulong WFOE and the VIEs are entitled to staff welfare benefits including medical care, housing fund, pension benefits and unemployment insurance, which are government mandated defined contribution plans. The Company is required to accrue for these benefits based on certain percentages of the employees' respective salaries, subject to certain ceilings, in accordance with the relevant PRC regulations, and make cash contributions to the state-sponsored plans out of the amounts accrued. Total expense for the plans was $41,111 and $27,976 for the three months ended December 31, 2015 and 2014, respectively, and $75,911 and $58,319 for the six months ended December 31, 2015 and 2014, respectively.

Recently issued accounting pronouncements

In July 2015, the FASB issued ASU No. 2015-11, an amendment to Topic 330, for simplifying the measurement of inventory. The update requires that inventory be measured at the lower of cost and net realizable value where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendment is intended to provide clarification on the measurement and disclosure of inventory in Topic 330 and not intended for those clarifications to result in any changes in practice. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted for all entities and should be applied prospectively. The Company does not expect the adoption of ASU 2015-11 to have material impact on its financial position, results of operations or cash flows.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers*, to defer the effective date of ASC 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASC 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Management is evaluating the effect, if any, on the Company's unaudited condensed consolidated financial statements.

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In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of deferred income taxes. The update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The update applies to all entities that present a classified statement of financial position. For public business entities, the ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the ASU is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods with annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The Company does not expect the adoption of ASU 2015-17 to have material impact on its financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The main objective in developing this ASU is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Earlier application is permitted as of the beginning of the fiscal year of adoption for public entities if the entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The Company does not expect the adoption of ASU 2016-01 to have material impact on its financial position, results of operations or cash flows.

Note 3 – Variable interest entities

On September 2, 2011, Yulong WFOE entered into the Contractual Arrangements with each Yulong operating company and its shareholders. The Contractual Arrangements were subsequently amended on April 21, 2014 with respect to all of the Yulong operating companies, and again on June 24, 2015, but only with respect to Yulong Renewable. The significant terms of the Contractual Arrangements are summarized in “Note 1 - Nature of business and organization” above. As a result of the Contractual Arrangements, the Company classifies each Yulong operating company as a VIE.

A VIE is an entity that has either a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest, such as through voting rights, right to receive the expected residual returns of the entity or obligation to absorb the expected losses of the entity. The variable interest holder, if any, that has a controlling financial interest in a VIE is deemed to be the primary beneficiary and must consolidate the VIE. Yulong WFOE is deemed to have a controlling financial interest and be the primary beneficiary of each Yulong operating company because it has both of the following characteristics:

(1) The power to direct activities at each Yulong operating company that most significantly impact such entity's economic performance, and

(2) The obligation to absorb losses of, and the right to receive benefits from, each Yulong operating company that could potentially be significant to such entity.

Pursuant to the Contractual Arrangements, each Yulong operating company pays service fees equal to all of its net profit after tax payments to Yulong WFOE. At the same time, Yulong WFOE is obligated to absorb all of their losses. The Contractual Arrangements are designed so that the Yulong operating companies operate for the benefit of Yulong WFOE and ultimately, the Company.

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Accordingly, the accounts of the Yulong operating companies are consolidated in the accompanying financial statements pursuant to ASC 810-10, *Consolidation*. In addition, their financial positions and results of operations are included in the Company's financial statements.

The carrying amount of the VIEs' consolidated assets and liabilities are as follows:

	December 31, 2015	June 30, 2015
Current assets	$41,503,630	$26,547,906
Plant and equipment, net	39,102,439	41,267,655
Other noncurrent assets	8,517,143	9,489,571
Intercompany receivable	387,853	-
Total assets	89,511,065	77,305,132
Total liabilities	28,928,956	29,529,680
Net assets	$60,582,109	$47,775,452

The VIEs' liabilities consist of the following:

	December 31, 2015	June 30, 2015
Current liabilities:		
Short term loan - banks	$7,350,570	$7,972,190
Accounts payable	747,253	1,726,158
Other payables and accrued liabilities	5,056,589	3,711,210
Other payables - related parties	130,985	2,273,869
Customer deposits	78,132	-
Taxes payable	1,927,055	1,098,093
Capital lease obligations-current	4,161,885	4,615,083
Intercompany payable	9,375,546	7,994,125
Total current liabilities	28,828,015	29,390,728
Long term liabilities:		
Capital lease obligations-non-current	100,941	138,952

Total long term liabilities	100,941	138,952
Total liabilities	$ 28,928,956	$ 29,529,680

The operating results of the VIEs are as follows:

	Three Months ended December 31,	
	2015	2014
Revenue	$ 12,591,660	$ 11,523,869
Gross profit	$ 4,789,583	$ 4,148,141
Income from operations	$ 3,757,562	$ 3,259,419
Net income	$ 2,731,710	$ 2,085,579

	Six Months ended December 31,	
	2015	2014
Revenue	$ 25,942,528	$ 23,200,784
Gross profit	$ 10,235,344	$ 8,281,553
Income from operations	$ 8,717,743	$ 6,694,645
Net income	$ 6,410,043	$ 4,537,645

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Note 4 – Accounts receivable

Accounts receivable consisted of the following:

	December 31, 2015	June 30, 2015
Accounts receivable	$10,065,705	$9,329,495
Less: allowance for doubtful accounts	-	-
Total accounts receivable, net	$10,065,705	$9,329,495

Note 5 – Deposits and other receivables

Deposits and other receivables consisted of the following:

	December 31, 2015	June 30, 2015
Refundable deposits for equipment purchase	$749,392	$126,856
Deposit for outsourcing agreement (1)	138,690	147,330
Deposit for new project	53,935	8,185
Advances to employees	122,945	3,782
Total	$1,064,962	$286,153

(1) In December 2011, Yulong Bricks agreed to outsource some brick production to Pingdingshan Hongrui New Construction Materials Co., Ltd., an unrelated third party, and paid approximately $138,690 (RMB 900,000) as security deposit, which is due on demand.

Note 6 – Inventories

Inventories consisted of the following:

	December 31, 2015	June 30, 2015
Raw materials	$ 454,092	$ 267,560
Semi-finished byproduct	69,440	6,196
Finished goods	34,877	90,498
Total inventories	$ 558,409	$ 364,254

Raw materials for bricks consist primarily of cement, gypsum, quicklime, aluminum powder and reclaimed fly-ash. Raw materials for concrete consist primarily of cement, admixture, sand and pebble. The cost of finished goods includes direct costs of raw materials as well as direct labor used in production. Indirect production costs at normal capacity such as utilities and indirect labor related to production such as assembling, shipping and handling costs for purchasing are also included in the cost of inventory.

As of December 31 and June 30, 2015, management believed that no inventory allowance was deemed necessary.

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Note 7 – Plant and equipment, net

Plant and equipment consisted of the following:

	December 31, 2015	June 30, 2015
Building and improvements	$21,143,704	$17,959,588
Machinery and equipment	8,125,471	7,861,193
Machinery and equipment under capital lease	2,150,006	1,883,535
Transportation equipment	889,292	938,202
Transportation equipment under capital lease	2,751,830	2,923,262
Office equipment	107,782	107,128
Construction-in-progress	11,922,382	16,889,716
Subtotal	47,090,467	48,562,624
Less: accumulated depreciation	(7,988,028)	(7,294,969)
Total	$39,102,439	$41,267,655

Construction-in-progress represents labor costs and materials incurred in connection with building CWM facilities, research and development center, office building and employee dormitory for Yulong Renewable. No depreciation is provided for construction-in-progress until it is completed and placed into service. Total budget for the construction of the CWM facilities is approximately $35.8 million, of which approximately $15.2 million was capitalized in plant and equipment. Construction was completed and formal operations at the CWM facilities commenced in April 2015. Renovation of the research center and the office building continues and is currently expected to be done by the end of June 2016.

Construction-in-progress consisted of the following as of December 31, 2015:

Construction-in-progress description	Value	Estimated completion date	Estimated additional cost to

			complete
CWM facilities, research and development center, office building and dormitory (1)	$11,915,106	June 2016	$5,349,514

(1) As of December 31, 2015, approximately $3.3 million was included in prepayment (See Note 8), approximately $11.9 million was included in construction-in-progress, approximately $15.2 million was transferred to fixed assets, and approximately $5.3 million was not yet due. The Company may incur other costs in addition to what have been contracted for.

Depreciation expense is $584,706 and $415,456 for the three months ended December 31, 2015 and 2014, respectively, and $1,152,720 and $774,567 for the six months ended December 31, 2015 and 2014, respectively.

<u>Machinery and equipment under capital lease</u>

In March 2014, the Company entered into a lease agreement with a third party to lease an excavator for two years for approximately $140,000 (RMB 908,240). The lease requires a one-time payment of $35,727 and an additional $5,486 as a security deposit paid in March 2014, monthly lease payments of approximately $5,000 from June 2014 to May 2016, with interest rate per annum of 8.8%. The ownership of the excavator will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

In September 2014, the Company entered into a lease agreement with a third party to lease an excavator for two years for approximately $198,000 (RMB 1,285,000). The lease requires a one-time payment of $51,309 and an additional $7,921 as a security deposit paid in October 2014, monthly lease payments of approximately $7,000 from November 2014 to October 2016, with interest rate per annum of 8.7%. The ownership of the excavator will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

In September 2014, the Company entered into a lease agreement with a third party to lease an excavator for two years for approximately $137,000 (RMB 890,000). The lease requires a one-time payment of $35,727 and an additional $5,486 as a security deposit paid in October 2014, monthly lease payments of approximately $5,000 from November 2014 to October 2016, with interest rate per annum of 8.7%. The ownership of the excavator will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

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In September 2014, the Company entered into a lease agreement with a third party to lease a loader for eighteen months for approximately $52,000 (RMB 339,000). The lease requires a one-time payment of $16,717 and an additional $5,224 as a security deposit paid in October 2014, monthly lease payments of approximately $2,000 from November 2014 to April 2016, with interest rate per annum of 8.3%. The ownership of the loader will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

In September 2014, the Company entered into a lease agreement with a third party to lease a loader for eighteen months for approximately $52,000 (RMB 338,000). The lease requires a one-time payment of $16,667 and an additional $5,209 as a security deposit paid in October 2014, monthly lease payments of approximately $2,000 from November 2014 to April 2016, with interest rate per annum of 8.3%. The ownership of the loader will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

In June 2015, the Company entered into a lease agreement with a third party to lease an excavator for two years for approximately $137,000 (RMB 890,000). The lease requires a one-time payment of $35,727 and an additional $5,486 as a security deposit paid in October 2015, monthly lease payments of approximately $5,000 from October 2015 to September 2017, with interest rate per annum of 9.6%. The ownership of the excavator will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

In June 2015, the Company entered into a lease agreement with a third party to lease an excavator for two years for approximately $137,000 (RMB 890,000). The lease requires a one-time payment of $35,727 and an additional $5,486 as a security deposit paid in October 2015, monthly lease payments of approximately $5,000 from October 2015 to September 2017, with interest rate per annum of 9.6%. The ownership of the excavator will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

In June 2015, the Company entered into a lease agreement with a third party to lease a loader for eighteen months for approximately $52,000 (RMB 336,000). The lease requires a one-time payment of $16,569 and an additional $5,178 as a security deposit paid in October 2015, monthly lease payments of approximately $2,000 from October 2015 to March 2017, with interest rate per annum 9.5%. The ownership of the loader will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

In June 2015, the Company entered into a lease agreement with a third party to lease a loader for eighteen months for approximately $51,000 (RMB 330,000). The lease requires a one-time payment of $16,273 and an additional $5,085 as a security deposit paid in October 2015, monthly lease payments of approximately $2,000 from October 2015 to March 2017, with interest rate per annum 9.5%. The ownership of the loader will transfer to the Company if there is no default of the lease payments at the end of the lease term (see Note 12).

Transportation equipment under capital leases

In November 2012, the Company entered into a lease agreement with a third party to lease ten waste hauling trucks for two years for approximately of $621,000 (RMB 4,027,225), including $49,004 (RMB 318,000) as security deposits and $53,627 (RMB 348,000) for insurance. The lease also requires a one-time payment of $154,104 on April 30, 2013, monthly lease payments of approximately $30,000 from July 2013 to June 2014, and monthly lease payments of approximately $16,000 originally from July 2014 to June 2015, with interest rate at 16.8 % per annum. The ownership of the trucks has been transfer to the Company with an attached lien that will be removed if there is no default of the lease payments at the end of the extended lease term (see Note 12). As of December 31, 2015, approximately $141,000 of lease payments remained outstanding, which the Company expects to pay in full by the end of June 2016.

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In January 2014, the Company entered into a memorandum of understanding to lease 100 waste hauling trucks with a third party for approximately $64,000 (RMB 418,000) per truck. In July 2014, the Company entered into a binding agreement with the same party to lease the first 30 trucks for two years for approximately $1,713,000 (RMB 11,115,000), or approximately $57,000 (RMB 370,500) per truck. The lease also requires a one-time payment of $360,594 (RMB 2,340,000) as security deposit paid in July 2014 and monthly lease payments of approximately $84,000 from August 2014 to July 2016, with interest rate at 15.6% per annum. The Company has an option to purchase the vehicles for $462 if there is no default of the lease payments at the end of the lease term (see Note 12). For the remaining 70 trucks, the Company maintains the option to enter into another binding agreement with the same third party in the near future if the Company decides not to purchase 300 pre-owned trucks from different companies after thorough evaluation.

Purchase of Mobile Recycling Stations

In July 2015, the Company entered into four agreements to purchase four mobile recycling stations for approximately $6.0 million (RMB 36,400,000) in the aggregate. As of December 31, 2015, the Company received one station with purchase price of approximately $616,000 (RMB 4,000,000), and paid approximately $110,000 (RMB 713,000).

The Company recognized approximately $37,000 and $87,000 of interest expense related to the above capital lease equipment for the three months ended December 31, 2015 and 2014, respectively, and $80,000 and $167,000 for the six months ended December 31, 2015 and 2014, respectively.

The Company recognized approximately $195,000 and $188,000 of depreciation expense related to the above capital lease equipment for the three months ended December 31, 2015 and 2014, respectively, and $383,000 and $308,000 for the six months ended December 31, 2015 and 2014, respectively.

The carrying value of assets under capital leases consisted of the following:

	December 31, 2015	June 30, 2015
Machinery and equipment	$2,150,006	$1,883,535
Transportation equipment	2,751,830	2,923,262
Subtotal	4,901,836	4,806,797
Less: accumulated depreciation	(1,349,337)	(1,036,884)
Total	$3,552,499	$3,769,913

Note 8 – Prepayments

Prepayments consisted of the following:

	December 31, 2015	June 30, 2015
Prepayment for equipment purchase	$6,934	$21,281
Prepayment for construction [(1)]	3,308,632	3,637,467
Total non-current	$3,315,566	$3,658,748

(1) Prepayments for construction are advances made in connection with the construction of Yulong Renewable's CWM facilities (see Note 7).

Note 9 – Intangibles, net

Intangible assets consisted of the following:

	December 31, 2015	June 30, 2015
Land use rights	$4,963,854	$5,267,495
Less: accumulated amortization	(394,769)	(354,119)
Total	$4,569,085	$4,913,376

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Land use rights

All land in the PRC is state-owned, but the government can grant "land use rights". The Company acquired three land use rights in 2007, 2009 and 2015 for a total of $4,682,883 (RMB 30,388,600) and incurred $280,971 (RMB 1,823,301) of associated costs. The Company has not completed the ownership transfer registration for such rights. Pursuant to supplement land usage reimbursement agreements between Yulong Bricks and the Villagers' Committee of Xiwuzhuang Village dated February 12, 2014, between Yulong Concrete and the Villagers' Committee of Gaozhuang Village dated February 12, 2014, and between Yulong Renewable and the Villagers' Committee of Lvzhuang Village dated September 6, 2015, the purchase price of each land use right will be accounted for as lease expense over 50 years, which will expire in December 2058 with respect to Yulong Bricks' and Yulong Concrete's rights, and in March 2065 with respect to Yulong Renewable's right, until the Company can complete their transfer registrations.

Amortization expense for the three months ended December 31, 2015 and 2014 amounted to $25,070 and $13,796, respectively, and $62,971 and $27,542 for the six months ended December 31, 2015 and 2014, respectively.

The estimated amortization expenses for each of the five succeeding years is as follows:

Year ending December 31,	Estimated amortization expense
2016	$ 105,073
2017	105,073
2018	105,073
2019	105,073
2020	105,073
Thereafter	4,043,720
Total	$ 4,569,085

Note 10 – Short-term loans

Short-term loans represented amounts due to various banks, normally due within one year. The principal of the loans are due at maturity but can be renewed at the bank's option. Interest is due monthly.

Short term loans due to banks consisted of the following:

	December 31, 2015	June 30, 2015
Loan from Pingdingshan Bank. $617,500 was due in April 2015, with annual interest of 12%. The Company repaid $257,360 in April 2015 and obtained the Bank's approval to extend the remaining $360,140 until April 2016. Interest rate is 11.5% per annum. The loan's guaranteed by Yulong Bricks, the executive director of Yulong Bricks, a third party, and the Company founder and his relatives.	$ 339,020	$360,140
Loan from Pingdingshan Rural Credit Cooperative Union. Guaranteed by the founder, his relative, Yulong Industry Company, a related party, and Yulong Bricks. Due in June 2015, with interest rate of 12.1% annually. The Company repaid the loan in July 2015.	-	2,373,650

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Loan from Pingdingshan Bank, matured in January 2015. Interest rate of 10.8% per annum. Guaranteed by a third party. The Company repaid $75,850 in January 2015 and extended the remaining $736,650, which matured in July 2015, with interest rate of 10.8% per annum. The Company repaid the loan in August 2015 with a new loan.	-	736,650
Loan from Pingdingshan Rural Credit Cooperative Union, matured in May 2015. Interest rate of 12.1% per annum. Guaranteed by Yulong Bricks, Yulong Transport and three relatives of the founder. The Company repaid $59,600 in May 2015 and obtained approval from the Union to extend the remaining balance through May 2016, with interest rate of 12.1% per annum. Guaranteed by Yulong Bricks, Yulong Concrete and the founder.	693,450	736,650
Loan from Pingdingshan Bank, matured in August 2015. Interest rate of 10.8% per annum. Guaranteed by Yulong Concrete, Yulong Transport, Yulong Renewable, the executive director of Yulong Bricks, the founder and his relatives. The loan was repaid in full.	-	818,500
Loan from Pingdingshan Rural Credit Cooperative Union, matured in December 2015. Interest rate of 12.6% per annum. Guaranteed by Yulong Transport, a third party, the founder and the executive director of Yulong Bricks. The Company has been negotiating the renewal of the loan and has a verbal agreement with the Union that the renewal will be processed in late February 2016.	1,541,000	1,637,000
Loan from Pingdingshan Bank, matures in March 2016. Interest rate is 10.2% per annum. Guaranteed by Yulong Concrete, Yulong Renewable, the executive director of Yulong Bricks, the founder and his relative.	616,400	654,800
Loan from China Construction Bank, matures in June 2016. Interest rate is 6.1% per annum. Guaranteed by Yulong Concrete and a third party.	616,400	654,800
Loan from Pingdingshan Rural Credit Cooperative Union, matures in July 2016. Interest rate is 12.1% per annum. Guaranteed by Yulong Bricks, Yulong Renewable, the founder and a company that he owns.	2,234,450	-
Loan from Pingdingshan Bank, matures in August 2016. Interest rate is 8.7% per annum. Guaranteed by a third party.	693,450	-
Loan from Pingdingshan Bank, matures in September 2016. Interest rate is 8.3% per annum. Guaranteed by Yulong Concrete, Yulong Industry and Yulong Renewable.	616,400	-
Total short-term loans - bank	$7,350,570	$7,972,190

Interest expense on debts for the three months ended September 30, 2015 and 2014 amounted to $180,560 and $235,600, respectively, and $405,271 and $482,796 for the six months ended December 31, 2015 and 2014, respectively. No interest expense has been capitalized into construction-in-progress since all borrowings were for working capital purposes.

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Note 11 – Related party transactions

Other payables - related parties

Other payables – related parties are nontrade payables arising from transactions between the Company and certain related parties, such as loans from such related parties. The loans are unsecured and non-interest bearing. Current payables are due on demand.

Other payables - related parties consisted of the following:

Name of related parties	Relationship	Nature of transactions	December 31, 2015	June 30, 2015	
Yulong Zhu	Founder	Loan for operating cash flows	$65,909	$2,342,541	(1)
Henan Yuliang Hotel Co., Ltd.	Owned by founder	Loan for operating cash flows	20,033	21,281	
Lei Zhu	Relative of founder	Loan for operating cash flow	110,952	220,282	(2)
Total other payables			196,894	2,584,104	

(1) Converted approximately $1.5 million into the Company's ordinary shares concurrently with the closing of the Company's initial public offering of its ordinary shares on July 1, 2015 (the "IPO"), at the IPO price per share of $6.25 (the "IPO Price").

(2) Fully converted into shares of the Company's ordinary shares concurrently with the closing of the IPO at the IPO Price.

Note 12 – Capital lease obligations

Capital lease obligations consisted of the following:

	December 31, 2015	June 30, 2015
Lease obligations for ten waste hauling trucks expired May 2015, lease payment at $24,787 per month with interest at 18.2% per annum. The lease obligation was extended to December 2015 and paid off.	$ -	$ 334,323
Lease obligations for ten waste hauling trucks expired June 2015, lease payment at $30,154 and $15,514 per month from July 2013 to June 2014 and from July 2014 to June 2015, respectively, with interest at 16.8% per annum. In June 2015, lessor verbally agreed to extend due date of unpaid balance to June 2016.	140,701	290,552
Lease obligations for a loader expired in November 2015, lease payment at $2,481 per month with interest at 8.5% per annum. The lease obligation was paid off.	-	28,073
Lease obligations for an excavator expiring in May 2016, lease payment at $5,002 per month with interest at 8.8% per annum.	75,707	82,442
Lease obligations for thirty waste hauling trucks expiring in July 2016, lease payment at $83,838 per month with interest at 15.6% per annum.	1,512,130	1,673,890
Lease obligation for a loader expiring in April 2016, lease payment at $2,481 per month with interest at 8.3% per annum.	39,828	43,107
Lease obligation for a loader expiring in April 2016, lease payment at $2,474 per month with interest at 8.3% per annum.	39,710	42,979
Lease obligation for an excavator expiring in October 2016, lease payment at $7,223 per month with interest at 8.7% per annum.	143,060	156,228
Lease obligation for an excavator expiring in October 2016, lease payment at $5,002 per month with interest at 8.7% per annum	99,084	108,204
Lease obligation for a land use right which the Company expects to pay in full by June 30, 2016.	1,986,133	2,109,864

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Lease obligation for an excavator expiring in September 2017, lease payment at $5,002 per month with interest at 9.6% per annum	105,050	-
Lease obligation for an excavator expiring in September 2017, lease payment at $5,002 per month with interest at 9.6% per annum	105,050	-
Lease obligation for a loader expiring in March 2017, lease payment at $2,459 per month with interest at 9.5% per annum	36,887	-
Lease obligation for a loader expiring in March 2017, lease payment at $2,415 per month with interest at 9.5% per annum	36,228	-
Subtotal	4,319,568	4,869,662
Less: deferred interest	(56,742)	(115,627)
Capital lease obligations, net	4,262,826	4,754,035
Less: capital lease obligations - current	(4,161,885)	(4,615,083)
Capital lease obligations – non-current	$100,941	$138,952

As of December 31 and June 30, 2015 , the Company accrued interest of $200,053 and $179,264, respectively, in connection with its capital lease obligations, which interest is classified in the Company's consolidated balance sheets under the caption "Other payables and accrued liabilities". Interest expense on capital lease obligations for the three months ended December 31, 2015 and 2014 amounted to $36,945 and $87,030, respectively, and $80,399 and $167,218 for the six months ended December 31, 2015 and 2014, respectively.

Future annual capital lease payments approximately consist of the following:

Twelve months ending December 31,	Amount
2016	$4,161,885
2017	100,941
Total	$4,262,826

Note 13 – Taxes

Income taxes

Cayman Islands

Yulong Eco-Materials is incorporated in the Cayman Islands and is not subject to tax on income or capital gains under current Cayman Islands law. In addition, upon payments of dividends by these entities to their shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Yulong BVI is incorporated in the British Virgin Islands and is not subject to tax on income or capital gains under current British Virgin Islands law. In addition, upon payments of dividends by these entities to their shareholders, no British Virgin Islands withholding tax will be imposed.

Hong Kong

Yulong HK is incorporated in Hong Kong and is subject to Hong Kong Profits Tax on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant Hong Kong tax laws. The applicable tax rate is 16.5% in Hong Kong. The Company did not make any provisions for Hong Kong profit tax as there were no assessable profits derived from or earned in Hong Kong since inception. Under Hong Kong tax law, Yulong HK is exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

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PRC

Yulong WFOE and the VIEs are governed by the income tax laws of the PRC and the income tax provision in respect to operations in the PRC is calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the Enterprise Income Tax Laws of the PRC (the “EIT Laws”), Chinese enterprises are subject to income tax at a rate of 25% after appropriate tax adjustments.

Yulong Bricks utilizes recycled raw materials to produce bricks and is qualified for preferential income tax granted by the State Administration of Taxation: only 90% of revenue attributable to utilization of recycled materials counts for taxable revenue.

Under the EIT Laws, dividends paid by PRC enterprises out of profits earned post-2007 to non-PRC tax resident investors are subject to PRC withholding tax of 10%. A lower withholding tax rate may be applied based on applicable tax treaty with certain countries.

The EIT Laws also provide that enterprises established under the laws of foreign countries or regions and whose “place of effective management” is located within the PRC are considered PRC tax resident enterprises and subject to PRC income tax at the rate of 25% on worldwide income. The definition of “place of effective management” refers to an establishment that exercises, in substance, overall management and control over the production and business, personnel, accounting, properties, and other aspects of an enterprise. No detailed interpretation or guidance has been issued to define “place of effective management”. Furthermore, the administrative practice associated with interpreting and applying the concept of “place of effective management” is unclear. If the Company is deemed a PRC tax resident, it would be subject to PRC tax under the EIT Law. The Company has analyzed the applicability of this law, and for each of the periods presented, the Company has not accrued for PRC tax on such basis. The Company will continue to monitor changes in the interpretation and/or guidance of this law.

Provision (benefit) for income taxes is comprised of the following:

	For the three months ended December 31, 2015	2014
Current	$1,039,903	$779,367
Deferred	(54,015)	33,006
Total provision for income taxes	$985,888	$812,373

	For the six months ended December 31, 2015	2014
Current	$2,165,465	$1,544,886
Deferred	(110,945)	(96,090)
Total provision for income taxes	$2,054,520	$1,448,796

The following table reconciles the statutory rates in China to the Company's effective tax rate for the three months and six months ended December 31, 2015 and 2014:

	Three months ended December 31, 2015		Three months ended December 31, 2014	
China income tax rate	25.0	%	25.0	%
Effect of allowance for temporary differences	(1.4	%)	1.3	%
Effect of permanent differences	8.4	%	4.7	%
Effective income tax rates	32.0	%	31.0	%

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	Six months ended December 31, 2015	Six months ended December 31, 2014
China income tax rate	25.0 %	25.0 %
Effect of allowance for temporary differences	(1.0 %)	0.0 %
Effect of permanent differences	2.6 %	0.8 %
Effective income tax rates	26.6 %	25.8 %

Deferred taxes

Significant components of deferred tax assets and liabilities are as follows:

	December 31, 2015	June 30, 2015
Deferred tax assets		
Non-current		
Startup cost	$206,026	$218,861
Plant and equipment	414,902	351,583
Intangible assets	(42,138)	(50,297)
Interest expense	19,060	-
Net operating loss carryforward in China	45,674	48,519
Total non-current deferred tax assets	643,524	568,666
Valuation allowance	(45,674)	(48,519)
Total non-current deferred tax assets, net	$597,850	$520,147

Uncertain tax positions

Aggregate undistributed earnings of Yulong WFOE and the VIEs that are available for distribution to the Company are approximately $29.5 million as of December 31, 2015. Such undistributed earnings are considered to be indefinitely reinvested, because the Company does not have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future and intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business. Accordingly, no deferred tax liability has been accrued for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company as of December 31, 2015.

In addition, a deferred tax liability should be recorded for taxable temporary differences attributable to the excess of financial reporting amounts over tax basis amount in the PRC subsidiary. However, recognition is not required in situations where the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. The Company has not recorded any such deferred tax liability attributable to the undistributed earnings of its financial interest in the VIEs because it believes such excess earnings can be distributed in a manner that would not be subject to income tax.

There were no unrecognized tax benefits as of December 31 and June 30, 2015. Management does not anticipate any potential future adjustments in the next twelve months which would result in a material change to its tax positions.

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Value added tax

Enterprises or individuals who sell commodities, engage in repair and maintenance or import and export goods in the PRC are subject to a value added tax ("VAT") in accordance with PRC laws. The standard VAT rates range from 13% to 17% of the gross sales price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company's finished products can be used to offset the VAT due on sales of the finished product.

Yulong Bricks' products were eligible for VAT tax exemption under the PRC law of [2008] No. 156. The new PRC law of [2015] No. 78, however, replaced [2008] No. 156 and Yulong Bricks' products are now subject to a VAT rate of 17%, with 70% of the tax being refundable. Under the same law, Yulong Renewable is required to pay VAT rate of 17% for its recycled bricks and recycled aggregates, and 11% for its hauling services. 70% of the tax on recycled bricks and hauling services, and 50% of the tax on recycled aggregates, are refundable. Yulong Concrete's products are mainly produced with cement and are eligible for a VAT at the rate of 6% of the gross sale prices under the PRC law of [2009] No. 9. Yulong Concrete's VAT rate decreased to 3% since November 2014 because under the PRC law of [2014] No. 57, concrete products that use cement as raw material are eligible for a reduced VAT rate of 3%.

Taxes payable

Taxes payable consisted of the following:

	December 31, 2015	June 30, 2015
Income taxes payable	$1,455,283	$983,767
VAT taxes payable	377,066	102,077
Other taxes payable	94,706	12,249
Total	$1,927,055	$1,098,093

Note 14 – Equity

Restricted net assets

The Company’s ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by Yulong WFOE and the VIEs only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the accompanying condensed consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of Yulong WFOE and the VIEs.

Yulong WFOE and the VIEs are each required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, Yulong WFOE may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion fund and staff bonus and welfare fund at its discretion. The VIEs may each allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by the State Administration of Foreign Exchange.

As of December 31 and June 30, 2015, Yulong WFOE and the VIEs collectively appropriated $3,922,228 of retained earnings for their statutory reserves.

As a result of the foregoing restrictions, Yulong WFOE and the VIEs are restricted in their ability to transfer their net assets to the Company.

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Foreign exchange and other regulation in the PRC may further restrict Yulong WFOE and the VIEs from transferring funds to the Company in the form of dividends, loans and advances. As of December 31 and June 30, 2015, the aggregate net assets of Yulong WFOE and the VIEs amounted to $60,676,630 and $47,875,838, respectively.

Stock split

On February 27, 2015, the Company's board of directors approved a 4-for-5 reverse stock split of its ordinary shares. The reverse stock split was effected on March 3, 2015, pursuant to approval of the Company's shareholders on such date. All share and per share amounts disclosed herein and in the accompanying condensed consolidated financial statements reflect the reverse stock split.

Initial Public Offering

On July 1, 2015, the Company completed the IPO of 2,250,000 shares of its ordinary shares for gross proceeds of $14,062,500 and, less costs of $2,552,343, for net proceeds of $11,510,157.

In connection with the closing of the IPO, the Company:

granted a 45-days option to its underwriters to purchase up to 337,500 shares of ordinary shares, to cover over-allotments, which expired on August 15, 2015 without being exercised;

granted warrants to purchase up to 112,500 shares of ordinary shares in the aggregate, or 5% of the ordinary shares sold in the IPO, to the representative of its underwriters and an independent financial adviser for the IPO (the "warrants");

granted 26,400 shares of ordinary shares in the aggregate to its CFO (20,000 shares vested concurrently with the closing of IPO) and two non-executive board members (3,200 shares each vesting quarterly from the closing of IPO) at $6.25 per share and valued at $165,000 in total; and

converted $9,959,613 in indebtedness to five shareholders, including its founder, into 1,593,538 shares of ordinary shares.

Stock-based compensation expenses amounted to $10,000 and $145,000 for the three months and six months ended December 31, 2015.

Conversion in related party indebtedness

Five shareholders of the Yulong operating companies, including the Company's founder, converted the RMB equivalent of $9,959,613 due to them in the aggregate from the Yulong operating companies into the Company's ordinary shares concurrently with the closing of the IPO at the IPO Price, or 1,593,538 shares.

Warrants

The Company follows the provisions of the accounting standard relating to instruments that are indexed to an entity's own securities. 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 ordinary shares and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. The Company determined its warrants would be recorded as derivative instruments on the issuance dates because the strike price of the warrants is denominated in US dollars, a currency other than the Company's functional currency RMB. Therefore the warrants are not considered indexed to the Company's ordinary shares, and as such, all changes in the fair value of these warrants are recognized currently in earnings from the issuances date until such time as the warrants are exercised or expire.

The value of the warrant liabilities was $332,606 at December 31, 2015 and $475,380 at the issuance date on July 1, 2015. The decrease resulted in a $142,774 gain on change in fair value of warrants for the six months ended December 31, 2015.

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Because the warrants are not traded on an active securities market, the Company estimates their fair value using the Cox-Ross-Rubinstein binomial model on December 31, 2015 and on July 1, 2015 as follows:

	December 31, 2015		July 1, 2015	
Number of shares exercisable	112,500		112,500	
Exercise price	$6.25		$6.25	
Stock price	$4.46		$6.00	
Expected term (years)	4.50		5.00	
Risk-free interest rate	1.54	%	1.63	%
Expected volatility	99	%	92	%

Due to the short trading history of the Company's ordinary shares, the expected volatility is based primarily on other similar public companies' historical volatilities, which are traded on United States stock markets. Historical volatility was computed using daily pricing observations for recent periods that correspond to the term of the warrants. The Company believes this method produces an estimate that is representative of the Company's expectations of future volatility over the expected term of the warrants. The Company currently has no reason to believe future volatility over the expected remaining life of the warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the warrants.

A summary of changes in warrant activity is presented as follows:

	Six Months Ended December 31, 2015	Weighted Average Exercise Price	Average Remaining Contractual Life
Outstanding, beginning balance	-	-	-
Granted	112,500	$ 6.25	5.00
Forfeited	-	-	-

Exercised	-	-	-
Outstanding, ending balance	112,500	$ 6.25	4.50

Note 15 — Earnings per share

The basic and diluted earnings per share are as follows:

	For the three months ended December 31, 2015	For the three months ended December 31, 2014
Net income	$ 2,096,249	$ 1,811,403
Weighted average shares outstanding - basic and diluted	11,869,938	8,000,000
Earnings per share - basic and diluted	$ 0.18	$ 0.23

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	For the six months ended December 31, 2015	For the six months ended December 31, 2014
Net income	$5,676,932	$4,159,124
Weighted average shares outstanding - basic and diluted	11,869,938	8,000,000
Earnings per share - basic and diluted	$0.48	$0.52

Warrants outstanding for the three months and six months ended December 31, 2015 and 2014 were not included in the dilutive shares calculation because the average per share price of the Company's ordinary shares for the three months and six months ended December 31, 2015, was below the exercise price of the warrants.

Note 16 – Commitments and contingencies

Contingencies

From time to time, the Company may be subject to certain legal proceedings, claims and disputes that arise in the ordinary course of business. Although the outcomes of these legal proceedings cannot be predicted, the Company does not believe these actions, in the aggregate, will have a material adverse impact on its financial position, results of operations or liquidity. Three of the four Yulong operating companies were parties to four civil lawsuits with judgment amounts of approximately $200,490 (RMB 1,301,038) in the aggregate, which amounts are included in other payables and accrued liabilities. As of December 31, 2015, approximately $20,000 (RMB 130,000) was paid for one lawsuit and approximately $7,000 (RMB 43,592) was paid in January 2016 for the same lawsuit (the judgement amount for this lawsuit has been fully paid at this time). The judgement amounts of approximately $174,000 (RMB 1,127,446) for the other lawsuits were not paid.

Guarantees

As of December 31, 2015, the Company guaranteed approximately $1.2 million for a bank loan of an unrelated third-party as follows:

Name	Guaranteed amount	Guarantee expiration date
Pingdingshan Yushi Automobile Accessory Sales Co., Ltd	$1,232,800	February 9, 2016

The Company did not, however, accrue any liability in connection with such guarantee because the borrower has been current in its repayment obligations and the Company has not experienced any loss from providing such guarantees in the past. The Company has evaluated the guarantee and has concluded that the likelihood of it having to make payments under the guarantee is remote and that the fair value of the stand-ready obligation under such commitment is not material.

Variable interest entity structure

In the opinion of management, (i) the corporate structure of the Company is in compliance with existing PRC laws and regulations; (ii) the Contractual Arrangements are valid and binding, and do not result in any violation of PRC laws or regulations currently in effect; and (iii) the business operations of Yulong WFOE and the VIEs are in compliance with existing PRC laws and regulations in all material respects.

However, there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, the Company cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to the foregoing opinion of its management. If the current corporate structure of the Company or the Contractual Arrangements is found to be in violation of any existing or future PRC laws and regulations, the Company may be required to restructure its corporate structure and operations in the PRC to comply with changing and new PRC laws and regulations. In the opinion of management, the likelihood of loss in respect of the Company’s current corporate structure or the Contractual Arrangements is remote based on current facts and circumstances.

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 17 – Segments

The Company follows ASC 280, *Segment Reporting*, which requires that companies disclose segment data based on how management makes decision about allocating resources to segments and evaluating their performance. The Company's chief operating decision maker evaluates performance and determines resource allocations based on a number of factors, the primary measure being income from operations of the Yulong operating companies.

The Company's operations currently include three business segments encompassing three different divisions. Such reportable divisions are consistent with the way the Company manages its business, with each division operating under separate management and producing discrete financial information. The accounting principles applied at the operating division level in determining income from operations is generally the same as those applied at the consolidated financial statement level.

The operation and products of the three divisions are as follow:

1. Yulong Bricks: production and sales of fly-ash bricks;

2. Yulong Concrete and Yulong Transport: production and sales of ready-mixed concrete; and

3. Yulong Renewable: hauling and processing of construction waste, and production and sales of recycled aggregates and recycled bricks.

The following represents results of divisional operations for the following three months ended December 31:

Revenues:	2015	2014
Yulong Bricks	$3,431,281	$3,899,094

Yulong Concrete and Yulong Transport	7,241,359	7,624,775
Yulong Renewable	1,919,020	-
Consolidated revenues	$12,591,660	$11,523,869

Gross profit:	2015	2014
Yulong Bricks	$1,897,424	$2,343,326
Yulong Concrete and Yulong Transport	1,811,574	1,804,815
Yulong Renewable	1,080,585	-
Consolidated gross profit	$4,789,583	$4,148,141

Income (loss) from operations:	2015	2014
Yulong Bricks	$1,797,110	$2,248,709
Yulong Concrete and Yulong Transport	1,634,509	1,521,210
Yulong Renewable	325,943	(510,500)
Subtotal	3,757,562	3,259,419
Yulong WFOE	(9,171)	-
Yulong HK	(234,658)	-
Yulong Eco-Materials	(194,000)	(274,176)
Consolidated income from operations	$3,319,733	$2,985,243

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Net income (loss):	2015	2014
Yulong Bricks	$1,403,882	$1,668,985
Yulong Concrete and Yulong Transport	1,153,125	1,031,658
Yulong Renewable	178,923	(615,064)
Subtotal	2,735,930	2,085,579
Yulong WFOE	(9,192)	-
Yulong HK	(234,767)	-
Yulong Eco-Materials	(395,722)	(274,176)
Consolidated net income	$2,096,249	$1,811,403

Depreciation and amortization:	2015	2014
Yulong Bricks	$132,786	$133,950
Yulong Concrete and Yulong Transport	49,550	88,608
Yulong Renewable	427,440	206,694
Consolidated depreciation and amortization	$609,776	$429,252

Interest expenses:	2015	2014
Yulong Bricks	$78,385	$114,358
Yulong Concrete and Yulong Transport	102,176	121,422
Yulong Renewable	36,944	86,850
Consolidated interest expenses	$217,505	$322,630

Capital expenditures:	2015	2014
Yulong Bricks	$42,659	$60,326
Yulong Concrete and Yulong Transport	7,784	28,089
Yulong Renewable	159,744	654,801
Consolidated capital expenditures	$210,187	$743,216

The following represents results of divisional operations for the following six months ended December 31:

Revenues:	2015	2014
Yulong Bricks	$7,466,382	$8,075,328
Yulong Concrete and Yulong Transport	14,579,688	15,125,456

Yulong Renewable	3,896,458	-
Consolidated revenues	$25,942,528	$23,200,784

Gross profit:	2015	2014
Yulong Bricks	$4,146,901	$4,887,120
Yulong Concrete and Yulong Transport	3,753,745	3,394,433
Yulong Renewable	2,334,698	-
Consolidated gross profit	$10,235,344	$8,281,553

Income (loss) from operations:	2015	2014
Yulong Bricks	$3,965,387	$4,693,584
Yulong Concrete and Yulong Transport	3,363,058	2,795,822
Yulong Renewable	1,389,298	(794,762)
Subtotal	8,717,743	6,694,644
Yulong WFOE	(9,171)	-
Yulong HK	(302,351)	-
Yulong Eco-Materials	(564,000)	(378,521)
Consolidated income from operations	$7,842,221	$6,316,123

YULONG ECO-MATERIALS LIMITED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Net income (loss):	2015	2014
Yulong Bricks	$3,044,627	$3,538,333
Yulong Concrete and Yulong Transport	2,375,533	1,935,476
Yulong Renewable	989,883	(936,164)
Subtotal	6,410,043	4,537,645
Yulong WFOE	(7,082)	-
Yulong HK	(308,506)	-
Yulong Eco-Materials	(417,523)	(378,521)
Consolidated net income	$5,676,932	$4,159,124

Depreciation and amortization:	2015	2014
Yulong Bricks	$260,116	$267,460
Yulong Concrete and Yulong Transport	131,571	200,331
Yulong Renewable	824,004	334,318
Consolidated depreciation and amortization	$1,215,691	$802,109

Interest expenses:	2015	2014
Yulong Bricks	$194,782	$259,294
Yulong Concrete and Yulong Transport	210,489	223,502
Yulong Renewable	80,399	167,218
Consolidated interest expenses	$485,670	$650,014

Capital expenditures:	2015	2014
Yulong Bricks	$62,942	$80,924
Yulong Concrete and Yulong Transport	35,387	28,608
Yulong Renewable	329,913	1,685,359
Consolidated capital expenditures	$428,242	$1,794,891

The following represents assets of division as of December 31 and June 30, 2015:

Total Assets as of:	December 31, 2015	June 30, 2015

Yulong Bricks	$51,135,548	$37,840,558
Yulong Concrete and Yulong Transport	30,268,421	26,391,895
Yulong Renewable	42,559,352	40,638,270
Interdivision assets	(35,402,543)	(27,565,591)
Yulong WFOE	562,454	-
Yulong HK	126	-
Yulong Eco-Materials	620,045	293,333
Total Assets	$89,743,403	$77,598,465

Note 18 – Subsequent events

On January 19, 2016, the Company's board of directors approved the following issuances of restricted shares of the Company's ordinary shares:

31,279 shares to a consultant for certain business growth and strategic consulting services; and

95,967 shares to a consultant for financial reporting and internal control over financial reporting consulting services.

The shares were valued at $3.20 per share, based on the average closing price of the ordinary shares for the three months immediately preceding the board's approval.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION 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 thereto that are included elsewhere in this report. All monetary figures are presented in U.S. dollars, unless otherwise indicated.

Overview

We are a vertically integrated manufacturer of eco-friendly building products based the city of Pingdingshan, Henan Province, China. We produce fly-ash bricks and ready-mixed concrete, and in April 2015, we launched our construction waste management, or CWM, business which includes hauling and processing construction waste, and producing and selling crushed construction waste or recycled aggregates, and bricks made from recycled aggregates, or recycled bricks. We are a holding company and our primary business operations are conducted through our consolidated affiliated entities, which are variable interest entities, or VIEs, that we control. These VIEs include Henan Jianyida Industrial Co., Ltd. ("Yulong Bricks"), which operates our fly-ash bricks business, Pingdingshan Hengji Concrete Co., Ltd. ("Yulong Concrete") and Pingdingshan Hengji Industrial Co., Ltd. ("Yulong Transport"), which operate our concrete business, and Pingdingshan Hengji Industrial Co., Ltd. ("Yulong Renewable"), which operates our CWM business (each a "Yulong operating company" and collectively the "Yulong operating companies").

We do not have any equity interest in our VIEs, although we have been and are expected to continue to be dependent on our VIEs to operate our business. Instead, we control these entities through a series of contractual arrangements among our PRC subsidiary Zhengzhou Xing De Enterprise Management & Consulting Co., Ltd. ("Yulong WFOE"), our VIEs and their shareholders. While we believe that we have substantial control over our VIEs and their shareholders through the contractual arrangements, such control may not be as effective as direct ownership. Our VIEs and their shareholders may breach their obligations to us under the contractual arrangements, especially if they have a conflict of interest with us. In addition, the PRC government may determine that the contractual arrangements do not comply with applicable PRC regulations. Through the contractual arrangements, each VIE is obligated to pay a service fee in an amount equal to its net profit each fiscal quarter to Yulong WFOE. Such fee can be remitted to us as dividend by Yulong WFOE to our Hong Kong subsidiary China Xing De (Hong Kong) Limited, then to our British Virgin Islands subsidiary China Xing De (BVI) Limited, and finally us. Yulong WFOE, however, is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital.

<u>Recent Development</u>

In October 2015, we established a branch office of Yulong Renewable in Shangqiu, Henan, to carry out construction waste hauling service for a section of the proposed high-speed rail line connecting the cities of Zhengzhou in Henan, and Xuzhou in Jiangsu Province, under a contract with the central government.

We are also evaluating a request from Shangqiu's municipal government to consolidate the hauling of the city's construction waste, which we believe would require us to establish a construction waste processing facility in Shangqiu similar to the one that Yulong Renewable currently operates in Pingdingshan. We would also house the second production line that has been planned for the Pingdingshan facility in Shangqiu. As such, we have suspended all activities relating to the second production line until we can complete our evaluation. As of the date of this report, however, we have not entered into any definitive agreement in connection with or relating to the request being evaluated.

Trends in Our Business

On a macro level, management has observed the following trends and uncertainties, which we believe may have a direct impact on our operations in the near future: (1) planned construction of new (mostly government) buildings in the new district and counties of Pingdingshan, which is consistent with the current policy of the central government favoring urbanization, should translate into increased new construction and drive the demand of construction materials for the next eight to ten years; (2) the national energy conservation policy since the beginning of calendar year 2013 should continue to impact our suppliers and drive up raw material costs for the foreseeable future until pollution can become manageable; (3) government efforts to control the residential real estate market can have significant impact on demand for construction materials, such as the decision by the Henan government in September 2014 to lift restriction on the number of residential properties one can purchase, and to reduce home mortgage rate, which we believe will be positive for the local real estate market and demand for construction materials; (4) our operations under Yulong Renewable are deemed "green" by the local government and therefore designated as one of "Henan Province First Class Grade A Important Construction Projects for 2014" by the Reform and Development Commission of Henan Province, based upon which we are currently applying for tax reduction, although there can be no assurance that our application will be approved; (5) we believe the CWM business that we launched in late April 2015 will continue to positively affect our revenue and net income in both short and long terms; and (6) the slowdown in our collection of accounts receivable that we have been experiencing since the quarter ended September 30, 2014, may continue at least for the next two fiscal quarters as our customers will likely seek to conserve cash in light of tighter bank lending to small and medium-size enterprises, and reduced availability of informal lending arrangements amongst private citizens and enterprises prevalent in our province due to expected government efforts to regulate such arrangements.

Results of Operations

The tables in the following discussion summarize our consolidated statements of operations for the periods by amount and as a percentage of our total net revenue. This information should be read together with our audited consolidated financial statements and related notes included elsewhere in this report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

Three months ended December 31, 2015 and 2014

Revenue

Our revenue increased by $1,067,791 or 9.3% to $12,591,660, as compared to a year ago. Revenue attributable to bricks or brick revenue, revenue attributable to concrete or concrete revenue, and revenue attributable to CWM or CWM revenue, are as follows for the periods indicated:

	Revenue Bricks	Concrete	**CWM**				Total
			Hauling	Recycled Aggregates	Recycled Bricks	Waste Processing Services	
Revenue							
Three months ended December 31, 2014	$3,899,094	$7,624,775	$-	$ -	$-	$-	$11,523,869
Three months ended December 31, 2015	3,431,281	7,241,359	537,883	3,775	30,941	1,346,421	12,591,660
(Decrease) increase in $	$(467,813)	$(383,416)	$537,883	$ 3,775	$30,941	$1,346,421	$1,067,791
(Decrease) increase in %	(12.0 %)	(5.0 %)	N/A	N/A	N/A	N/A	9.3 %

The main contributor of the revenue increase is the CWM revenue. We generate CWM revenue when we haul construction waste, when we process the waste at our mobile recycling stations, and when we sell recycled aggregates and recycled bricks. Our CWM business is still in its infancy (launched in April 2015) and our CWM revenue thus represented only 15.2% of total revenue. Brick revenue decreased slightly due to lower average selling price as a result of the value added tax or VAT discussed below, and depreciation of the RMB against the United States dollars as compared to a year ago, offset by increased sales volume from higher demand for fly-ash bricks. Concrete revenue decreased due to a slight decrease in sales volume and the depreciation of the Chinese currency.

The following tables present the average selling prices and quantities sold of our products and services for the periods indicated:

	Bricks	Concrete
Average selling price		
Three months ended December 31, 2014	$31.9	$44.4
Three months ended December 31, 2015	25.6	43.8
Decrease in $	$(6.3)	$(0.6)
Decrease in %	(19.7)%	(1.4)%
Quantity sold (m^3)		
Three months ended December 31, 2014	122,183	171,642
Three months ended December 31, 2015	133,906	165,214
Increase (decrease)	11,723	(6,428)
Increase (decrease) in %	9.6%	(3.7)%

	CWM				
	Hauling	Recycled Aggregates	Recycled Bricks	Waste Processing Services	Waste Processing Services
Average selling price	Truckload	**m³**	**m³**	Jobsite	**m³**
Three months ended December 31, 2014	$ -	$ -	$ -	$ -	$ -
Three months ended December 31, 2015	44.89	2.44	12.12	667.02	2.39
Increase	$ 44.89	$ 2.44	$ 12.12	$ 667.02	$ 2.39
Increase in %	N/A	N/A	N/A	N/A	N/A
Quantity sold					
Three months ended December 31, 2014	-	-	-	-	-
Three months ended December 31, 2015	11,982	1,548	2,552	366	485,550
Increase	11,982	1,548	2,552	366	485,550
Increase in %	N/A	N/A	N/A	N/A	N/A

Under a tax regulation that went into effect in July 2015, bricks that Yulong Bricks produces, which were previously exempted from VAT, are now subject to a VAT rate of 17% which is payable by customers, although the regulation states that 70% of the tax is refundable by the government. Because we chose not pass on the tax increase to our customers in order to remain competitive, our average selling price decreased by approximately the same percentage as the VAT rate.

Cost of Revenue

Cost of revenue increased by $426,349, or 5.8%, to $7,802,077, as compared to the same period last year. Such cost for each of our revenue streams is presented in the following table:

	Cost of Revenue						
	Bricks	Concrete	CWM				Total
			Hauling	**Recycled Aggregates**	**Recycled Bricks**	**Waste Processing Services**	
Cost of Revenue							
Three months ended December 31, 2014	$ 1,555,768	$ 5,819,960	$ -	$ -	$ -	$ -	$ 7,375,728
Three months ended December 31, 2015	1,533,857	5,429,785	388,615	6,689	87,049	356,082	7,802,077
(Decrease) increase in $	$ (21,911)	$ (390,175)	$ 388,615	$ 6,689	$ 87,049	$ 356,082	$ 426,349

(Decrease) increase in %	(1.4 %)	(6.7 %)	N/A	N/A	N/A	N/A	5.8 %

The average unit cost per cubic meter of bricks and concrete slightly decreased as follows, due to lower market prices for some raw materials (e.g., cement, coal and reclaimed lubricant for bricks, and cement and expansive admixtures for concrete):

	Average unit cost	
	Bricks	Concrete
Three months ended December 31, 2014	$12.7	$ 33.9
Three months ended December 31, 2015	11.5	32.9
Decrease in $	$(1.2)	$ (1.0)
Decrease in %	(9.4)%	(2.9)%

In addition to lower average unit cost, the depreciation of the RMB against the United States dollars also contributed to the decrease in cost of brick revenue, while lower sales volume also contributed to the decrease in cost of concrete revenue.

We also use third-party manufacturers generally when orders exceed our production capacities. Such third-party manufacturers produce bricks and concrete with their employees and equipment using our pre-formulated raw material blends and under our supervision, and allow us to stage the finished products (in the case of bricks) onsite until our customers take delivery. In return, we pay them a fee for every cubic meter of finished product, which is negotiated individually with each manufacturer. To date, such fees have been lower than our overhead and direct labor cost to produce a cubic meter of brick or concrete on our own. Based on the fees we paid for the three months ended December 31, 2014 and 2015, which remained consistent during such periods (i.e., $0.90 for bricks and $1.00 for concrete), such fees were approximately $2.40 and $2.00 lower per unit for bricks, respectively, and $1.00 lower per unit for concrete. Thus, were we to entirely produce internally during such periods, our cost of revenue would have increased by approximately $66,000 and $77,000 for bricks, respectively, and $43,000 and $37,000 for concrete, respectively, and our gross profit would have decreased accordingly. These fees, however, may change in the future depending on how much bricks or concrete we produce and thus how much overhead and direct labor cost we allocate to each resulting product unit. The brick manufacturer that we have been using lacks a sales department to develop business in the local market, while we are a principal customer of the concrete manufacturer that we have been using. Thus, we believe that we currently have more bargain power with respect to the fees that we pay these manufacturers.

The major component for the cost of CWM revenue is the depreciation of our hauling trucks and plant equipment. The following table presents the average unit cost for the components of our CWM revenue:

	Average unit cost CWM				
	Hauling	Recycled Aggregates	Recycled Bricks	Waste Processing Services	Waste Processing Services
	Truckload	**m^3**	**m^3**	Jobsite	**m^3**
Three months ended December 31, 2014	$ -	$ -	$ -	$ -	$ -
Three months ended December 31, 2015	32.43	4.32	34.11	170.78	0.60
Increase	$ 32.43	$ 4.32	$ 34.11	$ 170.78	$ 0.60
Increase in %	N/A	N/A	N/A	N/A	N/A

Gross Profit

Gross profit was $4,789,583, an increase of $641,442 or 15.5% from a year ago. Gross profit margin increased to approximately 38.0% from 36.0% in the second quarter of 2016.

Gross profit attributable to bricks was $1,897,424, a decrease of $445,902 or 19.0%, from a year ago. Gross profit margin was 55.3%, a decrease of 4.8%, from 60.1% a year ago. The reduced margin is consistent with lower average selling price affected by the imposition of the VAT discussed earlier.

Gross profit attributable to concrete was $1,811,574, an increase of $6,759 or 0.4%, from a year ago. Gross profit margin was 25.0%, an increase of 1.3%, from 23.7% a year ago. The increased margin is consistent with decreased average unit cost affected by lower raw material costs and lower sales volume.

Gross profit attributable to CWM was $1,080,585 for the three months ended December 31, 2015. Gross profit margin was 56.3%.

Operating Expenses

Operating expenses, which consist of selling expense and general and administrative ("G&A") expenses, were $1.5 million, an increase of $0.3 million or 26.4% as compared to a year ago. G&A expenses, which increased by $0.4 million or 37.3%, were $1.4 million, including increased office and salary expenses of $0.1 million each, increased business development expense of $0.4 million to develop the market for our CWM business, and increased travel expense of $0.1 million mainly for travels to the United States to meet with potential investors, offset by a decrease of $0.5 million in start-up costs related to Yulong Renewable's CWM facilities that commenced operations in April 2015. On the other hand, selling expense decreased by $0.06 million or 37.4%, to $0.11 million, due to a $0.04 million decrease in fuel costs as average gasoline price decreased by approximately $0.23 (RMB 1.50) per kiloliter during the period, and a $0.04 million decrease in depreciation expense when some of our concrete trucks were completely depreciated in the fourth quarter of fiscal 2014, offset by a $0.01 million increase in repair expense.

Although our efforts to control operating expenses are ongoing, we expect them to increase as we continue to expand our CWM business, and as professional fees for regulatory compliance matters are expected to increase as a public reporting company.

Other Income (Expense)

Other income (expense) includes finance expense (which consist of interest and other finance expenses, net of interest income), and income (expense) not related to our principal operations.

We had other expense of $237,596, as compared to other expense of $361,467 a year ago. Other expense consisted of $155,501 in other finance and non-operating income and $26,134 in interest income, offset by $217,505 in interest expense, $3,699 in foreign currency exchange translation gain and $205,425 loss on change in fair value of warrant liabilities.

Provision for Income Taxes

Provision for PRC income taxes increased by $173,515 to $985,888, as compared to a year ago, due to higher income before tax. While we incurred G&A expenses at our Cayman Islands holding company level (i.e., Yulong), we will not be able to utilize the resulting net operating loss in the future as Yulong is not subject to tax on income or capital gains under current Cayman Islands law. Therefore, the realization of our deferred tax assets is unlikely, since we are not subject to any income tax or credit under current Cayman Islands laws, and we have provided for a full valuation allowance against such deferred tax assets.

Net Income

Net income for the three months ended December 31, 2015 was $2,096,249, as compared to $1,811,403 for the same period last year.

Six months ended December 31, 2015 and 2014

Revenue

Our revenue increased by $2,741,744 or 11.8% to $25,942,528, as compared to a year ago. Brick revenue, concrete revenue and CWM revenue are as follows for the periods indicated:

	Revenue Bricks	Concrete	CWM				Total
			Hauling	Recycled Aggregates	Recycled Bricks	Waste Processing Services	
Revenue							
Six months ended December 31, 2014	$8,075,328	$15,125,456	$-	$ -	$-	$-	$23,200,784
Six months ended December 31, 2015	7,466,382	14,579,688	1,129,913	31,494	194,761	2,540,290	25,942,528
(Decrease) increase in $	$(608,946)	$(545,768)	$1,129,913	$ 31,494	$194,761	$2,540,290	$2,741,744
(Decrease) increase in %	(7.5 %)	(3.6 %)	N/A	N/A	N/A	N/A	11.8 %

The main contributor of the revenue increase is the CWM revenue despite representing only 15.0% of total revenue. Brick and concrete revenues both decreased for the same reasons that they decreased during the three-month period discussed earlier.

The following tables present the average selling prices and quantities sold of our products and services for the periods indicated:

	Bricks	Concrete
Average selling price		
Six months ended December 31, 2014	$31.9	$44.2
Six months ended December 31, 2015	25.9	44.1
Decrease in $	$(6.0)	$(0.1)
Decrease in %	(18.8)%	(0.2)%
Quantity sold (m^3)		
Six months ended December 31, 2014	252,926	342,490
Six months ended December 31, 2015	288,185	330,613
Increase (decrease)	35,259	(11,877)
Increase (decrease) in %	13.9 %	(3.5)%

	CWM				
	Hauling	Recycled Aggregates	Recycled Bricks	Waste Processing Services	Waste Processing Services
Average selling price	Truckload	**m^3**	**m^3**	Jobsite	**m^3**
Six months ended December 31, 2014	$-	$ -	$ -	$ -	$ -
Six months ended December 31, 2015	39.44	2.45	25.06	621.33	2.36
Increase	$39.44	$ 2.45	$ 25.06	$ 621.33	$ 2.36
Increase in %	N/A	N/A	N/A	N/A	N/A
Quantities sold					
Six months ended December 31, 2014	-	-	-	-	-
Six months ended December 31, 2015	28,646	12,856	7,770	1,123	805,550
Increase	28,646	12,856	7,770	1,123	805,550
Increase in %	N/A	N/A	N/A	N/A	N/A

Cost of Revenue

Cost of revenue increased by $787,953, or 5.3%, to $15,707,184, as compared to the same period last year. Such cost for each of our revenue streams is presented in the following table:

	Cost of Revenue						
	Bricks	**Concrete**	**CWM Hauling**	**Recycled Aggregates**	**Recycled Bricks**	**Waste Processing Services**	**Total**
Cost of Revenue							
Six months ended December 31, 2014	$3,188,208	$11,731,023	$-	$ -	$-	$ -	$14,919,231
Six months ended December 31, 2015	3,319,481	10,825,943	821,563	24,955	214,044	501,198	15,707,184
Increase (decrease) in $	$131,273	$(905,080)	$821,563	$ 24,955	$214,044	$ 501,198	$787,953
Increase (decrease) in %	4.1 %	(7.7 %)	N/A	N/A	N/A	N/A	5.3 %

The average unit cost per cubic meter of bricks and concrete slightly decreased as follows:

	Average unit cost	
	Bricks	Concrete
Six months ended December 31, 2014	$12.6	$ 34.3
Six months ended December 31, 2015	11.5	32.7
Decrease in $	$(1.1)	$ (1.6)
Decrease in %	(8.7)%	(4.7)%

Thus, cost of brick revenue increased mainly as a function of higher sales volume while cost of concrete revenue decreased as a function of lower sales volume and lower average unit cost.

Based on the fees we paid third-party manufacturers for the six months ended December 31, 2014 and 2015, which remained consistent during such periods (i.e., $0.90 for bricks and $1.00 for concrete), such fees were approximately $2.30 and $2.10 lower per unit for bricks, respectively, and $1.00 lower per unit for concrete. Thus, were we to entirely produce internally during such periods, our cost of revenue would have increased by approximately $124,000 and $200,000 for bricks, respectively, and $82,000 and $70,000 for concrete, respectively, and our gross profit would have decreased accordingly.

The following table presents the average unit cost for the components of our CWM revenue:

	Average unit cost CWM				
	Hauling	Recycled Aggregates	Recycled Bricks	Waste Processing Services	Waste Processing Services
	Truckload	**m³**	**m³**	Jobsite	**m³**
Six months ended December 31, 2014	$ -	$ -	$ -	$ -	$ -
Six months ended December 31, 2015	28.68	1.94	27.55	119.82	0.46
Increase	$ 28.68	$ 1.94	$ 27.55	$ 119.82	$ 0.46
Increase in %	N/A	N/A	N/A	N/A	N/A

Gross Profit

Gross profit was $10,235,344, an increase of $1,953,791 or 23.6% from a year ago. Gross profit margin increased to approximately 39.5% from 35.7% for the first half of fiscal 2016.

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Gross profit attributable to bricks was $4,146,901, a decrease of $740,219 or 15.1%, from a year ago. Gross profit margin was 55.5%, a decrease of 5.0%, from 60.5% a year ago. The reduced margin is consistent with lower average selling price affected by the imposition of the VAT discussed earlier.

Gross profit attributable to concrete was $3,753,745, an increase of $359,312 or 10.6%, from a year ago. Gross profit margin was 25.7%, an increase of 3.3%, from 22.4% a year ago. The increased margin is consistent with decreased average unit cost affected by lower costs for raw materials and lower sales volume.

Gross profit attributable to CWM was $2,334,698 for the six months ended December 31, 2015. Gross profit margin was 59.9%.

Operating Expenses

Operating expenses were $2.4 million, an increase of $0.4 million or 21.8% as compared to a year ago. G&A expenses increased by $0.5 million or 33.9% to $2.1 million, including $0.1 million increase in stock-based compensation and $0.1 million increase in professional fees, $0.2 million increase in office expense, $0.3 million increase in salary expense, $0.4 million increase in business development expense, and $0.1 million increase in travel expense, offset by a decrease of $0.7 million in start-up costs related to Yulong Renewable's CWM facilities. Selling expense, however, decreased by $0.1 million or 31.4%, to $0.25 million, due to a $0.06 million decrease in fuel expense as average gasoline price decreased by approximately $0.24 (RMB 1.50) per kiloliter during the period, and a $0.07 million decrease in depreciation expense when some of our concrete trucks were completely depreciated in the fourth quarter of fiscal 2014.

Other Income (Expense)

We had other expense of $110,769, as compared to other expense of $708,203 a year ago. Other expense consisted of $188,325 in other finance and non-operating income, $142,774 gain on change in fair value of warrant liabilities and $46,037 in interest income, offset by $485,670 in interest expense and $2,235 in foreign currency exchange translation loss.

Provision for Income Taxes

Provision for income taxes increased by $605,724 to $2,054,520, as compared to a year ago, due to higher income before tax.

Net Income

Net income for the six months ended December 31, 2015 was $5,676,932, as compared to $4,159,124 for the same period last year.

Liquidity and Capital Resources

Capital Resources

To date, we have financed our daily operations and capital investment in connection with our CWM facilities primarily through cash flow from operations, bank financing and financial support from our founder, including through some of his relatives and another company that he owns. We also completed the initial public offering of our ordinary shares ("IPO") on July 1, 2015, with gross proceeds of approximately $14 million before deducting underwriting discounts and commissions and offering expenses payable by us.

We will require cash of approximately $23.0 million within the next twelve months, including $7.4 million to repay outstanding short-term bank loans, $6.1 million to satisfy accounts payable and other payables, $4.2 million to satisfy capital lease obligations and the purchase of a land use right, and $5.3 million to complete the renovation of our research and development center and office building for our CWM business. As of December 31, 2015, we had cash and cash equivalent of approximately $30.0 million (including net proceeds of approximately $11.5 million from our IPO) and accounts receivable of $10.1 million. As a result, we believe that our current working capital is sufficient to support our operations for the next 12 months.

Short-term Loans – Banks

We had $7.4 million and $8.0 million in short-term bank loans as of December 31 and June 30, 2015, respectively. Such loans mature in one year or less and must be repaid in full upon maturity. Based on our borrowing history, we believe the banks that we work with will renew our loans after they mature, as they had done in the past.

For additional discussion regarding our loans, please refer to Note 10 to our unaudited condensed consolidated financial statements included with this report.

Cash Flows

As of December 31, 2015, our cash was $29,729,771 as compared to $16,470,299 as of June 30, 2015. The following table presents a summary of our cash flows for the periods indicated:

	For the six months ended December 31,	
	2015	2014
Net cash provided by (used in) operating activities	$4,649,159	$(3,619,319)
Net cash used in investing activities	(421,922)	(1,768,266)
Net cash provided by (used in) financing activities	10,616,978	(6,307,677)

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities for the six months ended December 31, 2015, was primarily attributable to $5.7 million of net income, $1.1 million in non-cash adjustments for depreciation of our plant and equipment, deferred tax benefit pertaining to an increase in our deferred tax assets and change in fair value of warrant liabilities, and $0.9 million in taxes payable due to increased income before tax and the VAT imposed on our bricks, offset by cash outflows of a $1.3 million increase in accounts receivable due to slower collection when we extended credit terms for customers with long-term relationships, a $0.9 million decrease in accounts payable for payments to vendors, $0.1 million in other payables and accrued liabilities for expenses in connection with our IPO and interest on our capital leases, and a $1.1 million increase in deposits and other receivables for escrow deposits in connection with our indemnification obligations to the underwriter representative for our IPO.

Net cash used in operating activities totaled approximately $3.6 million for the six months ended December 31, 2014, and was primarily attributable to $4.2 million of net income, cash outflows of $1.2 million from payments of our accounts payable with vendors, $0.6 million advance payments to suppliers, and slower collection from customers that resulted in accounts receivable of $5.8 million, due to their outlook on the real estate market during this period and thus being more conservative with their cash flow management.

Net Cash Used in Investing Activities

For the six months ended December 31, 2015, we made prepayments of approximately $0.1 million, and payments of approximately $0.4 million, for construction-in-progress relating to Yulong Renewable's facilities.

For the six months ended December 31, 2014, we made prepayments of approximately $1.4 million, and payments of approximately $0.4 million, for construction-in-progress relating to Yulong Renewable's facilities.

Net Cash Provided by (Used in) Financing Activities

For the six months ended December 31, 2015, net cash provided by financing activities resulted from $5.0 million in bank loans, $5.1 million in bank loan repayments as they became due, $0.5 million in principal repayments on capital lease obligations, $11.5 million in net proceeds from our IPO, less $0.2 million in repayments to our founder for advancing certain payments on our behalf.

For the six months ended December 31, 2014, net cash used in financing activities resulted from $3.2 million in bank loans, $2.6 million in bank loan repayments as they became due, $1.0 million in principal repayments on capital lease obligations, and $5.8 million as interest-free loan from our founder to fund daily operation.

Off-balance Sheet Arrangements

As of December 31, 2015, we guaranteed a bank loan of an unrelated third party in the amount of $1.2 million, which guarantee expired on February 9, 2016. We did not, however, accrue any liability in connection with such guarantee because the borrower had been current in its repayment obligations and we had not experienced any losses from providing such guarantees in the past. We evaluated the guarantee and concluded that the likelihood of our having to make payments under the guarantee was remote and that the fair value of the stand-ready obligation under such commitment was not material. We extended the guarantee for one year due to our long-term relationship with and the credit worthiness of the borrower.

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 audited and unaudited consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). 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 unaudited condensed consolidated financial statements included elsewhere in this report, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our management’s discussion and analysis:

Principles of consolidation

Our consolidated financial statements include the accounts of our subsidiaries and VIEs. All significant intercompany transactions and balances between us, our subsidiaries and VIEs are eliminated upon consolidation. Since Yulong WFOE and our VIEs are under common control, the contractual arrangements among Yulong WFOE, our VIEs and their shareholders have been accounted for as a reorganization of entities, and the consolidation of our VIEs through the contractual arrangements has been accounted for at historical cost and prepared on the basis as if these agreements became effective as of the beginning of the first period presented in our consolidated financial statements.

Variable interest entities

A VIE is an entity that either has a total equity investment that is insufficient to finance its activities without additional subordinated financial support, or whose equity investors lack the characteristics of a controlling financial interest, such as through voting rights, right to receive the expected residual returns of the entity or obligation to absorb the expected losses of the entity. The variable interest holder, if any, that has a controlling financial interest in a VIE is deemed to be the primary beneficiary of, and must consolidate, the VIE. Yulong WFOE is deemed to have a controlling financial interest in and be the primary beneficiary of each Yulong Group company because it has both of the following characteristics:

(1) The power to direct activities at each Yulong operating company that most significantly impact such entity's economic performance, and

(2) The obligation to absorb losses of, and the right to receive benefits from, each Yulong operating company that could potentially be significant to such entity.

Pursuant to our contractual arrangements with VIEs, each Yulong operating company pays service fees equal to all of its net profit after tax payments to Yulong WFOE. At the same time, Yulong WFOE is obligated to absorb all of their losses. Such contractual arrangements are designed so that the Yulong operating companies operate for the benefit of Yulong WFOE and ultimately, us.

Accordingly, the accounts of the Yulong operating companies are consolidated in our financial statements pursuant to ASC 810-10, *Consolidation*. In addition, their financial positions and results of operations are included in our financial statements.

Revenue recognition

We recognize revenue in accordance with ASC 605, *Revenue Recognition*, regarding revenue recognition which specifies that revenue is realized or realizable and earned. Sales revenue is recognized at the date of delivery to customers when a formal arrangement exists, price is fixed or determinable, delivery is completed, we have no other significant obligations, and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are met, are recorded as customer deposits.

We sell concrete and bricks primarily to major local real estate development and/or construction companies. Sales agreements are signed with each customer. Each agreement lists out general terms and conditions, with delivery date and quantity to be specified when a purchase order is issued under such agreement. We do not sell products to customers on a consignment basis. There is no right of return after products are delivered and accepted.

Sales revenue represents the invoiced value of goods, net of a VAT.

CWM revenue includes sales of recycled aggregates and recycled bricks. Sales agreements are signed with each customer. Revenue is recognized similar to sales of concrete and bricks.

CWM revenue also includes hauling construction waste. We operate a fleet of trucks to haul construction waste, consisting primarily of bricks and concrete, from construction and demolition sites. Revenue is recognized upon completion of hauling per truckload.

CWM revenue also includes processing construction waste at our mobile recycling stations. Revenue is recognized either per cubic meter of waste processed or when processing at a jobsite is completed, depending on the contract terms.

We also provide transportation service for our concrete customers. Revenue is recognized upon delivery of the concrete. Transportation service revenue is immaterial to our consolidated revenue for the periods presented in the accompanying financial statements

Accounts and other receivables

We extend unsecured credit to our customers as a normal course of business. Management reviews our accounts and other receivables each reporting period to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Known bad debts are written off against allowance for doubtful accounts after all collection effort has ceased. Our reserves are consistent with historical experience and considered adequate by management. We estimate that most accounts receivable are collected within six months. Accounts receivable are considered past-due after 90 days. For accounts receivable that are past-due for more than one year, we reserve 100% allowance.

Impairment for long-lived assets

Long-lived assets, including buildings and improvements, equipment and intangible assets with finite live, are reviewed for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be recoverable. We assess the recoverability of an asset based on the undiscounted future cash flow such asset is expected to generate, and recognize an impairment loss when estimated undiscounted future cash flow expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, is less than the carrying value of the asset. When we identify an impairment, we reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market value.

As of December 31, 2015, the fair value of building and improvements, equipment and intangible assets used in connection with the operations of Yulong Bricks, Yulong Concrete, Yulong Transport and Yulong Renewable exceeded their carrying value by approximately 435.6%. We use the cash flow model to determine the fair value of these assets. The key assumption of this model is the revenue generated from existing customers. We believe that such assumption provides us the best estimate of our future projected cash flow from these assets, net of any related cash outflow of cost, expenses and taxes.

The estimated fair value of these assets might be lower than their current fair value, which could result in future impairment charge if we are required to reduce our selling price or increase the costs associated with our revenue. In addition, competitive pricing pressure and changes in interest rates could materially and adversely affect our estimates of future net cash flow to be generated by these assets, which in turn could result in future impairment losses.

Use of estimates and assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our accompanying consolidated financial statements and footnotes included in this Report. Significant accounting estimates reflected in our consolidated financial statements include the useful lives and impairment of property, plant and equipment, collectability of receivables, realization of deferred tax assets, inventory valuation, warrant liabilities, stock-based compensation, and the present value of the net minimum lease payments of the capital lease. Actual results could differ from these estimates.

Recent Accounting Pronouncements

In July 2015, the FASB issued ASU No. 2015-11, an amendment to Topic 330 for simplifying the measurement of inventory. The update requires that inventory be measured at the lower of cost and net realizable value where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendment is intended to provide clarification on the measurement and disclosure of inventory in Topic 330 and not intended for those clarifications to result in any changes in practice. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted for all entities and should be applied prospectively. We do not expect the adoption of ASU 2015-11 to have a material impact on our financial position, results of operations or cash flows.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers*, to defer the effective date of ASC 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASC 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are evaluating the effect, if any, on our unaudited condensed consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, to simplify the presentation of deferred income taxes. The update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The update applies to all entities that present a classified statement of financial position. For public business entities, the ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the ASU is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods with annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. We do not expect the adoption of ASU 2015-17 to have material impact on our financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The main objective in developing this ASU is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Earlier application is permitted as of the beginning of the fiscal year of adoption for public entities if the entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. We do not expect the adoption of ASU 2016-01 to have material impact on our financial position, results of operations or cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the three months ended December 31, 2015, there were no material changes to the quantitative and qualitative information about market risk that we previously disclosed in Item 7A of our Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2015. Our disclosure controls and procedures are designed: (i) to ensure that information required to be disclosed by us in the reports that we file or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (ii) to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that we continue to have the following material weakness in its internal control over financial reporting as of December 31, 2015:

Inadequate U.S. GAAP expertise. The current accounting staff is inexperienced in applying U.S. GAAP standard as they are primarily engaged in ensuring compliance with PRC accounting and reporting requirement for our consolidated operating entities, and thus require substantial training. The current staff's accounting skills and understanding as to how to fulfill the requirements of U.S. GAAP-based reporting, including subsidiary financial statements consolidation, are inadequate and resulted in a number of adjustments identified by our independent auditors during the June 30, 2015 audit.

Inadequate internal audit resources. While we have developed the scope of our internal audit function, it has not yet been fully implemented as we have not been able to hire sufficient qualified resources to do so. And due to limited availability of qualified resources in the geographical region where we operate, we may not be able to make sufficient hiring within a short period of time.

Based on such evaluation, and considering the material weaknesses identified and discussed above, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures at December 31, 2015 were not effective.

Remediation Initiatives

In an effort to remedy the foregoing material weaknesses in the future, we have completed the following initiatives:

engaged an outside professional consulting firm to supplement our efforts to improve our internal control over financial reporting;

initiated implementation of the 2013 COSO framework for internal controls, which formalized the principles embedded in the original framework more explicitly, incorporated business and operating environment changes over the past two decades, and improved the framework's ease of use and application; and

initiated comprehensive program and development plan to provide ongoing company-wide trainings regarding internal control, with particular emphasis on our accounting staff.

In addition, we intend to do the following:

continue to closely monitor the above initiatives and fully complete implementation by June 30, 2016.

Despite the material weaknesses and deficiencies reported above, Chief Executive Officer and Chief Financial Officer believe that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented and that this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter covered by this report that have materially affected, or are 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 and in our quarterly report on Form 10-Q for the three months ended September 30, 2015. 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.

On January 19, 2016, we issued an aggregate of 127,264 shares of our ordinary shares in reliance upon the exemption from securities registration under Section 4(a)(2) of Securities Act of 1933, as amended, as follows:

We issued 31,279 shares to a consultant as compensation for two years of business consulting services to be provided by the consultant pursuant to a written agreement with him.

We issued 49,048 shares to another consultant as compensation for services provided by the consultant in connection with our financial reporting obligations and internal control implementation, and 46,919 shares as compensation for the same services to be provided the consultant, pursuant to a written agreement with the consultant.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES

The disclosures required by Item 4 are not applicable to us, as we have no mining operations in the United States.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

Exhibit Number		Description
31.1	*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	*	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	*	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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.

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.

	YULONG ECO-MATERIALS LIMITED
Dated: February 16, 2016	By: /s/ Yulong Zhu Yulong Zhu Chief Executive Officer (Principal Executive Officer)
Dated: February 16, 2016	By: /s/ Zan Wu Zan Wu Chief Financial Officer (Principal Financial and Accounting Officer)

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