

China Advanced Construction Materials Group, Inc  
Form 10-K  
September 25, 2015

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

**FORM 10-K**

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

For the Fiscal Year Ended **June 30, 2015**

OR

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

Commission file number **001-34515**

**CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.**

*(Exact name of registrant as specified in its charter)*

**Nevada**

*(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 Office and Zip Code)*

Registrant's telephone number, including area code: **+86 10 82525361**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

**Common Stock, Par Value \$0.001**

Name of Each Exchange On Which Registered

**NASDAQ Capital Market**

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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

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

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

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

Yes  No

At December 31, 2014, the last business day of the registrant's most recently completed second fiscal quarter, there were 2,080,799 shares of the registrant's common stock outstanding, and the aggregate market value of such shares held by non-affiliates of the registrant (based upon the closing price of such shares as reported on the NASDAQ Capital Market) was approximately \$5.8 million. Shares of the registrant's common stock held by the registrant's executive officers and directors have been excluded because such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of September 18, 2015, there were 2,180,799 shares of the Registrant's common stock outstanding.

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## INTRODUCTORY NOTE

In this report, unless indicated otherwise, references to

- China, Chinese and PRC, are references to the People's Republic of China;
- BVI refers to the British Virgin Islands;
- China Advanced, China-ACM, the Company, we, us, or our, are references to the combined business of China Advanced Construction Materials, Group, Inc. and its wholly-owned subsidiaries, BVI-ACM and China-ACMH, as well as Xin Ao and its wholly owned subsidiaries in China, including Heng Yuan Zhengke, Hong Sheng An, Heng Tai, Da Tong, and Luan Xian HengXin, but do not include the stockholders of China Advanced;
- BVI-ACM refers to Xin Ao Construction Materials, Inc;
- China-ACMH refers to Beijing Ao Hang Construction Materials Technology Co., Ltd.;
- Xin Ao refers to Beijing Xin Ao Concrete Group;
- Heng Yuan ZhengKe refers to Beijing Heng Yuan ZhengKe Technical Consulting Co., Ltd;
- Hong Sheng An refers to Beijing Hong Sheng An Construction Materials Co., Ltd;
- Heng Tai refers to Beijing Heng Tai Hong Sheng Construction Materials Co., Ltd;
- Da Tong refers to Da Tong Ao Hang Wei Ye Machinery and Equipment Rental Co., Ltd;
- Luan Xian HengXin refers to Luan Xian HengXin Technology Co., Ltd;
- RMB refers to the Renminbi, the legal currency of China; and
- U.S. dollars, dollars and \$ are references to the legal currency of the United States.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. You can identify such forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, may, plans, potential, prediction, would and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding the market for our concrete products and services;
- our expectations regarding the continued growth of the concrete industry;
- our beliefs regarding the competitiveness of our products;
- our expectations regarding the expansion of our manufacturing capacity;
- our expectations with respect to increased revenue growth and our ability to maintain profitability resulting from increases in our production volumes;
- our future business development, results of operations and financial condition;
- competition from other manufacturers of concrete products;
- the loss of any member of our management team;
- our ability to integrate acquired subsidiaries and operations into existing operations;
- market conditions affecting our equity capital;
- our ability to successfully implement our selective acquisition strategy;
- changes in general economic conditions; and
- changes in accounting rules or the application of such rules.

Also, forward-looking statements represent our estimates and assumptions only as of the date of this report. You should read this report and the documents that we reference in this report, or that we filed as exhibits to this report, in their entirety and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

## PART I

### Item 1. Business

#### OUR BUSINESS

##### Overview

The Company is a holding company whose primary business operations are conducted through our wholly-owned subsidiaries BVI-ACM and China-ACMH, and our variable interest entities, Xin Ao and its subsidiaries. The Company engages in the production of advanced construction materials for large scale infrastructure, commercial and residential developments. The Company is primarily focused on engineering, producing, servicing, delivering and pumping a comprehensive range of advanced ready-mix concrete materials for highly technical, large scale, and environmentally-friendly construction projects. Ready-mixed concrete products are important building materials that are used in a vast majority of commercial, residential and public works construction projects. We are committed to conducting our operations with an emphasis on the extensive use of recycled waste materials, extending product life, the efficient production of our concrete materials with minimal energy usage, dust and air pollution, and innovative products, methods and practices.

During the year ended June 30, 2015 we supplied materials to our customers through our network of ready-mixed concrete plants in Beijing (two as of June 30, 2015). We own one concrete plant and its related equipment, and we lease one additional plant in Beijing. Our management believes that we may 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.

##### Our Corporate Structure

We own all of the issued and outstanding capital stock of Xin Ao Construction Materials, Inc., or BVI-ACM, a British Virgin Islands corporation, which in turn owns 100% of the outstanding capital stock of Beijing Ao Hang Construction Materials Technology Co., Ltd., or China-ACMH, a company incorporated under the laws of China. On November 28, 2007, China-ACMH entered into a series of contractual agreements with Beijing Xin Ao Concrete Group Co., Ltd., or Xin Ao, a company incorporated under the laws of China, and its two shareholders, in which China-ACMH effectively took over management of the business activities of Xin Ao and has the right to appoint all executives and senior management and the members of the board of directors of Xin Ao. The contractual arrangements are comprised of a series of agreements, including an Exclusive Technical Consulting and Services Agreement and an Operating Agreement, through which China-ACMH has the right to advise, consult, manage and operate Xin Ao for an annual fee in the amount of Xin Ao's yearly net profits after tax. Additionally, Xin Ao's shareholders have pledged their rights, titles and equity interest in Xin Ao as security for China-ACMH to collect technical consulting and services fees provided to China-ACMH through an Equity Pledge Agreement. In order to further reinforce China-ACMH's rights to control and operate Xin Ao, Xin Ao's shareholders have granted China-ACMH the exclusive right and option to acquire all of their equity interests in Xin Ao through an Option Agreement.

The following chart reflects our organizational structure as of the date of this report.

## **Our Corporate History**

China Advanced Construction Materials Group, Inc. was founded as an unincorporated business on September 1, 2005, under the name TJS Wood Flooring, Inc., and became a C corporation in the State of Delaware on February 15, 2007. On April 29, 2008, we changed our name to China Advanced Construction Materials Group, Inc. in response to a reverse acquisition transaction with BVI-ACM described below.

On April 29, 2008, we completed a reverse acquisition transaction with BVI-ACM whereby we issued to the stockholders of BVI-ACM 8,809,583 shares of our common stock in exchange for all of the issued and outstanding capital stock of BVI-ACM. BVI-ACM thereby became our wholly owned subsidiary and the former stockholders of BVI-ACM became our controlling stockholders.

On August 1, 2013, we consummated a reincorporation merger pursuant to which we merged with and into our wholly-owned subsidiary, China Advanced Construction Materials Group, Inc., a newly formed Nevada corporation and the surviving entity in the merger, pursuant to the terms and conditions of an Agreement and Plan of Merger entered into as of August 1, 2013. As a result of the reincorporation the Company is now governed by the laws of the state of Nevada.



## **Background and History of BVI-ACM and China-ACMH**

BVI-ACM was established on October 9, 2007, under the laws of British Virgin Islands. The majority shareholders of BVI-ACM are Chinese citizens who own 100% of Xin Ao, a limited liability company formed under laws of China. BVI-ACM was established as a "special purpose vehicle" for foreign fund raising for Xin Ao. China State Administration of Foreign Exchange, or SAFE, requires the owners of any Chinese companies to obtain SAFE's approval before establishing any offshore holding company structure for foreign financing as well as subsequent acquisition matters. On September 29, 2007, BVI-ACM was approved by local Chinese SAFE as a "special purpose vehicle" offshore company.

On November 23, 2007, BVI-ACM established a subsidiary, China-ACMH, in China as a wholly owned foreign limited liability company with registered capital of \$5 million. Through China-ACMH and its variable interest entity Xin Ao, we are engaged in producing general ready-mixed concrete, customized mechanical refining concrete, and some other concrete-related products which are mainly sold in China. On September 20, 2010, China ACM established a 100% owned subsidiary, Advanced Investment Holdings Co., Inc., or AIH, in the State of Nevada. AIH never engaged in operations and the Company subsequently dissolved AIH on August 30, 2011.

In March and April 2010, Xin Ao established five 100% owned subsidiaries in China: 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 none of these Xin Ao subsidiaries had actual operation as of June 30, 2015. The purpose of these subsidiaries is to support the Company's future growth.

## **Our Business**

Our concrete sales business 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 three ready mix concrete batching plants in Beijing. The ready-mixed concrete sales business engages principally in the formulation, preparation and delivery of ready-mixed concrete to the worksites of our customers. For this segment of our business, we procure raw materials, mix them according to our measured mixing formula, ship the final products in mounted transit mixers to the destination work site, and, for more sophisticated structures, pump the mixture and set it into structural frame molds as per structural design parameters. The process of delivering and setting the ready mix concrete mixture cannot exceed 90 minutes because the chemistry of concrete mixture hardens thereafter. The deliverable radius of a concrete mixture from any one of our two ready mix plants in Beijing is approximately 25 kilometers. Traffic conditions would affect the timing and shipment of our concrete mixtures. Since the 2008 Olympics, there are alternating license plate traffic restrictions on many traffic routes in Beijing to ease traffic congestion and associated exhaust pollution. Due to the large amounts of working capital required for the acquisition of raw materials associated for this business segment, a supply shortage or degradation of supplier accounts payable credit terms would pose a potential risk to our business.

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 operation results.

## **Our Industry**

Our Industry was influenced by the decline in the macro economy in recent periods. The concrete products industry experienced a slowdown in industry production and economic growth since September 2011. In 2014 and 2015, the slowdown in the industry became more obvious month by month, with profit generally being squeezed by the greater pressure to maintain stable level of production and operation.

China's average annual GDP growth remained approximately 10% over the past 31 years. China has become the world's second largest economy, both in nominal GDP and Purchasing Power Parity terms, after the United States. In line with this macroeconomic growth, the Chinese construction and building material industry has grown tremendously.

China is already among the world's largest construction materials producers, ranking first in the world's annual output of cement, flat glass, building ceramic and ceramic sanitary ware. The construction materials market includes all manufacturers of sand, gravel, aggregates, cement, concrete and bricks. The market does not include other finished or semi-finished building materials. The performance of the market is forecast to decelerate, with an anticipated CAGR of 6.4% for the five year period 2010-2015, which is still expected to drive the market to a value of \$335.5 billion by the end of 2015.

According to Nomura Research, in order to meet a possibly higher energy-saving target during 12th FYP period, China has given high priority to industry consolidation to curb capacities and energy consumption. According to one news report (Source: China Cement Net, Cement Industry Restructuring Set to Start, Sept 13, 2010), China aims to increase the market share of the Top 10 cement producers from 25% (as of 2009) to above 35% by 2015, the end of the 12th FYP period. The government has a two pronged approach to industry consolidation: phasing out outdated capacity and encouraging merger and acquisition activity among the industry.

## **Construction Demand in China**

China's gross national construction output is expected to increase by 15% during the country's 12th FYP period (2011-2015), according to a statement from China's Ministry of Housing and Urban-Rural Development of China on August 18, 2011.

According to the Summary of Construction Outlook in China (the Summary), published in August 6, 2013 by the Freedonia Group, an industry research firm, construction expenditures in China are expected to increase 8.5 percent per year in real terms through 2017. Ongoing urbanization and industrialization, rising income levels, further population and household growth, and the government's continuing efforts to expand and upgrade physical infrastructure in the country will support healthy growth in construction spending.

Construction expenditures in China are nearly equally split among residential buildings, nonresidential buildings, and nonbuilding structures. Nonbuilding construction will experience the fast growth (in real terms) through 2017. The increases will benefit from stated efforts to expand and upgrade the country's transportation infrastructure, such as highways network, subway systems in major cities, and several airports. Utilities construction will also contribute to the expenditures on nonbuilding construction, particularly in rapidly growing urban areas, as the government continues to expand and improve access to such infrastructure like water supply, sewage treatment, rubbish disposal, and gas distribution. Further efforts to increase the country's power generation capacity and improve electricity transmission networks will also drive spending on nonbuilding construction.

According to the Investment Research Institute of China's State Development and Reform Commission, during the 12th Five year plan (FYP), which runs from 2011 to 2015, the Chinese government will invest \$460 billion (RMB3.05 trillion) in rural infrastructure.

### **China's Cement & Concrete Demand**

According to the Summary, demand for cement in China is forecast to rise 6.0% annually from 2012 and eventually reaches 1.8 billion metric tons. Growth will be driven by rising, but decelerating, construction expenditures in China. Further advances in cement manufacturing technology are also expected to stimulate sales by improving the quality of the product, stressing the versatility of certain types of cement with excellent performance and/or price benefits over other types of cement across a range of construction applications. Regional cement markets reflect differences in construction expenditures, which in turn are driven by local trends in demographics, industrial output and economic activity. The cement markets in Northwest and Southwest China are expected to grow at a faster pace, as a result of the government's Great Western Development strategy, which aims to promote investment in these areas. Consumption of cement in Central and Northern China is also expected to exceed the national average, supported by high levels of transportation infrastructure construction and booming urban markets in Beijing and Tianjin. (Summary of the Freedonia Group's January 2009 "Cement in China" report from Business Wire).

Residential and non-residential buildings in China are increasingly requiring much more concrete due to, among other reasons, the short supply of wood. China is currently the largest consumption market of cement worldwide at over \$200 billion annually. At the present rate, it is presumed that China will continue to be an important player in the global construction materials market for at least the next two decades.

### **Demand for Ready-Mixed Concrete**

Construction contractors are expected to continuously represent the largest market for cement. Economic downturns or reductions in government funding of infrastructure projects could significantly reduce our revenues. However, we believe that the ready-mix concrete market exhibits the strongest growth in the cement industry. Revenues are expected to be received from government regulations banning on-site concrete and mortar mixing. Demand for cement used in concrete products is expected to be driven by the increasing popularity of precast concrete with many construction contractors. In addition, the phase-out of clay bricks will heighten demand for concrete blocks. Recognizing the significant environmental impact created from the large-scale construction activities undertaken in the past few decades, China's government implemented Decree #341 in 2004 which bans onsite concrete production in over 200 major cities across China in order to reduce environmental damage from onsite cement mixing and improve the quality of concrete used in construction.

### **Our Competitive Strengths**

Ready-mixed concrete is a highly versatile construction material that results from combining coarse and fine aggregates, such as gravel, crushed stone and sand, with water, various chemical admixtures and cement. We manufacture ready-mixed concrete in variations, which in each instance may reflect a specific design use. We generally maintain inventory of raw materials for a short period of time to coordinate our daily materials purchases with the time-sensitive delivery requirements of our customers.

The quality of ready-mixed concrete is time-sensitive as it becomes difficult to place within hours after mixing. Consequently, the market for a permanently installed ready-mixed concrete plant is usually limited to an area within certain radius of such plant's location. We produce ready-mixed concrete in batches at our plants and use mixer and other trucks to complete the production process, then distribute and deliver the concrete to the worksites of our customers.



Concrete has many attributes that make it a highly versatile construction material. In recent years, industry participants have developed various uses for concrete products.

We generally obtain contracts through local sales and marketing efforts directed at concrete subcontractors, general contractors, property owners and developers, governmental agencies and home builders.

Our competitors 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 contracts on which we bid are awarded through a competitive bid process with awards often made to the lowest bidder, though other factors such as shorter completion time or prior experiences are often just as important. Within our markets, we compete with many national, regional and local state-owned and private construction corporations, some of which have achieved greater market penetration or have greater financial and other resources than us. In addition, there are a number of large national companies in our industry that could potentially enter into our markets and compete with us. If we are unable to compete successfully in our markets, our relative market share and profits would be reduced.

We believe that the following competitive strengths enable us to compete effectively and to capitalize on the remaining market for construction materials in China:

*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 raise less credit risk to us. For the year ended June 30, 2015, five customers accounted for approximately 35% of the Company's sales and 14% of the Company's account receivables as of June 30, 2015. Should we lose these customers in the future and are unable to obtain additional customers, our revenues will suffer.

*Experienced Management.* The technical knowledge and business relationships of our management give us the ability to secure major infrastructure projects, increase production volumes, and implement quality standards and environmentally sensitive policies, and it also provide us with leverage to acquire less sophisticated operators. If there is any significant turnover in our management, we would lose the institutional knowledge held by our existing senior management team.

*Innovation Efforts.* We strive to produce the most technically and scientifically advanced products for our customers hence we maintain close relationships with Tsinghua University, Xi'an University of Architecture and Technology and Beijing DongfangJianyu Institute of Concrete Science & Technology, which assist us with our research and development activities. During our five year agreement with the Institute, we obtain an advantageous status over many of our competitors by gaining access to a wide array of resources and knowledge. The Company incurred research & development expenses of approximately \$1.1 million and \$1.5 million for the years ended June 30, 2015 and 2014, respectively.

## **Our Growth Strategy**

We are committed to enhancing profitability and cash flows through the following strategies:

*Focusing on High Capacity Utilization.* We intend to focus on achieving high capacity utilization in order to efficiently operate our plants, by increasing capacity utilization at existing plants or expanding capacity by building new plants to meet existing contracts and anticipated increase in demand. We significantly increased capacity utilization at our two Beijing-based concrete plants in fiscal year 2015 when demand was increasing. During fiscal year 2015, we obsolete all portable stations in view of lower anticipated demand. We retired portable plant assets in fiscal year 2015 based on slowing demand for railway construction and the suspension of new and ongoing high speed railway projects stemming from a changing policy announced by China's Ministry of Rail and national development and reform commission.

*Mergers and Acquisitions.* When capital permits, we intend to capitalize on the challenges that smaller companies are encountering in our industry by acquiring complementary companies at favorable prices. We believe that buying rather than building capacity is an option that may be attractive to us if replacement costs are higher than purchase prices. We continue to look into acquiring smaller concrete manufacturers in China as part of our expansion plans. We have not identified specified targets or entered into any Letters-of-Intent at this time.

*Vertical Integration.* When capital permits, we plan to acquire smaller companies within the construction industry, develop more material recycling centers, and hire additional highly qualified employees. In order to accomplish this, we may need to offer additional equity or debt securities. Certain companies we seek to acquire are suppliers of the raw materials we purchase to manufacture our products. If we do acquire such companies we will have greater control over our raw material costs.

*Supply Chain Efficiencies and Scale.* We intend to streamline our supply chain process and leverage our scale.

*New Product Offering.* We plan to produce a lightweight aggregate concrete for use in projects and to expand product offerings to include pre-cast concrete.

## **Our Operations**

We provide materials through our network of ready-mixed concrete plants in Beijing (two as of June 30, 2015). We own one concrete plant and its related equipment, and we lease one additional plant in Beijing.

## **Products**

As architectural designs become more complex, challenging, and modern in scope, the need for technology driven companies to provide high-end specialty concrete mixtures has rapidly accelerated. Increasing demand for state-of-the-art cement mixtures has spurred our technological innovation and our ability to provide advanced mixtures of building materials that meet project specific engineering and environmental specifications. We produce a range of C10 to C100 concrete materials and specialize in an array of specialized ready-mixed concretes tailored to each project's technical specifications and environmental standards.

We specialize in ready-mixed concrete, a concrete mixture made at our facility with complete computerized operating systems. Such concrete accounts for nearly three-fourths of all concrete produced. Ready-mixed concrete is mixed on demand and is shipped to worksites by concrete mixer trucks.

Our ready-mixed concrete products consist of proportioned mixes we prepare and deliver in an unhardened plastic state for placement and shaping into designed forms at the worksite. Selecting the optimum mix for a worksite entails determining not only the ingredients with the desired permeability, strength, appearance and other properties after it hardened, but also the ingredients necessary to achieve a workable consistency considering the weather and other conditions at the worksite. We believe we can achieve product differentiation for the mixes we offer because of the variety of mixes we produce, our volume production capacity and our scheduling, delivery and placement reliability.

We produce ready-mixed concrete by combining the desired type of cement, other cementitious materials and gravel and crushed stone with water and, typically, one or more admixtures. These admixtures, such as chemicals, minerals and fibers, determine the usefulness of the product for particular applications.

We use a variety of chemical admixtures to relieve internal pressure, increase resistance to crack in subfreezing weather, retard the hardening process to make concrete more workable in hot weather, strengthen concrete by reducing its water content, accelerate the hardening process, reduce the time required for curing, and facilitate the placement of concrete acquiring low water content.

We frequently use various mineral admixtures as supplements to cement, which we refer to as cementitious materials, to alter the permeability, strength and other properties of concrete.

The ready-mixed concrete sector in the market is growing at a fast rate, largely due to the Chinese government's implementation of Decree #341 in 2004. This law bans on-site concrete production in over 200 cities across China, with the goal of reducing environmental damages from onsite concrete mixing and improving the quality of concrete used in construction. The use of ready-mix concrete minimizes worksite noise, dirt and congestion, and most additives used in ready-mix concrete are environmentally safe. Our goal is to continue the use of at least 30% recyclable components in our concrete mixtures.

We are building a comprehensive product portfolio that serves the diverse needs of our developing customer base and all unique construction and infrastructure projects. While we mainly specialize in ready-mix concrete formulations from controlled low-strength material to high-strength concrete, each of them are specifically formulated to meet the needs of each project. We provide both industry standard and highly innovative products, including:

**Common Industry Mixtures  
(Customized to Project)**

Ready-mixed Concrete Blends: C10 to C100  
Controlled Low-Strength Material (CLSM)  
High-Strength Concrete with Customized Fibers  
Soil Cement, Unique Foundation Concrete

**Industry Leading Mixtures  
Highly Technical Blends**

Compound Admixture Concrete  
Lightweight Aggregate Concrete  
Energy-saving Phase change thermostat concrete  
C100 High Performance Concrete

**Our Customers**

For the fiscal year ended June 30, 2015, we had one customer, whose sales accounted for more than 10% of our total sales. Five customers accounted for approximately 35% and 31% of the Company's sales for the years ended June 30, 2015 and 2014, respectively. The total accounts receivable from these customers amounted to approximately \$12.3 million and \$7.9 million as of June 30, 2015 and 2014, respectively.

## **Developing New Relationships**

Our business will be damaged if project contracts with the Chinese government, for which we may act as a sub-contractor, are cancelled. Our sales strategy balances these risks by focusing on building new long-term cooperative relationships with some of China's top construction companies in order to enhance our reputation and to enter new markets. Our sales representatives are actively building relationships with the Chinese government, general contractors, architects, engineers, and other potential sources of new business in target markets. Our sales efforts are further supported by our executive officers and engineering personnel, who have substantial experience in the design, formulation and implementation of advanced construction and concrete materials projects.

## **Our Suppliers**

We rely on third party suppliers of the raw materials to manufacture our products. Our top five suppliers accounted for approximately 36% and 33% of the Company's purchases for the years ended June 30, 2015 and 2014, respectively. The total accounts payable to these suppliers amounted to approximately \$5.8 million and \$5.4 million as of June 30, 2015 and 2014, respectively.

## **Sales and Marketing**

General contractors typically select their suppliers of ready-mixed concrete and precast concrete. In large, complex projects, an engineering firm or division within a state transportation or public works department, may influence the purchasing decision, particularly if the concrete has complicated design specifications. In connection with large, complex projects and government-funded projects, the general contractor or project engineer usually awards supply orders on the basis of either direct negotiation or a competitive bidding process. Our marketing efforts target on general contractors, developers, design engineers, architects and homebuilders whose focus extends beyond the price of our product to quality, consistency and reducing the in-place cost.

Our marketing efforts are geared toward advancing China-ACMH as the supplier to build China's most modern and challenging projects. The Company is constantly seeking ways to raise its profile and leverage additional publicity. To this end, the Company plans to expand its presence at leading construction industry events and in periodicals to build up successful reputation. The primary goal is to reinforce the sales efforts by promoting positive testimonials and successful stories from the Company's high profile clients and projects. Our marketing and sales strategy emphasizes on the sale of value-added products and solutions to customers.

## **Research and Development**

Construction materials companies are under extreme pressure to respond quickly to industrial demands with new designs and product innovations that support rapidly changing technical demand and regulatory requirements. We devote a substantial amount of attention to the research and development of advanced construction materials that meet the specific needs of projects while striving to lead the industry in value, materials and processes. We have sophisticated in-house R&D and testing facilities, a highly technical onsite team, in cooperation with a leading research institution, experienced management and advisory experts. Our research and development expense was approximately \$1.1 million for the year ended June 30, 2015, as compared to \$1.5 million for the year ended June 30, 2014.

### *University Relationships & Cooperation Agreements*

We have strong relationships with Tsinghua University and the Xi'an University of Architecture and Technology. We signed a ten-year cooperation agreement with Xi'an University, a top university in the fields of building and material science research and education, on June 10, 2007, so as to keep pace with the global advancements of the cement and concrete industries.





*Beijing Concrete Institute Partnership*

The Beijing DongfangJianyu Institute of Concrete Science & Technology, or Beijing Concrete Institute, has 40 employees, with five senior research fellows, and 15 mid-level researchers. The Institute and its staff have frequently participated and collaborated with national and local government agencies to establish the following industry standards:

- Specification For Mix Proportion Design of Ordinary Concrete JGJ55-2000
- Code for Acceptance of Constructional Quality Of Concrete Structures GB 50204-2002
- Applied Technical Specification of Mineral Admixtures In Concrete DBJ/T01-64-2002
- Ready-Mixed Concrete GB/T 14902-2003
- Practice Code for Application of Ready-Mixed Mortar DBJ 01-99-2005
- Management Specification of Quality for Ready-Mixed Concrete
- Technical Requirement for Environmental Labeling Products Ready-Mixed Concrete HJ/T412- 2007
- High Performance Concrete mineral admixtures; GB/T18736-2012
- Test method for determining cement density GB/T 208-2014
- Evaluation for Life Cycle Environment-friendly Assessment of concrete products national standard GB/T XXXX- 20XX
- Compound admixtures for concrete industry standard JG/T XXXX-20XX
- The evaluation system on clean production of ready-mixed concrete
- Safety production management regulation of premixed concrete
- Technical specifications of waster concrete regeneration, commercial standard

We have a close association with the Beijing Concrete Institute and have been able to incorporate many of these research findings into our operations, products, and procedures. We work closely with the institute and, in return for our sponsorships to multiple research initiatives, we have been granted exclusive works for the development of the materials used for our existing plants regional projects.

We are able to use the Research Findings and Technical Publication and Procedures of the Beijing Concrete Institute, University of Science and Technology Beijing, Beijing University of Technology, China Academy of Building Research, China Building Materials Academy in our business, which provides us with an advantage over many of our competitors. Because of our contracts with the institutes, our competitors are unable to commercially utilize the findings. Some of these findings include:

- Research on Compound Admixture HPC; 3rd Class Award for China Building Materials Science & Technology Progress.
- Research and Application of C100 HPC; 3rd Class Award for Beijing Science & Technology Progress.
- Research on pumping Light Aggregate Concrete; Innovation Award for China Building Materials Science & Technology.
- Research and Application of Green (nontoxic) HPC; First Prize for Beijing Science & Technology Progress.
- Construction Technology of HPC for the Capital International Airport.
- Research on Production and Construction Technology of Phase Change Energy-saving Thermostat Concrete and Mortar.
- Polycarboxylate Series High Performance Water Reducing Agent Compositing Technique.

- State Swimming Center for Concrete Cracking Control Technology.
- Research on construction waste recycled materials in concrete; Through the identification of the scientific and technological achievements with China Building Materials Science & Technology Progress.
- Research on the application of tailings waste rocks in the concrete. Through the scientific and technological achievements identification by China Building Materials Science & Technology.
- The research and application of alkali-free & high performance accelerator on concrete; Through the scientific and technological achievement identification by China Building Materials Science & Technology

In addition, we collaborate closely with the institute and its executives who play a strong role in recommending industry standards, advising on major infrastructure developments, and creating and maintaining strong connections with leading developers, construction companies, and governmental officials.

### Successful Innovations

Some of our advanced products and processes are developed through our relationships with research institutes and universities, including:

#### *C100 High Performance Concrete*

High Strength Concrete is often defined as concrete with a compressive strength greater than 6000 psi (41 MPa). The primary difference between high-strength concrete and normal-strength concrete is the compressive strength that represent the maximum resistance of a concrete sample to applied pressure. Manufacturing high-strength concrete involves making optimal use of the basic ingredients that constitute normal-strength concrete.

Through our collaborative efforts, we have developed a high performance concrete which can be produced at an impermeable grade above P35, and can be used as self-waterproofing concrete for structural engineering, as the water-cement (W/C) ratio and carbonized shrinking is minimal and the structure is close-grained.

Only a limited number of corporations in the Beijing are equipped with the expertise to produce C100 High Performance Concrete.

#### *Compound Admixture Concrete*

This compound mineral mixture is a composite of coal powder, mineral powder and mineral activators blended to specific proportions. This mixture improves activity, filling, and super-additive effects of the concrete and also improves the compatibility between cement and aggregate.

#### *Lightweight Aggregate Concrete & Innovative Pumping Technology*

This procedure involves a pumping technology of lightweight aggregate. It is a pretreatment method of lightweight aggregate. Setting appropriate times and pressure, lightweight aggregate will reach an appropriate saturation state under pressure once it is put into a custom designed sealed pressure vessel. Lightweight aggregate concrete was prepared through the above pretreatment method, and would dry quicker under pumping pressure without losing consistency. Accordingly, lightweight aggregate concrete will be easily pumped when applied which shorten the construction time.

*Energy-saving Technologies of Phase Change Thermostat Concrete*

Energy conservation concrete may adjust and reflect process temperature, which would solve cracking problem brought about by cement heat of hydration in large-scale concrete pours.

*Polycarboxylate Series High Performance Water Reducing Agent Compositing Technique*

The research and production of water reducing admixture would improve performance while lowering pollution and environmental impact. Super plasticizer Polycarboxylate series which reduces water requirements is an attractive additive in that it enables high strength concrete, super-strength concrete, high fluidity and super plasticizer concrete, and self-defense concrete. The water reduction of Polycarboxylate may reach 20% to 25%, higher than the current industry standard -- the Naphthaline water reducing agent. The cost of the water reducing agent is highly competitive, as it may replace Naphthaline to be used for high strength and high performance concrete production.

*Application of Reused Water in Concrete*

The re-use of waste water of a concrete plant to mix concrete is significant as it can reduce production costs, minimize fresh water usage and introduce an efficient approach to address industrial waste. The practical application of this effort is a further step towards the goal of minimal pollution and emissions.

**Our Competition**

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 Beijing. Our future success depends on our ability to establish and maintain a competitive position in the marketplace.

We compete primarily on the basis of quality, technological innovation and price. Our main competitors include Beijing Construction Engineering Group, BBMG Group Co., LTD, Beijing Uni-Construction Group., Jidong Concrete Group,.

Essentially all of the contracts we bid on are awarded through a competitive bid process with awards generally made to the lowest bidder, though other factors such as shorter completion time or prior experiences are often just as important. Within our markets, we compete with many national, regional and local construction corporations. Some of these competitors have achieved greater market penetration or have greater financial and other resources than us. In addition, we compete with a number of state-owned enterprises, which have significantly greater financial resources and competitive advantage than us.

There are over 140 concrete mixture stations in the Beijing area. The concrete production industry is highly segmented, with no single supplier having greater than a 10% market share.

**Intellectual Property**

We currently own the following intellectual property rights:

| Name   | Patent No.          | Duration                           | Patent Owner |
|--|---------------------|------------------------------------|--------------|
| Method of using recycled aggregate to prepare LC7.5concrete and its preparation method                 | ZL 2013 1 0070387.3 | April 9, 2014 - April 9, 2034      | Xin Ao       |
| One kind of recycled aggregate formulated with C25 self-compacting concrete and its preparation method | ZL 2013 1 0069510.X | May 7, 2014- May 6, 2034           | Xin Ao       |
| An ultra-fine powder and its preparation method active regeneration                                    | ZL 2013 1 0070164.7 | July 9, 2014- July 8, 2034         | Xin Ao       |
| A Polycarboxylate and preparation method used recycled aggregate concrete                              | ZL 2013 1 0072014.X | January 1, 2014- December 31, 2034 | Xin Ao       |
| An early strength of recycled aggregate concrete superplasticizer                                      | ZL 2013 1 0072015.4 | April 9, 2014- April 8, 2034       | Xin Ao       |

### Environmental Matters

We are obliged to comply with environmental protection laws and regulations promulgated by the Ministry of Construction and the State Environmental Protection Administration. Some specific environmental regulations require sealed transportation of dust materials and final products, closed storage of sand and gravel, as well as reduction of noise and dust pollution on worksites and encouragement of the use of waste materials. The governmental regulatory authorities conduct periodic inspections. We have met all the requirements in the past inspections. We are one of the 10 companies in the industry that have been awarded the honor of "Green Concrete Producer" by the PRC government.

### Regulation

The company has been in compliance with all registrations and requirements for the issuance and maintenance of all licenses and certificates required by the applicable governing authorities, including the Ministry of Construction and the Beijing Administration of Industry & Commerce. The Ministry of Construction awards Level II and Level III qualifications to concrete producers in the PRC construction industry, based on criteria such as production capacity, technical qualification, registered capital and capital equipment, as well as performance on their past projects. Level II companies are licensed to produce concrete of all strength levels as well as special concretes, and Level III producers are licensed to produce concrete with strength level C60 and below. We are currently a Level II concrete producer.

Additionally, to make improvements at our currently existing plants, we do not need to apply for regulatory approval. However, in order to build new concrete plants, we need to (i) apply for a business license from the local Administration of Industry and Commerce, (ii) receive environmental approval from the local Environmental Protection Bureau in the relevant district area, and (iii) apply for an Industry Qualification Certificate from the local Municipal Construction Committee. The time estimated to receive each of these approvals is approximately one month. In the past, we have not been rejected by any of these three regulators for approval.

### Our Labor Force

As of June 30, 2015, we employed 808 full-time employees. The following table sets forth the number of our full-time employees by function as of June 30, 2015.



**Employees/Independent Contractors and their Functions**

|                                     |            |               |
|-------------------------------------|------------|---------------|
| Management & Administrative Staff   | 97         | 12.00%        |
| Sales                               | 46         | 5.69%         |
| Technical & Engineering Staff       | 51         | 6.31%         |
| Production Staff                    | 80         | 9.9%          |
| Equipment & Maintenance             | 12         | 1.49%         |
| Drivers & Heavy Equipment Operators | 10         | 1.23%         |
| <b>Sub-Total</b>                    | <b>475</b> | <b>36.63%</b> |
| Independent Contractors             | 512        | 63.37%        |
| <b>Total</b>                        | <b>808</b> | <b>100%</b>   |

As required by applicable PRC law, we have entered into employment contracts with all our officers, managers and employees. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff.

In addition, we are required by PRC law to cover employees in China with various types of social insurance and believe that we are in material compliance with the relevant laws.

**Insurance**

We believe our insurance coverage is customary and standard for companies of comparable size in comparable industries in China.

## 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.*

### **RISKS RELATED TO OUR BUSINESS**

*Our business is subject to the risk of supplier concentration.*

Our top five suppliers provide approximately 36% 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. Cost 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 improvements 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.***

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 on 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.

***The worldwide recession and credit crisis could impact our business.***

The tightening of credit in financial markets and the general economic downturn could adversely affect the ability of our customers, and suppliers to obtain the financing they need to make purchases from us, to perform their obligations under agreements with us or even to continue their operations. The credit tightening and decreased cash availability could also result in an increase in cancellation of orders for our products and services and/or a decrease in demand for our products and services in the markets in which we operate. While we believe that the effects of the recession and credit crisis have abated, we are unable to predict potential future economic conditions and disruptions in financial markets or their effect on our business and results of operations, and the consequences may be materially adverse.

***Our concrete production plants in Beijing may be subject to a general city rezoning plan which, if implemented in the future, may require us to relocate or possibly permanently shut down certain of these plants.***

Certain of our concrete production plants in Beijing may be subject to a general city rezoning plan which has been prepared by the Beijing municipal government. Under the rezoning plan, it is intended that the properties where these plants are located will be rezoned from industrial to commercial use. If and when implemented in respect of those properties, the rezoning plan may require us to vacate these properties and relocate the plants. In the event we are required to vacate the above properties, we would implement certain strategies to minimize any loss of production capacity during relocation. There can be no assurance that our strategies to deal with the relocation of the facilities can be implemented, or that such strategies can be implemented before we are required to vacate the above properties due to the proposed general city rezoning plan. If we are required to relocate the facilities, our results of operation and financial condition may be materially and adversely affected.

***Our exposure to financially troubled customers or suppliers could harm our business, financial condition and operating results.***

We produce, sell and deliver ready-mix concrete, and rely on suppliers, that have in the past and may in the future experience financial difficulty, particularly in light of recent conditions in the credit markets and the overall economy that affected access to capital and liquidity. As a result, we devote significant resources to monitor receivables and inventory balances with certain of our customers. If our customers experience financial difficulty, we could have difficulty recovering amounts owed to us from these customers, or demand for our services from these customers could decline. Furthermore, the government tightened monetary policy in order to regulate inflation, which in turn led to delayed payment on our housing construction projects. Due to concern over inflation, the Chinese government began to tighten its monetary policy from October of 2010, which affected the real estate and construction industries adversely. As a result, our accounts receivable increased and the provision for doubtful accounts also increased. Some of our customers appeared to have the problems of declining business and shortage in cash. The allowance for doubtful accounts decreased to approximately \$28.2 million at June 30, 2015, compared to approximately \$31.7 million at June 30, 2014. In fact, our provision for doubtful accounts, as a percentage of our overall accounts receivable, has increased from approximately 39.1% as of June 30, 2014, to approximately 41% as of June 30, 2015. The inability to collect on our outstanding accounts receivable could adversely affect our operating cash flows and reduce our working capital. As a result, we may suffer material write-offs on our accounts receivable to bad debt expense. The inability of our suppliers to supply us with needed raw material could adversely affect our production process and therefore, we may not be able to fulfill our contract arrangements with customers.

***We rely on internal models to manage risk, to provide accounting estimates and to make other business decisions. Our results could be adversely affected if those models do not provide reliable estimates or predictions of future activity.***

We rely heavily on internal models in making a variety of decisions crucial to the successful operation of our business, including allowances for doubtful accounts and other accounting estimates. It is therefore important that our models are accurate, and any failure in this regard could have a material adverse effect on our results. Models are inherently imperfect predictors of actual results because they are based on historical data available to us and our assumptions about factors such as credit demand, payment rates, default rates, delinquency rates and other factors that may overstate or understate future experience. Our models could produce unreliable results for a number of reasons, including the limitations of historical data to predict results due to unprecedented events or circumstances, invalid or incorrect assumptions underlying the models, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models, incorrect data being used by the models or inappropriate application of a model to products or events outside of the model's intended use. In particular, models are less dependable when the economic environment is outside of historical experience, as has been the case recently. Due to the factors described above and in "Management's Discussion and Analysis of Financial Condition and Results of Operations", we may, among other things, experience actual charge-offs that exceed our estimates and which are

possibly greater than our allowance for doubtful accounts, or which require material adjustments to the allowance. Unanticipated and excessive default and charge-off experience can adversely affect our profitability and financial condition and adversely affect our ability to finance our business.

***Our business will be damaged if project contracts with the Chinese government, for which we may act as a subcontractor 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.

***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.

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

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. Chinese anti-corruption law also strictly prohibits bribery of government officials. 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 or other anti-corruption laws 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 United States 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 24.5% of our outstanding voting securities and our Vice-Chairman, Weili He, owns approximately 17.2% of our outstanding voting securities as of June 30, 2015, 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 be exposed to uncertainty relating to our investments with various financial investment companies.***

We may decide to pursue short-term or long-term investments depends on various business conditions or future developments. The level of risk associated with a particular investment or asset class varies, but investments are generally subject to market risk, default risk, Inflation risk and mortality risk. Due to these risks, investments generally subject to uncertainty of the return of proceeds and possibly principles. In addition, hedging, insurance, and other ways to manage risk are not always readily available. For example, the Company entered into an investment agreement with a financial investment company in April 2015. The agreement allows the Company to invest up to RMB 100 million (\$16.4 million) for maximum periods of two years. The financial investment company invests the Company's funds in certain financial instruments including bonds, mortgage trust or mutual funds. The rates of return on these investments were guaranteed to be no less than 10% of the principal per annum. However, the Company's funds deposited with the financial investment company are not insured.

Any failure by the Company to collect returns or principles of its investments could have a material adverse effect on our business, financial condition and results of operations.

***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.

***We may be exposed to potential risks relating to our internal controls over financial reporting.***

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. Under current law, the auditor attestation will not be required as long as our filing status remains as a smaller reporting company, but we may cease to be a smaller reporting company in future years, in which case we will be subject to the auditor attestation requirement. We were subject to management report for the fiscal year ended June 30, 2015, and a report of our management for the 2015 fiscal year is included under Item 9A of this annual report concluding that, as of June 30, 2015, our internal controls over financial reporting were not effective. If we cannot remediate the material weakness identified in a timely manner or, if and when we are subject to the auditor attestation report requirement, 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 may not be 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. As of June 30, 2015, Xin Ao has fully contributed the social insurance premium and housing accumulation fund according to PRC laws and regulations.

***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**

***In order to comply with PRC regulatory requirements, we operate our businesses through companies with which we have contractual relationships but in which we do not have controlling ownership. If the PRC government determines that our agreements with these companies are not in compliance with applicable regulations, our business in the PRC could be materially adversely affected.***

We do not have direct or indirect equity ownership of our variable interest entity, or VIE, Xin Ao, which operates all our businesses in China. At the same time, however, we have entered into contractual arrangements with Xin Ao and its individual owners pursuant to which we received an economic interest in, and exert a controlling influence over Xin Ao, in a manner substantially similar to a controlling equity interest.

Although we believe that our current business operations are in compliance with the current laws in China, we cannot be sure that the PRC government would view our operating arrangements to be in compliance with PRC regulations that may be adopted in the future. There have been recent reports of potential PRC government efforts to regulate or perhaps limit the use of VIE structures for new foreign investment, particularly in the internet and other telecommunications industries. We are monitoring developments in this area and do not believe any adverse impact on our operations is likely.

If we are determined not to be in compliance with future PRC regulations, the PRC government could levy fines, revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our business, corporate structure or operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. As a result, our business in the PRC could be materially adversely affected.

***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.

According to an article published on August 14, 2015, a slew of recent figures have shown that growth in several key sectors has slowed to a crawl in response to contracting world trade. The demand for oil in China, a key measure of activity, fell in tandem with a fall in car sales. Exports tumbled in June by 8.3%. Furthermore, according to an article published by Fortune on January 21, 2015 since recording its last double-digit growth (10.4%) in 2010, the Chinese economy has effectively decelerated 30% in five years. Most of the slowdown occurred in 2011 and 2012 when reported growth was 9.3% and 7.7%, respectively. Wall Street Journal stated on January 19, 2015 that China's economic growth slowed to 7.4% in 2014, downshifting to a level not seen in a quarter century.

In the next two to three years, China's growth performance could deteriorate because of the overhang of its real estate bubble, massive manufacturing overcapacity, and the lack of new growth engines. The International Monetary Fund and UBS estimate that the Chinese economy will grow by 6.8% in 2015. 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.

***We rely on contractual arrangements with our VIEs for our operations, which may not be as effective in providing control over these entities as direct ownership.***

Our operations and financial results are dependent on our VIEs, Xin Ao and its subsidiaries, in which we have no equity ownership interest and must rely on contractual arrangements to control and operate the businesses of our VIEs. These contractual arrangements are not as effective in providing control over the VIEs as direct ownership. For example, the VIEs may be unwilling or unable to perform its contractual obligations under our commercial agreements. Consequently, we would not be able to conduct our operations in the manner currently planned. In addition, the VIEs may seek to renew their agreements on terms that are disadvantageous to us. Although we have entered into a series of agreements that provide us with substantial ability to control the VIEs, we may not succeed in enforcing our rights under them insofar as our contractual rights and legal remedies under PRC law are inadequate. In addition, if we are unable to renew these agreements on favorable terms when these agreements expire or enter into similar agreements with other parties, our business may not be able to operate or expand, and our operating expenses may significantly increase.

In addition, the VIE structure is subject to uncertainty amid the PRC's changing legislative practice. In January 2015, China's Ministry of Commerce unveiled a draft legislation that could change how the government is regulating corporate structures, especially for VIEs controlled by foreign investments. Instead of looking at ownership, the draft law focused on the entities or individuals hold control of a VIE. If a VIE is deemed to be controlled by foreign investors, it may be barred from operating in restricted sectors or the prohibited sectors listed on a negative list, where only companies controlled by Chinese nationals could operate, even if structured as VIEs.

In the event that the draft law is implemented in any form, and that the Company's business is characterized as one of the restricted or prohibited sectors, Xin Ao and its subsidiaries may be barred from operation which will materially adversely affect our business.

***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 almost 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.

***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.

***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.

***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.





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. In August 2015, the PRC Government devalued its currency by approximately 3%, represented the largest yuan depreciation for 20 years. Concerns remain that China's slowing economy, and in particular its exports, will need a stimulus that can only come from further cuts in the exchange rate..

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 Current 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.***

We are a holding company incorporated under the laws of Nevada. We conduct substantially all of our business through our wholly-owned and other consolidated entities in China, and we derive all of our income from these entities. Prior to January 1, 2008, dividends derived by foreign enterprises from business operations in China were not subject to the Chinese enterprise income tax. However, such tax exemption ceased as of January 1, 2008 and thereafter with the effectiveness of the new Enterprise Income Tax Law, or EIT Law.

Under the EIT Law, if we are not deemed to be a resident enterprise for Chinese tax purposes, a withholding tax at the rate of 10% would be applicable to any dividends paid by our Chinese subsidiaries to us. However, if we are deemed to be a resident enterprise established outside of China whose place of effective management is located in China, we would be classified as a resident enterprise for Chinese tax purposes and thus would be subject to an enterprise income tax rate of 25% on all of our income, including interest income on the proceeds from this offering on a worldwide basis.

The regulations promulgated pursuant to the EIT Law define the term place of effective management as establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise. The State Administration of Taxation issued a SAT Circular 82 on April 22, 2009, which provides that the place of effective management of a Chinese-controlled overseas-incorporated enterprise is located in China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly located in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies located in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders meetings are located or kept in the PRC; and (iv) no less than half of the enterprise's directors or senior management with voting rights reside in the PRC. SAT Circular 82 applies only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals. If the Company's non-PRC incorporated entities are deemed PRC tax residents, such entities would be subject to PRC tax under the EIT Law. The Company has analyzed the applicability of the EIT Law and related regulations, and for each of the applicable periods presented, the Company has not accrued for PRC tax on such basis. In addition, although under the EIT Law and the related regulations dividends paid to us by our PRC subsidiaries would qualify as tax-exempted income, we cannot assure you 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. As a result of such changes, our historical operating results will not be indicative of our operating results for future periods and the value of our shares of common stock may be adversely affected. We are actively monitoring the possibility of resident enterprise treatment and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

***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 EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a unified 25% income tax rate. Under the 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 January 2012 and was entitled to a 15% preferential income tax rate for the three-year period ended December 2014. In addition, Xin Ao uses recycled raw materials to manufacture its products and was entitled to a 0% value-added tax (the VAT tax) rate from June 2013. The favored treatment of being exempted from the VAT tax expired June 2015, therefore, we will be subject to the 3% industry-standard rate and our value-added tax expenses increase, which could 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.***

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 15c-2 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 15c-2, 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 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

There is no private land ownership in China. Individuals and companies are permitted to acquire land use rights for specific purposes. We lease our 44,041 square meter facility located at Jia 1, SanTaiShan, XiaoHongMen County, ChaoYang District, Beijing, China, from Beijing SanTaiShan Chemical Trading & Logistics Co., who was granted land use rights from the PRC government. The lease provides for a two year term beginning on October 1, 2013, with the option to extend following expiration. The annual rent on the property is approximately \$220,000. On April 30, 2012, the Company entered into a lease agreement to lease 43,000 square feet of office space from a third party, from May 1, 2012 to March 28, 2021, with annual payments of approximately \$429,000. The lease agreement is separated into three lease terms, each term has three-year expiration period and will be automatically renewed to next three-year term and so on if the office building would not be acquired or demolished by the city government.

We currently have two operating leases in Beijing. The five-year lease agreement lasts from January 2014 to December 2018 with an annual rent of \$806,000; the eight-year lease lasts from November 2013 to October 2021, with an annual rent of \$645,000.

We have an extensive fleet of 78 transit mounted concrete mixers, 10 pump trucks, and we have access to an additional 11 concrete mixers and 5 pump truck vehicles for lease in Beijing depending on specific project requirements. More than half of the vehicles are equipped with GPS and tracking devices from the plants central dispatch center in order to optimize capacity utilization, production and delivery schedules.

**Item 3. Legal Proceedings**

From time to time, we may have disputes that arise in the ordinary course of our business. Currently, there are no material legal proceedings to which we are a party, or to which any of our property is subject, that we expect to have a material adverse effect on our financial condition, results of operations or cash flows.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information**

Our common stock is listed on the NASDAQ Capital Market under the symbol CADC. On February 25, 2013, our common stock was transferred from the NASDAQ Global Market to the NASDAQ Capital Market. The following table sets forth the quarterly high and low sales prices of a share of our common stock as reported by NASDAQ for the periods indicated. Effective August 1, 2013 we completed a 1 for 12 reverse stock split, and stock prices prior to such date have been adjusted to reflect the effect of the reverse stock split.

| Year | Quarter Ending | High    | Low     |
|------|----------------|---------|---------|
| 2015 | June 30        | \$ 4.79 | \$ 3.8  |
|      | March 31       | \$ 5.79 | \$ 3.77 |

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|      |              |    |      |    |      |
|------|--------------|----|------|----|------|
| 2014 | December 31  | \$ | 6.82 | \$ | 3.56 |
|      | September 30 | \$ | 6.79 | \$ | 3.48 |
|      | June 30      | \$ | 5.34 | \$ | 3.48 |
|      | March 31     | \$ | 9.24 | \$ | 4.70 |
| 2013 | December 31  | \$ | 7.18 | \$ | 3.75 |
|      | September 30 | \$ | 5.87 | \$ | 2.65 |
|      | June 30      | \$ | 4.92 | \$ | 2.88 |
|      | March 31     | \$ | 6.96 | \$ | 4.80 |

## Holder s of Common Stock

As of September 18, 2015, there were 381 stockholders of record of our common stock.

## Dividends

We have never paid dividends on our common stock. While any future dividends will be determined by our directors after consideration of the earnings, financial condition, and other relevant factors, it is currently expected that available cash resources will be utilized in connection with our ongoing operations.

## Item 6. Selected Financial Data

Not Applicable.

## Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We are a holding company whose primary business operations are conducted through our wholly-owned subsidiaries BVI-ACM and China-ACMH, and our variable interest entities, Xin Ao and its subsidiaries. We engage in the production and supply of advanced construction materials for large scale commercial, residential, and infrastructure developments, and 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.

During the year ended June 30, 2015, we supplied materials and provided services to our projects through our network of ready-mixed concrete plants throughout Beijing (two as of June 30, 2015).

Our management believes that we have the ability to capture a greater share of the Beijing market via expanding relationships and networking, signing new contracts, and continually developing market-leading innovative and eco-friendly ready-mix concrete products.

### 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 year ended June 30, 2015, one customer accounted for approximately 14.1% of our sales and 5.7% of our accounts receivable as of June 30, 2015. Should we lose any large scale customers in the future and are unable to obtain additional customers, our revenues will suffer.
- *Experienced Management.* Management s technical knowledge and business relationships give 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. If there were to be any significant turnover in our senior management, it could deplete the institutional knowledge held by our existing senior management team.
- *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 Dongfang Jianyu Institute of Concrete Science & Technology. We entered



technical service contracts with these research institutes to further improve our production and products. If our research and development efforts are not sufficient to adapt to the change in technology in the industry, our products may not compete effectively.

- *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 award contracts often being made awarded 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 entities 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.

### **Consolidated Results of Operations**

#### *Comparison of the years ended June 30, 2015 and 2014*

The following table sets forth key components of our results of operations for the years ended June 30, 2015 and 2014, in US dollars:

|  | Years ended<br>June 30, |                 |               | Percentage<br>Change |
|--|-------------------------|-----------------|---------------|----------------------|
|  | 2015                    | 2014            | Change        |                      |
| <b>Total revenue</b>   | \$ 55,470,578           | \$ 48,690,837   | \$ 6,779,741  | 14%                  |
| Total cost of revenue  | 50,750,023              | 44,067,731      | 6,682,292     | 15%                  |
| <b>Gross profit</b>  | 4,720,555               | 4,623,106       | 97,449        | 2%                   |
| Recovery of (provision for) doubtful accounts                | 2,846,905               | (7,683,463)     | 10,530,368    | (137)%               |
| Selling, general and administrative expenses                 | (10,142,589)            | (10,676,783)    | 534,194       | (5)%                 |
| Research and development expenses                            | (1,143,476)             | (1,484,218)     | 340,742       | (23)%                |
| Loss realized from disposal of property, plant and equipment | (90,494)                | (1,669,923)     | 1,579,429     | (95)%                |
| Impairment loss of long-lived assets                         | -                       | (293,040)       | 293,040       | (100)%               |
| <b>Loss from operations</b>                                  | (3,809,099)             | (17,184,321)    | 13,375,222    | (78)%                |
| Other income, net  | 745,343                 | 2,982,519       | (2,237,176)   | (75)%                |
| Loss before provision for income taxes                       | (3,063,756)             | (14,201,802)    | 11,138,046    | (78)%                |
| Provision for income taxes                                   | (1,100,356)             | (2,445,290)     | 1,344,934     | (55)%                |
| <b>Net loss</b>  | \$ (4,164,112)          | \$ (16,647,092) | \$ 12,482,980 | (75)%                |

**Revenue.** Our revenue is primarily generated from sales of our advanced ready-mix concrete products. For the year ended June 30, 2015, we generated total revenue of approximately \$55.5 million, as compared to approximately \$48.7 million during the year ended June 30, 2014, an increase of approximately \$6.8 million, or 14%. The increase in revenue was principally due to increased sales volume resulted from the commencement of operation of our manufacturing plant in the eastern suburban area of Beijing in early 2014.

**Cost of Revenue.** Total cost of revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was approximately \$50.8 million for the year ended June 30, 2015, as compared to approximately \$44.1 million for the year ended June 30, 2014, an increase of approximately \$6.7 million, or 15%. The increase in cost of revenue was primarily associated to the increase in production from our concrete plants during the year ended June 30, 2015 compared to the year ended June 30, 2014.

**Gross Profit.** Total gross profit was approximately \$4.7 million for the year ended June 30, 2015, as compared to approximately \$4.6 million for the year ended June 30, 2014, an increase of approximately \$0.1 million. Percentage of gross profit over revenue for each of the years ended June 30, 2015 and 2014 was approximately 9%.

**Recovery of (Provision for) Doubtful Accounts.** We had recovery of doubtful accounts of approximately \$2.8 million for the year ended June 30, 2015; while we incurred \$7.7 million of provision for doubtful accounts for the year ended June 30, 2014. In accordance with our allowance for doubtful accounts policy, at the end of each quarter, we conduct an aging analysis of each customer's arrears to determine whether the allowance for doubtful accounts is adequate. In establishing the allowance for doubtful accounts, we consider the historical experience, the economy, trends in the construction industry, expected collectability of amounts receivable that are past due and the expected collectability of overdue receivables. An estimate of 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. After reviewing individual balances, we provide a provision of 15% for accounts receivable past due more than 180 days but less than one year, 60% for accounts receivable past due from one to two years, 75% for accounts receivable past due beyond two years, 100% for accounts receivable past due beyond three years, plus additional amount as necessary. As compared to the balances of June 30, 2014, through improved collection efforts and certain agreements to offset customer receivables with vendor payables, we effectively reduced balances aged from one to two years by approximately \$10.5 million and balances aged beyond two years by approximately \$2.8 million.

As of June 30, 2015, our accounts and notes receivable aging are as follows:

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|                                    | Balance       | 1-90<br>days  | 91-180<br>days | 181-360<br>days | 361-720<br>days | over 720<br>days | Over 1,080<br>Days |
|------------------------------------|---------------|---------------|----------------|-----------------|-----------------|------------------|--------------------|
| Accounts receivable and notes      | \$ 68,566,418 | \$ 10,785,477 | \$ 4,614,118   | \$ 22,560,151   | \$ 8,685,697    | \$ 9,499,407     | \$ 12,421,568      |
| Allowance for doubtful accounts    | (28,209,249)  | -             | -              | (3,386,178)     | (5,276,947)     | (7,124,556)      | (12,421,568)       |
| Accounts receivable and notes, net | \$ 40,357,169 | \$ 10,785,477 | \$ 4,614,118   | \$ 19,173,973   | \$ 3,408,750    | \$ 2,374,851     | \$ -               |

**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 fees paid to third parties. We incurred selling, general and administrative expenses of approximately \$10.1 million for the year ended June 30, 2015, as compared to approximately \$10.7 million for the year ended June 30, 2014, a decrease of approximately \$0.5 million. We incurred approximately \$0.5 million of stock-based compensation for the year ended June 30, 2015, which was offset by decreases of \$0.4 million in consulting expense, \$0.1 million in office expenses, \$0.2 million in business development expenses, and \$0.2 million in conference expense as compared to the year ended June 30, 2014.

**Research and Development Expenses.** Research and development expenses were approximately \$1.1 million and \$1.5 million for the years ended June 30, 2015 and 2014, respectively. The Company's research and development expenditure was maintained relative to the level of revenue and was adjusted based on economic outlook, plus discretionary spending on projects that were deemed to help improve our competitive advantage.

**Loss Realized from Disposal of Property, Plant and Equipment.** For the year ended June 30, 2015, we incurred approximately \$0.1 million of loss realized from disposal of property, plant and equipment, as compared to approximately \$1.7 million for the year ended June 30, 2014. The change was caused by our disposal of certain vehicles at loss during the year ended June 30, 2014.

**Loss from Operations.** We incurred loss from operations of approximately \$3.8 million and \$17.2 million for the years ended June 30, 2015 and 2014. Such decrease of approximately \$13.4 million in loss from operations was primarily due to a \$0.1 million increase in gross profit, a \$10.5 million change from provision of doubtful accounts to recovery of doubtful accounts, a \$0.5 million decrease in selling, general and administration expenses, a \$0.3 million increase in research and development expenses, and a \$1.6 million decrease in loss realized from disposal of property, plant and equipment.

**Other Income (Expense), Net.** Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), and other non-operating income (expense). We recognized net other income of approximately \$0.7 million for the year ended June 30, 2015 as compared to \$3.0 million for the year ended June 30, 2014. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us a VAT tax exemption, which expired June 2015. From July 2015 going forward, the Company is subject to VAT at the rate of 3% of the gross sales price. The VAT tax collected during the aforementioned period from our customers had been retained by the Company and recorded as other subsidy income. Approximately \$1.7 million and \$2.9 million of subsidy income was recorded for the years ended June 30, 2015 and 2014, respectively. We also recorded \$1.2 million and \$2.7 million interest expense for the years ended June 30, 2015 and 2014, respectively. Decrease in interest expense was a result of decreased average borrowings.

**Provision for Income Taxes.** We incurred provision for income taxes of approximately \$1.1 million and \$2.4 million for the years ended June 30, 2015 and 2014, respectively, which included approximately \$0.8 million and \$1.6 million of deferred tax provision, respectively. We have used recycled raw materials in our concrete production since our inception, which has entitled us to an income tax rate reduction from 25% to 15% through June 2018, as granted by the State Administration of Taxation, PRC. Since January 1, 2009, we have been subject to a 15% income tax rate. In the past, Xin Ao 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 Loss.** We incurred net loss of approximately \$4.2 million and \$16.6 million for the years ended June 30, 2015 and 2014, respectively. Such decrease in net loss of approximately \$12.5 million was the result of the combination of the changes as discussed above.

## **Liquidity and Capital Resources**

As of June 30, 2015, we had cash and cash equivalents of approximately \$2.7 million and restricted cash of approximately \$11.1 million, which was held by subsidiaries and VIEs outside the U.S in its entirety. We would be required to accrue and pay U.S. taxes if we were to repatriate these funds. Any company which is registered in mainland China must apply to the State Foreign Exchange Administration for approval in order to remit foreign currency to any foreign country. We currently do not intend to repatriate to the U.S. the cash and short-term investments held by our foreign subsidiaries. However, if we were to repatriate funds to the U.S., we would assess the feasibility and plan any transfer in accordance with foreign exchange regulations, taking into account tax consequences. As we conduct all of our operations in China, the inability to convert cash and short-term investments held in RMB to other currencies should not affect our liquidity. As of June 30, 2015, we had working capital of approximately \$27.9 million. We believe that our cash and cash equivalents along with our working capital will be sufficient to fund our operations for the next twelve months.

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The following table provides summary information about our net cash flow for financial statement periods presented in this report:

|   | For the years ended |                  |
|---|---------------------|------------------|
|   | 2015                | June 30,<br>2014 |
| Net cash (used in) provided by operating activities                 | \$ (12,970,574)     | \$ 7,039,127     |
| Net cash provided by (used in) investing activities                 | 9,390,527           | (9,925,597)      |
| Net cash (used in) provided by financing activities                 | (9,231,572)         | 14,392,812       |
| Effect of foreign currency translation on cash and cash equivalents | 72,424              | (25,171)         |
| Net change in cash  | \$ (12,739,195)     | \$ 11,481,171    |

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

**Operating Activities.** Net cash used in operating activities totaled approximately \$13.0 million for the year ended June 30, 2015, which was primarily attributable to the net loss adjusted to reconcile to net cash used in operating activities of \$3.6 million, primarily including adjustments for \$2.1 million of depreciation, \$0.5 million of stock-based compensation expense, \$0.3 million in deferred tax provision and \$2.8 million of recovery doubtful accounts. Net cash from changes in operating assets and liabilities resulted in a net cash outflow of approximately \$9.4 million, which mainly included cash outflow for prepayments and advances of \$16.0 million and additional accounts and notes receivable of \$11.5 million, which was offset by \$3.4 million collection of other receivables and additional accounts payable of \$13.5 million.

Net cash provided by operating activities totaled approximately \$7.0 million for the year ended June 30, 2014, was primarily attributable to the net loss adjusted to reconcile to net cash provided by operating activities of \$3.7 million, including adjustments for \$2.4 million of depreciation, \$1.6 million of deferred tax provision, \$7.7 million of provision for doubtful accounts and \$1.7 million of loss realized from disposal of property, plant and equipment. Net cash provided by changes in operating assets and liabilities resulted in a net cash inflow of approximately \$10.7 million, which mainly included cash \$4.8 million from collection of accounts and notes receivable, a \$2.9 million collection of other receivable, a \$13.1 million collection of other receivable from termination of lease and a cash inflow in accrued liabilities, offset by outflow for prepayments and advances of \$8.9 million, cash payments for accounts payable \$1.4 million and cash outflow related to customer deposits of \$0.7 million.

We are making improvements in our cash inflows from operating activities stemming from anticipated increases in construction industry activities 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 provided by investing activities was approximately \$9.4 million for the year ended June 30, 2015, which was primarily attributable to net redemptions of short term investments. Net cash used in investing activities was approximately \$9.9 million for the year ended June 30, 2014, and was attributable to \$9.5 million net acquisition of short term investments and \$0.4 million purchases of property, plant and equipment.

**Financing Activities.** Net cash used in financing activities totaled approximately \$9.2 million for the year ended June 30, 2015, which was primarily attributable to \$71.3 million for repayments of bank loans and bank guarantees, \$3.3 million for net repayments of other short term loans, \$30.4 million for repayments of notes payable and \$2.0 million for repayments of capital lease obligations, which was offset by \$43.0 million cash proceeds from bank loans and bank guarantees, \$51.0 million proceeds from notes payable, \$2.4 million decrease in restricted cash and \$1.2 million proceeds from issuance of common stock. Net cash provided by financing activities totaled approximately \$14.4 million for the year ended June 30, 2014, which was primarily attributable to \$75.2 million cash proceeds from bank loans and bank guarantees, \$3.3 million net proceeds from other short term loans and \$17.9 million proceeds from notes payable, which was offset by \$64.8 million for repayments of bank loans and bank guarantees, \$8.1 million for repayments of notes payable, \$2.3 million for repayments of capital lease obligations and an increase in restricted cash of approximately \$6.9 million.

**Cash and cash equivalents.** As of June 30, 2015, we had cash and cash equivalents of approximately \$2.7 million as compared to approximately \$15.4 million as of June 30, 2014. We believe that our cash and revenues from ongoing operations, in addition to closely managing our accounts payable and accounts receivable and the ability to obtain loan financing, is sufficient to meet our liquidity and capital requirements for all of our ongoing operations. However, we may need to raise additional capital if we undertake any plan for expansion.

#### **Loan Facilities**

We had a total of approximately \$26.4 million and \$57.6 million outstanding on loans and credit facilities as of June 30, 2015 and June 30, 2014, respectively. See Note 8 to our consolidated financial statements included elsewhere in this report.

**Seasonality**

Our 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.

**Critical Accounting Policies and Estimates**

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

### Principles of consolidation

The accompanying consolidated financial statements include the financial statements of China ACM and its wholly owned subsidiaries, BVIACM, China-ACMH, its variable interest entity Xin Ao and its subsidiaries (collectively, the Company ). All significant inter-company transactions and balances have been eliminated in consolidation. 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 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.

### Use of estimates and assumptions

The preparation of financial statements in conformity with US 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 and assumptions made in the preparation of the Company s consolidated financial statements include deferred income taxes, allowance for doubtful accounts, allowance for inventory valuation, the fair value and useful lives of property, plant and equipment. Actual results could be materially different from those estimates, upon which the carrying values were based.

### Revenue recognition

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 technical services primarily to major local 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 or customers breach the contract terms specified



in the agreement.

The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer or services are provided by the Company.

Sales revenue represents the invoiced value of goods, net of a value added tax ( VAT ). The industry standard VAT rate for all of the Company's concrete products that are sold in the PRC was 6% of the gross sales price prior to July 1, 2014. On July 1, 2014, the standard VAT rate for concrete products decreased to 3% 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 granted the Company a VAT tax exemption, which expired June 2015. From July 2015 going forward, the Company is subject to VAT at the rate of 3% of the gross sales price.

The Company includes the shipping and handling fee in both revenue and cost of revenue.

### Financial instruments

The US GAAP accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs 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.

Cash, restricted cash, investments, accounts receivable, other assets, short term loans, accounts payable, and accrued expenses and current capital lease obligations qualify as financial instruments, and their carrying amounts are reported in the consolidated balance sheets at face value or cost, which approximate fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

The fair value of long-term capital lease obligations approximate their fair value as interest rates approximate the market rate.

### Accounts receivable

During the normal course of business, the Company extends unsecured credit to its customers. Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers the historical experience, the economy, trends in the construction industry, the expected collectability of the amount receivable that is past due and the expected collectability of the overdue receivable. 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. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote.

### Accounting for long-lived assets

We classify our long-lived assets into: (i) machinery and equipment; (ii) transportation equipment, (iii) office and equipment; and (iv) buildings and improvements.

Long-lived assets held and used by us are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. It is possible that these assets could become impaired as a result of technology or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

We make various assumptions and estimates regarding estimated future cash flows and other factors in determining the fair values of the respective assets. We use set criteria that are reviewed and approved by various levels of management, and estimates the fair value of the asset or asset group by using discounted cash flow analyses. If these estimates or their related assumptions change in the future, there may be a requirement to record impairment charges for the underlying assets at such time. Any such resulting impairment charges could be material to our results of operations.

If the value of an asset is determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less disposition costs.

#### Income taxes

We accounts for income taxes in accordance with ASC 740, Income Taxes, which requires us 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 and operating loss and tax credit carry forward. 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.

ASC 740-10, Accounting for Uncertainty in Income Taxes, defines uncertainty in income taxes and the evaluation of a tax position as 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.

Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred.

United States federal, state and local income tax returns prior to 2012 are not subject to examination by any applicable tax authorities.

### **Off-Balance Sheet Arrangements**

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.

### **Recently issued accounting pronouncements**

Refer to Note 2 of the consolidated financial statements for a discussion of recent accounting standards and pronouncements.

### **Interest Rate Risk**

At times when we have short-term loans outstanding, we are exposed to interest rate risk due primarily to our short-term bank loans. Although the interest rates for our short-term loans are typically fixed for the terms of the loans, the terms are typically twelve months and interest rates are subject to change upon renewal. The interest rates are approximately 6.0% for Renminbi bank loans with a term of twelve months or less.

### **Credit Risk**

The Company is exposed to credit risk from its cash in bank and fixed deposits, and accounts receivable. The credit risk on cash in bank and fixed deposits is limited because the counterparties are recognized financial institutions. However, the Company's cash in bank deposited in the financial institutions in the PRC is not insured. Accounts and note receivable, other receivables and advances on equipment purchases are subjected to credit evaluations. An allowance has been made for estimated unrecoverable amounts which have been determined by reference to past default experience and the current economic environment.

### **Foreign Exchange Risk**

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. The Renminbi does not fluctuate with 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 Renminbi 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 Renminbi exchange rate and lessen intervention in the foreign exchange market.

Because substantially all of our earnings and cash assets are denominated in Renminbi, but our reporting currency is the U.S. dollar, fluctuations in the exchange rate between the U.S. dollar and the Renminbi will affect our balance sheet and our earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the Renminbi 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 in the future 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.

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 Renminbi into foreign currencies.

Most of the transactions of the Company are settled in Renminbi and U.S. dollars. In the opinion of the directors, the Company is not exposed to significant foreign currency risk.

### **Inflation**

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

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not Applicable.

**Item 8. Financial Statements and Supplementary Data**

The full text of our audited consolidated financial statements as of June 30, 2015 and 2014 begins on page F-1 of this report.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer, Chief Operating Officer and interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management, including our Chief Executive Officer and interim Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2015. Based on that evaluation, we concluded that as of June 30, 2015, our disclosure controls and procedures were not effective to satisfy the objectives for which they are intended due to the material weakness in our internal control over financial reporting discussed below.

(b) Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Exchange Act defines internal control over financial reporting as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by the Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and;
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls

may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2015. In making this assessment, management used the 2013 COSO framework set forth in the report entitled Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. Our management has implemented and tested our internal control over financial reporting based on these criteria and did not identify any significant deficiencies and material weaknesses as of June 30, 2015. However, based on the fact that we do not have any full-time accounting personnel who have U.S. GAAP experience, our management has considered this as a material weakness and determined that as of June 30, 2015, the internal control over financial reporting was not effective.



In an effort to remedy this material weakness in the future, we have commenced to do the following:

- Develop a comprehensive training and development plan, for our finance, accounting and internal audit personnel, including our interim Chief Financial Officer, Financial Manager, and others, in the principles and rules of U.S. GAAP, SEC reporting requirements and the application thereof.
- Design and implement a program to provide ongoing company-wide training regarding the Company's internal controls, with particular emphasis on our finance and accounting staff.
- Implement an internal review process over financial reporting to review all recent accounting pronouncements and to verify that the accounting treatment identified in such report have been fully implemented and confirmed by our internal control department. In the future, we will continue to improve our ongoing review and supervision of our internal control over financial reporting.
- Hire an individual that possesses the requisite U.S. GAAP experience and education.

Despite the material weakness reported above, our management believes that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

(c) Changes in internal control over financial reporting

During the quarter ended June 30, 2015, there were no changes in our internal control over financial reporting identified in connection with the evaluation performed during the fiscal year covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. Other Information**

None

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Set forth below are the names of our directors, executive officers and significant employees of our company as of the date of this annual report, their ages, all positions and offices that they hold with us, the period during which they have served as such, and their business experience during at least the last five years.

| <b>Name</b> | <b>Age</b> | <b>Position with the Company</b>   | <b>Term as Director of Company</b> |         |
|-------------|------------|--|------------------------------------|---------|
| Xianfu Han  | 55         | Chairman, Chief Executive Officer and Director                                       | April 2008                         | Present |
| Weili He    | 57         | Chief Operating Officer, Interim Chief Financial Officer, Vice Chairman and Director | April 2008                         | Present |
| Tao Jin     | 47         | Director   | May 2011                           | Present |
| Xinyong Gao | 42         | Director   | June 2012                          | Present |
| Ken Ren     | 39         | Director   | June 2012                          | Present |

**Name**                      **Position with the Company and Principal Occupations**

**Xianfu Han**      Mr. Han became our Chairman and Chief Executive Officer on April 29, 2008. From January 2003 to the present, Mr. Han has served as chairman of the board of directors of the Company's subsidiary

Beijing Xin Ao Concrete Group, or Xin Ao. His main responsibilities include daily board leadership and strategy initiatives. Since November 2002, Mr. Han has been Chairman at Beijing Tsinghua University Management School's Weilun Club. His responsibilities involved daily management work. From January 2001 to March 2007, Mr. Han acted as Executive Vice Chairman of the Beijing Concrete Association. His primary functions involved public relations and communication with various governmental agencies. Mr. Han is a senior engineer with over 25 years of management experience in the building material industry. He contributed to the draft of the "Local Standard of Mineral Admixtures" regulations and was responsible for the "Research and Application of Green High Performance Concrete" published by the Ministry of Construction. Mr. Han has not held any other public company directorships during the past five years.

Mr. Han graduated in 1995 from the Tsinghua University executive MBA program. Mr. Han received his Bachelor degree in engineering management in 1992 from Northern China University of Technology.

**Weili He** Mr. He became our Vice-Chairman and Chief Operating Officer on April 29, 2008, and became our Interim Chief Financial Officer on September 21, 2012. His primary responsibility is large client development. From August 2007 to present, Mr. He has worked as Vice Chairman of the board of directors of Xin Ao. From January 2003 to August 2007, Mr. He worked as Chairman of the board of directors of Beijing Xinhang Construction Materials Co., Ltd. His primary responsibilities included strategic planning. Since 2007, Mr. He has served as Vice Chairman of the Beijing Concrete Associations. His primary functions included market research. Mr. He has extensive construction and concrete engineering experience in China and Japan on numerous high profile projects. His primary expertise is plant management and operations. Mr. He received a bachelor s degree in law from Party School of the Central Committee of C.P.C. Mr. He has not held any other public company directorships during the past five years.

**Tao Jin** Mr. Jin became a member of our Board of Directors on May 4, 2011. Mr. Jin is a partner at Vestasia Limited. Prior to that, he had been a senior partner with the Chinese law firm of Jincheng TongDa & Neal, based in Beijing, where he specialized in mergers and acquisitions, foreign investments in China and capital market transactions. Mr. Jin started his legal practice in 1996 at the New York office of Cleary, Gottlieb, Steen & Hamilton where he represented numerous investment banks and corporations in a variety of mergers and acquisitions and capital markets transactions. Mr. Jin joined Sullivan & Cromwell s Hong Kong office in 1999 where he continued to focus on merger and acquisition transactions. His clients included major multinational corporations, investment banks, PRC corporations and private equity funds. Mr. Jin joined JP Morgan s legal department in 2002 as head legal counsel for mergers and acquisitions and capital market transactions in China. Immediately prior to joining Jincheng TongDa, Mr. Jin was a partner with Jun He Law Offices from 2005 through 2010. Mr. Jin received his B.S. from Beijing University and his J.D. from Columbia University, and is fluent in English and Mandarin. Mr. Jin is admitted to the New York bar. Mr. Jin has not held any other public company directorships during the past five years.

Mr. Jin serves as Chairman of our Compensation Committee and as a member of our Audit Committee and Nominating and Governance Committee.

**Xinyong Gao** Mr. Gao is currently the Deputy General Manager of Beijing Capital Development Holding (Group) Co., Ltd. , a real estate development company based in China, a position he has held since February 2013. From September 2011 to February 2013, he was the Operations Director of the same company. From July 1994 to September 2011, Mr. Gao served in various capacities, most recently the Deputy General Manager, International Engineering Contracting Dept., with Beijing Urban Construction Group Co. Ltd., a China-based construction company which built 41 structures for the 2008 Beijing Olympics. Mr. Gao received his B.A. from Shandong Normal University and his M.B.A. from the Open University of Hong Kong. Mr. Gao has not held any other public company directorships during the past five years.

Mr. Gao serves as Chairman of the Company s Nominating and Governance Committee and as a member of our Audit Committee and Compensation Committee.

**Ken Ren** Mr. Ren is currently the Chief Financial Officer of China Green Agriculture Inc., a position he has held since 2010. Previously, Mr. Ren served as a capital market analyst for the Federal Home Loan Bank of Des Moines, where he analyzed, priced, and assisted in trading investments and issuing

debt, conducted hedges and performed analytical work for the bank's \$20 billion investment portfolio of mortgage whole loan and mortgage backed securities. Before this, Mr. Ren served as a senior investment associate at an asset management subsidiary of Wells Fargo, which provides money management services to institutional clients. Earlier, Mr. Ren worked at Residential Capital LLC, a subsidiary of Ally Financial, where he was responsible for risk analytics and reporting while managing its credit residual portfolio. Mr. Ren received Ph.D. in operations research in 2006, and M.S. in computational finance in 2004, both from Purdue University, West Lafayette. Mr. Ren has not held any other public company directorships during the past five years.

Mr. Ren serves as Chairman of the Company's Audit Committee and as a member of our Compensation Committee and Nominating and Governance Committee.

All directors of our company hold office until the next annual meeting of our shareholders or until their successors have been elected and qualified. The executive officers of our company are appointed by the Board and hold office until their death, resignation or removal from office.

### *Summary of Qualifications of Current Directors*

Set forth below is a summary of some of the specific qualifications, attributes, skills and experiences of our directors which we believe qualify them to serve on our Board. For more detailed information, please refer to the biographical information for each director set forth above.

**Xianfu Han.** Mr. Han has extensive senior management experience in the industry in which we operate, having served as our Chief Executive Officer and Chairman since September 2008 and as the Chairman of Xin Ao since 2003. Mr. Han has over 25 years of management experience in the building material industry, and has worked extensively with various governmental agencies on behalf of our industry in Beijing.

**Weili He.** Mr. He has extensive experience in the concrete and construction industry, and has specific expertise in strategic planning and plant management and operation.

**Tao Jin.** Mr. Jin brings to the Board extensive legal and transactional capital markets experience and has worked extensively with both U.S. and PRC based companies, and has a high level of both legal and financial literacy and sophistication.

**Xinyong Gao.** Mr. Gao brings to the Board extensive experience in the construction industry, both within China and internationally, and years of service in various senior management positions.

**Ken Ren.** Mr. Ren brings to the Board extensive experience in finance and banking and has a high level of financial literacy and sophistication.

### *Family Relationships*

There is no family relationship among any of our officers or directors.

### *Involvement in Certain Legal Proceedings*

To the best of our knowledge, none of our directors or executive officers were involved in any legal proceedings during the last 10 years as described in Item 401(f) of Regulation S-K.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires directors, executive officers and stockholders who own more than ten percent of the outstanding Common Stock of the Company to file with the SEC and Nasdaq reports of ownership and changes in ownership of voting securities of the Company and to furnish copies of such reports to us.

Based solely on a review of Forms 3, 4 and 5 (including amendments to such form) furnished to the Company during and with respect to the year ended June 30, 2015 and written representations from certain persons that no other reports were required for them, we believe that each of the Company's directors, officers and more than ten-percent stockholders filed all such required forms on a timely basis.

### **Code of Ethics**

The Board has adopted a Code of Conduct and Ethics that applies to the Company's directors, officers and employees. A copy of this policy is available via our website at [www.China-ACM.com](http://www.China-ACM.com). Printed copies of our Code of Ethics may be obtained, without charge, by contacting the Corporate Secretary, China Advanced Construction Materials Group, Inc., Yingu Plaza, 9 Beisihuanxi Road, Suite 1708, Haidian District, Beijing 100080 PRC.

## Audit Committee

Our audit committee consists of Mr. Ren, Mr. Jin and Mr. Gao, each of whom is independent as that term is defined under the Nasdaq listing standards. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. Mr. Ren serves as our audit committee financial expert as that term is defined by Item 407 of Regulation S-K of the Exchange Act. The audit committee is responsible for, among other things:

- selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act of 1933, as amended;
- discussing the annual audited financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant internal control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and our internal and independent auditors; and
- reporting to the Board; and
- such other matters that are specifically delegated to our audit committee by the Board from time to time.

## Item 11. Executive Compensation

### Summary Compensation Table Fiscal Years Ended June 30, 2015 and 2014

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to our principal executive officer and our other most highly paid executive officer (the named executive officers) for services rendered in all capacities during the noted periods. No other executive officers received total annual salary and bonus compensation in excess of \$100,000 during the fiscal years ended June 30, 2015 and 2014.

| Name and Principal Position                        | Year Ended June 30 | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation Earnings (\$) | Non-Qualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|--|--------------------|-------------|------------|-------------------|--------------------|--|---|-----------------------------|------------|
| Xianfu Han<br>Chairman and CEO                     | 2015               | 300,000     | -          | -                 | -                  | -  | -   | -                           | 300,000    |
|  | 2014               | 140,000     | -          | -                 | -                  | -  | -   | -                           | 140,000    |
| Weili He,<br>Vice Chairman,<br>interim CFO and COO | 2015               | 300,000     | -          | -                 | -                  | -  | -   | -                           | 300,000    |
|  | 2014               | 109,169     | -          | -                 | -                  | -  | -   | -                           | 109,169    |

### Employment Agreements

In connection with the reverse acquisition of BVI-ACM on April 29, 2008, Mr. Han was elected as our Chairman and Chief Executive Officer effective immediately. In January 2011, we entered into a three-year Employment Agreement with Mr. Han pursuant to which he receives an annual salary of \$140,000 for service as our Chief Executive Officer. The initial term of three years as set forth in the agreement expired and the Company and Mr. Han renewed the agreement for another three years from July 1, 2014 to June 30, 2017 on the same terms except for the increased annual salary to \$300,000.

Upon termination of Mr. Han's employment because of death, disability or for cause, the Company will pay or provide to Mr. Han or his estate, as the case may be (i) any unpaid base salary and any accrued vacation through the date of termination; (ii) any unpaid annual bonus accrued with respect to the fiscal year ending on or preceding the date of termination; (iii) reimbursement for any unreimbursed expenses properly incurred through the date of termination; and (iv) all other payments or benefits to which Mr. Han may be entitled under the terms of any applicable employee benefit plan, program or arrangement.



Upon the termination of Mr. Han's employment by the Company without cause, the Company will pay or provide to Mr. Han (i) all amounts due as if Mr. Han's employment were terminated because of death, disability or for cause, and (ii) subject to Mr. Han's execution (and non-revocation) of a general release of claims against the Company and its affiliates in a form reasonably requested by the Company, (a) continued payment of his base salary for two months after termination, payable in accordance with the regular payroll practices of the Company, but off the payroll; and (b) payment of his cost of continued medical coverage for two (2) months after termination (subject to his co-payment of the costs in the same proportion as such costs were shared immediately prior to the date of termination). Payments provided under this Section 6(d) shall be in lieu of any termination or severance payments or benefits for which Mr. Han may be eligible under any of the plans, policies or programs of the Company.

In January 2011, we also entered into a three year Employment Agreement with Mr. He pursuant to which he receives an annual salary of \$109,169 for service as our Chief Operating Officer. The initial term of three years as set forth in the agreement expired and the Company and Mr. He renewed the agreement for another three years from July 1, 2014 to June 30, 2017 on the same terms except for the increased annual salary to \$300,000. Upon termination of Mr. He's employment because of death, disability or for cause, the Company will pay or provide to Mr. He or his estate, as the case may be (i) any unpaid base salary and any accrued vacation through the date of termination; (ii) any unpaid annual bonus accrued with respect to the fiscal year ending on or preceding the date of termination; (iii) reimbursement for any unreimbursed expenses properly incurred through the date of termination; and (iv) all other payments or benefits to which Mr. He may be entitled under the terms of any applicable employee benefit plan, program or arrangement.

Upon the termination of Mr. He's employment by the Company without cause, the Company will pay or provide to Mr. He (i) all amounts due as if Mr. He's employment were terminated because of death, disability or for cause, and (ii) subject to Mr. He's execution (and non-revocation) of a general release of claims against the Company and its affiliates in a form reasonably requested by the Company, (a) continued payment of his base salary for two months after termination, payable in accordance with the regular payroll practices of the Company, but off the payroll; and (b) payment of his cost of continued medical coverage for two (2) months after termination (subject to his co-payment of the costs in the same proportion as such costs were shared immediately prior to the date of termination). Payments provided under this Section 6(d) shall be in lieu of any termination or severance payments or benefits for which Mr. He may be eligible under any of the plans, policies or programs of the Company.

### **Cash Compensation for Executive Officers**

On December 25, 2014, the compensation committee of the Board of Director of the Company, approved (i) a new cash compensation plan for the Company's executive officers, effective immediately.

Pursuant to the Cash Plan, the compensation committee determined that (i) Mr. Xianfu Han, is entitled to a base salary of \$300,000, (ii) Mr. Weili He, is entitled to a base salary of \$300,000. The Cash Plan also provided for aggregate cash bonuses (the "Cash Bonus") payable to (i) Mr. Han in the amount of up to 160% of his base salary, or \$480,000; and (ii) Mr. He in the amount of up to 100% of his base salary, or \$300,000. According to the Cash Plan, 80% of the Cash Bonus is payable at the end of each quarter of the year ending June 30, 2015 (the "Quarterly Bonuses"), starting from the end of the second quarter ended December 31, 2014, and 20% of the Cash bonus is payable at the end of the fiscal year ending June 30, 2015 (the "Year-End Bonus"), if the Company achieves certain revenue and operating income targets set for each period. For the payment of the Quarterly Bonuses, both the revenue and operating income targets must be achieved for that quarter. In addition, total annual cash bonus pool should be no more than 10% of operating income or revenue, or \$2 million for the full fiscal year, whichever is less.

With respect to the Year-End Bonus, the Cash Plan sets forth three target levels of revenue and operating income targets for the year ending June 30, 2015: (i) the Base Target, (ii) the Threshold Target, which equals 90% of the revenue and operating income targets of the Base Target, and (iii) the Maximum Target, which equals 110% of the revenue and operating income targets of the Base Target. If the Base Target is achieved, the full Year-End Bonus is

payable; if the Threshold Target is achieved, 70% of the Year-End Bonus is payable; and if the Maximum Target is achieved, 150% of the Year-End Bonus is payable. Additionally, with respect to each of these three target levels, if either revenue or income target has been met, but not both, for the full year, the Year-End Bonus is payable in half.

**Outstanding Equity Awards at Fiscal Year End**

None.

**Director Compensation**

|             | Fees Earned or Paid in Cash |  | Stock Awards |  | Option Awards |  | Total    |
|-------------|-----------------------------|--|--------------|--|---------------|--|----------|
| Name        | (\$)                        |  | (\$) (1)     |  | (\$) (1)      |  | (\$)     |
| Tao Jin     | \$25,000                    |  |              |  |               |  | \$25,000 |
| Xinyong Gao | \$25,000                    |  |              |  |               |  | \$25,000 |
| Ken Ren     | \$25,000                    |  |              |  |               |  | \$25,000 |

(1) The amounts in these columns represent the compensation cost of shares of restricted stock awarded by the Company during the fiscal year, except that these amounts do not include any estimate of forfeitures. The aggregate grant date fair value of restricted stock awards granted were determined in accordance with Financial Accounting Standard Board Accounting Standards Codification Topic 718 (formerly SFAS123(R)) and are recognized as compensation cost over the requisite service period.

On May 4, 2011, we entered into a director agreement with Tao Jin pursuant to which he is entitled to receive, annually, a fee of \$25,000 in cash and 833 (10,000 on a pre-split basis) in restricted shares of the Company's common stock, which vested in four equal quarterly installments.

On June 12, 2012, we entered into a director agreement with Xinyong Gao pursuant to which he is entitled to receive, annually, a fee of \$25,000 in cash and 833 in restricted shares of the Company's common stock, which vested in four equal quarterly installments.

On June 12, 2012, we entered into a director agreement with Ken Ren pursuant to which he is entitled to receive, annually, a fee of \$25,000 in cash and 833 in restricted shares of the Company's common stock, which vested in four equal quarterly installments.

As of the date of this report none of the restricted shares noted above have been issued to the independent directors.

**Changes in Control**

There are no compensatory plans or arrangements with respect to any officer, director, manager or other executive which would in any way result in payments to any such person because of his or her resignation, retirement, or other termination of employment with the Company, or any change in control of the Company, or a change in the person's responsibilities following a change of control of the Company.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth, as of September 18, 2015, certain information with respect to the beneficial ownership of our common shares by each shareholder known by us to be the beneficial owner of more than 5% of our common shares, as well as by each of our current directors and executive officers as a group. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 and does not necessarily bear on the economic incidents of ownership or the rights to transfer the shares described below. Unless otherwise indicated, (a) each stockholder has sole voting power and dispositive power with respect to the indicated shares and (b) the address of each stockholder who is a director or executive officer is c/o Yingu Plaza, #1708, 9 Beisihuanxi Road, Haidian District, Beijing 100080, China.

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| <b>Name &amp; Address of Beneficial Owner</b>                 | <b>Office, If Any Officers and Directors</b> | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class <sup>(1)</sup> <sup>(2)</sup></b> |
|---|--|--|---|
| Xianfu Han <sup>(3)</sup>                                     | Chairman and CEO                             | 533,378  | 24.5%   |
| Weili He <sup>(4)</sup>                                       | Vice Chairman, COO and Interim CFO           | 375,622  | 17.2%   |
| Ken Ren <sup>(5)</sup>  | Director                                     | 10,000   | *   |
| Tao Jin <sup>(6)</sup>  | Director                                     | --   | --  |
| Xinyong Gao <sup>(7)</sup>                                    | Director                                     | 10,000   | *   |
| All officers and directors as a group (5 persons named above) |  | 929,000  | 42.6%   |

\*Less than 1%

(1) As of the close of business on September 18, 2015, there were 2,180,799 shares of our common stock outstanding.

(2) In determining beneficial ownership of the common stock, the number of shares shown includes shares which the beneficial owner may acquire within 60 days upon exercise or conversion of convertible securities, warrants or options. In accordance with Rule 13d-3 in determining the percentage of common stock owned by a person on September 18, 2015 (a) the numerator is the number of shares of the class beneficially owned by such person, including shares which the beneficial owner may acquire within 60 days upon conversion or exercise of the warrants and other convertible securities, and (b) the denominator is the sum of (i) the total shares of that class outstanding on September 18, 2015, and (ii) the total number of shares that the beneficial owner may acquire upon conversion or exercise of other securities. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of the shares.

(3) On June 11, 2008, Mr. Han entered into a Securities Escrow Agreement by and among the investors to the private placement that closed on June 11, 2008, and American Stock Transfer & Trust Company, or AST, whereby 291,667 shares (3,500,000 shares pre-reverse split) of the Company's common stock owned by Mr. Han were placed into escrow, with AST appointed as the escrow agent. The 291,667 shares were thereafter transferred into the name of AST and are to be held in escrow and released to Mr. Han if the Company does, or to the investors if the Company does not, meet certain performance milestones described in the Securities Escrow Agreement. Mr. Han maintains voting power over all 291,667 shares until such time as any such shares are transferred to the investors, at which time, such transferred shares will be beneficially owned by such investors.

(4) On June 11, 2008, Mr. He entered into a Securities Escrow Agreement by and among the investors to the private placement that closed on June 11, 2008, and American Stock Transfer & Trust Company, or AST, whereby 166,667 shares (2,000,000 shares pre-reverse split) of the Company's common stock owned by Mr. He were placed into escrow, with AST appointed as the escrow agent. The 166,667 shares were thereafter transferred into the name of AST and are to be held in escrow and released to Mr. He if the Company does, or to the investors if the Company does not, meet certain performance milestones described in the Securities Escrow Agreement. Mr. He maintains voting power over all 166,667 shares until such time as any such shares are transferred to the investors, at which time, such transferred shares will be beneficially owned by such investors.

(5) Mr. Ren is entitled to receive 833 restricted shares of the Company's common stock per annum under his director agreement but as of the date hereof such shares have not yet been issued.

(6) Mr. Jin is entitled to receive 833 restricted shares of the Company's common stock per annum under his director agreement but as of the date hereof such shares have not yet been issued.

(7) Mr. Gao is entitled to receive 833 restricted shares of the Company's common stock per annum under his director agreement but as of the date hereof such shares have not yet been issued.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

#### **Transactions with Related Persons**

Except as discussed below, since the beginning of the 2012, there have not been any transaction, nor is there any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest (other than compensation described under "Executive Compensation").

Mr. Xianfu Han, the Company's Chief Executive Officer and Mr. Weili He, the Company's Chief Operating Officer and interim Chief Financial Officer, had advanced funds to BVI-ACM, for working capital purposes. The loans are non-interest bearing, unsecured, and are payable in cash on demand. On December 2, 2014, the Board authorized the Company to issue 92,897 and 81,968 shares of common stock of the Company (collectively, the Shares), to each of Mr. Xianfu Han and Mr. Weili He, at \$5.49 per share, the closing bid price quoted by Nasdaq on December 1, 2014. The Shares offset the payables advanced by the two executives in the amount of approximately \$510,000 and \$450,000, respectively, to the Company. Therefore, as of June 30, 2015, \$approximately \$16,000 and \$68,000 remained payable to Mr. Han and Mr. He, respectively.

Certain short-term bank loans and bank guarantees are guaranteed by our officers, see note 8 to the consolidated financial statements.

### Independence of the Board of Directors

Our Board has determined that the majority of the Board is comprised of independent directors within the meaning of applicable Nasdaq listing standards relating to Board composition and Section 301 of the Sarbanes-Oxley Act of 2002. Our independent directors are Mr. Jin, Mr. Ren and Mr. Gao.

### Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years.

Except as set forth in our discussion above, none of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

### Item 14. Principal Accounting Fees and Services

The following are the fees billed to us by our auditors during fiscal years ended June 30, 2015 and 2014:

|                    | Years Ended      |                  |
|--------------------|------------------|------------------|
|                    | June 30,<br>2015 | June 30,<br>2014 |
| Audit Fees         | \$ 165,000,      | \$ 165,000       |
| Audit related fees | -                | -                |
| Tax fees           | -                | -                |
| All Other Fees     | -                | -                |
| Total              | \$ 165,000       | \$ 165,000       |

*Audit Fees* consist of the aggregate fees billed for professional services rendered for the audit of our annual financial statements and the reviews of the financial statements included in our Forms 10-Q and for any other services that were normally provided by our independent auditor, respectively, in connection with our statutory and regulatory filings or engagements.

*Audit Related Fees* consist of the aggregate fees billed for professional services rendered for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements and were not otherwise included in Audit Fees.

*Tax Fees* consist of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. Included in such Tax Fees were fees for preparation of our tax returns and consultancy and advice on other tax planning matters.

*All Other Fees* consist of the aggregate fees billed for products and services provided by our independent and not otherwise included in Audit Fees, Audit Related Fees or Tax Fees. Included in such Other Fees were fees for services rendered by our independent auditor in connection with our private and public offerings conducted during such periods.

Our Audit Committee has considered whether the provision of the non-audit services described above is compatible with maintaining auditor independence and determined that such services are appropriate. Before auditors are engaged to provide us audit or non-audit services, such engagement is (without exception, required to be) approved by the Audit Committee of the Board.

### Pre-Approval Policies and Procedures

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by our auditors must be approved in advance by our Audit Committee to assure that such services do not impair the auditors' independence from us. In accordance with its policies and procedures, the Audit Committee pre-approved the audit service performed by Friedman for our consolidated financial statements as of and for the year ended June 30, 2015.

The Company's principal accountant, Friedman LLP, did not engage any other persons or firms other than the principal accountant's full-time, permanent employees.



**PART IV****Item 15. Exhibits, Financial Statement Schedules**

## (a) Financial Statements

- (1) Financial statements for the Company are listed in the index under Item 8 of this document
- (2) All financial statement schedules are omitted because they are not applicable, not material or the required information is shown in the financial statements or notes thereto.

| <b>Exhibit Index</b> | <b>Description of Document</b>  | <b>Filed Herewith</b>               | <b>Incorporated by Reference To:</b>   |
|----------------------|---|-------------------------------------|--|
| 2.1                  | Agreement and Plan of Merger, dated as of October 24, 2011, by and among the Company, Novel Gain Holdings Limited, CACMG Acquisition, Inc., Mr. Xianfu Han and Mr. Weili He.                                  |                                     | Exhibit 2.1 of the Company's Current Report on Form 8-K filed on October 24, 2011.       |
| 3.1                  | Articles of Incorporation of the Registrant as filed with the Secretary of State of Nevada on July 25, 2013, and made effective on August 1, 2013, as amended to date.  |                                     | Exhibits 3.2 the Registrant's Current Report on Form 8-K filed on August 2, 2013.        |
| 3.2                  | Bylaws of the registrant.   |                                     | Exhibits 3.2 the Registrant's Current Report on Form 8-K filed on August 2, 2013.        |
| 4.1                  | Lock-Up Agreement amongst Registrant, Xianfu Han and Weili He dated June 11, 2008.  |                                     | Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on June 13, 2008.       |
| <u>10.1</u>          | <u>Employment Agreement with Weili He dated December 8, 2014</u>  | <input checked="" type="checkbox"/> |  |
| <u>10.2</u>          | <u>Employment Agreement with Xianfu Han dated December 8, 2014</u>  | <input checked="" type="checkbox"/> |  |
| 10.3                 | Form of Director Agreement  |                                     | Exhibit 10.3 to the Registrant's Annual Report on Form 10-K filed on September 23, 2014. |
| 10.4                 | Subscription Escrow Agreement between the Registrant, Maxim Group, LLC and American Stock Transfer & Trust Company as Escrow Agent dated June 11, 2008.   |                                     | Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 13, 2008.      |
| 10.5                 | Make Good Escrow Agreement by and among the Registrant, the Investors, the Investor Representative, Xianfu Han and Weili He, and American Stock Transfer & Trust Company as Escrow Agent, dated June 11, 2008 |                                     | Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 13, 2008.      |

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|      |   |   |
|------|---|---|
| 10.6 | Form of Common Stock Purchase Warrant   | Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on June 13, 2008. |
| 10.7 | Form of Placement Agent Stock Purchase Warrant  | Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on June 13, 2008. |
| 10.8 | Escrow Agreement for IR and Dividends by and among the Registrant, the Investor Representative, Maxim Group, LLC and Anslow + Jaclin, LLP as Escrow Agent | Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on June 13, 2008. |

|         |  |  |
|---------|--|--|
| 10.9    | 2009 Equity Incentive Plan, dated as of June 19, 2009, as amended on June 29, 2015   | (1) Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 25, 2009.<br>(2) Appendix B to the Registrant's Definitive Proxy Statement on Schedule 14A filed on May 27, 2015 |
| 10.10   | Termination of Agreement and Plan of Merger dated July 9, 2012   | Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 11, 2012.  |
| 21.1    | List of Subsidiaries   | Exhibit 21.1 to the Registrant's Annual Report on Form 10-K filed on September 25, 2013.   |
| 23.1    | <u>Consent of Friedman LLP, Independent Registered Public Accounting Firm</u>  | <input checked="" type="checkbox"/>  |
| 31.1    | <u>Rule 13a-14(a)/15d-14(a) Certification Principal Executive Officer</u>  | <input checked="" type="checkbox"/>  |
| 31.2    | <u>Rule 13a-14(a)/15d-14(a) Certification Principal Financial Officer</u>  | <input checked="" type="checkbox"/>  |
| 32.1    | <u>Certification of Principal Executive Officers, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> | <input checked="" type="checkbox"/>  |
| 101.INS | <u>XBRL Instance Document</u>  |  |
| 101.SCH | <u>XBRL Taxonomy Extension Schema Document</u>   |  |
| 101.CAL | <u>XBRL Taxonomy Extension Calculation Linkbase Document</u>   |  |
| 101.DEF | <u>XBRL Taxonomy Extension Definition Linkbase Document</u>  |  |
| 101.LAB | <u>XBRL Taxonomy Extension Label Linkbase Document</u>   |  |
| 101.PRE | <u>XBRL Taxonomy Extension Presentation Linkbase Document</u>  |  |

**AUDITED FINANCIAL STATEMENTS**

**CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.**

**JUNE 30, 2015 AND 2014**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders  
China Advanced Construction Materials Group, Inc.

We have audited the accompanying consolidated balance sheets of China Advanced Construction Materials Group, Inc. and Subsidiaries as of June 30, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. China Advanced Construction Materials Group, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Advanced Construction Materials Group, Inc. and Subsidiaries as of June 30, 2015 and 2014, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, New York  
September 25, 2015

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 2015 AND 2014

| ASSETS  | 2015           | 2014           |
|---|----------------|----------------|
| <b>CURRENT ASSETS:</b>  |                |                |
| Cash and cash equivalents   | \$ 2,691,915   | \$ 15,431,110  |
| Restricted cash   | 11,062,358     | 13,413,264     |
| Accounts and notes receivable, net of allowance for doubtful accounts<br>of \$28,209,249 and \$31,667,803, as of June 30, 2015 and 2014, respectively | 40,357,169     | 49,367,452     |
| Inventories   | 1,416,664      | 1,562,309      |
| Short term investments  | 5,401,499      | 14,716,023     |
| Other receivables   | 1,080,187      | 4,121,550      |
| Prepayments and advances  | 52,478,097     | 35,699,065     |
| Deferred tax assets   | 1,836,757      | 2,585,902      |
| Total current assets  | 116,324,646    | 136,896,675    |
| <br>  |                |                |
| PROPERTY PLANT AND EQUIPMENT, net   | 10,155,848     | 12,878,263     |
| <br>  |                |                |
| ADVANCES ON EQUIPMENT PURCHASES, net of allowance of \$3,578,891<br>and<br>\$2,368,438, as of June 30, 2015 and 2014, respectively                    | 1,684,064      | 2,855,937      |
| <br>  |                |                |
| Total assets  | \$ 128,164,558 | \$ 152,630,875 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                |                |
| <b>CURRENT LIABILITIES:</b>   |                |                |
| Short term loans, banks and bank guarantees   | \$ 26,355,700  | \$ 54,396,713  |
| Short term loans - other  | -              | 3,250,000      |
| Notes payable   | 30,530,050     | 9,750,000      |
| Accounts payable  | 23,399,883     | 32,501,363     |
| Customer deposits   | 1,284,579      | 1,072,998      |
| Other payables  | 2,704,233      | 2,059,739      |
| Other payables - shareholders   | 83,678         | 925,385        |
| Accrued liabilities   | 2,603,662      | 2,241,208      |
| Capital lease obligations - current   | 1,489,384      | 4,659,756      |
| Taxes payable   | 12,859         | 192,205        |
| Total current liabilities   | 88,464,028     | 111,049,367    |
| <br>  |                |                |
| OTHER LIABILITIES   |                |                |
| Capital lease obligations - non current   | -              | 1,177,586      |
| Total liabilities   | 88,464,028     | 112,226,953    |
| <br>  |                |                |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                |                |
| <br>  |                |                |
| <b>SHAREHOLDERS' EQUITY:</b>  |                |                |
| <br>  |                |                |
| Preferred stock \$0.001 par value, 1,000,000 shares authorized, no shares issued<br>or outstanding  | -              | -              |

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|   |                |                |
|---|----------------|----------------|
| Common stock, \$0.001 par value, 74,000,000 shares authorized, 2,180,799 and 1,486,871 shares issued and outstanding as of June 30, 2015 and 2014, respectively | 2,181          | 1,487          |
| Additional paid-in-capital  | 38,373,584     | 35,233,305     |
| Accumulated deficit   | (15,398,817)   | (11,234,705)   |
| Statutory reserves  | 6,248,357      | 6,248,357      |
| Accumulated other comprehensive income  | 10,475,225     | 10,155,478     |
| Total shareholders' equity  | 39,700,530     | 40,403,922     |
| Total liabilities and shareholders' equity  | \$ 128,164,558 | \$ 152,630,875 |

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

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

|  | 2015           | 2014            |
|--|----------------|-----------------|
| <b>REVENUE</b>   |                |                 |
| Sales of concrete  | \$ 55,156,358  | \$ 47,468,956   |
| Manufacturing services                                       | 314,220        | 1,221,881       |
| Total revenue  | 55,470,578     | 48,690,837      |
| <b>COST OF REVENUE</b>                                       |                |                 |
| Concrete   | 50,464,403     | 42,809,448      |
| Manufacturing services                                       | 285,620        | 1,258,283       |
| Total cost of revenue  | 50,750,023     | 44,067,731      |
| <b>GROSS PROFIT</b>  | 4,720,555      | 4,623,106       |
| RECOVERY OF (PROVISION FOR) DOUBTFUL ACCOUNTS                | 2,846,905      | (7,683,463)     |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES                 | (10,142,589)   | (10,676,783)    |
| RESEARCH AND DEVELOPMENT EXPENSES                            | (1,143,476)    | (1,484,218)     |
| LOSS REALIZED FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT | (90,494)       | (1,669,923)     |
| IMPAIRMENT LOSS OF LONG-LIVED ASSETS                         | -              | (293,040)       |
| <b>LOSS FROM OPERATIONS</b>                                  | (3,809,099)    | (17,184,321)    |
| <b>OTHER (EXPENSE) INCOME, NET</b>                           |                |                 |
| Subsidy income   | 1,673,444      | 2,921,550       |
| Non-operating expense, net                                   | (742,087)      | (135,469)       |
| Interest income  | 1,175,683      | 2,744,518       |
| Interest expense   | (1,361,697)    | (2,548,080)     |
| TOTAL OTHER INCOME, NET                                      | 745,343        | 2,982,519       |
| <b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>                | (3,063,756)    | (14,201,802)    |
| <b>PROVISION FOR INCOME TAXES</b>                            | (1,100,356)    | (2,445,290)     |
| <b>NET LOSS</b>  | \$ (4,164,112) | \$ (16,647,092) |
| <b>COMPREHENSIVE LOSS:</b>                                   |                |                 |
| Net loss   | \$ (4,164,112) | \$ (16,647,092) |
| Foreign currency translation adjustment                      | 319,747        | 358,915         |
| <b>COMPREHENSIVE LOSS</b>                                    | \$ (3,844,365) | \$ (16,288,177) |
| <b>LOSS PER COMMON SHARE</b>                                 |                |                 |
| Weighted average number of shares:                           |                |                 |
| Basic  | 1,936,591      | 1,486,871       |
| Diluted  | 1,936,591      | 1,486,871       |
| Loss per share:  |                |                 |



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|         |    |        |    |         |
|---------|----|--------|----|---------|
| Basic   | \$ | (2.15) | \$ | (11.20) |
| Diluted | \$ | (2.15) | \$ | (11.20) |

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

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

|   | 2015                | 2014              |
|---|---------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                     |                   |
| Net loss  | \$ (4,164,112)      | \$ (16,647,092)   |
| Adjustments to reconcile net loss to cash (used in) provided by operating activities: |                     |                   |
| Depreciation  | 2,127,260           | 2,399,263         |
| Stock-based compensation expense  | 514,809             | -                 |
| Deferred tax provision  | 764,487             | 1,648,292         |
| (Recovery of) provision for doubtful accounts   | (2,846,905)         | 7,683,463         |
| Loss realized from disposal of property, plant and equipment                          | 90,494              | 1,669,923         |
| Impairment loss of long-lived assets  | -                   | 293,040           |
| Imputed interest on other receivable from termination of leases                       | -                   | (710,155)         |
| Changes in operating assets and liabilities   |                     |                   |
| Accounts and notes receivable   | (11,520,175)        | 4,807,707         |
| Inventories   | 156,413             | (433,778)         |
| Other receivables   | 3,388,038           | 2,870,784         |
| Other receivable from termination of lease  | -                   | 13,068,997        |
| Prepayments and advances  | (15,995,822)        | (8,889,876)       |
| Accounts payable  | 13,511,852          | (1,443,156)       |
| Customer deposits   | 202,663             | (671,631)         |
| Other payables  | 631,801             | 58,921            |
| Accrued liabilities   | 348,505             | 1,249,739         |
| Taxes payable   | (179,882)           | 84,686            |
| Net cash (used in) provided by operating activities                                   | (12,970,574)        | 7,039,127         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                     |                   |
| Redemptions (acquisitions) of short-term investments, net                             | 9,377,145           | (9,533,591)       |
| Proceeds from disposal of property, plant and equipment                               | 57,015              | -                 |
| Purchase of property, plant and equipment   | (43,633)            | (392,006)         |
| Net cash provided by (used in) investing activities                                   | 9,390,527           | (9,925,597)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                     |                   |
| Proceeds from short term loans and bank guarantees                                    | 43,005,600          | 75,172,737        |
| Payments of short term loans and bank guarantees                                      | (71,309,312)        | (64,794,400)      |
| (Payments of) proceeds from short term loans - other                                  | (3,258,000)         | 3,256,000         |
| Proceeds from notes payable   | 50,987,700          | 17,908,000        |
| Payments of notes payable   | (30,380,850)        | (8,140,000)       |
| Payable to shareholder  | 118,302             | 168,057           |
| Principal payments on capital lease obligations                                       | (2,000,549)         | (2,282,981)       |
| Restricted cash   | 2,437,985           | (6,894,601)       |
| Proceeds from issuance of common stock  | 1,167,552           | -                 |
| Net cash (used in) provided by financing activities                                   | (9,231,572)         | 14,392,812        |
| <b>EFFECTS OF EXCHANGE RATE CHANGE IN CASH</b>  | <b>72,424</b>       | <b>(25,171)</b>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>(12,739,195)</b> | <b>11,481,171</b> |

|  |              |               |
|--|--------------|---------------|
| CASH AND CASH EQUIVALENTS, beginning of year | 15,431,110   | 3,949,939     |
| CASH AND CASH EQUIVALENTS, end of year       | \$ 2,691,915 | \$ 15,431,110 |

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

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

|   | Common stock        |               | Additional<br>Paid-in<br>capital | Retained earnings<br>(Accumulated deficit) |                       | Accumulated<br>other<br>comprehensive<br>income | Total         |
|---|---------------------|---------------|----------------------------------|--|-----------------------|---|---------------|
|   | Number<br>of shares | Par<br>amount |                                  | Unrestricted                               | Statutory<br>reserves |   |               |
| BALANCE,<br>June 30, 2013   | 1,486,871           | \$ 1,487      | \$ 35,233,305                    | \$ 5,412,387                               | \$ 6,248,357          | \$ 9,796,563                                    | \$ 56,692,099 |
| Net loss  | -                   | -             | -                                | (16,647,092)                               | -                     | -   | (16,647,092)  |
| Foreign<br>currency<br>translation<br>gain                              | -                   | -             | -                                | -  | -                     | 358,915   | 358,915       |
| BALANCE,<br>June 30, 2014   | 1,486,871           | 1,487         | 35,233,305                       | (11,234,705)                               | 6,248,357             | 10,155,478                                      | 40,403,922    |
| Restricted<br>stock issued<br>for<br>compensation<br>and services       | 251,875             | 252           | 1,012,979                        | -  | -                     | -   | 1,013,231     |
| Common<br>stock issued<br>for repayment<br>of<br>related-party<br>debts | 174,865             | 175           | 960,009                          | -  | -                     | -   | 960,184       |
| Common<br>stock issued<br>under<br>Employee<br>Stock<br>Purchase Plan   | 267,188             | 267           | 1,167,291                        | -  | -                     | -   | 1,167,558     |
| Net loss  | -                   | -             | -                                | (4,164,112)                                | -                     | -   | (4,164,112)   |
| Foreign<br>currency<br>translation<br>gain                              | -                   | -             | -                                | -  | -                     | 319,747   | 319,747       |
| BALANCE,<br>June 30, 2015   | 2,180,799           | \$ 2,181      | \$ 38,373,584                    | \$ (15,398,817)                            | \$ 6,248,357          | \$ 10,475,225                                   | \$ 39,700,530 |

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 Organization and description of business**

China Advanced Construction Materials Group, Inc. ( CADC Delaware ) was incorporated in the State of Delaware on February 15, 2007. CADC Delaware, through its 100% owned subsidiaries and its variable interest entities ( VIEs ), 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 ). CADC Delaware has a wholly-owned subsidiary in the British Virgin Islands, Xin Ao Construction Materials, Inc. ( BVI-ACM ), which is a holding company with no operations. BVI-ACM has a wholly-owned foreign enterprise, Beijing Ao Hang Construction Material Technology Co., Ltd. ( China-ACMH ), and China-ACMH has contractual agreements with an entity which is considered as a VIE.

Beijing XinAo Concrete Group ( Xin Ao ), our VIE, is engaged in the business of consulting, concrete mixing and equipment rental services. Xin Ao has five wholly-owned subsidiaries (collectively, and with Xin Ao , the VIEs ) in the PRC: (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 ).

On August 1, 2013, CADC Delaware consummated a reincorporation merger with its newly formed wholly-owned subsidiary, China Advanced Construction Materials Group, Inc. ( China ACM ), a Nevada corporation, with CADC Delaware merging into China ACM and China ACM being the surviving company, for the purpose of changing CADC Delaware s state of incorporation from Delaware to Nevada. China ACM, BVI-ACM, China-ACMH and VIEs are collectively referred to as the Company.

**Note 2 Summary of significant accounting policies**Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) and have been consistently applied.

Principles of consolidation

The consolidated financial statements reflect the activities of the following subsidiaries and VIEs. All material intercompany transactions have been eliminated.

| Subsidiaries and VIEs | Place incorporated    | Ownership percentage |
|-----------------------|-----------------------|----------------------|
| BVI-ACM               | British Virgin Island | 100%                 |
| China-ACMH            | Beijing, China        | 100%                 |
| Xin Ao                | Beijing, China        | VIE                  |
| Heng Yuan Zheng Ke    | Beijing, China        | VIE                  |
| Hong Sheng An         | Beijing, China        | VIE                  |
| Heng Tai              | Beijing, China        | VIE                  |
| Da Tong               | Datong, China         | VIE                  |
| Heng Xin              | Luanxian, China       | VIE                  |

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 VIEs. The primary beneficiary is required to consolidate the VIEs for financial reporting purposes.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Management makes ongoing assessments of whether China ACM is the primary beneficiary of Xin Ao and its subsidiaries. Based upon a series of contractual arrangements, the Company determined that Xin Ao and its subsidiaries are VIEs subject to consolidation and that China ACM is the primary beneficiary. Accordingly, the accounts of Xin Ao and its subsidiaries are consolidated with those of China ACM.

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

|                               | June 30,<br>2015 | June 30,<br>2014 |
|-------------------------------|------------------|------------------|
| Current assets                | \$ 115,628,360   | \$ 136,681,518   |
| Property, plant and equipment | 10,154,170       | 12,874,414       |
| Other noncurrent assets       | 491,100          | 487,500          |
| Total assets                  | 126,273,630      | 150,043,432      |
| Liabilities                   | (87,520,412)     | (111,066,630)    |
| Intercompany payables*        | (8,650,651)      | (7,397,342)      |
| Total liabilities             | (96,171,063)     | (118,463,972)    |
| Net assets                    | \$ 30,102,567    | \$ 31,579,460    |

\* Payables to China - ACMH and BVI-ACM are eliminated upon consolidation.

#### Use of estimates and assumptions

The preparation of financial statements in conformity with US 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 and assumptions made in the preparation of the Company's consolidated financial statements include deferred income taxes, allowance for doubtful accounts, allowance for inventory valuation, deferred stock-based compensation, the fair value 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 and BVI-ACM is the U.S. dollar. China-ACMH and its VIEs use their local currency Chinese Renminbi ( RMB ) as their functional currency. In accordance with the US GAAP 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 June 30, 2015 and 2014, were translated at RMB 6.11 to \$1.00 and RMB 6.15 to \$1.00, respectively. The average translation rates applied to the consolidated statements of operations and comprehensive income (loss) and cash flows for each of the years ended June 30, 2015 and 2014 were RMB 6.14 to \$1.00.

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. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Revenue recognition

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 technical services primarily to major local 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 or customers breach the contract terms specified in the agreement.

The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer or services are provided by the Company.

Revenue represents the invoiced value of goods, net of a value added tax ( VAT ). The industry standard VAT rate for all of the Company's concrete products that are sold in the PRC was 6% of the gross sales price prior to July 1, 2014. On July 1, 2014, the standard VAT rate for concrete products decreased to 3% 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 granted the Company a VAT tax exemption, which expired June 2015. From July 2015 going forward, the Company is subject to VAT at the rate of 3% of the gross sales price.

The Company includes the shipping and handling fee in both revenue and cost of revenue.

Financial instruments

The US GAAP accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The three levels of inputs 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.

Current assets and current liabilities are reported in the consolidated balance sheets at face value or cost, which approximate fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

The carrying value of long-term capital lease obligations approximate their fair value as interest rates approximate the market rate.

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Cash and cash equivalents

The Company considers all highly liquid investments with the original maturity of three months or less at the date of purchase to be cash equivalents. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions within PRC and US. As of June 30, 2015 and 2014, the Company had deposits in excess of federally insured limits totaling approximately \$2.7 million and \$15.3 million, respectively.

Restricted cash

As of June 30, 2015 and 2014, restricted cash consisted of collateral representing cash deposits for short term loans, bank guarantees and notes payable.

Accounts receivable

During the normal course of business, the Company extends unsecured credit to its customers. Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers the historical experience, the economy, trends in the construction industry, the expected collectability of the amount receivable that is past due and the expected collectability of the overdue receivable. 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. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote. For the years ended June 30, 2015 and 2014, approximately \$0.1 million and \$10.9 million was written off against the allowance balance, respectively.

Other receivables

Other receivables primarily include advances to employees, due from unrelated entities, VAT tax refunds and other deposits. Management regularly reviews the aging of receivables and changes in payment trends and records allowance when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off after exhaustive efforts at collection are made.

Inventories

Inventories consist of raw materials and are stated at the lower of cost or market, as determined using the weighted average cost method. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. As of June 30, 2015 and 2014, the Company determined that no reserves for obsolescence were necessary.

Short term investments

The Company entered into an investment agreement with a financial investment company in April 2015. The agreement allows the Company to invest up to RMB 100 million (\$16.4 million) for maximum periods of two years. The Company can redeem the investment at any time within the agreed period upon 30-day notice. The financial investment company invests the Company's funds in certain financial instruments including bonds, mortgage trust or mutual funds. The rates of return on these investments were guaranteed to be no less than 10% per annum. The Company's investment is not subject to market fluctuation; therefore, the Company did not experience gain or loss on its investment. However, the Company's funds deposited with the financial investment company are not insured.

Prepayments and advances, and advances on equipment purchases, net

The Company advances monies to certain suppliers for raw materials, plant and equipment, and factory rent. These advances are interest free and unsecured. For each of the years ended June 30, 2015 and 2014, the Company recorded a bad debt allowance for advances on equipment purchases for approximately \$1.2 million.

Stock-based compensation

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company records stock-based compensation expense at fair value on the grant date and recognizes the expense over the employee's requisite service period. Unrecognized expense is deferred and included in the consolidated balance sheets, and amortized over the remaining requisite service period. 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. The expected dividend yield is based on the Company's current and expected dividend policy.

Property, plant and equipment

Property, plant and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred while additions, renewals and improvements are capitalized. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method with 5% residual value. Leasehold improvements are amortized over the lesser of estimated useful lives or lease terms, as appropriate.

The estimated useful lives of assets are as follows:

|                            | Useful life |
|----------------------------|-------------|
| Transportation equipment   | 7-10 years  |
| Plant and machinery        | 10 years    |
| Office equipment           | 5 years     |
| Buildings and improvements | 3-20 years  |

Accounting for long-lived assets

The Company classifies its long-lived assets into: (i) machinery and equipment; (ii) transportation equipment, (iii) office and equipment; and (iv) buildings and improvements.

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. It is possible that these assets could become impaired as a result of technology or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

The Company makes various assumptions and estimates regarding estimated future cash flows and other factors in determining the fair values of the respective assets. The Company uses set criteria that are reviewed and approved by various levels of management, and estimates the fair value of the asset or asset group by using discounted cash flow analyses. If these estimates or their related assumptions change in the future, it is required to record impairment charges for the underlying assets at such time. Any such resulting impairment charges could be material to the Company's results of operations.

If the value of an asset is determined to be impaired, the impairment to be recognized is measured in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less disposition costs. There was no impairment charge for the year ended June 30, 2015. For the year ended June 30, 2014, the Company recognized approximately \$0.3 million of impairment charges related to portable plants.

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Competitive pricing pressure and changes in interest rates could materially and adversely affect the Company's estimates of future net cash flows to be generated by the long-lived assets, and thus could result in future impairment losses.

Income taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes, 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 and operating loss and tax credit carry forward. 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.

ASC 740-10, Accounting for Uncertainty in Income Taxes, defines uncertainty in income taxes and the evaluation of a tax position as 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.

Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred.

United States federal, state and local income tax returns prior to 2012 are not subject to examination by any applicable tax authorities.

Value Added Tax

Enterprises or individuals, who sell commodities, engage in repair and maintenance, or import and export goods in the PRC are subject to a value added tax. The standard VAT rate was 6% of gross sales for the Company's industry, which was decreased to 3% of gross sales on July 1, 2014. Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation granted the Company a VAT tax exemption, which expired June 2015. From July 2015 going forward, the Company is subject to VAT at the rate of 3% of the gross sales price.

Research and development, advertising and repair and maintenance

Research and development, advertising and repair and maintenance costs are expensed as incurred. The cost of materials and equipment that are acquired or constructed for research and development activities, and have alternative future uses, either in research and development, marketing, or sales, are classified as property and equipment, and depreciated over their estimated useful lives. Research and development costs for the years ended June 30, 2015 and

2014 were approximately \$1.1 million and \$1.5 million, respectively. Advertising costs for the years ended June 30, 2015 and 2014 were approximately \$52,000 and \$14,000, respectively. Repair and maintenance costs for each of the years ended June 30, 2015 and 2014 were approximately \$0.2 million.

Earnings (loss) per share

The Company reports earnings (loss) per share in accordance with the US GAAP, which requires presentation of basic and diluted earnings (loss) per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings (loss) per share excludes dilution and is computed by dividing income (loss) 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, restricted stock based grants and convertible preferred stock, to issue common stock were



CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

exercised and converted into common stock. Common stock equivalents having an anti-dilutive effect on earnings per share are excluded from the calculation of diluted earnings per share. Diluted loss per share is the same as basic loss per share since the addition of any contingently issuable shares would be anti-dilutive.

Stock dividends or stock splits be accounted for retroactively if the stock dividends or stock splits occur during the period, or retroactively if the stock dividends or stock splits occur after the end of the period but before the release of the financial statements, by considering it outstanding of the entirety of each period presented. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Comprehensive income

Comprehensive income consists of net income and foreign currency translation adjustments.

Recent Accounting Pronouncements

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

**Note 3 Supplemental disclosure of cash flow information**

For the years ended June 30, 2015 and 2014, the Company paid interest in the amounts of approximately \$1.4 million and \$2.5 million, respectively.

Cash payments for income tax for the years ended June 30, 2015 and 2014 were \$0.5 million and \$0.7 million, respectively.

Non-cash investing and financing activities

The Company had receivables of approximately \$0.8 million as a result of disposal of property, plant and equipment during the year ended June 30, 2015. Pursuant to a three-party settlement agreement, the Company offset accounts receivable with capital lease obligations for approximately \$2.4 million during the year ended June 30, 2015. The Company issued stock to payoff shareholder debt of approximately \$0.9 million (see Note 12).

For the year ended June 30, 2014, the Company acquired property, plant and equipment under capital lease agreements for approximately \$3.6 million (See Note 6). The Company had receivables of approximately \$1.2 million as a result of disposal of property, plant and equipment during the year ended June 30, 2014. The Company offset other payables from acquisitions of property, plant and equipment of approximately \$0.4 million with other

receivables from termination of leases with during the year ended June 30, 2014 pursuant to a settlement agreement. The Company offset prepayments with addition of property, plant and equipment for approximately \$1.2 million for the year ended June 30, 2014.

**Note 4 Accounts and notes receivable**

Accounts and notes receivable are generated from concrete products sold to the Company's customers and other concrete companies with which the Company conducts business. The payment terms are defined in the respective contracts. Notes receivable represents trade accounts receivable due from various customers where the customers'

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

banks have guaranteed the payment. The notes are non-interest bearing and normally paid within three to six months. The Company has the ability to submit requests for payment to the customer's bank earlier than the scheduled payment date, but will incur an interest charge and a processing fee.

Based on the historical experience and its individual evaluation process, the Company's estimates of its allowance for doubtful accounts as of June 30, 2015 were as follows: 15% for accounts receivable past due more than 180 days but less than one year, 60% for accounts receivable past due from one to two years, 75% for accounts receivable past due beyond two years, and 100% for accounts receivable past due beyond three years, plus any additional amounts as necessary.

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

|  | June 30,<br>2015 | June 30,<br>2014 |
|--|------------------|------------------|
| Accounts receivable                      | \$ 68,566,418    | \$ 80,662,464    |
| Notes receivable                         | -                | 372,791          |
|  | 68,566,418       | 81,035,255       |
| Less: Allowance for doubtful accounts    | (28,209,249)     | (31,667,803)     |
| Total accounts and notes receivable, net | \$ 40,357,169    | \$ 49,367,452    |

**Note 5 Other receivables**

Other receivables and allowance for doubtful accounts consisted of the following:

|  | June 30,<br>2015 | June 30,<br>2014 |
|--|------------------|------------------|
| Other receivables, current                     | \$ 3,483,549     | \$ 6,932,437     |
| Less: Allowance for doubtful accounts, current | (2,403,362)      | (2,810,887)      |
| Other receivables - current, net               | \$ 1,080,187     | \$ 4,121,550     |

**Note 6 Property, plant and equipment**

Property, plant and equipment consist of the following:

|                          | June 30,<br>2015 | June 30,<br>2014 |
|--------------------------|------------------|------------------|
| Machinery and equipment  | \$ 2,363,324     | \$ 4,158,656     |
| Transportation equipment | 1,030,710        | 1,095,548        |

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|                                |               |               |
|--------------------------------|---------------|---------------|
| Leased equipment               | 11,287,442    | 11,204,700    |
| Office equipment               | 1,305,992     | 1,310,508     |
| Buildings and improvements     | 393,205       | 299,074       |
| Total                          | 16,380,673    | 18,068,486    |
| Less: Accumulated depreciation | (6,224,825)   | (5,190,223)   |
| Plant and equipment, net       | \$ 10,155,848 | \$ 12,878,263 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Depreciation expense for the years ended June 30, 2015 and 2014 amounted to approximately \$2.1 million and \$2.4 million, respectively. Depreciation expense for the leased equipment was \$1.5 million each of for the years ended June 30, 2015 and 2014. Accumulated depreciation for the leased equipment as of June 30, 2015 and 2014 was \$3.3 million and \$1.7 million, respectively. There was no impairment charge for the year ended June 30, 2015. The Company recognized approximately \$0.3 million of impairment charges relating to the portable plants for the year ended June 30, 2014.

**Note 7 Prepayments and advances**

Prepayments and advances consisted of the following:

|                                   | June 30,<br>2015 | June 30,<br>2014 |
|-----------------------------------|------------------|------------------|
| Advances on inventory purchases   | \$ 51,979,493    | \$ 35,373,493    |
| Deferred stock-based compensation | 498,604          | -                |
| Rent prepayments (see Note 15)    | -                | 325,572          |
| Total prepayments and advances    | \$ 52,478,097    | \$ 35,699,065    |

In September 2015, the Company entered into agreements with certain vendors to offset advances on inventory purchases with certain payables for approximately \$1.0 million.

**Note 8 Credit Facilities**Short term loans - banks:

The outstanding balances on these loans consisted of the following:

|   | June 30,<br>2015 | June 30,<br>2014 |
|---|------------------|------------------|
| Loan from Shanghai Pudong Development Bank, repaid in full in January 2015  | \$ -             | \$ 10,968,750    |
| Loan from Construction Bank, interest rate at 6% per annum, due November 18, 2015; guaranteed by Jinshengding Mineral Products Co., LTD and Mr. Xianfu Han.   | 5,729,500        | 5,687,500        |
| Loan from Beijing Bank, interest rate at 6.4% per annum, due March 12, 2016, guaranteed by Beijing Jinshengding Mineral Products Co., LTD and Mr. Xianfu Han. | 4,911,000        | 4,875,000        |
| Loan from Hana Bank, repaid in full in September 2014   | -                | 6,500,000        |
| Loan from Citic Bank, interest rate at 7.80% per annum, due August 25, 2015; guaranteed by Jinshengding Mineral Products Co., LTD,                            | 3,274,000        | 3,250,000        |

Mr. Xianfu Han and Mr. Weili He. This loan was repaid in August 2015.

|      |    |            |    |            |
|------|----|------------|----|------------|
|      | \$ | 13,914,500 | \$ | 31,281,250 |
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## CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The above guarantors are various suppliers to the Company. Mr. Xianfu Han and Mr. Weili He are the Company's Chief Executive Officer and interim Chief Financial Officer, respectively. Also see Note 10 Related party transactions.

Bank guarantees:

Bank guarantees represent amounts due to issuing banks after beneficiary vendors completed shipments. Bank guarantees are non-interest bearing and due within six months. The outstanding balances on these bank guarantees consisted of the following:

|   | June 30,<br>2015 | June 30,<br>2014 |
|---|------------------|------------------|
| Bank guarantees due to Construction Bank, various due dates from July to November 2015, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, and Mr. Xianfu Han, a related party.* | \$ 12,441,200    | \$ 23,115,463    |
| * \$7.5 million was repaid in July and August 2015.   |                  |                  |

As of June 30, 2015 and 2014, the Company had restricted cash for short-term loans and bank guarantees of approximately \$2.6 million and \$10.5 million, respectively.

Short term loans - other:

The outstanding balance consisted of the following:

|   | June 30,<br>2015 | June 30,<br>2014 |
|---|------------------|------------------|
| Short term loans due to unrelated third-party individual, repaid in full on August 28, 2014 | -                | \$ 3,250,000     |
|   | \$ -             | \$ 3,250,000     |

Notes payable:

Bank notes are issued to a third party for inventory purchases. The notes payable were guaranteed by Jinshengding Mineral Products Co., LTD and Mr. Xianfu Han and amounted to approximately \$30.5 million (RMB 187 million) and \$9.8 million (RMB 60 million) as of June 30, 2015 and 2014, respectively, and were non-interest bearing with expiration dates between July and December 2015. The restricted cash for the notes was approximately \$8.5 million and \$2.9 million as of June 30, 2015 and 2014, respectively.

**Note 9 Capital lease obligations**

Capital lease obligations consist of the following:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

|  | June 30,<br>2015 | June 30,<br>2014 |
|--|------------------|------------------|
| Lease obligations for concrete pump trucks maturing in January 2016, lease payment at \$186,000 per month with interest at 7.68% per annum | \$ 1,152,950     | \$ 4,790,877     |
| Lease obligations for concrete mixer trucks maturing September 2015, lease payment at \$32,000 per month with interest at 7.98% per annum  | 95,420           | 473,600          |
| Lease obligations for concrete mixer trucks maturing in May 2014, lease payment at \$156,000 per month with interest at 7.28% per annum*   | 266,757          | 606,052          |
| Lease obligations for concrete pump trucks paid off in April 2015  | -                | 187,801          |
| <b>Total</b>   | <b>1,515,127</b> | <b>6,058,330</b> |
| Less: Deferred interest  | (25,743)         | (220,988)        |
|  | 1,489,384        | 5,837,342        |
| Less: Capital lease obligations - current  | (1,489,384)      | (4,659,756)      |
| Capital lease obligations - non current  | \$ -             | \$ 1,177,586     |

\* The lessor verbally agreed to extend the due date for the remaining balance to August 2015 without penalty. The obligation was substantially paid off in August 2015.

**Note 10 Related party transactions**Other payables - shareholders

Two shareholders advanced funds to BVI-ACM, for working capital purposes. The advances are non-interest bearing, unsecured, and are payable in cash on demand. These two shareholders and officers of the Company also guaranteed certain of the Company's short-term loans payable to banks (see Note 8).

In December 2014, the Company issued an aggregate of 174,865 shares of restricted common stock to pay off certain other payables to two shareholders (see Note 12). Other payables - shareholders consisted of the following:

|            | June 30,<br>2015 | June 30,<br>2014 |
|------------|------------------|------------------|
| Xianfu Han | \$ 15,762        | \$ 450,540       |
| Weili He   | 67,916           | 474,845          |
|            | \$ 83,678        | \$ 925,385       |

**Note 11 Income taxes**



**(a) Corporate income tax**

China ACM was organized in the United States. China ACM had no taxable income for United States income tax purposes for the year ended June 30, 2015. As of June 30, 2015, China ACM's net operating loss carry forward for United States income taxes was approximately \$0.9 million. The net operating loss carry forward are available to reduce future years' taxable income through year 2033. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's operating history and continued losses in the United States. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset to reduce the asset to zero. For the years ended June 30, 2015 and 2014, valuation allowance for deferred tax assets decreased by approximately \$0.2 million and \$0.1 million, respectively. Management reviews this valuation allowance periodically and makes adjustments accordingly.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BVI-ACM was incorporated in the British Virgin Islands ( BVI ) and where its income tax rate is \$0 under the current laws of the BVI.

*China-ACMH and VIEs-Chinese operations*

All of the Company's income is generated in the PRC, through VIEs. The Company's VIEs had cumulative losses of approximately \$1.0 million and \$1.5 million as of June 30, 2015 and 2014, respectively. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings.

China-ACMH and VIEs are governed by the income tax laws of the PRC and the income tax provision in respect to operations in the PRC is calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the Chinese Enterprise Income Tax ( EIT ) law, the statutory corporate income tax rate applicable to most companies is 25%. In 2009, Xin Ao applied and received an Enterprise High-Tech Certificate. The certificate was awarded based on Xin Ao's involvement in producing high-tech products, its research and development, as well as its technical services. As granted by the State Administration of Taxation of the PRC, Xin Ao is entitled to a reduction in its income tax rate from 25% to 15% until 2018.

In accordance with the EIT Law, enterprises established under the laws of foreign countries or regions and whose place of effective management is located within the PRC territory are considered PRC resident enterprises and are subject to the PRC income tax at the rate of 25% on their worldwide income. The definition of place of effective management refers to an establishment that exercises, in substance, and among other items, overall management and control over the production and business, personnel, accounting, and properties of an enterprise. No detailed interpretation of guidance has been issued to define place of effective management. Furthermore, the administrative practice associated with interpreting and applying the concept of place of effective management is unclear. If the Company's non-PRC incorporated entities are deemed PRC tax residents, such entities would be subject to PRC tax under the EIT Law. The Company has analyzed the applicability of this law, and for each of the applicable periods presented, the Company has not accrued for PRC tax on such basis. The Company continues to monitor changes in the interpretation and/or guidance of this law.

The EIT Law also imposes a 10% withholding income tax, subject to reduction based on tax treaties where applicable, for dividends distributed by a foreign invested enterprise to its immediate holding company outside China. Such dividends were exempted from PRC tax under the previous income tax law and regulations. The Company intends to permanently reinvest undistributed earnings of its Chinese operations located in the PRC. As a result, there is no deferred tax expense related to withholding tax on the future repatriation of these earnings.

Loss before provision for income taxes consisted of:

|             | Years ended    |                 |
|-------------|----------------|-----------------|
|             | June 30,       |                 |
|             | 2015           | 2014            |
| USA and BVI | \$ (1,603,513) | \$ (414,927)    |
| China       | (1,460,243)    | (13,786,875)    |
|             | \$ (3,063,756) | \$ (14,201,802) |



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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Provision for income taxes consisted of:

|   | Years ended<br>June 30, |                       |
|---|-------------------------|-----------------------|
|   | 2015                    | 2014                  |
| <b>Current provision:</b>               |                         |                       |
| USA                                     | \$ -                    | \$ -                  |
| China                                   | (335,869)               | (796,998)             |
| <b>Total current provision</b>          | <b>(335,869)</b>        | <b>(796,998)</b>      |
| <b>Deferred provision:</b>              |                         |                       |
| USA                                     | -                       | -                     |
| China                                   | (764,487)               | (1,648,292)           |
| <b>Total deferred provision</b>         | <b>(764,487)</b>        | <b>(1,648,292)</b>    |
| <b>Total provision for income taxes</b> | <b>\$ (1,100,356)</b>   | <b>\$ (2,445,290)</b> |

Significant components of deferred tax assets were as follows:

|  | June 30,            |                     |
|--|---------------------|---------------------|
|  | 2015                | 2014                |
| <b>Deferred tax assets - current</b>           |                     |                     |
| Allowance for doubtful accounts                | \$ 4,591,891        | \$ 5,171,804        |
| Valuation allowance                            | (2,755,134)         | (2,585,902)         |
| <b>Total deferred tax assets - current</b>     | <b>\$ 1,836,757</b> | <b>\$ 2,585,902</b> |
| <b>Deferred tax assets - non-current</b>       |                     |                     |
| Net operating loss carryforward in the U.S.    | \$ 309,393          | \$ 506,644          |
| Impairment loss of long-lived assets           | -                   | 244,931             |
|  | 309,393             | 751,575             |
| Valuation allowance                            | (309,393)           | (751,575)           |
| <b>Total deferred tax assets - non-current</b> | <b>\$ -</b>         | <b>\$ -</b>         |

As of June 30, 2015 and 2014, the Company believes it is more likely than not that its China operations will be unable to fully utilize its deferred tax assets related to provision for doubtful accounts. As such, as of June 30, 2015, the Company provided approximately \$2.8 million of valuation allowance to the deferred tax assets related to its China operations, all of which was against deferred tax assets – current related to its allowance for doubtful accounts, as management estimates that certain bad debts may not be deductible against future pre-tax income by the Chinese tax authorities. As of June 30, 2014, the Company provided approximately \$2.8 million of valuation allowance to the deferred tax assets related to its China operations, of which \$2.6 million against deferred tax assets – current related to its allowance for doubtful accounts, and \$0.2 million against deferred tax assets – noncurrent related to impairment loss of long-lived assets.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company has incurred losses from its U.S. operations during all periods presented. Accordingly, management provided approximately \$0.3 million and \$0.5 million of valuation allowance against the deferred tax assets related to the Company's U.S. operations as of June 30, 2015 and 2014, respectively, since the deferred tax benefits of the net operating loss carry forward in the U.S. might not be utilized.

Changes to valuation allowance for deferred tax assets were as follows:

|   | Valuation<br>Allowance |
|---|------------------------|
| For deferred tax assets - current           |                        |
| As of June 30, 2014                         | \$ 2,585,902           |
| Allowance for doubtful accounts             | (309,052)              |
| Increased allowance rate                    | 459,189                |
| Effect of exchange rate difference          | 19,095                 |
| As of June 30, 2015                         | \$ 2,755,134           |
| For deferred tax assets - noncurrent        |                        |
| As of June 30, 2014                         | \$ 751,575             |
| Net operating loss carryforward in the U.S. | (197,251)              |
| Impairment loss of long-lived assets        | (244,931)              |
| As of June 30, 2015                         | \$ 309,393             |

Taxes payable consisted of the following:

|                      | June 30,<br>2015 | June 30,<br>2014 |
|----------------------|------------------|------------------|
| Income taxes payable | \$ -             | \$ 163,753       |
| Other taxes payable  | 12,859           | 28,452           |
| Total taxes payable  | \$ 12,859        | \$ 192,205       |

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the years ended June 30, 2015 and 2014.

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|   | June 30,<br>2015 | June 30,<br>2014 |
|---|------------------|------------------|
| U.S. statutory rates                      | 34%              | 34%              |
| Foreign income not recognized in the U.S. | (34%)            | (34%)            |
| PRC statutory rates                       | 25%              | 25%              |
| Preferential tax treatment                | (10%)            | (10%)            |
| Change in valuation allowance             | 2%               | (8%)             |
| Non-deductible PRC expenses*              | (32%)            | (18%)            |
| Other**                                   | (22%)            | (6%)             |
| Effective income tax rates                | (36%)            | (17%)            |

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\*This represents certain freight costs disallowed for deductions by PRC tax authorities according to certain VAT tax policy.

\*\*This represents the expenses (income) incurred by the Company that are not subject to PRC income taxes during the years.

**(b) Uncertain tax positions**

There were no uncertain tax positions as of June 30, 2015 and 2014. Management does not anticipate any potential future adjustments which would result in a material change to its tax positions. For the years ended June 30, 2015 and 2014, the Company did not incur any tax related interest and penalties.

**Note 12 Shareholders equity**

Restricted Stock Grants

Restricted stock grants are measured based on the market price on the grant date. The Company has granted restricted shares of common stock to the members of the board of directors (the Board), senior management and consultants.

Effective September 9, 2014, the Board granted an aggregate of 150,000 shares of common stock, which were issued with a market value of \$625,500 to its 13 employees under the Company's 2009 Equity Incentive Plan (the 2009 Plan). These shares are vested in two equal installments every six months from the date of grant. As of June 30, 2015, 75,000 shares were vested.

Effective September 22, 2014, the Board granted and issued 1,875 shares of common stock to an officer. The grant was under the 2009 Plan and the employment agreement by and between the Company and the grantee. In addition, such grant was to fulfill the Company's contractual obligation in the employment agreement. As a result, the shares were vested immediately upon the issuance.

Effective June 29, 2015, the Board granted an aggregate of 100,000 shares of common stock, which were issued with a market value of \$380,000 to its two employees under the 2009 Plan. These shares are vested in two equal installments every three months from the date of grant. As of June 30, 2015, none of shares was vested.

Effective June 29, 2015, at the annual meeting held on that date, the Stockholders of the Company approved to increase by 200,000 shares of common stock reserved under the 2009 Plan.

For the years ended June 30, 2015 and 2014, the Company recognized \$0.5 million and \$0 of compensation expenses related to restricted stock grants, respectively.

Following is a summary of the restricted stock grants:



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Restricted stock grants       | Shares   | Weighted<br>Average<br>Grant Date<br>Fair Value Per<br>Share | Aggregate<br>Intrinsic<br>Value |
|-------------------------------|----------|--|---------------------------------|
| Nonvested as of June 30, 2014 | -        | \$ -   | \$ -                            |
| Granted                       | 251,875  | 4.02   | 1,013,413                       |
| Vested                        | (76,875) | 4.17   | 320,663                         |
| Nonvested As of June 30, 2015 | 175,000  | \$ 3.96  | \$ 692,750                      |

Stock Issuance

Effective December 2, 2014, the Board authorized the issuance of 174,865 shares of restricted common stock to two shareholders for repayments of certain other payables. These other payables were originated from the professional expenses the shareholders paid on behalf of the Company.

See Note 14 for stocks issued under 2013 Employee Stock Purchase Plan.

**Note 13 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, after the statutory reserves. The statutory reserves include the surplus reserve fund and the common welfare fund.

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 \$2.1 million as of June 30, 2015 and 2014.

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. The surplus reserve fund can however 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 14 Employee post-retirement benefits**

The Company offers a defined contribution plan to eligible employees which consists of two parts: (i) the first part, paid by the Company, and is 20% of the employee's compensation from the prior year and (ii) the second part, paid by the employee, and is 8% of the employee's compensation. The Company's contributions of employment benefits were approximately \$1.0 million and \$0.7 million for the years ended June 30, 2015 and 2014, respectively.

On November 21, 2013, the Company adopted the 2013 Employee Stock Purchase Plan (the "ESPP"), which became effective as of such date. Under the ESPP, the Board may grant or provide for the grant of rights to eligible employees to purchase shares of the Company's common stock by payroll deduction or cash contribution.

The aggregate number of shares of common stock, that may be issued under the ESPP is 280,000 shares initially plus an annual increase in the number of shares on July 1 of each year, commencing on July 1, 2014 and ending on July 1, 2023, equal to one percent of the number of shares of Common Stock outstanding on each such date, subject to proportionate adjustment in the event of a merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company, under which circumstances, the class(es) and number of shares and price per share of stock subject to outstanding rights, may also be adjusted by the Board or the Committee, as defined below.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The ESPP will be administered by the Board unless and until Board delegates administration to a committee composed of two or more non-employee directors.

Any employee of the Company or any parent (if any) and subsidiary corporation of the Company (the Affiliate), who is not a natural person resident in the United States, who has been in the employ of the Company or any Affiliate for such continuous period as required by the Board preceding the grant of rights under the ESPP is eligible to participate in the ESPP during the applicable offering period, subject to administrative rules established by the Board.

The ESPP is implemented by sequential offerings, the commencement and duration of which will be determined by the Board. The purchase price at which each share of common stock may be acquired in an offering period upon the exercise of all or any portion of a purchase right will be established by the Board. However, the purchase price on each purchase date will not be less than the greater of the book value or the fair market value of a share of the Common Stock on the purchase date.

Effective July 10, 2014, two employees received an aggregate of 65,102 shares of the Company's common stock, at \$4.99 per share, the closing stock price on July 9, 2014, and paid in full a total of \$324,860 (RMB 2 million) under the ESPP.

Effective September 9, 2014, four employees received an aggregate of 202,086 shares of the Company's common stock, at \$4.17 per share, the closing stock price on September 8, 2014, and paid in full a total of \$842,692 (RMB 5.2 million) under the ESPP.

#### Note 15 Commitments and contingencies

##### Lease Commitments

The Company has a lease agreement for a concrete service plant with an unrelated party which expires on September 30, 2015, with annual payments of approximately \$219,000. The Company is in the process of renewing such agreement. The Company has a lease agreement to lease office space from a third party through October 31, 2015, with annual payments of approximately \$27,000. The Company also has an eight-year operating lease agreement for a concrete service plant with an unrelated party through August 17, 2021, with a monthly payment of approximately \$54,000.

Operating lease expenses are allocated between the cost of revenue and selling, general, and administrative expenses. Total operating lease expenses for the years ended June 30, 2015 and 2014 were approximately \$1.6 million \$2.0 million, respectively. Future annual lease payments, net of rent prepayment non-cancelable operating leases with a term of one year or more consist of the following:

| Twelve months ending June 30, | Amount       |
|-------------------------------|--------------|
| 2016                          | \$ 715,000   |
| 2017                          | 652,000      |
| 2018                          | 652,000      |
| 2019                          | 652,000      |
| 2020                          | 652,000      |
| Thereafter                    | 652,000      |
| Total                         | \$ 3,975,000 |

##### Executive cash bonuses

Effective December 25, 2014, the compensation committee of the Board approved a new cash compensation plan for the Company's executive officers. Subject to achieving certain operational targets for the Company, the compensation plan provided cash bonuses for up to 160% of base salary, payable at the end of each quarter of the year ending June 30, 2015, starting from the end of the second quarter ended December 31, 2014 and at the end of the fiscal year. For the year ended June 30, 2015, these targets were not made and no expense related to the cash bonuses had been accrued.

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Legal Contingencies

From time to time, the Company is a party to various legal actions arising in the ordinary course of business. The Company accrues costs associated with these matters when they become probable and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. The Company's management does not expect any liability from the disposition of such claims and litigation individually or in the aggregate would have a material adverse impact on the Company's consolidated financial position, results of operations and cash flows.

**Note 16 - Concentrations**

For the year ended June 30, 2015, the Company had one customer that represented approximately 14.1% of total revenue. For the year ended June 30, 2014, the same customer represented approximately 10.6% of total revenue. As of June 30, 2015 and 2014, no customer accounted for more than 10% of the total balance of accounts receivable.

For the year ended June 30, 2015, the Company had one vendor that represented approximately 16.4% of total purchases. For the year ended June 30, 2014, the same vendor represented approximately 11.9% of total purchases. As of June 30, 2015 and 2014, no vendor accounted for more than 10% of the total balance of accounts payable.

**SIGNATURES**

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.

By: /s/ Xianfu Han

Date: September 25, 2015

Xianfu Han  
Chief Executive Officer  
(principal executive officer)

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature                            | Title   | Date               |
|--------------------------------------|---|--------------------|
| <u>/s/ Xianfu Han</u><br>Xianfu Han  | Chief Executive Officer and Chairman of the Board<br>(principal executive officer)  | September 25, 2015 |
| <u>/s/Weili He</u><br>Weili He       | Vice Chairman, Chief Operating Officer and Interim Chief Financial Officer (interim principal financial officer and principal accounting officer) | September 25, 2015 |
| <u>/s/Tao Jin</u><br>Tao Jin         | Director  | September 25, 2015 |
| <u>/s/Xinyong Gao</u><br>Xinyong Gao | Director  | September 25, 2015 |
| <u>/s/Ken Ren</u><br>Ken Ren         | Director  | September 25, 2015 |