

China Advanced Construction Materials Group, Inc  
Form 10-Q  
May 13, 2011

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2011

☐ 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: 333-141568

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

20-8468508  
(I.R.S. Employer Identification No.)

9 North West Fourth Ring Road Yingu Mansion Suite 1708  
Haidian District Beijing, People's Republic of China 100190  
(Address of principal executive offices, Zip Code)

+86 10 82525361  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-Q

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

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☒

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

The number of shares outstanding of each of the issuer’s classes of common equity, as of May 13, 2011 is as follows:

| Class of Securities             | Shares Outstanding |
|---------------------------------|--------------------|
| Common Stock, \$0.001 par value | 17,764,387         |

## TABLE OF CONTENTS

3

### PART I

#### FINANCIAL INFORMATION

|         |  |    |
|---------|--|----|
| ITEM 1. | <u>FINANCIAL STATEMENTS</u>  | 1  |
| ITEM 2. | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 29 |
|         | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | 45 |
| ITEM 3. | <u>CONTROLS AND PROCEDURES</u>   | 45 |

### PART II

#### OTHER INFORMATION

|          |  |    |
|----------|--|----|
| ITEM 1.  | <u>LEGAL PROCEEDINGS</u>   | 45 |
| ITEM 1A. | <u>RISK FACTORS</u>  | 45 |
|          | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 57 |
| ITEM 2.  | <u>DEFAULTS UPON SENIOR SECURITIES</u>                             | 57 |
| ITEM 3.  | <u>RESERVE</u>   | 58 |
| ITEM 4.  | <u>OTHER INFORMATION</u>   | 58 |
| ITEM 5.  | <u>EXHIBITS</u>  | 58 |

Table of Contents

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

|   | Page |
|---|------|
| <u>Condensed Consolidated Balance Sheets as of March 31, 2011 and June 30, 2010</u>   | 2    |
| <u>Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended March 31, 2011 and 2010</u> | 3    |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2011 and 2010</u>                                | 4    |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>   | 5    |

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

| ASSETS   | March 31,<br>2011 | June 30,<br>2010 |
|--|-------------------|------------------|
| <b>CURRENT ASSETS:</b>   |                   |                  |
| Cash and cash equivalents  | \$3,379,136       | \$3,300,820      |
| Restricted cash  | -                 | 57,580           |
| Notes receivable   | 1,382,104         | -                |
| Accounts receivable, net of allowance for doubtful accounts of \$1,396,679 and \$456,085, respectively | 71,327,037        | 36,072,691       |
| Inventories  | 2,084,784         | 2,164,769        |
| Investment   | 12,063,300        | -                |
| Other receivables  | 2,484,943         | 1,416,653        |
| Prepayments  | 3,557,999         | 2,821,687        |
| Total current assets   | 96,279,303        | 45,834,200       |
| <br>PROPERTY, PLANT AND EQUIPMENT, net   | <br>28,796,052    | <br>26,488,354   |
| <br><b>OTHER ASSETS:</b>   |                   |                  |
| Accounts receivable, net of allowance for doubtful accounts of \$0 and \$4,607, respectively           | -                 | 364,371          |
| Deferred tax assets  | -                 | 127,741          |
| Advances on equipment purchases  | 5,141,409         | 8,382,383        |
| Prepayments  | 3,248,456         | 4,414,391        |
| Total other assets   | 8,389,865         | 13,288,886       |
| <br>Total assets   | <br>\$133,465,220 | <br>\$85,611,440 |
| <br><b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                  |
| <br><b>CURRENT LIABILITIES:</b>  |                   |                  |
| Short term loans, banks  | \$14,506,500      | \$-              |
| Accounts payable   | 35,219,934        | 16,473,080       |
| Customer deposits  | 1,086,961         | 711,219          |
| Other payables   | 446,260           | 329,136          |
| Other payables - shareholders  | 783,110           | 772,644          |
| Accrued liabilities  | 1,179,727         | 1,652,751        |
| Taxes payable  | 2,931,723         | 1,569,914        |
| Total current liabilities  | 56,154,215        | 21,508,744       |
| <br><b>OTHER LIABILITIES</b>   |                   |                  |
| Warrants liability   | 2,377,828         | 2,920,520        |
| Total liabilities  | 58,532,043        | 24,429,264       |
| Commitments and contingencies  |                   |                  |
| <b>SHAREHOLDERS' EQUITY:</b>   |                   |                  |
|  | 17,752            | 17,467           |

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-Q

Common stock, \$0.001 par value, 74,000,000 shares authorized, 17,751,887 and 17,467,104 shares issued and outstanding as of March 31, 2011 and June 30, 2010, respectively

|  |               |              |
|--|---------------|--------------|
| Paid-in-capital                            | 34,860,930    | 33,720,762   |
| Retained earnings                          | 28,821,463    | 19,912,444   |
| Statutory reserves                         | 5,705,427     | 4,511,520    |
| Accumulated other comprehensive income     | 5,527,605     | 3,019,983    |
| Total shareholders' equity                 | 74,933,177    | 61,182,176   |
| Total liabilities and shareholders' equity | \$133,465,220 | \$85,611,440 |

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

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME  
(LOSS)  
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
(UNAUDITED)

|  | For the three months ended<br>March 31, |              | For the nine months ended<br>March 31, |              |
|--|---|--------------|--|--------------|
|  | 2011                                    | 2010         | 2011                                   | 2010         |
| <b>REVENUE</b>   |   |              |  |              |
| Sales of concrete  | \$16,534,918                            | \$11,556,117 | \$68,061,657                           | \$46,759,376 |
| Manufacturing services   | 6,118,314                               | 4,060,284    | 17,698,538                             | 10,529,012   |
| Technical services   | 463,434                                 | 587,507      | 2,829,890                              | 3,067,162    |
| Other  | 1,611                                   | 246,858      | 11,220                                 | 1,740,664    |
| Total revenue  | 23,118,277                              | 16,450,766   | 88,601,305                             | 62,096,214   |
| <b>COST OF REVENUE</b>   |   |              |  |              |
| Concrete   | 14,299,775                              | 10,479,692   | 60,644,087                             | 43,269,703   |
| Manufacturing services   | 4,683,952                               | 1,657,288    | 12,814,993                             | 5,478,101    |
| Technical services   | 98,160                                  | 84,120       | 298,461                                | 220,119      |
| Other  | -                                       | 67,175       | -                                      | 444,137      |
| Total cost of revenue  | 19,081,887                              | 12,288,275   | 73,757,541                             | 49,412,060   |
| <b>GROSS PROFIT</b>  | 4,036,390                               | 4,162,491    | 14,843,764                             | 12,684,154   |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>                      |   |              |  |              |
|  | 2,640,981                               | 1,538,889    | 7,466,988                              | 3,591,170    |
| <b>INCOME FROM OPERATIONS</b>  | 1,395,409                               | 2,623,602    | 7,376,776                              | 9,092,984    |
| <b>OTHER INCOME (EXPENSE), NET</b>                                       |   |              |  |              |
| Other subsidy income   | 1,359,194                               | 854,891      | 5,145,613                              | 3,145,178    |
| Realized gain from sales of marketable securities                        | -                                       | -            | -                                      | 27,008       |
| Non-operating (expense), net   | (53,047 )                               | (12,359 )    | (241,021 )                             | (90,887 )    |
| Change in fair value of warrants liability                               | 1,427,927                               | (473,302 )   | 167,777                                | (4,389,947 ) |
| Interest income  | 211,718                                 | 2,985        | 373,867                                | 6,006        |
| Interest expense   | (213,154 )                              | (12 )        | (450,196 )                             | (23,765 )    |
| <b>TOTAL OTHER INCOME (EXPENSE), NET</b>                                 | 2,732,638                               | 372,203      | 4,996,040                              | (1,326,407 ) |
| <b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>                          |   |              |  |              |
|  | 4,128,047                               | 2,995,805    | 12,372,816                             | 7,766,577    |
| <b>PROVISION FOR INCOME TAX</b>  | 565,431                                 | 604,006      | 2,269,890                              | 1,952,633    |
| <b>NET INCOME</b>  | 3,562,616                               | 2,391,799    | 10,102,926                             | 5,813,944    |
| <b>DIVIDENDS AND ACCRETION ON REDEEMABLE CONVERTIBLE PREFERRED STOCK</b> |   |              |  |              |
|  | -                                       | 209,535      | -                                      | 869,234      |

|  |             |             |              |             |
|--|-------------|-------------|--------------|-------------|
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS                | \$3,562,616 | \$2,182,264 | \$10,102,926 | \$4,944,710 |
| COMPREHENSIVE INCOME:                                      |             |             |              |             |
| Other Comprehensive Income (Loss)                          | \$3,562,616 | \$2,391,799 | \$10,102,926 | \$5,813,944 |
| Unrealized loss from marketable securities                 | -           | (20,605 )   | -            | (20,605 )   |
| Foreign currency translation adjustment                    | 743,868     | 23,720      | 2,507,622    | (56,374 )   |
| COMPREHENSIVE INCOME                                       | \$4,306,484 | \$2,394,914 | \$12,610,548 | \$5,736,965 |
| EARNINGS PER COMMON SHARE ALLOCATED TO COMMON SHAREHOLDERS |             |             |              |             |
| Weighted average number of shares:                         |             |             |              |             |
| Basic  | 17,743,970  | 13,941,654  | 17,637,272   | 12,424,000  |
| Diluted  | 18,352,403  | 16,419,906  | 18,173,701   | 15,644,427  |
| Earnings per share:  |             |             |              |             |
| Basic  | \$0.20      | \$0.16      | \$0.57       | \$0.40      |
| Diluted  | \$0.19      | \$0.15      | \$0.56       | \$0.37      |

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

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED MARCH 31, 2011 AND 2010  
(UNAUDITED)

|   | For the nine months ended<br>March 31, |               |
|---|--|---------------|
|   | 2011                                   | 2010          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |  |               |
| Net income  | \$ 10,102,926                          | \$ 5,813,944  |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: |  |               |
| Depreciation  | 2,813,308                              | 2,112,510     |
| Stock-based compensation expense  | 765,538                                | 483,789       |
| Deferred tax provision  | 130,212                                | -             |
| Provision for (recovery) of allowance for doubtful accounts                             | 903,871                                | (128,996 )    |
| Change in fair value of warrants liability  | (167,777 )                             | 4,389,947     |
| Loss realized from disposal of property, plant, and equipment                           | 254,405                                | -             |
| Realized gain on sale of marketable securities  | -                                      | (27,008 )     |
| Changes in operating assets and liabilities   |  |               |
| Accounts receivable   | (33,897,733 )                          | (20,953,143 ) |
| Notes receivable  | (1,359,024 )                           | 10,780        |
| Inventories   | 156,688                                | (843,654 )    |
| Other receivables   | (1,011,550 )                           | 1,504,898     |
| Prepayments   | (622,639 )                             | (847,300 )    |
| Long term prepayment  | 1,305,593                              | (264,834 )    |
| Accounts payable  | 17,196,864                             | 11,970,616    |
| Customer deposits   | 343,828                                | 559,316       |
| Other payables  | 105,687                                | (25,427 )     |
| Accrued liabilities   | (520,692 )                             | 471,460       |
| Taxes payable   | 1,282,476                              | 177,730       |
| Net cash (used in) provided by operating activities                                     | (2,218,019 )                           | 4,404,628     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |  |               |
| Proceeds from sale of marketable securities   | -                                      | 78,187        |
| Advances on equipment purchase  | -                                      | (4,826,142 )  |
| Proceeds from disposal of property, plant, and equipment                                | 747,168                                | -             |
| Purchase of property, plant and equipment   | (985,058 )                             | (4,646,959 )  |
| Investment  | (11,880,800)                           | -             |
| Net cash used in investing activities   | (12,118,690)                           | (9,394,914 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |  |               |
| Proceeds from short term loan   | 12,286,315                             | 146,247       |
| Payments on short term loan   | (75,075 )                              | (4,508,664 )  |
| Rent payment to shareholder   | 9,507                                  | (185,369 )    |
| Restricted cash   | 57,580                                 | 40,668        |
| Proceeds from exercise of options   | -                                      | 187,500       |
| Proceeds from warrants exercised  | -                                      | 571,351       |
| Proceeds from issuance of common stock, net of offering costs                           | -                                      | 11,117,094    |

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-Q

|  |                    |                    |
|--|--------------------|--------------------|
| Preferred dividends paid   | -                  | (415,624 )         |
| Net cash provided by financing activities                          | 12,278,327         | 6,953,203          |
| <b>EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS</b> | <b>2,136,698</b>   | <b>(7,741 )</b>    |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                   | <b>78,316</b>      | <b>1,955,176</b>   |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>              | <b>3,300,820</b>   | <b>3,634,805</b>   |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                    | <b>\$3,379,136</b> | <b>\$5,589,981</b> |

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

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Organization and description of business

China Advanced Construction Materials Group, Inc. (“China ACM”) was incorporated in the State of Delaware on February 15, 2007. China ACM through its 100% owned subsidiaries and its variable interest entities (“VIEs”) (collectively, the “Company”), is engaged in producing general ready-mix concrete, customized mechanical refining concrete, and other concrete-related products that are mainly sold in the People’s Republic of China (“PRC”). China ACM has a wholly-owned subsidiary in the British Virgin Islands (“BVI-ACM”) which is a holding company with no operations. BVI-ACM has a wholly-owned foreign enterprise (“WFOE”) and the WFOE has contractual agreements with an entity which is considered a VIE.

In March and April 2010, the VIE established five 100% owned subsidiaries in the PRC for consulting, concrete mixing and equipment rental services: (1) Beijing Heng Yuan Zheng Ke Technical Consulting Co., Ltd (“Heng Yuan Zheng Ke”), (2) Beijing Hong Sheng An Construction Materials Co., Ltd (“Hong Sheng An”), (3) Beijing Heng Tai Hong Sheng Construction Materials Co., Ltd (“Heng Tai”), (4) Da Tong Ao Hang Wei Ye Machinery, Equipment Rental Co., Ltd (“Da Tong”) and (5) Luan Xian Heng Xin Technology Co., Ltd (Heng Xin). Total registered capital for these five subsidiaries is approximately \$2.1 million (RMB 14 million) and the purpose of these subsidiaries is to support the Company’s future growth.

On September 20, 2010, China ACM established a 100% owned subsidiary, Advance Investment Holdings Co., Inc. (“AIH”) in the State of Nevada. AIH has no operations to date.

Note 2 – Summary of significant accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). For interim financial information and with the instructions to Securities and Exchange Commission (“SEC”), Form 10-Q and Article 10 of SEC Regulation S-X and consistent with the accounting policies stated in the Company’s 2010 Annual Report on Form 10-K. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended June 30, 2010, included in our Annual Report on Form 10-K filed with the SEC.

The interim condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly our consolidated financial position as of March 31, 2011, and its consolidated results of operations and cash flows for the three and nine months ended March 31, 2011 and 2010. The results of operations for the three and nine months ended March 31, 2011 are not necessarily indicative of the results to be expected for future quarters or the full year.

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Principles of consolidation

The unaudited condensed consolidated financial statements reflect the activities of the Company. All material intercompany transactions have been eliminated.

[Missing Graphic Reference]

In accordance with the US GAAP, VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks, rewards and the economic control of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.

Accounting Standards Codification (ASC) 810, addresses whether certain types of entities referred to as VIEs, should be consolidated in a company's consolidated financial statements.

Based upon a series of Contractual Arrangements, the Company determines that Beijing Xin Ao Concrete Group Co., Ltd. ("Xin Ao") and its subsidiaries are VIEs subject to consolidation and that the Company is the primary beneficiary. Accordingly, the financial statements of Xin Ao and its subsidiaries are consolidated into the financial statements of the Company.

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

|                               | March 31,<br>2011 | June 30,<br>2010 |
|-------------------------------|-------------------|------------------|
| Current assets                | \$95,638,412      | \$44,161,471     |
| Property, plant and equipment | 28,244,415        | 25,891,066       |
| Other noncurrent assets       | 6,076,460         | 9,029,763        |
| Total assets                  | 129,959,287       | 79,082,300       |
| Liabilities                   | (55,261,330 )     | (20,486,646)     |
| Intercompany payables*        | (9,534,392 )      | (39,124,318)     |
| Total liabilities             | (64,795,722 )     | (59,610,964)     |
| Net assets                    | \$65,163,565      | \$19,471,336     |

\* Payables are eliminated upon consolidation.

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Use of estimates and assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates made in the preparation of the Company's unaudited condensed consolidated financial statements relate to the assessment of the fair value of share-based payments, the collectability of accounts receivable, valuation allowance of deferred income taxes and useful lives of property, plant and equipment. Actual results could be materially different from those estimates, upon which the carrying values were based.

Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The functional currency of China ACM, AIH, the WOFE and its VIEs is Chinese Renminbi ("RMB") as their functional currency. In accordance with the FASB's guidance on foreign currency translation, the Company's results of operations and cash flows are translated at the average exchange rates during the period, assets and liabilities are translated at the exchange rates at the balance sheet dates, and equity is translated at historical exchange rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Asset and liability accounts at March 31, 2011 and June 30, 2010 were translated at RMB 6.55 and RMB 6.81 to \$1.00, respectively. The average translation rates applied to the condensed consolidated statements of income and cash flows for nine months ended March 31, 2011 and 2010 were RMB 6.68 and RMB 6.84 to \$1.00, respectively.

Translation 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. Gains and losses from foreign currency transactions are included in the results of operations. There were no material transaction gains or losses for the three and nine months ended March 31, 2011 and 2010.

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Revenue recognition

The Company recognizes revenue when the following four criteria are met:

Persuasive evidence of an arrangement exists (the Company considers its sales contracts and technical service agreements to be pervasive evidence of an arrangement);

Delivery has occurred or services have been rendered;

The seller's price to the buyer is fixed or determinable; and

Collectability of payment is reasonably assured.

The Company sells its concrete products and provides concrete technical services primarily to major local construction companies. The agreements list all terms and conditions with the exception of delivery date and quantity, which are evidenced separately in purchase orders. The purchase price of products is fixed in the agreement and customers are not permitted to renegotiate after the contracts have been signed. The agreements include a cancellation clause if the Company or customers breach the contract terms specified in the agreement.

The Company does not sell products to customers on a consignment basis. There is no right of return after the product has been injected into the location specified by the contract and accepted by the customer. The Company recognizes revenue when the goods and services are provided by the Company and are accepted by the customer.

Sales revenue represents the invoiced value of goods, net of a value added tax ("VAT"). All of the Company's concrete products that are sold in the PRC are subject to a Chinese VAT at the rate of 6% of the gross sales price.

Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation in the PRC has granted the Company VAT tax exemption up to June 2011. The Company has applied for VAT tax exemption extension and expect to receive an additional 2-year extension. The VAT tax collected during the aforementioned period from the Company's customers is retained by the Company and recorded as other subsidy income.

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Financial instruments

The accounting standards regarding fair value of financial instruments and related fair value measurements 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 follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Warrants liability, receivables and current liabilities qualify as financial instruments. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities are reasonable estimates of fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value of the warrants was determined using the Cox-Ross-Rubinstein (CRR) Binomial Model, as level 2 inputs, and recorded the change in earnings. As a result, the derivative liability is carried on the balance sheet at its fair value (see note 8).

Stock-based compensation

The Company records stock-based compensation expense pursuant to accounting standard regarding stock compensation which requires companies to measure compensation cost for stock-based employee compensation plans at fair value at the grant date and recognize the expense over the employee's requisite service period. Under ASC Topic 718, the Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Concentration of risk

Major customers – For the three and nine months ended March 31, 2011 and 2010, no customer accounted for more than 10% of the company's total sales. As of March 31, 2011 and June 30, 2010, no customer accounted for more than 10% of the company's account receivable balance.

Notes Receivable

Notes receivable includes trade accounts due from customers where the customers' banks have guaranteed the payment. The notes are non-interest bearing and normally paid within six months. The Company has the ability to submit request for payment to the customer's bank earlier than the scheduled payment date, but will incur an interest charge and a processing fee. The Company had \$1.4 million and \$0 outstanding at March 31, 2011 and June 30, 2010, respectively.

Accounts receivable

During the normal course of business, the Company extends unsecured credit to its customers. Management reviews its accounts receivable 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 when identified. The Company's reserves are consistent with its historical experience and considered adequate by management.

Investment

During the nine months ended March 31, 2011, the Company entered into a one-year investment agreement with a financial investment company, whereby the Company may invest up to RMB 100,000,000. The financial investment company will then invest the Company's funds in certain financial instruments including bonds, mortgage trust or mutual funds. The return on this investment is guaranteed at 7% per annum. The Company's investment is not subject to market fluctuation; therefore, the Company will not experience gain or loss on its investment. However, the Company's funds deposited with the financial investment company are not insured. For the nine months ended March 31, 2011, the Company invested a total of RMB 79,000,000 (\$12,063,300). Investment income of RMB 1,918,500 (approximately \$288,000) was recognized and included in the non-operating income.

Accounting for long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management assesses the recoverability of the assets based on the undiscounted future cash flow the assets are 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, are less than the carrying value of the asset. When management identifies an impairment, the Company reduces 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 values. As of March 31, 2011 and June 30, 2010, management believes there was no impairment.



Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Income taxes

The Company accounts for income taxes in accordance with the accounting standards, which requires the Company to use the assets and liability method of accounting for income taxes. Under the assets and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax bases of existing assets and liabilities. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

The accounting standard defines 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. The Company had no material deferred tax amounts as of March 31, 2011 and June 30, 2010 from its US operation, respectively. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred for the nine months ended March 31, 2011 and 2010. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

The VIE entities have cumulative undistributed earnings of approximately \$40.6 million and \$29.5 million as of March 31, 2011 and June 30, 2010, respectively, included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings.

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

China ACM was organized in the United States and has incurred net operating losses of approximately \$543,000 for income tax purposes for the nine months ended March 31, 2011, which excludes the tax effect of \$765,538 stock based compensation expenses and gain in fair value of warrant liabilities of \$167,777. The cumulative net operating loss carry forwards for United States income taxes amounted to approximately \$1,530,000. The net operating loss carry forwards may be available to reduce future years' taxable income. These carry forwards will expire through 2030. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's limited operating history and continues losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset benefit to reduce the asset to zero. The net change in the valuation allowance for the nine months ended March 31, 2011 was an increase of approximately \$185,000. Management reviews this valuation allowance periodically and makes adjustments accordingly.

Income tax returns for United States for the years prior to 2007 are no longer subject to examination by tax authorities. The deferred tax assets and allowance are as followed:

|                                   | March 31,<br>2011 | June 30,<br>2010 |
|-----------------------------------|-------------------|------------------|
| China ACM                         |                   |                  |
| Net operating losses carryforward | \$1,530,000       | \$986,000        |
| Income tax rate                   | 34 %              | 34 %             |
| Deferred tax assets               | 520,000           | 335,000          |
| Valuation allowance               | (520,000 )        | (335,000 )       |
|                                   | \$-               | \$-              |

## Chinese income taxes

China-ACMH and VIEs are governed by the income tax laws of the PRC concerning Foreign Invested Enterprise ("FIE"), Foreign Enterprises and various local income tax laws (the "Income Tax Laws").

Xin Ao use of recycled raw materials in its production since its inception entitles the Company to an income tax exemption from January 1, 2003, through March 31, 2007 and an income tax reduction from 25% to 15% from January 1, 2009 to December 31, 2011 as granted by the State Administration of Taxation of the PRC. Beginning January 1, 2009, the new Chinese Enterprise Income Tax ("EIT") law replaced the existing laws for Domestic Enterprises ("Des") and FIEs.

PRC laws require that before a FIE can legally distribute profits to its shareholders, it must satisfy all tax liabilities, provide for losses in previous years, and make allocations in proportions made at the discretion of the board of directors, after the statutory reserve. The statutory reserve includes the surplus reserve fund, the common welfare fund, and represents restricted retained earnings, see note 12 for further discussion.

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company adopted accounting policies in accordance with U.S. GAAP with regard to provisions, reserves, inventory valuation method, and depreciation that are consistent with requirements under Chinese income tax laws. The Company had deferred tax assets of \$0 and \$127,741 as of March 31, 2011 and June 30, 2010 from its Chinese operations, respectively. The deferred tax asset balance was acquired by the VIE entity's (XinAo) operating station through the four-year operating lease agreement (see Note 15) during the fiscal year ended June 30, 2010. The lease agreement stated the lessor would transfer its own operating loss carry forward to VIE entity to offset the net income from the station. The net operating loss carry forward resulted in \$668,000 of deferred tax assets on the VIE entity's book and the effective rental payment was therefore reduced by the same amount. For the nine months ended March 31, 2011, the deferred tax assets of \$127,741 had been used to offset the tax liability.

The deferred tax assets and allowance are as followed:

|  |             |   | Deferred<br>tax asset |
|--|-------------|---|-----------------------|
| Xin Ao   |             |   |                       |
| Deferred tax asset, July 1, 2009   |             |   | \$-                   |
| Net operating losses acquired from Xin Ao's station through rental agreement         | \$2,671,644 |   |                       |
| Net income from the station  | (2,160,680) |   |                       |
| Net operating losses available, June 30, 2010  | 510,964     |   |                       |
| Station's income tax rate  | 25          | % | 127,741               |
| Deferred tax assets, June 30, 2010   |             |   | 127,741               |
| Net operating losses utilized to offset current period's net income from the station | (510,964 )  |   |                       |
| Station's income tax rate  | 25          | % | (127,741 )            |
| Deferred tax asset, March 31, 2011   |             |   | -                     |

The Company records interest and penalties assessed due to underpayment of income taxes as interest expense and other expenses, respectively. The Company incurred no such expenses for the nine months ended March 31, 2011 and 2010, respectively.

## Earnings per share

The Company reports earnings per share in accordance with the accounting standards, which requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts, such as warrants, options and convertible preferred stock, to issue common stock were exercised and converted into common stock. Dilutive securities having an anti-dilutive effect on diluted earnings per share are excluded from the calculation.

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Comprehensive income

The accounting standard for reporting and display of comprehensive income and its components in its financial statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a company's financial statements and displayed with the same prominence as other financial statements. The accompanying unaudited condensed consolidated financial statements include comprehensive income consisting of net income and foreign currency translation adjustments.

Note 3 – Supplemental disclosure of cash flow information

For the nine months ended March 31, 2011 and 2010, the Company paid interest in the amount of \$374,538 and \$23,762, respectively.

Cash payments for income taxes for the nine months ended March 31, 2011 and 2010 were \$894,965 and \$2,171,366, respectively.

Non-cash transactions for the investing and financing activities in the periods ended March 31, 2011 and 2010

For the nine months ended March 31, 2011 and 2010, the accretion of the discount on redeemable preferred stock amounted to approximately \$0 and \$521,553, respectively.

For the nine months ended March 31, 2011, 125,000 shares of common stock underlying warrants were converted into 64,783 shares of common stock by the exercise of such warrants on a cashless basis.. For the nine months ended March 31, 2010, 336,937 shares of common stock underlying warrants were converted into 209,471 shares of common stock by the exercise of such warrants on a cashless basis.

For the nine months ended March 31, 2011, \$3,398,384 of advances on equipment purchases were reclassified into property, plant, and equipment.

Note 4 – Accounts receivable

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Accounts receivable are generated from concrete products sold, vehicle rental services provided to other unrelated concrete companies, and technological consulting services provided to the Company's customers and other concrete companies with which the Company conducts business. The payment terms are defined in the respective contracts.

Accounts receivable and allowance for doubtful accounts consisted of the following:

|  | March 31,<br>2011 | June 30,<br>2010 |
|--|-------------------|------------------|
| Accounts receivable, current                       | \$72,723,716      | \$36,528,776     |
| Less: allowance for doubtful accounts, current     | (1,396,679 )      | (456,085 )       |
| Net accounts receivable, current                   | 71,327,037        | 36,072,691       |
| Accounts receivable, non-current                   | -                 | 368,978          |
| Less: allowance for doubtful accounts, non-current | -                 | (4,607 )         |
| Net accounts receivable, non-current               | -                 | 364,371          |
| Total accounts receivable, net                     | \$71,327,037      | \$36,437,062     |

## Note 5 – Property, plant and equipment

Property, plant and equipment consisted of the following:

|                                | Estimated<br>useful life | March 31,<br>2011 | June 30,<br>2010 |
|--------------------------------|--------------------------|-------------------|------------------|
| Transportation equipment       | 10 years                 | \$22,021,981      | \$20,502,987     |
| Plant and machinery            | 10 years                 | 18,670,507        | 13,615,455       |
| Buildings                      | 20 years                 | 144,937           | 123,702          |
| Office equipment               | 5 years                  | 988,021           | 125,550          |
| Construction-in-progress       | -                        | 104,621           | 3,089,785        |
| Total                          |                          | 41,930,067        | 37,457,479       |
| Less: accumulated depreciation |                          | (13,134,015)      | (10,969,125)     |
| Plant and equipment, net       |                          | \$28,796,052      | \$26,488,354     |

Construction-in-progress represents labor costs, materials, and capitalized interest incurred in connection with the construction of a new mixer station inside and outside of the current plant facility in Beijing. No depreciation is provided for construction-in-progress until it is completed and placed into service. Most construction-in-progress is related to assembling of portable machinery the Company purchased with cash and in general the assembling process can be done in less than three weeks. Therefore, no interest expense was capitalized as the capitalized interest was not significant.

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Depreciation expense for the three months ended March 31, 2011 and 2010 amounted to \$994,243 and \$724,627 respectively. Depreciation expense for the nine months ended March 31, 2011 and 2010 amounted to \$2,813,308 and \$2,112,510, respectively.

## Note 6 – Prepayments

Short-term prepayments are primarily comprised of short-term portion of the factory rental prepayments the Company made (see Note 15 for more information on the factory rental) and advances on inventory purchases. Short-term prepayments as of March 31, 2011 and June 30, 2010 consisted of the following:

|                                     | March 31,<br>2011 | June 30,<br>2010 |
|-------------------------------------|-------------------|------------------|
| Advances on inventory purchases     | \$1,787,645       | \$691,364        |
| Current portion of rent prepayments | 1,770,354         | 2,112,823        |
| Other                               | -                 | 17,500           |
| Total short-term prepayments        | \$3,557,999       | \$2,821,687      |

Long-term prepayments represent the long-term factory rental prepayments the Company has made.

## Note 7 – Short term loans, banks

Short term loans represent amounts payable to banks that are due within one year or on demand. As of March 31, 2011 and June 30, 2010, the outstanding balances on these loans were \$14,506,500 and \$0, respectively, and these loans consisted of the following:

|  | March 31,<br>2011 | June 30,<br>2010 |
|--|-------------------|------------------|
| Loan from Huaxia Bank. interest rate of 5.841% per annum, due August 18, 2011, guaranteed by Mr. Han Xianfu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Material Co., LTD | \$1,527,000       | \$-              |
| Loan from Shanghai Pudong Development Bank. interest rate of 5.841% per annum, due September 29, 2011, guaranteed by Beijing Xinhang Construction Group  | 9,162,000         | -                |
| Loan from Citibank, interest rate of 5.83% per annum, due September 26, 2011, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili  | 2,290,500         | -                |
| Loan from Zhaoshang Bank, interest rate of 6.116% per annum, due November 4, 2011, guaranteed by Mr. Han Xianfu and Beijing Jinshengding Mineral Co., LTD.   | 1,527,000         | -                |
|  | \$14,506,500      | \$-              |

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interest expense on short-term loans for the three months ended March 31, 2011 and 2010 amounted to \$209,325 and \$0, respectively. Interest expense on short-term loans for the nine months ended March 31, 2011 and 2010 amounted to \$408,697 and \$23,762, respectively.

## Note 8 – Warrants liability

The fair value of the warrants was \$2,377,828 and \$2,920,520 on March 31, 2011 and June 30, 2010, respectively. For the three months ended March 31, 2011 and 2010, the Company recognized a \$1,427,927 gain and \$473,302 loss from the change in fair value, respectively. For the nine months ended March 31, 2011 and 2010, the Company recognized a \$167,777 gain and \$4,389,947 loss from the change in fair value of the warrants liability.

These common stock purchase warrants do not trade in an active securities market, and as such, the Company estimates the fair value of these warrants using the CRR Binomial Model using the following assumptions:

|                         | March 31,<br>2011 | June 30,<br>2010 |
|-------------------------|-------------------|------------------|
| Annual dividend yield   | -                 | -                |
| Expected life (years)   | 2.25              | 3.00             |
| Risk-free interest rate | 0.9 %             | 0.98 %           |
| Expected volatility     | 80 %              | 80 %             |

Expected volatility is based on historical volatility of a similar U.S. public company due to limited trading history of the Company's common stock. The Company has no reason to believe future volatility over the expected remaining life of these 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. The expected dividend yield was based on the Company's current and expected dividend policy.

The following table sets forth by level within the fair value hierarchy the warrants liability that were accounted for at fair value on a recurring basis as of March 31, 2011.

|                    | Carrying<br>Value at<br>March 31,<br>2011 | Fair Value Measurement at<br>March 31, 2011 |             |         |
|--------------------|---|---|-------------|---------|
|                    |   | Level 1                                     | Level 2     | Level 3 |
| Warrants liability | \$2,377,828                               | \$-   | \$2,377,828 | \$-     |

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

|                    | Carrying<br>Value at<br>June 30,<br>2010 | Fair Value Measurement at<br>June 30, 2010 |             |         |
|--------------------|--|--|-------------|---------|
|                    |  | Level 1                                    | Level 2     | Level 3 |
| Warrants liability | \$2,920,520                              | \$-  | \$2,920,520 | \$-     |

The following is a reconciliation of the beginning and ending balances of warrants liability measured at fair value on a recurring basis using significant observable inputs (Level 2) as of March 31, 2011:

|   |             |
|---|-------------|
| Beginning balance   | \$2,920,520 |
| Warrants exercised for the nine months ended March 31, 2011   | (374,915 )  |
| Change in fair value for the nine months ended March 31, 2011 | (167,777 )  |
| Ending balance  | \$2,377,828 |

## Note 9 – Related party transactions

## Other payables – shareholders

Mr. He Weili, a 20.10% shareholder, leases office space to the Company at approximately the current fair market value from July 2010 to June 2011 with annual payments of approximately \$176,000. For the three months ended March 31, 2011 and 2010, the Company recorded rent expense to the shareholder in the amount of approximately \$44,000 and \$43,000, respectively. For the nine months ended March 31, 2011 and 2010, the Company recorded rent expense to the shareholder in the amount of approximately \$133,000 and \$130,000, respectively. As of March 31, 2011 and June 30, 2010, approximately \$32,000 and \$4,000, respectively, remained unpaid, and is included in other payables - shareholders.

The Company's 30.1% and 20.1% shareholders, Mr. Han Xianfu and Mr. He Weili, respectively, together loaned \$750,900 to BVI-ACM on March 12, 2008 for working capital purposes. The loan is non-interest bearing, unsecured, and is payable on demand.

Total other payables - shareholders as of March 31, 2011, and June 30, 2010 as follows:

|                                    | March 31,<br>2011 | June 30,<br>2010 |
|------------------------------------|-------------------|------------------|
| Han Xianfu, shareholder            | \$450,540         | \$450,540        |
| He Weili, shareholder              | 332,570           | 322,104          |
| Total other payable – shareholders | \$783,110         | \$772,644        |

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Note 10 – Income taxes

## Corporate income taxes for China

Xin Ao's effective income tax rate for China is 15% through December 31, 2011. In 2012, the effective tax rate will be 25%. For the three months ended March 31, 2011 and 2010, the provision for income taxes amounted to \$565,431 and \$604,006, respectively. For the nine months ended March 31, 2011 and 2010, the provision for income taxes amounted to \$2,269,890 and \$1,952,633, respectively.

As a result of Xin Ao receiving an Enterprise High Tech Certificate, estimated tax savings for the three months ended March 31, 2011 and 2010 amounted to \$376,954 and \$402,671, respectively. The net effect on earnings per share attributable to controlling interest had the income tax rate of 25% been applied would decrease earnings per share from \$0.20 to \$0.18 for the three months ended March 31, 2011, and \$0.16 to \$0.13 for the three months ended March 31, 2010.

As a result of Xin Ao receiving an Enterprise High Tech Certificate, estimated tax savings for the nine months ended March 31, 2011 and 2010 amounted to \$1,513,260 and \$1,301,755, respectively. The net effect on earnings per share attributable to controlling interest had the income tax been applied would decrease earnings per share from \$0.57 to \$0.48 for the nine months ended March 31, 2011, and \$0.40 to \$0.30 for the nine months ended March 31, 2010.

|  | For the three months<br>ended<br>March 31, |           | For the nine months ended<br>March 31, |             |
|--|--|-----------|--|-------------|
|  | 2011                                       | 2010      | 2011                                   | 2010        |
| Current                                  |  |           |  |             |
| USA                                      | \$-  | \$-       | \$-                                    | \$-         |
| China                                    | 565,431                                    | 604,006   | 2,269,890                              | 1,952,633   |
|  | 565,431                                    | 604,006   | 2,269,890                              | 1,952,633   |
| Deferred                                 |  |           |  |             |
| Allowance for doubtful accounts          | -  | -         | -                                      | -           |
| Net operating loss carryforward utilized | -  | -         | -                                      | -           |
| Valuation allowance                      | -  | -         | -                                      | -           |
| Net deferred                             | -  | -         | -                                      | -           |
| Total                                    | \$565,431                                  | \$604,006 | \$2,269,890                            | \$1,952,633 |

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Taxes payable consisted of the following:

|                      | March 31,<br>2011 | June, 30,<br>2010 |
|----------------------|-------------------|-------------------|
| Income taxes payable | \$2,873,390       | \$1,536,610       |
| Other taxes payables | 58,333            | 33,304            |
| Total taxes payable  | \$2,931,723       | \$1,569,914       |

## Note 11 – Shareholders’ equity

On June 11, 2008, the Company completed an offering (the “Offering”) on the sale of 875,000 of investment units for a total of \$7,000,000, each unit consisting of one share of the Company’s Series A Redeemable Convertible Preferred Stock, \$0.001 par value per share, and one (1) five year warrant to purchase two shares of Common Stock (the “Warrants”). Each preferred share is convertible into four shares of common stock at \$8 per share. Additionally, each holder is entitled to cumulative dividends equal to 9% annually, payable in cash, irrespective of the profitability of the Company. During Fiscal 2010 all preferred stock was redeemed or converted in accordance with the original maturity dated of June 12, 2010.

The Company received net proceeds of approximately \$5,223,291 with \$930,000 in an escrow and after payment of certain fees and expenses. \$497,500 was paid to Maxim Group LLC (“Maxim”) who served as the placement agent for the transaction, \$9,500 was paid to American Stock Transfer & Trust Company as a transfer agent fee, \$60,000 was paid to the attorney, and \$45,000 was paid for a finance fee for the purchasers in connection with the transaction. These offering costs approximating \$602,500 were charged to paid-in capital. The allocation of the proceeds from the investment to a relative fair value basis resulted in the allocation of \$5,798,000 to the Series A Preferred and \$1,202,000 to the warrants.

The Company also issued to the placement agent a warrant to purchase an aggregate of 245,000 shares of common stock with an exercise price of \$2.40 per share with a term of five years. The warrants are exercisable on a cashless basis, in whole or in part, at an exercise price equal to \$2.40 per share. The Company may call the warrants for redemption at any time after the warrants become exercisable (i) at a price of \$0.01 per warrant; (ii) upon not less than 30 days’ prior written notice of redemption to each warrant holder; and (iii) if, and only if, the last sale price of the common stock equals or exceeds \$5.00 per share, for any twenty (20) trading days within a thirty (30) consecutive trading day period ending on the third business day prior to the notice of redemption to warrant holders. All placement warrants had been exercised by January 2010.

The value of the warrants issued to the placement agent was \$169,345 calculated by using the CRR Binomial Model. The fair value of these warrants of \$169,345 was recognized as offering expense and charged to additional paid-in capital. The value of the warrants was determined using the CRR Binomial Model using the following assumptions: volatility 80%; risk-free interest rate of 0.9% of the Investor Warrants, the Placement and Advisory Warrants; dividend yield of 0%, and expected term of 5 years of the Investor Warrants and the Placement and Advisory Warrants. The volatility of the Company’s common stock was estimated by management based on the historical volatility of a similar U.S. public company due to limited trading history of the Company’s common stock. The risk-free interest rate was based on the Treasury Constant Maturity Rates published by the U.S. Federal Reserve for periods applicable to the expected life of the warrants. The expected dividend yield was based on the Company’s current and expected dividend policy and the expected term is equal to the contractual life of the warrants.



Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Following is a summary of the status of investor warrants outstanding:

| Exercise Price | Number  | Average<br>Remaining<br>Contractual Life |
|----------------|---------|--|
| \$2.40         | 616,375 | 2.19 years                               |

The following is a summary of the investor warrants activity for the nine months ended March 31, 2011:

|                                  |           |
|----------------------------------|-----------|
| Outstanding as of June 30, 2010  | 678,875   |
| Granted                          | -         |
| Forfeited                        | -         |
| Exercised                        | (62,500 ) |
| Outstanding as of March 31, 2011 | 616,375   |

In connection with the private placement, the Company agreed to file a registration statement to register the warrants and common stock issuable upon conversion of the preferred stock and exercise of the warrants, as defined. The registration statement was declared effective in January 2009; the Company incurred \$140,000 in penalties for late registration based on the contract in connection with the private placement.

On July 16, 2009, the Company issued 650,988 shares of its common stock, at a price of \$2.30 per share, to its employees. The Company received net proceeds of approximately \$1.5 million.

On March 1, 2010, the Company closed an offering of 2,000,000 shares of its common stock, at a price of \$4.6 per share, less than 1% underwriting commission. The Company received net proceeds of approximately \$8.4 million after deducting a total of \$0.82 million underwriting commission, legal counsel, and other expenses directly related to the offering. Also, the Company issued an additional 300,000 shares of common stock to cover over-allotments on March 22, 2010 and received net proceeds of \$1.2 million less \$0.14 million underwriter commission and other direct expenses.

Employee Stock Options

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under the employee stock option plan, the Company's stock options expire ten years from the date of grant. On October 3, 2008, the Company entered into a one-year agreement with one of the Company's directors. In connection with his services, the Company issued an aggregate of 50,000 options of the Company's common stock at an exercise price of \$2.90 per share. The options vest in equal quarterly installments over the first year of the agreement. As of March 31, 2011, all of the 50,000 options have been fully vested.

On December 1, 2008, the Company entered into a three-year agreement with the Company's former Chief Financial Officer. In connection with his services, the Company issued from the option bonus pool a total of 200,000 options to purchase the Company's common stock. The option bonus pool consists of four equal tranches of 50,000 options, with the first tranche of 50,000 options carrying an exercise price of \$3.00, the second tranche of 50,000 options carrying an exercise price of \$3.50, the third tranche of 50,000 options carrying an exercise price of \$4.00, and the fourth tranche of 50,000 options carrying an exercise price of \$4.50. A quarter (25%) of each tranche of options will vest at the end of each twelve-month period of the agreement. Upon termination of his service in the first quarter of 2010, in addition to the 50,000 vested options per the vesting schedule described above, the Company agreed to vest additional 50,000 shares of options (12,500 shares from each tranche) immediately.

In January, 2010, the Company appointed a new CFO who is also the President of the Company. In connection with his services, the Company granted 12,500 options vesting on February 23, 2010 with an exercise price of \$4.64, 35,000 share options vesting on March 5, 2010 with an exercise price \$5.38, 15,000 option vesting on June 30, 2010 contingent upon a performance condition and exercise price at \$5.38, and 50,000 options vesting on July 15, 2010 contingent upon a performance condition and exercise price at \$5.38. As of March 31, 2011, the 15,000 and 50,000 contingent options were forfeited due to failure to meet the performance condition.

The Company valued the stock options by the CRR binomial model with the following assumptions:

|                   | Expected<br>Term | Expected<br>Volatility | Dividend<br>Yield | Risk Free<br>Interest Rate | Grant Date<br>Fair Value |
|-------------------|------------------|------------------------|-------------------|----------------------------|--------------------------|
| Director          | 5.31             | 75                     | % 0               | % 1.41                     | % \$2.90                 |
| CFO and president | 5.50             | 44                     | % 0               | % 1.70                     | % \$5.95                 |

There are no options granted, forfeited or exercised during the nine months ended March 31, 2011.

Following is a summary of the status of options outstanding and exercisable at March 31, 2011:

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| Outstanding options    |        |  | Exercisable options    |        |                                 |  |
|------------------------|--------|--|------------------------|--------|---------------------------------|--|
| Average Exercise price | Number | Average remaining contractual life (years) | Average Exercise price | Number | Weighted average exercise price |  |
| \$2.90                 | 50,000 | 7.52                                       | \$2.90                 | 50,000 | \$2.90                          |  |
| \$4.64                 | 12,500 | 8.90                                       | 4.64                   | 12,500 | 4.64                            |  |
| \$5.38                 | 35,000 | 8.93                                       | 5.38                   | 35,000 | 5.38                            |  |
|                        | 97,500 |  |                        | 97,500 |                                 |  |

For the three months ended March 31, 2011 and 2010, the Company recognized approximately \$0 and \$264,000, respectively, as compensation expenses for its stock option plan. For the nine months ended March 31, 2011 and 2010, the Company recognized approximately \$0 and \$328,000, respectively, as compensation expenses for its stock option plan.

## Restricted Stock Awards

Restricted stocks awarded are measured based on the market price on the grant date. The Company has awarded restricted shares of common stocks to the board of directors, senior management, and consultants.

For the nine months ended March 31, 2011, the Company granted the following restricted stock: 1) 50,000 shares to the Board of Directors and Secretary for one year of services vesting quarterly from the respective grant date, 2) 120,000 shares to a consulting company for 6 month of services vesting immediately on the grant date; and 3) 50,000 shares to the Chief Financial Officer with the first 25,000 shares vesting quarterly from the grant date and the second 25,000 shares vesting upon approval by the Board of Director.

For the three months ended March 31, 2011 and 2010, the Company recognized \$303,349 and \$98,669 of related compensation expenses. For the nine months ended March 31, 2011 and 2010, the Company recognized \$765,538 and \$156,051 of related compensation expenses. Following is a summary of the restricted stock activity for the nine months ended March 31, 2011:

|                                |            |
|--------------------------------|------------|
| Nonvested as of June 30, 2010  | 62,500     |
| Granted                        | 220,000    |
| Vested                         | (202,500 ) |
| Nonvested as of March 31, 2011 | 80,000     |

## Note 12 – Reserves and dividends

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



Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. The remaining reserve to fulfill the 50% registered capital requirement amounted to approximately \$11.3 million and \$12 million as of March 31, 2011 and June 30, 2010.

The transfer to this reserve must be made before distribution of any dividends to the Company's shareholders. The surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.

The Chinese government restricts distributions of registered capital and the additional investment amounts required by foreign invested enterprises. Approval by the Chinese government must be obtained before distributions of these amounts can be returned to the shareholders.

## Note 13 – Earnings per share

The following is a reconciliation of the basic and diluted earnings per share computation for the three and nine months ended March 31, 2011 and 2010:

|   | Three months ended<br>March 31, |             | Nine months ended<br>March 31, |             |
|---|---------------------------------|-------------|--------------------------------|-------------|
|   | 2011                            | 2010        | 2011                           | 2010        |
| <b>Basic earnings per share</b>             |                                 |             |                                |             |
| Net income available to common shareholders | \$3,562,616                     | \$2,182,264 | \$10,102,926                   | \$4,944,710 |
| Weighted average shares outstanding-Basic   | 17,743,970                      | 13,941,654  | 17,637,272                     | 12,424,000  |
| Earnings per share-Basic                    | \$0.20                          | \$0.16      | \$0.57                         | \$0.40      |
| <b>Diluted earnings per share</b>           |                                 |             |                                |             |
| Net income available to common shareholders | \$3,562,616                     | \$2,182,264 | \$10,102,926                   | \$4,944,710 |
| Add: Dividends on preferred stock           | -                               | 87,712      | -                              | 347,681     |
| Add: Accretion on preferred stock           | -                               | 121,823     | -                              | 521,553     |
| Net income for diluted EPS                  | \$3,562,616                     | \$2,391,799 | \$10,102,926                   | \$5,813,944 |
| Weighted average shares outstanding-Basic   | 17,743,970                      | 13,941,654  | 17,637,272                     | 12,424,000  |
| Restricted stock                            | 20,000                          | 15,000      | 20,000                         | 15,000      |
| Warrants and options                        | 588,433                         | 643,752     | 516,429                        | 1,385,927   |
| Preferred stock                             | -                               | 1,819,500   | -                              | 1,819,500   |
| Weighted shares outstanding-Diluted         | 18,352,403                      | 16,419,906  | 18,173,701                     | 15,644,427  |
| Earnings per share-Diluted                  | \$0.19                          | \$0.15      | \$0.56                         | \$0.37      |

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On June 11, 2008, the Company issued 875,000 shares of preferred stock of which 865,625 shares preferred stock had been converted into 3,462,500 of common stock and 9,375 shares of preferred stock had been redeemed for \$75,000. Dividends on the preferred stock and accretion of the initial discount from the redemption value of the preferred stock, both of which are charged to retained earnings, were subtracted from net income to determine net income available to common shareholders for the purposes of computing basic earnings per share. In calculating diluted earnings per share, the convertible preferred stock was treated as common stock equivalents on an as-converted basis. The dividends and accretion on the preferred stock were added back to the net income available to common shareholders for calculating diluted earnings per share, as if the preferred stock were converted at the beginning of the period. For three and nine months ended March 31, 2011, 616,375 warrants at an exercise price of \$2.40 per share were included in the diluted EPS calculation, which under treasury stock method resulted in an additional 570,871 and 502,231 shares of common stocks, respectively. Further, 50,000 stock options and 20,000 shares of restricted stock vested but not issued were included in the diluted EPS calculation for the three and nine months ended March 31, 2011.

Note 14 – Employee pension

The Company offers a discretionary pension fund, a defined contribution plan, to qualified employees. The pension includes two parts: the first to be paid by the Company is 20% of the employee's actual salary in the prior year. The other part, paid by the employee, is 8% of the actual salary. The Company's contributions of employment benefits, including pension were approximately \$71,253 and \$50,674 for the three months ended March 31, 2011 and 2010, respectively. The Company's contributions of employment benefits, including pension were approximately \$264,787 and \$107,496 for the nine months ended March 31, 2011 and 2010, respectively.

Note 15 – Operating leases

The Company entered into a lease agreement for a manufacturing plant with an unrelated party which expires on September 30, 2013 with annual payments of approximately \$197,000. Further, the Company agreed to lease office space from the Company's shareholder, Mr. He Weili, from July 2010 to June 2011 with annual payment of approximately \$176,000. The rent is valued at fair value from the main property management.

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company entered into three five-year and one four-year operating lease agreements during the fourth quarter of 2009. The lease payments are for four manufacturing plants with various unrelated parties for a total monthly payment of \$213,000. Certain lease payments have been pre-paid by transferring the Company's long-term accounts receivable to the lessors in exchange for agreeing to no increase in the future. One of the lease agreements was terminated early on November 30, 2010.

Total operating lease expense for the three months ended March 31, 2011 and 2010 was \$404,005 and \$703,245, respectively. Total operating lease expense for the nine months ended March 31, 2011 and 2010 was \$1,903,230 and \$2,094,615, respectively. Operating lease expense is included in cost of revenue, selling, general, and administrative expenses. Future annual lease payments, net of rent prepayment made as of March 31, 2011, under non-cancelable operating leases with a term of one year or more consist of the following:

| Years ending March 31, | Amount     |
|------------------------|------------|
| 2012                   | \$ 202,312 |
| 2013                   | 202,312    |
| 2014                   | 310,628    |
|                        | \$ 715,252 |

## Note 16 - Business Segments

The Company's operations are classified into four principal reportable segments that provide different products or services. The Company is engaged in the business of selling concrete, manufacturing concrete, providing technical support services and others, which include mixer rental, sales of materials and marketing cooperation. Separate segment is required because each business unit is subject to different production and technology strategies.

For the three months ended March 31, 2011:

|                        | Sales of<br>concrete | Manufacturing<br>services | Technical<br>services | Others  | Corporate   | Total        |
|------------------------|----------------------|---------------------------|-----------------------|---------|-------------|--------------|
| Net sales              | \$16,534,918         | \$ 6,118,314              | \$463,434             | \$1,611 | \$-         | \$23,118,277 |
| Depreciation           | (323,020 )           | (622,950 )                | (1,972 )              | -       | (46,301 )   | (994,243 )   |
| Operating income(loss) | 2,099,444            | 1,384,151                 | 361,471               | 1,598   | (2,451,255) | 1,395,409    |
| Other income, net      | 789,600              | 525,210                   | -                     | -       | 1,419,264   | 2,734,074    |
| Interest income        | -                    | -                         | -                     | -       | 211,718     | 211,718      |
| Interest expenses      | -                    | -                         | -                     | -       | (213,154 )  | (213,154 )   |
| Capital expenditure    | (712,293 )           | (152,874 )                | -                     | 119     | -           | (865,286 )   |

Table of Contents

## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended March 31, 2011:

|                        | Sales of<br>concrete | Manufacturing<br>services | Technical<br>services | Mixer<br>rental | Corporate   | Total        |
|------------------------|----------------------|---------------------------|-----------------------|-----------------|-------------|--------------|
| Net sales              | \$68,061,657         | \$ 17,698,538             | \$2,829,890           | \$11,220        | \$-         | \$88,601,305 |
| Depreciation           | (920,327 )           | (1,793,747 )              | (3,381 )              | -               | (95,853 )   | (2,813,308 ) |
| Operating income(loss) | 6,987,949            | 4,771,827                 | 2,513,566             | 11,149          | (6,907,715) | 7,376,776    |
| Other income, net      | 3,888,794            | 1,139,822                 | -                     | -               | 43,753      | 5,072,369    |
| Interest income        | -                    | -                         | -                     | -               | 373,867     | 373,867      |
| Interest expenses      | -                    | -                         | -                     | -               | (450,196 )  | (450,196 )   |
| Capital expenditure    | (3,478,366 )         | (904,503 )                | -                     | (573 )          | -           | (4,383,442 ) |

For the three months ended March 31, 2010:

|                        | Sales of<br>concrete | Manufacturing<br>services | Technical<br>services | Others    | Corporate   | Total        |
|------------------------|----------------------|---------------------------|-----------------------|-----------|-------------|--------------|
| Net sales              | \$11,556,117         | \$ 4,060,284              | \$587,507             | \$246,858 | \$-         | \$16,450,766 |
| Depreciation           | (181,552 )           | (487,801 )                | (1,682 )              | (46,074 ) | (7,518 )    | (724,627 )   |
| Operating income(loss) | 1,015,670            | 2,381,649                 | 500,298               | 178,384   | (1,452,399) | 2,623,602    |
| Other income, net      | 601,917              | 240,615                   | -                     | -         | -           | 842,532      |
| Interest income        | -                    | -                         | -                     | -         | 2,985       | 2,985        |
| Interest expenses      | -                    | -                         | -                     | -         | (12 )       | (12 )        |
| Capital expenditure    | (21,210 )            | (28,084 )                 | -                     | -         | (5,630 )    | (54,924 )    |

For the nine months ended March 31, 2010:

|                        | Sales of<br>concrete | Manufacturing<br>services | Technical<br>services | Others      | Corporate   | Total        |
|------------------------|----------------------|---------------------------|-----------------------|-------------|-------------|--------------|
| Net sales              | \$46,759,376         | \$ 10,529,012             | \$3,067,162           | \$1,740,644 | \$-         | \$62,096,194 |
| Depreciation           | (751,539 )           | (1,198,643 )              | (4,228 )              | (136,027 )  | (22,073 )   | (2,112,510 ) |
| Operating income(loss) | 3,209,690            | 4,987,866                 | 2,828,678             | 1,286,084   | (3,219,334) | 9,092,984    |
| Other income, net      | 2,455,431            | 620,355                   | -                     | -           | 5,513       | 3,081,299    |
| Interest income        | -                    | -                         | -                     | -           | 6,006       | 6,006        |
| Interest expenses      | -                    | -                         | -                     | -           | (23,765 )   | (23,765 )    |
| Capital expenditure    | (158,372 )           | (4,756,574 )              | -                     | -           | (29,022 )   | (4,943,968 ) |

Table of Contents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 17 – Commitments and contingencies

Litigation

From time to time, the Company is a party to various legal actions arising in the ordinary course of business. The Company's management does not expect the legal matters involving the Company would have a material impact on the Company's condensed consolidated financial position or results of operations.

Following is the summary of the current litigation:

Beijing Xin Ao Concrete Co., Ltd vs. Beijing Boda Guosheng Investment Co., Ltd. (Beijing District Court, PRC)

In August 2006, Xin Ao filed a lawsuit against Beijing Boda Guosheng Investment Co., Ltd ("Boda") seeking specific performance of Boda's obligations under the sales contract to pay approximately \$294,600 (RMB 2,000,000) for the cement supplied by Xin Ao between March 2005 and June 2005 and compensatory damages of approximately \$23,500 (RMB 171,000) to cover the interest incurred on the unpaid balance. The Court ruled against Boda and ordered Boda to pay the amounts requested by Xin Ao; however, Boda appealed the court's rulings. In November 2007, the Appeals Court upheld the original verdict and again ordered Boda to pay all the damages. Management does not believe that the ultimate outcome of this case will have a material adverse effect on the Company's consolidated financial position or results of operations. As of March 31, 2011, the Company has factored this amount to an unrelated third party trust company and the trust company has received the payment from Boda.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The words “believe,” “expect,” “anticipate,” “project,” “target,” “optimistic,” “intend,” “aim,” similar expressions are intended to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. These statements are based on the beliefs of our management as well as assumptions made by and information currently available to us and reflect our current view concerning future events. As such, they are subject to risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among many others: uncertainty of capital resources; the speculative nature of our business; our ability to successfully implement new strategies; present and possible future governmental regulations; operating hazards; competition; the loss of key personnel; any of the factors in the “Risk Factors” section of the Company’s Annual Report on Form 10-K; other risks identified in this Report; and any statements of assumptions underlying any of the foregoing. You should also carefully review other reports that we file with the SEC. The Company assumes no obligation and does not intend to update these forward-looking statements, except as required by law.

All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Company assumes no obligation and does not intend to update these forward-looking statements, except as required by law. When used in this report, the terms “China ACM”, “Company”, “we”, “our”, and “us” refer to China Advanced Construction Materials Group, Inc. (a Delaware corporation) and its wholly-owned subsidiaries Advanced Investment Holdings Co, Inc., Xin Ao Construction Materials, Inc. (“BVI-ACM”) and Beijing Ao Hang Construction Materials Technology Co., Ltd. (“China-ACMH”), as well as the Company’s variable interest entities, Beijing Xin Ao Concrete Co., Ltd. (“Xin Ao”), Beijing Heng Yuan Zheng Ke Technical Consulting Co., Ltd., Hong Sheng An Construction Materials Co., Ltd., Heng Tai Hong Sheng Construction Materials Co., Ltd., Da Tong Ao Hang Wei Ye Machinery, Equipment Rental Co., Ltd., and Luan Xian Heng Xin Technology Co., Ltd.

ITEM MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS.

Use of Non-GAAP Financial Measures

The Company makes reference to Non-GAAP financial measures in portions of “Management’s Discussion of Financial Condition and Results of Operations”. Management believes that investors may find it useful to review our financial results that exclude the net non-cash expense of \$597,761 for the nine months ended March 31, 2011 on option and stock-based compensation along with the change in fair value of warrants liability, shown in the below chart, due to the adoption of Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) 815, “Derivatives and Hedging,” accounting standard as discussed in the section “Derivative Liability” below.

Management believes that these Non-GAAP financial measures are useful to investors in that they provide supplemental information to possibly better understand the underlying business trends and operating performance of the Company. The Company uses these Non-GAAP financial measures to evaluate operating performance. However, Non-GAAP financial measures should not be considered as an alternative to net income or any other performance measures derived in accordance with GAAP.

Table of Contents

|  | Three Months Ended<br>March 31, |             | Increase<br>(Decrease) | Nine Months Ended<br>March 31, |             | Increase<br>(Decrease) |
|--|---------------------------------|-------------|------------------------|--------------------------------|-------------|------------------------|
|  | 2011<br>(UNAUDITED)             | 2010        |                        | 2011<br>(UNAUDITED)            | 2010        |                        |
| Net Income (Loss)  |                                 |             |                        |                                |             |                        |
| -GAAP  | \$3,562,616                     | \$2,391,799 | \$1,170,817            | \$10,102,926                   | \$5,813,944 | \$4,288,982            |
| Subtract:  |                                 |             |                        |                                |             |                        |
| Dividends and accretion<br>on redeemable<br>convertible preferred<br>stock | \$0                             | \$209,535   | \$(209,535 )           | \$0                            | \$869,234   | \$(869,234 )           |
| Net Income available to<br>Common shareholders                             |                                 |             |                        |                                |             |                        |
| -GAAP  | \$3,562,616                     | \$2,182,264 | \$1,380,352            | \$10,102,926                   | \$4,944,710 | \$5,158,216            |
| Add Back (Subtract):   |                                 |             |                        |                                |             |                        |
| Change in fair value of<br>warrants  | \$(1,427,927 )                  | \$473,302   | \$1,901,229            | \$(167,777 )                   | \$4,389,947 | \$4,557,724            |
| Add Back (Subtract):   |                                 |             |                        |                                |             |                        |
| Change in Option and<br>Equity Based<br>Compensation                       | \$303,349                       | \$363,011   | \$(59,662 )            | \$765,538                      | \$483,789   | \$281,749              |
| Adjusted Net Income<br>available to Common<br>shareholders                 |                                 |             |                        |                                |             |                        |
| -non-GAAP  | \$2,438,038                     | \$3,018,577 | \$580,539              | \$10,700,687                   | \$9,818,446 | \$882,241              |
| Basic earning per share -<br>GAAP  | \$0.20                          | \$0.16      | \$0.04                 | \$0.57                         | \$0.40      | \$0.17                 |
| Add back (Subtract):   |                                 |             |                        |                                |             |                        |
| Change in fair value of<br>warrant   | \$(0.08 )                       | \$0.03      | \$(0.11 )              | \$(0.01 )                      | \$0.35      | \$(0.36 )              |
| Add back (Subtract):   |                                 |             |                        |                                |             |                        |
| Change in Option and<br>Equity-Based<br>Compensation                       | \$0.02                          | \$0.03      | \$(0.01 )              | \$0.04                         | \$0.04      | \$-                    |
| Adjusted basic earning<br>per share non-GAAP                               | \$0.14                          | \$0.22      | \$(0.08 )              | \$0.60                         | \$0.79      | \$(0.19 )              |
| Diluted earning per<br>share-GAAP  | \$0.19                          | \$0.15      | \$0.04                 | \$0.56                         | \$0.37      | \$0.19                 |
| Add back (Subtract):   |                                 |             |                        |                                |             |                        |
| Change in fair value of<br>warrant   | \$(0.08 )                       | (a) \$0.03  | \$(0.11 )              | \$(0.01 )                      | (a) \$0.28  | \$(0.29 )              |
| Add back (Subtract):   |                                 |             |                        |                                |             |                        |
| Change in Option and<br>Equity-Based<br>Compensation                       | \$0.02                          | (b) \$0.02  | \$-                    | \$0.04                         | (b) \$0.03  | \$0.01                 |
|  | \$0.13                          | \$0.20      | \$(0.07 )              | \$0.59                         | \$0.68      | \$(0.09 )              |

Adjusted diluted earning  
per share non-GAAPWeighted average  
number of shares

|         |            |            |           |            |            |           |
|---------|------------|------------|-----------|------------|------------|-----------|
| Basic   | 17,743,970 | 13,941,654 | 3,802,316 | 17,637,272 | 12,424,000 | 5,213,272 |
| Diluted | 18,352,403 | 16,419,906 | 1,932,497 | 18,173,701 | 15,644,427 | 2,529,274 |

(a) The Company adopted the provisions of FASB ASC 815, which provides guidance with respect to determining whether an instrument (or embedded feature) is indexed to an entity's own stock. As a result of adopting this accounting standard, warrants previously treated as equity pursuant to the derivative treatment exemption are no longer afforded equity treatment because the warrants have a downward ratchet provision on the exercise price. As a result, the warrants are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expired. The Company recognized a \$1,427,927 credit from the change in fair value for the three months ended March 31, 2011.

(b) The Company records stock-based compensation expense pursuant to FASB's accounting standard regarding stock compensation which requires companies to measure compensation cost for stock-based employee compensation plans at fair value at the grant date and recognize the expense over the employee's requisite service period. Under ASC 718, "Compensation-Stock Compensation," the Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For the nine months ended March 31, 2011 and 2010, the Company recognized \$765,538 and \$156,051 of restricted stock as compensation expense. For the nine months ended March 31, 2011 and 2010, the Company recognized \$0 and \$327,738, respectively, as compensation expenses for its stock option plan.

## Table of Contents

### Overview

China ACM is a holding company whose primary business operations are conducted through our wholly-owned subsidiaries BVI-ACM and China-ACMH, and our variable interest entity, Xin Ao and its subsidiaries. The Company engages in the production of advanced construction materials for large scale commercial, residential, and infrastructure developments. We are primarily focused on producing and supplying a wide range of advanced ready-mix concrete materials for highly technical, large scale, and environmentally-friendly construction projects.

In March and April 2010, XinAo established five 100% owned subsidiaries in China and they are Beijing Heng Yuan ZhengKe Technical Consulting Co., Ltd (“Heng Yuan ZhengKe”), Beijing Hong Sheng An Construction Materials Co., Ltd (“Hong Sheng An”), Beijing Heng Tai Hong Sheng Construction Materials Co., Ltd (“Heng Tai”), Da Tong Ao Hang Wei Ye Machinery and Equipment Rental Co., Ltd (“Da Tong”) and Luan Xian HengXin Technology Co., Ltd (“Luan Xian HengXin”). Total registered capital for these five subsidiaries is approximately \$2.1 million (RMB 14 million) and there has been no significant operations as of March 31, 2011. The purpose of these new subsidiaries is to support the Company's future growth.

During the nine months ended March 31, 2011, we, together with our subsidiaries and variable interest entities, supported materials, services and our high speed railway projects through our network of ready-mixed concrete plants throughout Beijing (four as of March 31, 2011) and our portable plants (twenty-five as of March 31, 2011) located in various provinces throughout China. We own one concrete plant and its related equipment, and we lease three additional plants in Beijing. In addition, we have technical and preferred procurement agreements with three independently owned concrete mixture stations, pursuant to which we are paid by percentages of cost savings for technical support provided to clients and of sales price for projects we refer to other stations due to the geographical location of our owned and leased plants. Two of the technically serviced plants are located in Datong, Shaanxi and one in Mianyang, Sichuan. Our manufacturing services are used primarily for our national high speed railway projects; almost all of our general contract contractors on the high speed railway projects supply the needed raw materials, which results in higher gross margins for us and reduces our upfront capital investments needed to purchase raw materials. We also produce ready-mix concrete at portable plants, which can be dismantled and moved to new sites for new projects. Our management believes that we have the ability to capture a greater share of the Beijing market and further expand our footprint in China via expanding relationships and networking, signing new contracts, and continually developing market-leading innovative and eco-friendly ready-mix concrete products. Based on reports from the National Development and Reform Commission, or NDRC, we anticipate that our revenues will further expand due to the announced \$586 billion infrastructure stimulus packages by the Chinese government in 2008, which will focus primarily on transportation related projects such as railway, highway, and transportation related infrastructure. Additionally, the Ministry of Rail has announced its plans to invest \$120.75 Billion (RMB823.5 Billion) in 70 new projects upgrading rail infrastructure in calendar 2010 which, together with future planned rail infrastructure investment, will total \$730 Billion (RMB5 Trillion) by 2020. China's State Development and Reform Commission recently announced plans to expand China's subway system to 6,100KM investing \$105 Billion (RMB700 Billion) through 2020. According to the Investment Research Institute of China's State Development and Reform Commission during the 12th 5 year plan from 2011-2015 the Chinese government will invest \$450 billion (RMB 3 trillion) in railway and another \$460 billion (RMB3.05 trillion) in rural infrastructure.

### Principal Factors Affecting Our Financial Performance

We believe that the following factors will continue to affect our financial performance:

**Large Scale Contractor Relationships.** We have contracts with major construction contractors which are constructing key infrastructure, commercial and residential projects. Our sales efforts focus on large-scale projects and large customers which place large recurring orders and present less credit risk to us. For the nine months ended March 31,

2011, five customers accounted for approximately 20% of the Company's sales and 14.65% of the Company's account receivables as of March 31, 2011. Should we lose any of these customers in the future and are unable to obtain additional customers, our revenues will suffer.

**Experienced Management.** Management's technical knowledge and business relationships gives us the ability to secure major infrastructure projects, which provides us with leverage to acquire less sophisticated operators, increase production volumes, and implement quality standards and environmentally sensitive policies. Significant turnover in our senior management could significantly deplete the institutional knowledge held by our existing senior management team.

## Table of Contents

**Innovation Efforts.** We strive to produce the most technically and scientifically advanced products for our customers and maintain close relationships with Tsinghua University, Xi'an University of Architecture and Technology and Beijing Dongfangjanyu Institute of Concrete Science & Technology which assist us with our research and development activities. During our 5 year agreement with the parties, we have realized an advantage over many of our competitors by gaining access to a wide array of resources and knowledge. One payment of approximately \$154,000 to Dongfangjanyu Institute of Concrete Science and Technology was paid under the agreement.

**Competition.** Our competition includes a number of state-owned and large private PRC-based manufacturers and distributors that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Essentially all of the contracts on which we bid are awarded through a competitive bid process, with awards often being made to the lowest bidder for our concrete sales business segment, distinct from our manufacturing services segment, though other factors such as shorter schedules or prior experience with the customer are often just as important. Within our markets, we compete with many national, regional and local state-owned and private construction firms some of which have achieved greater market penetration or have greater financial and other resources than us. In addition, there are a number of larger national companies in our industry that could potentially establish a presence in our markets and compete with us for contracts. If we are unable to compete successfully in our markets, our relative market share and profits could be reduced.

## PRC Taxation

Our subsidiary, China-ACMH and its VIE, Xin Ao are governed by the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises, or FIEs, and Foreign Enterprises and various local income tax laws (the Income Tax Laws).

Xin Ao has been using recycled raw materials in its production since its inception which entitled us to an income tax exemption from January 1, 2003 through December 31, 2007 and an income tax reduction from 25% to 15% from January 1, 2009 through December 31, 2011 as granted by the State Administration of Taxation, PRC. The renewal certificate was awarded based on the company's involvement in producing high-tech products, its research and development, as well as its technical services.

On March 16, 2007, the National People's Congress of the PRC passed the new enterprise income tax law, or EIT Law, which took effect as of January 1, 2008. Under the new EIT Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25% on its global income. The new EIT Law, however, does not define the term "de facto management bodies." If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our global income will be subject to PRC income tax at a tax rate of 25.0%. In addition, under the new EIT Law, dividends from our PRC subsidiaries to us will be subject to a withholding tax. The rate of the withholding tax has not yet been finalized, pending promulgation of implementing regulations. Furthermore, the ultimate tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiary. The new EIT Law imposes a unified income tax rate of 25% on all domestic-invested enterprises and FIEs, such as our PRC operating subsidiaries, unless they qualify under certain limited exceptions, but the EIT Law permits companies to continue to enjoy their existing preferential tax treatments until such treatments expire in accordance with their current terms. Because the Company's operating subsidiary, Xin Ao's use of recycled raw materials in its production since its inception entitled the Company to an income tax exemption from January 1, 2003, through to December 31, 2007 and an income tax reduction from 25% to 15% from January 1, 2009 to December 31, 2011 as granted by the State Administration of Taxation of the PRC. The income tax exemption granted to the Company was eliminated after December 31, 2007. Beginning January 1, 2008, the new Chinese EIT law replaced the existing laws for Domestic Enterprises, or DES, and FIEs. Effective January 1, 2009, the China-ACM new reduced EIT rate of 15% replaced the existing rates of 25% currently applicable to both DES and FIEs.

All of the Company's concrete products that are sold in the PRC are subject to a Chinese VAT at the rate of 6% of the gross sales price. Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT tax exemption through June 2011.

Derivative Liability

32

---

Table of Contents

Effective July 1, 2009, the Company adopted the provisions of ASC 815, which determines whether an instrument (or embedded feature) is indexed to an entity's own stock. This accounting standard specifies that a contract which would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified as stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. This accounting standard 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.

As such, warrants previously treated as equity pursuant to the derivative treatment exemption are no longer afforded equity treatment because the warrants have a downward ratchet provision on the exercise price. As a result, the warrants are not considered indexed to the Company's own stock, and, as such, all future changes in the fair value of these warrants will be recognized as earnings until such time as the warrants are exercised or expire.

**Business Segments and Periods Presented**

We have provided a discussion of our results of operations on a consolidated basis and have also provided certain detailed segment information for each of our business segments below for the three and nine months ended March 31, 2011 and 2010, in order to provide a meaningful discussion of our business segments. We have organized our operations into four principal segments: selling concrete, manufacturing concrete, providing technical support services and others, which include mixer rental, sales of materials and marketing cooperation. We present our segment information along the same lines that our executives review our operating results in assessing performance and allocating resources.

**BUSINESS SEGMENT RESULTS – THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

|                     | Concrete Sales |            | Manufacturing Services |            | Technical Services |          | Others |           | Corporate   |     |
|---------------------|----------------|------------|------------------------|------------|--------------------|----------|--------|-----------|-------------|-----|
|                     | 2011           | 2010       | 2011                   | 2010       | 2011               | 2010     | 2011   | 2010      | 2011        |     |
| Net sales           | 16,534,918     | 11,556,117 | 6,118,314              | 4,060,284  | 463,434            | 587,507  | 1,611  | 246,858   | -           | -   |
| Depreciation        | (323,020 )     | (181,552 ) | (622,950 )             | (487,801 ) | (1,972 )           | (1,682 ) | -      | (46,074 ) | (46,301 )   | (7) |
| Segment profit      | 2,099,444      | 1,015,670  | 1,384,151              | 2,381,649  | 361,471            | 500,298  | 1,598  | 178,384   | (2,451,255) | (1) |
| Other income, net   | 789,600        | 601,917    | 525,210                | 240,615    | -                  | -        | -      | -         | 1,419,264   | -   |
| Interest income     | -              | -          | -                      | -          | -                  | -        | -      | -         | 211,718     | 2,  |
| Interest expenses   | -              | -          | -                      | -          | -                  | -        | -      | -         | (213,154 )  | (1) |
| Capital expenditure | (712,293 )     | (21,210 )  | (152,874 )             | (28,084 )  | -                  | -        | (119 ) | -         | -           | (5) |

**BUSINESS SEGMENT RESULTS – NINE MONTHS ENDED MARCH 31, 2011 AND 2010**

|                   | Concrete Sales |            | Manufacturing Services |              | Technical Services |           | Others |            |         |        |
|-------------------|----------------|------------|------------------------|--------------|--------------------|-----------|--------|------------|---------|--------|
|                   | 2011           | 2010       | 2011                   | 2010         | 2011               | 2010      | 2011   | 2010       | 2011    |        |
| Net sales         | 68,061,657     | 46,759,376 | 17,698,538             | 10,529,012   | 2,829,890          | 3,067,162 | 11,220 | 1,740,644  | -       | -      |
| Depreciation      | (920,327 )     | (751,539 ) | (1,793,747 )           | (1,198,643 ) | (3,381 )           | (4,228 )  | -      | (136,027 ) | (95,85) |        |
| Segment profit    | 6,987,949      | 3,209,690  | 4,771,827              | 4,987,866    | 2,513,566          | 2,828,678 | 11,149 | 1,286,084  | (6,907) |        |
| Other income, net | 3,888,794      | 2,455,431  | 1,139,822              | 620,355      | -                  | -         | -      | -          |         | 43,753 |

|                     |              |            |            |              |   |   |        |   |        |
|---------------------|--------------|------------|------------|--------------|---|---|--------|---|--------|
| Interest income     | -            | -          | -          | -            | - | - | -      | - | 373,86 |
| Interest expenses   | -            | -          | -          | -            | - | - | -      | - | (450,1 |
| Capital expenditure | (3,478,366 ) | (158,372 ) | (904,503 ) | (4,756,574 ) | - | - | (573 ) | - | -      |

## Table of Contents

### Concrete Sales Business

Our concrete sales business segment is comprised of the formulation, production and delivery of the Company's line of C10-C100 concrete mixtures primarily through our current fixed plant network of 4 ready mix concrete batching plants in Beijing. For this segment of our business, we procure all of our own raw materials, mix them according to our measured mixing formula, ship the final product in mounted transit mixers to the destination work site, and, for more sophisticated structures, will pump the mixture and set it into structural frame moulds as per structural design parameters.

### Manufacturing Services Business

Our manufacturing services business segment is comprised of the formulation, production and delivery of project-specific concrete mixtures primarily through our current portable plant network of 25 rapid assembly and deployment batching plants, located in various provinces throughout China. Our clients will purchase and provide the raw materials in volume on a separate account which we will then proportion and mix according to our formulation for a given project's specifications. At present, our manufacturing services business segment is primarily dedicated to various high speed rail projects in China which demand very high quality standards on a time sensitive work schedule.

### Technical Services Business

Our technical services business segment is comprised of the our third party production management services, including chemical engineering and ready-mix consulting services for independently owned concrete plants and their associated projects. We manage the production and receive a percentage of our client contractors' profits based on cost savings generated.

### Other Services

Our final business segment is comprised of other services which we engage in from time to time, including marketing cooperation and mixer rentals. When we are unable to service projects due to geographic limitations, we refer projects to several other independently-owned mixture stations as part of our marketing cooperation and existing relationships with contractors. We are paid a percentage of the sales price of the business that is referred. The marketing cooperation allows us to capture business that might otherwise be uneconomical due to capital requirements. We also generate revenues by renting our mixing trucks to other mixer stations.

### Consolidated Results of Operations

#### Comparison of the Three Months Ended March 31, 2011 and 2010

The following table sets forth key components of our results of operations for the three months ended March 31, 2011 and 2010, in US dollars:

|               | Three Months Ended<br>March 31, |               |                        |                                      |
|---------------|---------------------------------|---------------|------------------------|--------------------------------------|
|               | 2011                            | 2010          |                        |                                      |
|               | (UNAUDITED)                     |               |                        |                                      |
|               |                                 |               | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
| Total revenue | \$ 23,118,277                   | \$ 16,450,766 | \$ 6,667,511           | 41%                                  |

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-Q

|   |              |              |              |        |
|---|--------------|--------------|--------------|--------|
| Total cost of revenue                           | 19,081,887   | 12,288,275   | 6,793,612    | 55%    |
| Gross profit                                    | 4,036,390    | 4,162,491    | (126,101)    | (3)%   |
| Selling, general and administrative expenses    | 2,640,981    | 1,538,889    | 1,102,092    | 72%    |
| Other income, net                               | 2,732,638    | 372,203      | 2,360,435    | 634%   |
| Income before provision for income taxes        | 4,128,047    | 2,995,805    | 1,132,242    | 38%    |
| Income taxes expense                            | 565,431      | 604,006      | (38,575)     | (6)%   |
| Net income                                      | 3,562,616    | 2,391,799    | 1,170,817    | 49%    |
| Dividends and accretion on redeemable preferred | 0            | 209,535      | (209,535)    | (100)% |
| Net income available to Common shareholders     | \$ 3,562,616 | \$ 2,182,264 | \$ 1,380,352 | 63%    |

## Table of Contents

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products, manufacturing services and technical consulting services. For the three months ended March 31, 2011, we generated revenue of \$23,118,277, compared to \$16,450,766 during the same period in 2010, an increase of \$6,667,511, or 41%. Such increase in our revenue is due primarily to our increased production volumes both in and outside of Beijing for the three months ended March 31, 2011 compared to the same period in 2010.

On November 15, 2010, we announced a 25% average price increase across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8%. As a result, our concrete sales revenue was \$16,534,918 for the three months ended March 31, 2011, an increase of \$4,978,801, or 43%. The increase in revenues attributable to concrete sales was principally due to a greater capacity utilization coupled with higher prices and organic growth to include a broader client base.

During the three months ended March 31, 2011, we continued to supply concrete products to ten railway projects throughout China through our portable plants, specifically projects located in Shaanxi Province, Hebei Province, Guangxi Province, Zhejiang Province, Guangdong Province, Liaoning Province, and Anhui Province. These ten projects contributed \$6,118,314 to our total revenue for the three months ended March 31, 2011, an increase of \$2,058,030, or 51%, compared to the three months ended March 31, 2010. The increase in revenue was attributable principally to the addition of new portable plants to service a growing business pipeline compared to the same period in the prior fiscal year. For these railway projects, the general contractors typically supplied their own raw materials while we provided manufacturing and transportation services.

In addition, revenue generated through our technical consulting services was \$463,434 during the three months ended March 31, 2011, a decrease of \$124,073, or 21%, compared to the same period in 2010. The decrease is due to the service term expiration of two technically serviced contract plants in Beijing compared to the same period in 2010. During the three months ended March 31, 2011, we also engaged in other services which generated revenues of \$1,611, a decrease of \$245,247, or 99%, as we experienced greater overall fleet capacity utilization as our business expands.

We anticipate that our overall sales revenue will continue to grow due to the Chinese government's announcement of a RMB 4 trillion (USD\$586 billion) stimulus package in November 2008 as well as the Chinese government's railroad project plans, which are expected to cost a total of \$730 billion through 2020 and the 12th 5 Year Plan installment. We anticipate that we will be a direct beneficiary of transportation and infrastructure build-out from China's stimulus package. In addition, we plan to continue expanding our business into new geographical markets by leveraging our strong relationships with major contractors throughout China.

Cost of Revenue. Cost of Revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was \$19,081,887 for the three months ended March 31, 2011, as compared to \$12,288,275 for the three months ended March 31, 2010, an increase of \$6,793,612, or 55%. The increase of cost of revenue was due to the overall increase in production from our fixed concrete plants in the Beijing area and increased production on manufacturing services as compared to the same period in 2010. The increase in cost of revenue was also due to the fixed costs associated with the addition of new portable plants, as well as increases in crude oil prices, which increased the costs of raw materials and transportation during this quarter compared to the same period last year. We are uncertain whether crude oil prices or raw material prices will maintain at the current level in the near future. We intend to raise our concrete prices to keep pace with increases in raw material and particularly cement pricing.

The cost of revenue on concrete increased \$3,820,083, or 36%, for the three months ended March 31, 2011, as compared to the same period of 2010. Such increase was due to an increase in our concrete production as a result of increased capacity utilization leading to a larger base of raw material purchases supporting a higher overall volume of

traditional concrete sales for a resulting broader client base, as well as the increase in crude oil prices and raw materials as indicated above as compared to the same period last year.

Cost of revenue with respect to our manufacturing services increased \$3,026,664, or 183%, during the three months ended March 31, 2011, as compared to the same period last year. The increase in our cost of sales is due primarily to the greater operational fixed cost base associated with the addition of new portable plants which have not yet reached production economies of scale, as well slowing production at portable plants nearing project completion due to delayed municipal government resident relocation efforts for land development and other project delays associated with the transition in leadership at the Ministry of Rail.

Gross Profit. Our gross profit is equal to the difference between our revenue and cost of sales. Gross profit was \$4,036,390 for the three months ended March 31, 2011, as compared to \$4,162,491 for the three months ended March 31, 2010. Our gross profit for sale of concrete was \$2,235,143, or 14% of revenue, for the three months ended March 31, 2011, compared to \$1,076,425, or 9% of revenue, for the same period last year, an increase of \$1,158,718. The increased gross profit for concrete sales for the three months ended March 31, 2011, compared with the same period in 2010, reflects higher demand and higher prices for our concrete products in Beijing as compared to the same period last year. More specifically, on November 15, 2010, we announced a 25% average price increase across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8%. As a value added cement product, we intend to continue adjusting our concrete sales prices in tandem with changes in the prices of cement.

## Table of Contents

Our gross profit with respect to our manufacturing services was \$1,434,362, or 23%, for the three months ended March 31, 2011, a decrease of \$968,634 from the same period of 2010. Such decrease was principally due to an increase of fixed costs incurred as a result of the addition of a large number of new portable plants before they commenced production, as well as slowing production rates at plants nearing project completion and project delays stemming from delayed municipal government resident relocation efforts as well as an increase in costs of transportation.

Our gross profit with respect to technical services was \$365,274, or 79%, for the three months ended March 31, 2011, compared to \$503,387, or 86%, for the same period last year, a decrease of \$138,113, or 27%. The primary reason for the decrease is the service term expiration of two technically serviced plants in Beijing.

Our gross profit with respect to other services was \$1,611, or 100%, during the three months ended March 31, 2011 compared to \$179,683, or 73%, for the same period last year, a decrease of \$178,072, or 99%, as we experienced greater overall fleet capacity utilization as our business expands.

We plan to continue expanding our manufacturing services as well as targeting new higher margin concrete sales markets, which produce the highest scalable gross profits among our revenue sectors.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional and legal fees paid to third parties. We incurred selling, general and administrative expenses of \$2,640,981 for the three months ended March 31, 2011, an increase of \$1,102,092, or 72%, as compared to \$1,538,889 for the three months ended March 31, 2010. The increase was principally due to an increase in employment, salary and benefit and lease expenses resulting from higher production and a larger base of operations during the year, and professional and consulting expenses from being a public company and resulting from our overall production expansion.

**Other Income (Expense), net.** Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), change in fair value of warrants, and other non-operating income (expense). We recognized net other income of \$2,732,638 for the three months ended March 31, 2011, as compared to net other income of \$372,203 for the three months ended March 31, 2010, an increase of \$2,360,435, or 634%. The increase in net other income was primarily due to an increase in change in fair value of warrants income credit of \$1,427,927 as compared to an expense of (\$473,302) during the same period last year. We also experienced an increase in other subsidy income to \$1,359,194 for the three months ended March 31, 2011, as compared to \$854,891 in the same period of 2010, an increase of \$504,303, or 59%. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us VAT tax exemption through June 2011. The VAT tax collected during the aforementioned period from our customers is retained by the Company and recorded as other subsidy income. In addition, we had interest expense of \$213,154 for the three months ended March 31, 2011, as compared to \$12 for the three months ended March 31, 2010, an increase of \$213,142. This was offset by Interest income of \$211,718 for the three months ended March 31, 2011, as compared to \$2,985 in the same period of 2010, an increase of \$208,733, or 6993%.

**Provision for Income Taxes.** Provision for income taxes amounted to \$565,431 and \$604,006 for the three months ended March 31, 2011 and 2010, respectively. We have used recycled raw materials in our concrete production since our inception, which entitled us to an income tax exemption from January 1, 2003 through December 31, 2007, and an income tax rate reduction from January 1, 2009 to December 31, 2011, as granted by the State Administration of Taxation, PRC. From January 1, 2008 through December 31, 2008, we were subject to a 25% income tax rate. Since January 1, 2009, we have been subject to a 15% income tax rate. In the past, XinAo has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at

present the Company is unable to determine the extent of such liability, if any.

Net Income. We recognized net income of \$3,562,616 for the three months ended March 31, 2011, as compared to net income of \$2,391,799 for the same period in 2010, an increase of \$1,170,817. Such increase in net income was attributable to an increase in change in fair value of warrants income of \$1,427,927 as compared to an expense of \$473,302 during the same period last year offset by an increase in production costs for portable plants nearing project completion, new portable plants not yet in operation, project delays associated with delayed resident relocations and leadership transition at the ministry of railway and higher selling, general, and administrative expense on an increased labor base of a larger scale operations. Our management believes that our profits may increase during the next 3 months as we benefit from successful consolidation in the cement industry and as we continue to expand into service sectors and geographies that generate higher gross margins and because we are a direct beneficiary of Chinese government's stimulus package on infrastructure projects. We may also consider to lease or build new plants in order to increase our accessibility to construction sites located in Beijing, expand into other geographical areas, as well as vertically integrate our operations across the supply chain, which we believe will lower our costs and provide greater profitability.

Table of Contents

Dividends and accretion on redeemable preferred stock. The decrease in dividends and accretion on redeemable convertible preferred stock of \$209,535 for the three months ended March 31, 2011, as compared to the same period in 2010, was due to the maturity of the redeemable convertible preferred on June 12, 2010.

Net Income available to Common shareholders. Excluding the effect from non-cash charges related to changes in fair market of warrants, accretion of discount on redeemable preferred stock and share-based compensation, our net income available to Common shareholders would be \$2,438,038 for the three months ended March 31, 2011, a decrease of \$580,539, or 19%, as compared to net income after cash dividends paid of \$3,018,577 for the same period in 2010. See the section “Use of Non-GAAP Financial Measures” above for a discussion regarding the presentation of net income excluding non-cash gain (loss).

### Comparison of the Nine months Ended March 31, 2011 to March 31, 2010

The following table sets forth key components of our results of operations for the nine months ended March 31, 2011 and 2010, in US dollars:

|   | Nine months Ended<br>March 31, |               |                        |                        |
|---|--------------------------------|---------------|------------------------|------------------------|
|   | 2011                           | 2010          |                        | Percentage             |
|   | (UNAUDITED)                    |               |                        | Increase               |
|   |                                |               | Increase<br>(Decrease) | Increase<br>(Decrease) |
| Total revenue                                   | \$ 88,601,305                  | \$ 62,096,214 | \$ 26,505,091          | 43%                    |
| Total cost of revenue                           | 73,757,541                     | 49,412,060    | 24,435,481             | 49%                    |
| Gross profit                                    | 14,843,764                     | 12,684,154    | 2,159,610              | 17%                    |
| Selling, general and administrative expenses    | 7,466,988                      | 3,591,170     | 3,875,818              | 108%                   |
| Other income (expense), net                     | 4,996,040                      | (1,326,407)   | 6,322,447              | 477%                   |
| Income before provision for income taxes        | 12,372,816                     | 7,766,577     | 4,606,239              | 59%                    |
| Income taxes expense                            | 2,269,890                      | 1,952,633     | 317,257                | 16%                    |
| Net income                                      | 10,102,926                     | 5,813,944     | 4,288,982              | 74%                    |
| Dividends and accretion on redeemable preferred | 0                              | 869,234       | (869,234)              | (100)%                 |
| Net income available to Common shareholders     | \$ 10,102,926                  | \$ 4,944,710  | \$ 5,158,216           | 104%                   |

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products, manufacturing services and technical consulting services. For the nine months ended March 31, 2011, we generated revenue of \$88,601,305 compared to \$62,096,214 during the same period in 2010, an increase of \$26,505,091 or 43%. Such increase is due to our increased production volumes both in and outside of Beijing for the nine months ending March 31, 2011. In addition, on November 15, 2010, we announced a 25% average price increase across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8%. As a result, our concrete sales revenue was \$68,061,657 for the nine months ended March 31, 2011, an increase of \$21,302,281, or 46%. The increase in revenues attributable to concrete sales was principally due to greater capacity utilization at our Beijing fixed plants coupled with higher prices and organic growth to include a broader client base.

During the nine months ended March 31, 2011, we continued to supply concrete products to ten railway projects throughout China through our portable plants, specifically our projects located in Shaanxi Province, Jiangsu Province, Hebei Province, Guangxi Province, Zhejiang Province, Guangdong Province, Liaoning Province, and Anhui Province. These ten projects contributed \$17,698,538 to our total revenue for the nine months ended March 31, 2011, an increase of \$7,169,526, or 68%, compared to the nine months ended March 31, 2010. The increase in revenues

attributable to our manufacturing services was principally due to the addition of new portable plants to service a growing business pipeline. For these railway projects, the general contractors generally supplied their own raw materials while we provided manufacturing and transportation services.

## Table of Contents

In addition, revenue generated through our technical consulting services was \$2,829,890 during the nine months ended March 31, 2011, a decrease of \$237,272, or 8%, compared to the same period in 2010. The decrease is due to the service term expiration of two technically serviced contract plants in Beijing. During the nine months ended March 31, 2011, we also rented our mixer trucks to mixture stations and provided other services which generated revenues of \$11,220, a decrease of \$1,729,444, or 99%, as we experienced greater overall fleet capacity utilization as the business expands.

We anticipate that our overall sales revenue will continue to grow due to the Chinese government's announcement of a RMB 4 trillion (USD\$586 billion) stimulus package in November 2008 as well as the Chinese government's railroad project plans, which are expected to cost a total of \$730 billion through 2020 and the 12th 5 Year Plan installment. We anticipate that we will be a direct beneficiary of transportation and infrastructure build-out from China's stimulus package. In addition, we plan to continue expanding our business into new geographical markets by leveraging our strong relationships with major contractors throughout China.

**Cost of Revenue.** Cost of Revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was \$73,757,541 for the nine months ended March 31, 2011, as compared to \$49,412,060 for the nine months ended March 31, 2010, an increase of \$24,345,481, or 49%. The increase of cost of revenue was due to the overall increase in production from our fixed concrete plants in the Beijing area and increased production on manufacturing and technical services as well as other services compared to the same period in 2010. The increase in cost of revenue was also due to the addition of new portable plants, as well as increases in labor and crude oil prices, which increased the costs of raw materials and transportation during this quarter compared to the same period last year. We are uncertain whether crude oil prices or raw material prices will maintain at the current level in the near future. We intend to raise our concrete prices to keep pace with increases in raw material pricing in particular the price of cement.

The cost of revenue on concrete increased \$17,374,384, or 40%, for the nine months ended March 31, 2011, as compared to the same period in 2010. Such increase was due to an increase in our concrete production leading to a larger base of raw material purchases supporting a higher overall volume of traditional concrete sales for a resulting broader client base, as well as the increase labor costs and crude oil prices and raw materials as indicated above as compared to the same period last year.

Cost of revenue with respect to our manufacturing services increased \$7,336,892 or 134%, during the nine months ended March 31, 2011, as compared to the same period last year. The increase in our cost of sales is due primarily to the greater operational fixed cost base associated with the addition of new portable plants which have not yet reached production economies of scale, as well slowing production at portable plants nearing project completion and delayed municipal government resident relocation efforts for land development and overall project delays associated with leadership transition at the Ministry of Rail.

**Gross Profit.** Our gross profit is equal to the difference between our revenue and cost of sales. Gross profit was \$14,843,764 for the nine months ended March 31, 2011, as compared to \$12,684,154 for the nine months ended March 31, 2010. Our gross profit for sale of concrete was \$7,417,570, or 11% of revenue, for the nine months ended March 31, 2011, compared to \$3,489,673, or 7% of revenue, for the same period in 2010, an increase of \$3,927,897. The higher gross profit for concrete sales for the nine months ended March 31, 2011, compared with the same period in 2010, reflects higher demand and higher prices for our concrete products in Beijing as compared to the same period last year. The primary reason for the margin increase in concrete sales from 7% in the same period in 2010 is due to a 25% average price increase in the second fiscal quarter of our 2011 fiscal year across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8% in addition to improving overall operational efficiencies at our Beijing fixed plants. We intend to continue to adjust our concrete sales prices in tandem with price fluctuations in cement.

Our gross profit with respect to our manufacturing services was \$4,883,545, or 28%, for the nine months ended March 31, 2011, a decrease of \$167,366 from the same period in 2010. Such decrease was principally due to an increase of fixed costs incurred as a result of the addition of a large number of new portable plants before they commenced production, as well as slowing production rates at plants nearing project completion and project delays stemming from delayed municipal government resident relocation efforts as well as an increase in costs of transportation. The primary reasons for the margin drop from 48% during the same period last year are (i) the mismatch of a larger operation fixed cost base during a period of capacity ramp-up, (ii) the fact that a significant number of plants (Lulong, Hebei; Panjin, Liaoning; Ningbo, Zhejiang; Hangzhou, Zhejiang and Zhuji Xiaoshan, Zhejiang) nearing project completion experienced production slowdowns as they approach redeployment or retirement, (iii) operational inefficiencies due to project delays associated with municipal government delayed resident relocation efforts at two of our plants (Zhaoqing, Guangdong and Guangxi), and (iv) the fact that three plants (Suzhou, Jiangsu; Liuzhou, Guangxi and Ankang, Shaanxi) were retired/redeployed as they reached the end of their contracts. The Company expects to record in subsequent periods the balance of income associated with delayed projects for ongoing contracts.

## Table of Contents

Our gross profit with respect to technical services was \$2,531,429, or 89%, for the nine months ended March 31, 2011, compared to \$2,847,043, or 93%, for the same period last year, a decrease of \$315,614, or 11%. The primary reason for the decrease is the service term expiration of two technically serviced plants in Beijing when compared to the nine months ended March 31, 2010.

Our gross profit with respect to mixer rentals and other services was \$11,220, or 100%, during the nine months ended March 31, 2011, compared to \$1,296,527, or 75%, for the same period last year, a decrease of \$1,285,307, or 99%, as we experienced greater overall fleet capacity utilization as our business expands.

We plan to continue expanding our manufacturing services as well as targeting new higher margin concrete sales markets, which produce the highest scalable gross profits among our revenue sectors.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional and legal fees paid to third parties. We incurred selling, general and administrative expenses of \$7,466,988 for the nine months ended March 31, 2011, an increase of \$3,875,818, or 108%, as compared to \$3,591,170 for the nine months ended March 31, 2010. The increase was principally due to an increase in employment, salary and benefit and lease expenses resulting from higher production and a larger base of operations during the year, and professional and consulting expenses from being a public company and resulting from our overall production expansion.

**Other Income (Expense), net.** Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), change in fair value of warrants, and other non-operating income (expense). We incurred net other income of \$4,996,040 for the nine months ended March 31, 2011, as compared to net other (expense) of \$(1,326,407) for the nine months ended March 31, 2010, an increase in other income of \$6,322,447, or 477%. The increase in net other income was primarily due to a increase in change in fair value of warrants income of \$167,777 as compared to an expense of \$4,389,947 during the same period last year. We also experienced an increase in other subsidy income to \$5,145,613 for the nine months ended March 31, 2011, as compared to \$3,145,718 in the same period in 2010, an increase of \$1,999,895, or 64%. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us VAT tax exemption from August 2005 to August 2009, and thereafter a two year extension on the VAT tax exemption from June 2009 to June 2011. The VAT tax collected during the aforementioned period from our customers is retained by the Company and recorded as other subsidy income. In addition, we had interest expense of \$450,196 for the nine months ended March 31, 2011, as compared to \$23,765 for the nine months ended March 31, 2010, an increase of \$426,431. In addition the Company also had Interest income of \$373,867 for the nine months ended March 31, 2011, as compared to \$6,006 in the same period in 2010, an increase of \$367,861, or 6125%.

**Provision for Income Taxes.** Provision for income taxes amounted to \$2,269,890 and \$1,952,633 for the nine months ended March 31, 2011 and 2010, respectively. We have used recycled raw materials in our concrete production since our inception, which entitled us to an income tax exemption from January 1, 2003 through December 31, 2007, and an income tax rate reduction from January 1, 2009 to December 31, 2011, as granted by the State Administration of Taxation, PRC. From January 1, 2008 through December 31, 2008, we were subject to a 25% income tax rate. Since January 1, 2009, we have been subject to a 15% income tax rate. In the past, XinAo has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at present the Company is unable to determine the extent of such liability, if any.

**Net Income.** We recognized net income of \$10,102,926 for the nine months ended March 31, 2011, as compared to net income of \$5,813,944 for the same period in 2010, an increase of \$4,288,982. Such increase in net income was primarily due to a increase in change in fair value of warrants income of \$167,777 as compared to an expense of

\$4,389,947 during the same period last year in addition to higher prices and organic growth to include a broader client base driving a yearly increase in our plant production capacity across our plant network including the addition of new portable plants across the country, all of which were offset by an increase in production costs for retiring plants, plants nearing retirement, new portable plants not yet in operation, project delays associated with delayed resident relocations and selling, general, and administrative expense on an increased labor base of a larger scale operations. Our management believes that our profits may increase during the next 3 months as we continue to expand into service sectors and geographies that generate higher gross margins and because we are a direct beneficiary of Chinese government's stimulus package on infrastructure projects. We may also consider to lease or build new plants in order to increase our accessibility to construction sites located in Beijing, expand into other geographical areas, as well as vertically integrate our operations across the supply chain, which we believe will lower our costs and provide greater profitability.

Table of Contents

Dividends and accretion on redeemable preferred stock. The decrease in dividends and accretion on redeemable convertible preferred stock of \$869,234 for the nine months ended March 31, 2011, as compared to the same period in 2010, was due to the maturity of the redeemable convertible preferred on June 12, 2010.

Net Income available to Common shareholders. Excluding the effect from non-cash charges related to changes in fair market of warrants, accretion of discount on redeemable preferred stock and stock and option-based compensation, our net income available to Common shareholders would be \$10,700,687 for the nine months ended March 31, 2011, an increase of \$882,241, or 8%, as compared to net income after cash dividends paid of \$9,818,446 for the same period in 2010. See the section "Use of Non-GAAP Financial Measures" above for a discussion regarding the presentation of net income excluding non-cash gain (loss).

### Liquidity and Capital Resources

As of March 31, 2011, we had cash and cash equivalents of \$3,379,136. The following table provides detailed information about our net cash flow for financial statement periods presented in this Form 10-Q:

#### Summary of Cash Flow Statements

|   | Nine months Ended<br>March 31, |                     |
|---|--------------------------------|---------------------|
|   | 2011<br>(UNAUDITED)            | 2010<br>(UNAUDITED) |
| Net cash (used in) provided by operating activities                 | \$ (2,218,019)                 | \$ 4,404,628        |
| Net cash used in investing activities                               | (12,118,690)                   | (9,394,914)         |
| Net cash provided by financing activities                           | 12,278,327                     | 6,953,203           |
| Effect of foreign currency translation on cash and cash equivalents | 2,136,698                      | (7,741)             |
| Net decrease in cash and cash equivalent                            | \$ 78,316                      | \$ 1,955,176        |

Principal demands for liquidity are for construction or acquisition of concrete mixture stations, raw material procurement, purchases of concrete mixers and pump trucks, working capital and general corporate purposes.

Operating Activities. Net cash used in operating activities totaled \$2,218,019 for the nine months ended March 31, 2011, as compared to net cash provided by operating activities of \$4,404,628 for the same period in 2010. The decrease in net cash provided by operating activities was primarily due to an increase of accounts receivable due to increased sales coupled with slower collection of the receivables and other receivables which were partially offset by an increase in our cash flows from increased sales activities, an increase in accounts payable and taxes payable and a decrease of inventories during the nine months ended March 31, 2011. We aim to make improvements in our cash flow from operating activities stemming from increases in construction industry activity in Beijing, combined with winning more favorable terms with our suppliers and customers which will be offset by greater working capital needs for our expanding operations.

Investing Activities. Net cash used in investing activities was \$12,118,690 for the nine months ended March 31, 2011, as compared to \$9,394,914 net cash used in investing activities for the nine months ended March 31, 2010. The increase in cash used in investing activities was due to the Company entered into an investment agreement with financial investment guaranty company, whereby the Company may invest up to RMB 100,000,000. The financial investment company then will invest the company's funds in financial instruments including bonds, mortgage trust and mutual funds. The return on this investment is guaranteed at 7% per annum. The Company's funds deposited with the financial investment company are not insured. For the three months ended March 31, 2011, the Company invested a

total of RMB 79,000,000 (\$12,166,000). Investment income of approximately \$373,867 was recognized and included in the non-operating income. The company also spent approximately \$985,058 on office equipment associated with our new quality control system.

Financing Activities. Net cash provided by financing activities totaled \$12,278,327 for the nine months ended March 31, 2011, as compared to net cash provided by financing activities of \$6,953,203 during the same period in 2010. The increase in cash provided by financing activities was due to net proceeds of our August 18, 2010 HuaXia Bank Loan Facility of \$1,527,000, proceeds from our September 29, 2010 Shanghai Pudong Development Bank Loan Facility of \$9,162,000, proceeds from our September 26, 2010 Citibank Bank Loan Facility of \$2,290,500, and proceeds from our November 4, 2010 Zhaoshang Bank Loan Facility of \$1,527,000. The net proceeds from the loan facilities will be used for financing working capital, raw material purchases and general corporate purposes.

Table of Contents

Cash. As of March 31, 2011, we had cash of \$3,379,136 as compared to \$3,300,820 as of June 30, 2010. This increase is due primarily to newly approved loans and credit facilities amounting to \$14,506,500.

We believe that our cash and revenues from ongoing operations, in addition to closely managing our accounts payable and accounts receivable, is sufficient to meet our liquidity and capital requirements for all of our ongoing operations. However, we may need to raise additional capital in order to undertake our plans for expansion.

## Accounts Receivable

Although accounts receivable have increased with revenues, they have not grown as quickly as revenues. Collection days averaged 164 days for the nine months ended March 31, 2011, as compared to 85 average turnover days for the nine months ended March 31, 2010. Accounts receivable from 0-90 days were 32%, 91-180 days were 31% between 181-365 days were 30%, and 1-2 years were 7%. The increase in collection days is primarily due to the increased sales coupled with slower collection of the receivables, with a disproportionate impact coming from Beijing concrete sales accounts receivable inclusive of raw material unit sales costs.

## Loan Facilities

We had a total of \$14,506,500 and \$0 outstanding on loans and credit facilities as of March 31, 2011 and June 30, 2010, respectively. At loan maturity date the company plans to either renew the term of the loans with the lending banks or otherwise liquidate it's short term investment to repay the principal loan amounts at maturity. The loans consisted of the following:

|  | March 31, 2011<br>(UNAUDITED) | June 30, 2010 |
|--|-------------------------------|---------------|
| Loan from Beijing Branch Shanghai Pudong Development Bank interest rate of 5.841% per annum, due September 29, 2011, guaranteed by Beijing Xinhang Construction Materials Group, Inc and personally guaranteed by CEO Xianfu Han, COO Weili He and their spouses.          | \$ 9,162,000                  | \$ 0          |
| Loan from Huaxia Bank interest rate of 5.841% per annum, due August 18, 2011, guaranteed by Beijing Jinshengding Mineral Products Co., Ltd. and Beijing Xinhang Construction Material Group Co., Ltd., together with a personal guarantee from Mr. Han, the Company's CEO. | 1,527,000                     | 0             |
| Loan from Citibank, interest rate of 5.83% per annum, due September 26, 2011, guaranteed by Beijing Xinhang Construction Material Group Co., Ltd., together with a personal guarantee from Mr. Han, the Company's CEO and COO Weili He.                                    | 2,290,500                     | 0             |
| Loan from Zhaoshang Bank, interest rate of 6.116% per annum, due November 4, 2011, guaranteed by Beijing Jinshengding Mineral Products Co., Ltd together with a personal guarantee from Mr. Han, the Company's CEO.  | 1,527,000                     | 0             |
| Total short term loans   | \$ 14,506,500                 | \$ 0          |

Total interest expense on short-term loans for the nine months ended March 31, 2011 and 2010 amounted to \$408,697 and \$23,762, respectively.

#### Seasonality

Our manufacturing operations are primarily located in northeastern China, which is extremely cold during the winter months. During such time, we are able to manufacture our advanced ready-mix concrete materials, however many construction projects operate on an abbreviated work schedule, if at all. Additionally, the onset of the extended holiday period of Chinese New Year has significant impact on our operations as all workers go on extended leave of absences for one to two weeks.

## Table of Contents

### Critical Accounting Policies and Estimates

The accompanying condensed consolidated financial statements include the financial statements of China ACM and its wholly owned subsidiaries, BVI-ACM, China-ACMH and its variable interest entity Xin Ao. All significant inter-company transactions and balances have been eliminated in consolidation. China ACM, its subsidiaries and Xin Ao, together are referred to as the Company. In accordance with FASB ASC 810, Consolidation of Variable Interest Entities, variable interest entities, or VIEs, are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes. In connection with the adoption of this ASC810, the Company concludes that Xin Ao is a VIE and China ACM is the primary beneficiary. The financial statements of Xin Ao are then consolidated with China ACM's financial statements.

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

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

**Revenue Recognition.** The Company recognizes revenue in accordance with Staff Accounting Bulletin, or SAB, No. 101, "Revenue Recognition in Financial Statements" as amended by SAB No. 104, which specifies that revenue is realized or realizable and earned when four criteria are met:

• Persuasive evidence of an arrangement exists (the Company considers its sales contracts and technical service agreements to be pervasive evidence of an arrangement);

• Delivery has occurred or services have been rendered;

• The seller's price to the buyer is fixed or determinable; and

• Collectability of payment is reasonably assured.

The Company sells its concrete products and provides concrete manufacturing services mainly to major construction companies. Sales agreements are signed with each customer. The agreements list all terms and conditions with the exception of delivery date and quantity, which are evidenced separately in purchase orders. The purchase price of products is fixed in the agreement and customers are not permitted to renegotiate after the contracts have been signed. The agreements include a cancellation clause if the Company breaches the contract terms specified in the agreement. The Company does not sell products to customers on a consignment basis. There is no right of return after the product has been injected into the location specified by the contract and accepted by the customer. The Company recognizes revenue when the goods are accepted by the customer and title has passed.

Sales revenue represents the invoiced value of goods, net of a value-added tax, or VAT. All of the Company's concrete products that are sold in the PRC are subject to a Chinese value-added tax at the rate of 6% of the gross sales price.

Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT tax exemption from August 2005 through to June 2011. The VAT tax collected from the Company's customers is kept by the Company and recorded as Other Subsidy Income.

## Table of Contents

The Company also provides technical consulting services to and enters strategic cooperation including market sharing and equipment rental with other independently owned concrete companies. The Company signs a Technical Service Agreement or Strategic Cooperation Agreement with each client, which specifies all terms and conditions including prices to be charged. Once concrete products are produced by clients and supplied to builders referred by the Company or cost savings are realized by use of technical solutions provided by the Company, the agreements consider the Company has rendered its service. The Company recognizes revenue and invoices client monthly for technical service and marketing cooperation on a per-cubic-meter basis and for equipment rental on a per-mixer truck basis.

Accounts receivable. During the normal course of business, the Company extends unsecured credit to its customers. Management reviews its accounts receivable 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. The Company's reserves are consistent with its historical experience and considered adequate by management.

The ultimate collection of the Company's accounts receivable may take more than one year, and any portion of accounts receivable expected to be collected in more than one year is reflected as non-current, net of allowance for doubtful accounts relating to that portion of receivables. The bifurcation between current and non-current portions of accounts receivable is based on management's estimate and predicated on historical collection experience.

### Accounting for long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management assesses the recoverability of the assets based on the undiscounted future cash flow the assets are 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, are less than the carrying value of the asset. When management identifies an impairment, the Company reduces 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 values.

### Income taxes

The Company accounts for income taxes in accordance with the accounting standards, which requires the Company to use the assets and liability method of accounting for income taxes. Under the assets and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax bases of existing assets and liabilities. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

The accounting standard defines 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. The Company had no material deferred tax amounts as of March 31, 2011 and 2009 from its US operations. Penalties and interest incurred to underpayment of income tax, if any, are classified as income tax expense in the period incurred. No

significant penalties or interest relating to income taxes have been incurred for the years ended March 31, 2011 and 2010.

The VIE entities have cumulative undistributed earnings of approximately \$40.6 million and \$29.5 million as of March 31, 2011 and June 30, 2010, respectively, included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings.

China ACM was organized in the United States and has incurred net operating losses of \$543,000 for income tax purposes for the nine months ended March 31, 2011, which excludes \$765,538 stock based compensation expenses and gain in fair value of warrant liabilities of \$167,777. The cumulative net operating loss carry forwards for United States income taxes amounted to approximately \$1,530,000. The net operating loss carry forwards may be available to reduce future years' taxable income. These carry forwards will expire, if not utilized, starting from 2030.

Management believes that the realization of the benefits from these losses appears uncertain due to the Company's limited operating history and continued losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset benefit to reduce the asset to zero.

## Table of Contents

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 VAT. The standard VAT rate is 6% of gross sales for the Company's industry. A credit is available whereby VAT paid on the purchases of raw materials used in the production of the Company's finished products can be used to offset the VAT due on sales of finished products. Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT Tax Exemption from August 2005 through to August 2009 and a two year tax (VAT) credit extension from August 2009 through August 2011.

## Financial instruments

The accounting standards regarding fair value of financial instruments and related fair value measurements 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 follows:

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

Warrants liability, receivables and current liabilities qualify as financial instruments. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities are reasonable estimates of fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value of the warrants was determined using the Cox-Ross-Rubinstein (CRR) Binomial Model, as level 2 inputs, and recorded the change in earnings. As a result, the derivative liability is carried on the balance sheet at its fair value. As the company's stock price increases (decreases), the fair value of the warrants liability increases (decreases) accordingly. Basic and diluted earnings per share are inversely affected by the change in the fair value of warrants liability.

## Stock-based compensation

The Company records stock-based compensation expense pursuant to accounting standard regarding stock compensation which requires companies to measure compensation cost for stock-based employee compensation plans at fair value at the grant date and recognize the expense over the employee's requisite service period. Under ASC Topic 718, the Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Stock-based compensation expense is recognized based on awards expected to vest, and there were no estimated forfeitures as the Company has a short history of issuing options. This accounting standard requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The Company estimates the fair value of the awards using the CRR binomial model. Option pricing models, such as the CRR binomial model, require the input of highly complex and subjective variables including the expected life of

options granted and the Company's expected stock price volatility over a period equal to or greater than the expected life of the options. Because changes in the subjective assumptions can materially affect the estimated value of the Company's employee stock options, it is management's opinion that the CRR binomial model may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with the accounting standard aforementioned using an option-pricing model, which value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

#### Off-Balance Sheet Arrangements

## Table of Contents

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

### ITEM 4. CONTROLS AND PROCEDURES.

#### Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal accounting and financial officer to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management does not expect that our disclosure controls or our internal controls over financial reporting will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but no absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. These limitations also include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of a control. A design of a control system is also based upon certain assumptions about potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

As of March 31, 2011, the quarterly period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal accounting and financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president and our chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2011.

#### Changes in Internal Control over Financial Reporting.

During the fiscal quarter ended March 31, 2011, there were no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

## ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

## Table of Contents

### RISKS RELATED TO OUR BUSINESS

Our plans to build additional plants and to improve and upgrade our internal control and management system will require capital expenditures in fiscal year 2011.

Our plans to build additional plants and to maintain and continually upgrade our internal control and management systems in line with our growing scale will require significant capital expenditures in fiscal year 2011. We may also need further funding for working capital, investments, potential acquisitions and joint ventures and other corporate requirements. We cannot assure you that cash generated from our operations will be sufficient to fund these development plans, or that our actual capital expenditures and investments will not significantly exceed our current planned amounts. If either of these conditions arises, we may have to seek external financing to satisfy our capital needs. Our ability to obtain external financing at reasonable costs is subject to a variety of uncertainties. Failure to obtain sufficient external funds for our development plans could adversely affect our business, financial condition and operating performance.

Five customer orders consisted of 16% of the net sales of the Company for the fiscal year ended June 30, 2010, and the loss of any of these customers can result in a depressive effect on our net profit.

Our Company focuses on large projects for large Chinese customers. Five customers accounted for approximately 16% and 32% of the Company's sales for the years ended June 30, 2010 and 2009, respectively. The total accounts receivable from these customers amounted to \$3,165,034 and \$3,624,793 as of June 30, 2010 and 2009. Should we lose any of these customers in the future and are unable to obtain additional customers, our revenues will decrease.

Our business is subject to the risk of supplier concentration.

Our top five suppliers provide approximately 31% of the sourcing of the raw materials for our concrete production business. As a result of this concentration in our supply chain, our business and operations would be negatively affected if any of our key suppliers were to experience significant disruption affecting the price, quality, availability or timely delivery of their products. The partial or complete loss of one of these suppliers, or a significant adverse change in our relationship with any of these suppliers, could result in lost revenue, added costs and distribution delays that could harm our business and customer relationships. In addition, concentration in our supply chain can exacerbate our exposure to risks associated with the termination by key suppliers of our distribution agreements or any adverse change in the terms of such agreements, which could have an adverse impact on our revenues and profitability.

We may experience major accidents in the course of our operations, which may cause significant property damage and personal injuries.

Significant industry-related accidents and natural disasters may cause interruptions to various parts of our operations, or could result in property or environmental damage, increase in operating expenses or loss of revenue. The occurrence of such accidents and the resulting consequences may not be covered adequately, or at all, by the insurance policies we carry. In accordance with customary practice in China, we do not carry any business interruption insurance or third party liability insurance for personal injury or environmental damage arising from accidents on our property or relating to our operations other than our automobiles. Losses or payments incurred may have a material adverse effect on our operating performance if such losses or payments are not fully insured.

Our planned expansion and technical improvement projects could be delayed or adversely affected by, among other things, failures to receive regulatory approvals, difficulties in obtaining sufficient financing, technical difficulties, or human or other resource constraints.

We intend to expand new production facilities during the next few years. The costs projected for our planned expansion and technical improvement projects and expansion may exceed those originally contemplated. Costs savings and other economic benefits expected from these projects may not materialize as a result of any such project delays, cost overruns or changes in market circumstances.

## Table of Contents

To make improvement at our currently existing plants, we do not need to apply for regulatory approval. However, in order to build a new concrete plant, we will need to (i) apply for a business license from the local Administration of Industry and Commerce, (ii) apply for an Industry Qualification Certificate from the local Municipal Construction Committee, and (iii) receive environmental approval from the local Environmental Protection Bureau in the relevant district area. There is no guarantee that we will be able to obtain these regulatory approvals in a timely manner or at all.

Additionally, in order to construct a new concrete plant, we may need to apply for a short term loan from a local commercial bank to be used for working capital. Because the lending policies of the local commercial banks are subject to change, there is no guarantee that we will be able to obtain approval for such a loan with conditions favorable to us in a timely manner or at all.

Failure to obtain intended economic benefits from these new plants and technical improvements projects, either due to cost overruns, our failure to obtain the necessary regulatory approvals or our failure to obtain necessary loan financing on terms favorable to us could adversely affect our business, financial condition and operating performances.

We cannot assure you that our growth strategy will be successful.

One of our strategies is to grow through increasing the distribution and sales of our products by penetrating existing markets in China and entering new geographic markets in China. However, many obstacles to entering such new markets exist including, but not limited to, competition from established companies in such existing markets in the China. We cannot, therefore, assure you that we will be able to successfully overcome such obstacles and establish our products in any additional markets. Our inability to implement this growth strategy successfully may have a negative impact on our growth, future financial condition, results of operations or cash flows.

If we fail to effectively manage our growth and expand our operations, our business, financial condition, results of operations and prospects could be adversely affected.

Our future success depends on our ability to expand our business to address growth in demand for our products and services. In order to maximize potential growth in our current and potential markets, we believe that we must expand our manufacturing and marketing operations. Our ability to accomplish these goals is subject to significant risks and uncertainties, including:

- the need for additional funding to construct additional manufacturing facilities, which we may be unable to obtain on reasonable terms or at all;
- delays and cost overruns as a result of a number of factors, many of which may be beyond our control, such as problems with equipment vendors and manufacturing services provided by third-party manufacturers or subcontractors;
- our receipt of any necessary government approvals or permits that may be required to expand our operations in a timely manner or at all;
- diversion of significant management attention and other resources; and
- failure to execute our expansion plan effectively.

To accommodate our growth, we will need to implement a variety of new and upgraded operational and financial systems, procedures, and controls, including improvements to our accounting and other internal management systems,

by dedicating additional resources to our reporting and accounting function, and improvements to our record keeping and contract tracking system. We will also need to recruit more personnel and train and manage our growing employee base. Furthermore, our management will be required to maintain and expand our relationships with our existing customers and find new customers for our services. There is no guarantee that our management can succeed in maintaining and expanding these relationships.

If we encounter any of the risks described above, or if we are otherwise unable to establish or successfully operate additional capacity or increase our output, we may be unable to grow our business and revenues, reduce our operating costs, maintain our competitiveness or improve our profitability and, consequently, our business, financial condition, results of operations, and prospects will be adversely affected.

If we are unable to accurately estimate the overall risks or costs associated with a project on which we are bidding on, we may achieve a profit lower than anticipated or even incur a loss on the contract.

## Table of Contents

Substantially all of our revenues and contract backlog are typically derived from fixed unit price contracts. Fixed unit price contracts require us to perform the contract for a fixed unit price irrespective of our actual costs. As a result, we realize a profit on these contracts only if we successfully estimate our costs and then successfully control actual costs and avoid cost overruns. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, then cost overruns may cause the contract not to be as profitable as we expected, or may cause us to incur losses. This, in turn, could negatively affect our cash flow, earnings and financial position.

The costs incurred and gross profit realized on those contracts can vary, sometimes substantially, from the original projections due to a variety of factors, including, but not limited to:

- onsite conditions that differ from those assumed in the original bid;
- delays caused by weather conditions;
- later contract start dates than expected when we bid the contract;
- contract modifications creating unanticipated costs not covered by change orders;
- changes in availability, proximity and costs of materials, including steel, concrete, aggregate and other construction materials (such as stone, gravel and sand), as well as fuel and lubricants for our equipment;
- availability and skill level of workers in the geographic location of a project;
- our suppliers' or subcontractors' failure to perform;
- fraud or theft committed by our employees;
- mechanical problems with our machinery or equipment;
- citations issued by governmental authorities
- difficulties in obtaining required governmental permits or approvals;
- changes in applicable laws and regulations; and
- claims or demands from third parties alleging damages arising from our work or from the project of which our work is part.

Economic downturns or reductions in government funding of infrastructure projects could significantly reduce our revenues.

Our business is highly dependent on the amount of infrastructure work funded by various governmental entities, which, in turn, depends on the overall condition of the economy, the need for new or replacement infrastructure, the priorities placed on various projects funded by governmental entities and national or local government spending levels. Decreases in government funding of infrastructure projects could decrease the number of civil construction contracts available and limit our ability to obtain new contracts, which could reduce our revenues and profits.

Our business will be damaged if project contracts with the Chinese government, for which we may act as a sub-contractor are cancelled;

We do not enter into any contracts directly with the Chinese government. For contracts that are funded by the Chinese government, we place bids and enter into subcontracts with the private entity prime contractor. A sudden cancellation of a prime contract, and in turn our subcontract, could cause our equipment and work crews to remain idle for a significant period of time until other comparable work becomes available. This idle time could have a material adverse effect on our business and results of operations.

## Table of Contents

Our industry is highly competitive, with numerous larger companies with greater resources competing with us, and our failure to compete effectively could reduce the number of new contracts awarded to us or adversely affect our margins on contracts awarded.

Our competition includes a number of state-owned and large private PRC-based manufacturers and distributors that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Essentially all of the contracts on which we bid are awarded through a competitive bid process, with awards generally being made to the lowest bidder, though other factors such as shorter schedules or prior experience with the customer are often just as important. Within our markets, we compete with many national, regional and local state-owned and private construction firms. Some of these competitors have achieved greater market penetration or have greater financial and other resources than us. In addition, there are a number of larger national companies in our industry that could potentially establish a presence in our markets and compete with us for contracts. As a result, we may need to accept lower contract margins in order to compete against these competitors. If we are unable to compete successfully in our markets, our relative market share and profits could be reduced.

We could face increased competition in our principal market.

Our principal market, Beijing, has enjoyed stronger economic growth and a higher demand for construction than other regions of China. As a result, we believe that competitors will try to expand their sales and build up their distribution networks in our principal market. We anticipate that this trend will continue and likely accelerate. Increased competition may have a material adverse effect on our financial condition and results of operations.

Our dependence on subcontractors and suppliers of materials could increase our costs and impair our ability to compete on contracts on a timely basis or at all, which would adversely affect our profits and cash flow.

We rely on third-party subcontractors to perform some of the work on many of our contracts. We do not bid on contracts unless we have the necessary subcontractors committed for the anticipated scope of the contract and at prices that we have included in our bid. Therefore, to the extent that we cannot obtain third-party subcontractors, our profits and cash flow will suffer.

Our planned expansion and technical improvement projects could be delayed or adversely affected by, among other things, failures to receive regulatory approvals, difficulties in obtaining sufficient financing, technical difficulties, or human or other resource constraints.

We intend to build or acquire up to ten new production facilities during the next one to two years. The costs projected for our planned expansion and technical improvement projects and expansion may exceed those originally contemplated. Costs savings and other economic benefits expected from these projects may not materialize as a result of any such project delays, cost overruns or changes in market circumstances.

To make improvement at our currently existing plants, we do not need to apply for regulatory approval. To acquire currently existing plants, we do not need to apply for regulatory approval. However, in order to build a new concrete plant, we will need to (i) apply for a business license from the local Administration of Industry and Commerce, (ii) apply for an Industry Qualification Certificate from the local Municipal Construction Committee, and (iii) receive environmental approval from the local Environmental Protection Bureau in the relevant district area. There is no guarantee that we will be able to obtain these regulatory approvals in a timely manner or at all.

Additionally, in order to operate an acquired concrete plant for concrete sales, we may need to apply for a short term loan from a local commercial bank to be used for working capital. Because the lending policies of the local commercial banks are subject to change, there is no guarantee that we will be able to obtain approval for such a loan

with conditions favorable to us in a timely manner or at all.

Failure to obtain intended economic benefits from these new plants and technical improvements projects, either due to cost overruns, our failure to obtain the necessary regulatory approvals or our failure to obtain necessary loan financing on terms favorable to us could adversely affect our business, financial condition and operating performances.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

## Table of Contents

We are subject to the Foreign Corrupt Practice Act, or FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute for the purpose of obtaining or retaining business. We have operations, agreements with third parties and make sales in China, where corruption may occur. Our activities in China create the risk of unauthorized payments or offers of payments by one of the employees, consultants, sales agents or distributors of our Company, even though these parties are not always subject to our control. It is our policy to implement safeguards to prevent these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants, sales agents or distributors of our Company may engage in conduct for which we might be held responsible. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the government may seek to hold our Company liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

We depend heavily on key personnel, and turnover of key employees and senior management could harm our business.

Our future business and results of operations depend in significant part upon the continued contributions of our key technical and senior management personnel, including Xianfu Han, our Chairman and Chief Executive Officer and Weili He, our Vice-Chairman and Chief Operating Officer. They also depend in significant part upon our ability to attract and retain additional qualified management, technical, operational and support personnel for our operations. If we lose a key employee, if a key employee fails to perform in his or her current position, or if we are not able to attract and retain skilled employees as needed, our business could suffer. Significant turnover in our senior management could significantly deplete the institutional knowledge held by our existing senior management team. We depend on the skills and abilities of these key employees in managing the reclamation, technical, and marketing aspects of our business, any part of which could be harmed by turnover in the future.

Certain of our existing stockholders have substantial influence over our company, and their interests may not be aligned with the interests of our other stockholders.

Our Chairman, Xianfu Han, owns approximately 30.1% of our outstanding voting securities and our Vice-Chairman, Weili He, owns approximately 20.1% of our outstanding voting securities as of June 30, 2010 in a fully diluted share base. As a result, each have significant influence over our business, including decisions regarding mergers, consolidations, liquidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may also have the effect of discouraging, delaying or preventing a future change of control, which could deprive our stockholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our shares.

We may require additional capital and we may not be able to obtain it on acceptable terms or at all.

We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of Chinese-based companies involved in construction supply or concrete industries;

- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows; and
  - economic, political and other conditions in China.

Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition and results of operations.

## Table of Contents

We may be exposed to potential risks relating to our internal controls over financial reporting and our ability to have those controls attested to by our independent auditors for the year ending June 30, 2010, in accordance with the Sarbanes-Oxley Act of 2002.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 or SOX 404, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports, including Form 10-K. We were subject to management attestation report for the fiscal year ended June 30, 2010, and a report of our management for the 2010 fiscal year is included under Item 9A of this annual report certifying the effectiveness of our internal controls over financial reporting. Under current law, the auditor attestation will not be required as long as our filing status remains as a smaller reporting company. However, due to expected continued growth of our Company, we anticipate that we will no longer be a smaller reporting company in the future years. Accordingly, while our management has determined that our internal controls over financial reporting were effective as of June 30, 2010, if we are unable to scale our financial reporting and accounting systems to our growth, we may not be able to maintain the effectiveness of those controls and, therefore, we can provide no assurance that our management will be able to certify the effectiveness of our internal controls or that we will receive a positive attestation from our independent auditors in the future. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner, or we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements, which could adversely affect the price of our common stock.

We have limited insurance coverage for our operations in China.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited insurance products. We have determined that the risks of disruption or liability from our business, the loss or damage to our property, including our facilities, equipment and office furniture, the cost of insuring for these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we do not have any business liability, disruption, litigation or property insurance coverage for our operations in China except for insurance on some company owned vehicles. Any uninsured occurrence of loss or damage to property, or litigation or business disruption may result in the incurrence of substantial costs and the diversion of resources, which could have an adverse effect on our operating results.

We are not current in our payment of social insurance and housing accumulation fund for our employees and such shortfall may expose us to relevant administrative penalties.

The PRC laws and regulations require all employers in China to fully contribute their own portion of the social insurance premium and housing accumulation fund for their employees within a certain period of time. Failure to do so may expose the employers to make rectification for the accrued premium and fund by the relevant labor authority. Also, an administrative fine may be imposed on the employers as well as the key management members. Xin Ao has failed to fully contribute the social insurance premium and housing accumulation fund. Therefore, they may be subject to the administrative punishment as mentioned above.

Our operations may incur substantial liabilities to comply with environmental laws and regulations.

Our concrete manufacturing operations are subject to laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. Applicable law required that we obtain an environmental impact report and environmental approval from the environmental protection administration prior to obtaining the business license and construction enterprise qualification certificate for Xin Ao. However, the local administration of industry and commerce and the Beijing Municipal Construction Commission did not require Xin Ao to provide the environmental impact report and environmental approval, and Xin Ao has not received any

notice of non-compliance nor has any fine or other penalty been assessed. However, the environmental protection administration may in the future require that Xin Ao provide the applicable report and apply for the required environment approval. Our failure to have complied with the applicable laws regarding delivery of the report may result in the assessment of administrative, civil and criminal penalties, the incurrence of investigatory or remedial obligations and the imposition of injunctive relief. Resolution of these matters may require considerable management time and expense. In addition, changes in environmental laws and regulations occur frequently and any changes that result in more stringent or costly manufacturing, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to reach and maintain compliance and may otherwise have a material adverse effect on our industry in general and on our own results of operations, competitive position or financial condition.

#### RISKS RELATED TO DOING BUSINESS IN CHINA

## Table of Contents

If we become directly subject to the recent scrutiny, criticism and negative publicity involving certain U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, stock price and reputation and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved quickly.

Recently, U.S. public companies that have substantially all of their operations in China, particularly companies like us which have completed so-called reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, short sellers, financial commentators and regulatory agencies, such as the United States Securities and Exchange Commission. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits, SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what affect this sector-wide scrutiny, criticism and negative publicity will have on our company, our business and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation could be costly and time consuming and distract our management from growing our company. If such allegations are not proven to be groundless, our company and business operations will be severely impacted and your investment in our stock could be rendered worthless.

Adverse changes in political and economic policies of the PRC government could impede the overall economic growth of China, which could reduce the demand for our products and damage our business.

We conduct all of our operations and generate all of our revenue in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the higher level of government involvement;
- the early stage of development of the market-oriented sector of the economy;
- the rapid growth rate;
- the higher level of control over foreign exchange; and
- the allocation of resources.

As the PRC economy has been transitioning from a planned economy to a more market-oriented economy, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. While these measures may benefit the overall PRC economy, they may also have a negative effect on us.

Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and imposing policies that impact particular industries or companies in different ways.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of new construction investments and expenditures in China, which in

turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our business and prospects.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiary in the PRC. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. In addition, all of our executive officers and all of our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to affect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.

## Table of Contents

The PRC government exerts substantial influence over the manner in which we must conduct our business activities.

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

A slowdown or other adverse developments in the PRC economy may materially and adversely affect our customers, demand for our services and our business.

We are a holding company. All of our operations are conducted in the PRC and all of our revenues are generated from sales in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that such growth will continue. A slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in the PRC may materially reduce the demand for new construction projects and adversely affect our business.

Restrictions on currency exchange may limit our ability to receive and use our sales revenue effectively.

Most of our sales revenue and expenses are denominated in RMB. Under PRC law, the RMB is currently convertible under the “current account,” which includes dividends and trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans. Currently, our PRC operating subsidiary may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future. Since a significant amount of our future revenue will be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in RMB to fund our business activities outside China that are denominated in foreign currencies.

Foreign exchange transactions by PRC operating subsidiaries under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC government authorities, including SAFE. In particular, if our PRC operating subsidiaries borrow foreign currency through loans from us or other foreign lenders, these loans must be registered with SAFE, and if we finance the subsidiaries by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the Ministry of Commerce, or MOFCOM, or their respective local counterparts. These limitations could affect their ability to obtain foreign exchange through debt or equity financing.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident stockholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise materially adversely affect us.



Table of Contents

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75, which required PRC residents to register with the competent local SAFE branch before establishing or acquiring control over an offshore special purpose company, or SPV; under Notice 75, a “special purpose company” refers to an offshore entity established or controlled, directly or indirectly, by PRC residents for the purpose of seeking offshore equity financing on the strength of the domestic assets or interests owned by such PRC residents in onshore companies. Internal implementing guidelines issued by SAFE, which became public in June 2007 (known as Notice 106), expanded the reach of Circular 75 by (1) purporting to cover the establishment or acquisition of control by PRC residents of offshore entities which merely acquire “control” over domestic companies or assets, even in the absence of legal ownership; (2) adding requirements relating to the source of the PRC resident's funds used to establish or acquire the offshore entity; (3) covering the use of existing offshore entities for offshore financings; (4) purporting to cover situations in which an offshore SPV establishes a new subsidiary in China or acquires an unrelated company or unrelated assets in China; and (5) making the domestic affiliate of the SPV responsible for the accuracy of certain documents which must be filed in connection with any such registration, notably, the business plan which describes the overseas financing and the use of proceeds. Amendments to registrations made under Circular 75 are required in connection with any increase or decrease of capital, transfer of shares, mergers and acquisitions, equity investment or creation of any security interest in any assets located in China to guarantee offshore obligations, and Notice 106 makes the offshore SPV jointly responsible for these filings. In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006; this date was subsequently extended indefinitely by Notice 106, which also required that the registrant establish that all foreign exchange transactions undertaken by the SPV and its affiliates were in compliance with applicable laws and regulations. Failure to comply with the requirements of Circular 75, as applied by SAFE in accordance with Notice 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV's subsidiaries being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

We have asked our stockholders, who are PRC residents as defined in Circular 75 and Notice 106, to register with the relevant branch of SAFE, as currently required, in connection with their equity interests in us and our acquisitions of equity interests in our PRC subsidiaries. Our PRC Residents stockholders, Mr. Han and Mr. He have obtained the SAFE registration on September 29, 2007. However, we cannot provide any assurances that they have made all necessary amendments to their registration to fully comply with, all applicable registrations or approvals required by Circular 75 and Notice 106. Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries' ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 75 and Notice 106 by our PRC resident beneficial holders.

In addition, such PRC residents may not always be able to complete the necessary registration procedures required by Circular 75 and Notice 106. We also have little control over either our present or prospective direct or indirect stockholders or the outcome of such registration procedures. A failure by our PRC resident beneficial holders or future PRC resident stockholders to comply with Circular 75 and Notice 106, if SAFE requires it, could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations implemented on September 8, 2006.

The recent PRC Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors also governs the approval process by which a PRC company may participate in an acquisition of its assets or its equity interests. Depending on the structure of the transaction, the new regulation will require the Chinese parties to make a series of applications and supplemental applications to the government agencies. In some instances, the application process may require the presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Government approvals will have expiration dates by which a transaction must be completed and reported to the government agencies. Compliance with the new regulations is likely to be more time consuming and expensive than in the past and the government can now exert more control over the combination of two businesses. Accordingly, due to the new regulation, our ability to engage in business combination transactions has become significantly more complicated, time consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our stockholders or sufficiently protect their interests in a transaction.

## Table of Contents

The new regulation allows PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and the other government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The regulations also prohibit a transaction at an acquisition price obviously lower than the appraised value of the Chinese business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. The regulation also limits our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on financial terms that satisfy our investors and protect our stockholders' economic interests.

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Because substantially all of our earnings and cash assets are denominated in RMB, fluctuations in the exchange rate between the U.S. dollar and the RMB will affect our balance sheet and our earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the RMB relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

Since July 2005, the RMB has no longer been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

Currently, some of our raw materials and major equipment are imported. In the event that the U.S. dollars appreciate against RMB, our costs will increase. If we cannot pass the resulting costs on to our customers, our profitability and operating results will suffer.

Under the New Enterprise Income Tax, or EIT, Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.

China passed the New EIT Law and its implementing rules, both of which became effective on January 1, 2008. Under the New EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," meaning that it can be treated in a manner similar to a Chinese enterprise for enterprise income tax purposes. The implementing rules of the New EIT Law define de facto management as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. In addition, a recent circular issued by the State Administration of Taxation on April 22,

2009 regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as “resident enterprises” clarified that dividends and other income paid by such “resident enterprises” will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This recent circular also subjects such “resident enterprises” to various reporting requirements with the PRC tax authorities.

In addition, the recent circular mentioned above sets out criteria for determining whether “de facto management bodies” are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises established outside of China that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “de facto management bodies” for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries.

## Table of Contents

Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider our company to be a PRC resident enterprise. However, if the PRC tax authorities determine that we are a “resident enterprise” for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to the enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In our case, this would mean that income such as interest on offering proceeds and non-China source income would be subject to PRC enterprise income tax at a rate of 25%. Second, although under the New EIT Law and its implementing rules dividends paid to us from our PRC subsidiaries would qualify as “tax-exempt income,” we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, it is possible that future guidance issued with respect to the new “resident enterprise” classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC stockholders and with respect to gains derived by our non-PRC stockholders from transferring our shares.

Dividends declared and paid from pre-January 1, 2008 distributable profits are grandfathered under the New EIT Law and are not subject to withholding tax.

We may be subject to fines and legal sanctions if we or our Chinese employees fail to comply with PRC regulations relating to employee stock options granted by overseas listed companies to PRC citizens.

On December 25, 2006, the People's Bank of China issued the Administration Measures on Individual Foreign Exchange Control, and its Implementation Rules were issued by the State Administration of Foreign Exchange (“SAFE”) on January 5, 2007. Both took effect on February 1, 2007. Under these regulations, all foreign exchange matters involved in an employee stock holding plan, stock option plan or similar plan in which PRC citizens’ participation requires approval from the SAFE or its authorized branch. On March 28, 2007, the SAFE issued the Application Procedure for Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas Listed Companies, or Notice 78. Under Notice 78, PRC individuals who participate in an employee stock option holding plan or a stock option plan of an overseas listed company are required, through a PRC domestic agent or PRC subsidiary of the overseas listed company, to register with the SAFE and complete certain other procedures. We and our Chinese employees who have been granted shares or stock options pursuant to our share incentive plan are subject to Notice 78. However, in practice, there are significant uncertainties with regard to the interpretation and implementation of Notice 78. We are committed to complying with the requirements of Notice 78. However, we cannot provide any assurance that we or our Chinese employees will be able to qualify for or obtain any registration required by Notice 78. In particular, if we and/or our Chinese employees fail to comply with the provisions of Notice 78, we and/or our Chinese employees may be subject to fines and legal sanctions imposed by the SAFE or other PRC government authorities, as a result of which our business operations and employee option plans could be materially and adversely affected.

The discontinuation, reduction or delay of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

Prior to January 1, 2008, under the old enterprises income tax law, Xin Ao was subject to a 33% income tax rate, which was subject to certain tax holidays and preferential tax rates. Under the new enterprise income tax law effective January 1, 2008, or the New EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a unified 25% income tax rate. Under the New EIT Law, preferential tax treatments will be granted to enterprises that conduct business in certain encouraged sectors and to enterprises that qualify as “high and new technology enterprises”, a status reassessed every three years. In addition, an enterprise is entitled to a 0% value-added tax rate if it uses

recycled raw materials to manufacture its products. Xin Ao was recognized as a high and new technology enterprise in 2009 and is entitled to a 15% preferential income tax rate for the three-year period ending 2011. In addition, Xin Ao uses recycled raw materials to manufacture its products and was entitled to a 0% value-added tax rate from June 2009 to June 2010. However, we cannot assure you that Xin Ao will be able to maintain its status as “high and new technology enterprises” and/or as an enterprise for value-added tax exemption. If Xin Ao fails to continue to qualify or fails to receive an updated approvals, our income tax and value-added tax expenses would increase, which would have a material adverse effect on our net income and results of operations.

#### RISKS RELATED TO THE MARKET FOR OUR COMMON STOCK

Our shares of common stock are very thinly traded, and there can be no assurance that there will be an active market for our shares of common stock in the future.

## Table of Contents

Our shares of common stock are very thinly traded, and the price if traded may not reflect our value. There can be no assurance that there will be an active market for our shares of common stock in the future. The market liquidity will be dependent on the perception of our operating business and any steps that our management might take to bring us to the awareness of investors. There can be no assurance given that there will be any awareness generated. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business. If a more active market should develop, the price may be highly volatile. Because there may be a low price for our shares of common stock, many brokerage firms may not be willing to effect transactions in the securities. Even if an investor finds a broker willing to effect a transaction in the shares of our common stock, the combination of brokerage commissions, transfer fees, taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such shares of common stock as collateral for any loans.

We do not intend to pay dividends on shares of our common stock for the foreseeable future, but if we intend to do so our holding company structure may limit the payment of dividends to our stockholders.

We have no direct business operations, other than our ownership of our subsidiaries. While we have no current intention of paying dividends, should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions as discussed below. If future dividends are paid in RMB, fluctuations in the exchange rate for the conversion of RMB into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars.

Chinese regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. Our subsidiaries in China are also required to set aside a portion of their after tax profits according to Chinese accounting standards and regulations to fund certain reserve funds. Currently, our subsidiaries in China are the only sources of revenues or investment holdings for the payment of dividends. If they do not accumulate sufficient profits under Chinese accounting standards and regulations to first fund certain reserve funds as required by Chinese accounting standards, we will be unable to pay any dividends.

We may be subject to penny stock regulations and restrictions and you may have difficulty selling shares of our common stock.

The SEC has adopted regulations which generally define so-called “penny stocks” to be an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. If our common stock becomes a “penny stock”, we may become subject to Rule 15g-9 under the Exchange Act, or the “Penny Stock Rule”. This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and “accredited investors” (generally, individuals with a net worth in excess of \$1,000,000 or annual incomes exceeding \$200,000, or \$300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price

information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that our common stock will qualify for exemption from the Penny Stock Rule. In any event, even if our common stock were exempt from the Penny Stock Rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES OR USE OF PROCEEDS

There were no unregistered sales of equity securities during the fiscal quarter ended March 31, 2011.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Table of Contents

There were no defaults upon senior securities during the fiscal quarter ended March 31, 2011.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are filed with this report, except those indicated as having previously been filed with the SEC and are incorporated by reference to another report, registration statement or form. As to any shareholder of record requesting a copy of this report, we will furnish any exhibit indicated in the list below as filed with this report upon payment to us of our expenses in furnishing the information.

| Exhibit No. | Description   |
|-------------|---|
| <u>31.1</u> | Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>31.2</u> | Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>32.1</u> | Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| <u>32.2</u> | Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Table of Contents

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 13, 2011

CHINA ADVANCED CONSTRUCTION  
MATERIALS GROUP, INC.

By: /s/ Xianfu Han  
Xianfu Han, Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Jeremy Goodwin  
Jeremy Goodwin, Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)