

China Advanced Construction Materials Group, Inc
Form 10-Q
February 13, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **December 31, 2014**

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

For the transition period from _____ to _____

Commission File Number: **001-34515**

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 offices, Zip Code)

+86 10 82525361

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The number of shares outstanding of each of the issuer's classes of common equity, as of February 9, 2015 is as follows:

<u>Class of Securities</u>	<u>Shares Outstanding</u>
Common Stock, \$0.001 par value	2,080,799

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PART I**FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.**

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

ASSETS	December 31, 2014	June 30, 2014
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,349,793	\$ 15,431,110
Restricted cash	11,200,806	13,413,264
Accounts and notes receivable, net of allowance for doubtful accounts of \$31,120,660 and \$31,667,803, as of December 31, 2014 and June 30, 2014, respectively	51,649,075	49,367,452
Inventories	2,247,637	1,562,309
Short term investment	2,304,506	14,716,023
Other receivables	4,697,980	4,121,550
Prepayments and advances	46,713,112	35,699,065
Deferred stock-based compensation	431,852	-
Deferred tax assets	2,572,587	2,585,902
Total current assets	125,167,348	136,896,675
PROPERTY PLANT AND EQUIPMENT, net	11,200,430	12,878,263
ADVANCES ON EQUIPMENT PURCHASES, net	2,266,614	2,855,937
Total assets	\$ 138,634,392	\$ 152,630,875
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term loans, banks and bank guarantees	\$ 38,885,300	\$ 54,396,713
Short term loans - other	-	3,250,000
Notes payable	20,581,550	9,750,000
Accounts payable	26,300,047	32,501,363
Customer deposits	983,464	1,072,998
Other payables	2,344,933	2,059,739
Other payables - shareholders	93,868	925,385
Accrued liabilities	3,434,460	2,241,208
Capital lease obligations - current	5,324,932	4,659,756
Taxes payable	182,270	192,205
Total current liabilities	98,130,824	111,049,367
OTHER LIABILITIES		
Capital lease obligations - non current	-	1,177,586
Total liabilities	98,130,824	112,226,953

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:

Preferred stock \$0.001 par value, 1,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, \$0.001 par value, 74,000,000 shares authorized, 2,080,799 and 1,486,871 shares issued and outstanding as of December 31, 2014 and June 30, 2014, respectively	2,081	1,487
Additional paid-in-capital	37,993,684	35,233,305
Accumulated deficit	(14,052,446)	(11,234,705)
Statutory reserves	6,248,357	6,248,357
Accumulated other comprehensive income	10,311,892	10,155,478
Total shareholders' equity	40,503,568	40,403,922
Total liabilities and shareholders' equity	\$ 138,634,392	\$ 152,630,875

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	For the three months ended December 31,		For the six months ended December 31,	
	2014	2013	2014	2013
REVENUE				
Sales of concrete	17,638,416	11,374,306	38,539,106	21,095,423
Manufacturing services	579	454,026	313,642	896,329
Total revenue	17,638,995	11,828,332	38,852,748	21,991,752
COST OF REVENUE				
Concrete	16,049,839	9,946,088	35,095,227	18,560,843
Manufacturing services	1,642	374,612	285,094	785,755
Total cost of revenue	16,051,481	10,320,700	35,380,321	19,346,598
GROSS PROFIT	1,587,514	1,507,632	3,472,427	2,645,154
PROVISION FOR DOUBTFUL ACCOUNTS	(1,427,942)	(5,055,600)	(399,969)	(8,105,021)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(2,899,501)	(2,735,275)	(5,566,805)	(5,645,900)
RESEARCH AND DEVELOPMENT EXPENSES	(348,881)	(247,563)	(849,048)	(451,562)
LOSS REALIZED FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT	(584)	(4,222)	(81,316)	(1,373,683)
LOSS FROM OPERATIONS	(3,089,394)	(6,535,028)	(3,424,711)	(12,931,012)
OTHER (EXPENSE) INCOME, NET				
Subsidy income	529,187	709,700	1,174,992	1,319,505
Non-operating (expense) income, net	(178,023)	(59,312)	(296,787)	72,934
Interest income	198,277	837,828	901,786	1,184,081
Interest expense	(353,049)	(651,977)	(826,708)	(1,179,681)
TOTAL OTHER INCOME, NET	196,392	836,239	953,283	1,396,839
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,893,002)	(5,698,789)	(2,471,428)	(11,534,173)
PROVISION FOR INCOME TAXES	(9,649)	-	(346,313)	-
NET LOSS	\$ (2,902,651)	\$ (5,698,789)	\$ (2,817,741)	\$ (11,534,173)
COMPREHENSIVE LOSS:				
Net loss	(2,902,651)	(5,698,789)	(2,817,741)	(11,534,173)
Foreign currency translation adjustment	81,965	271,556	156,414	710,564

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COMPREHENSIVE LOSS	\$ (2,820,686)	\$ (5,427,233)	\$ (2,661,327)	\$ (10,823,609)
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LOSS PER COMMON SHARE

Weighted average number of shares:

Basic	1,811,054	1,486,871	1,701,121	1,486,871
Diluted	1,961,054	1,486,871	1,793,241	1,486,871

Loss per share:

Basic	\$ (1.60)	\$ (3.83)	\$ (1.66)	\$ (7.76)
Diluted	\$ (1.48)	\$ (3.83)	\$ (1.57)	\$ (7.76)

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the six months ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,817,741)	\$ (11,534,173)
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depreciation	1,084,271	964,188
Stock-based compensation expense	201,560	-
Deferred tax provision	16,487	-
Provision for doubtful accounts	399,969	8,105,021
Loss realized from disposal of property, plant and equipment	81,316	1,373,683
Imputed interest on other receivable from termination of leases	-	(442,295)
Changes in operating assets and liabilities		
Accounts and notes receivable	(1,558,668)	5,720,891
Inventories	(682,986)	10,515
Other receivables	(283,266)	20,136
Other receivable from termination of lease	-	11,063,600
Prepayments and advances	(11,020,554)	(2,425,283)
Accounts payable	(6,369,916)	(4,471,203)
Customer deposits	(90,798)	(492,200)
Other payables	282,567	1,484,105
Accrued liabilities	1,190,124	122,478
Taxes payable	(10,165)	(81,259)
Net cash (used in) provided by operating activities	(19,577,800)	9,418,204
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption (acquisition) of short-term investments, net	12,421,990	(19,579,595)
Proceeds from disposal of property, plant and equipment	-	399,600
Purchase of property, plant and equipment	(39,406)	(263,360)
Net cash provided by (used in) investing activities	12,382,584	(19,443,355)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term loans and bank guarantees	31,544,400	38,559,900
Payments of short term loans and bank guarantees	(47,113,187)	(35,175,740)
Proceeds from short term loans - shareholders	-	2,928,600
Proceeds from short term loans - other	-	325,400
Payments of short term loan - other	(3,252,000)	-
Proceeds from notes payable	20,568,900	8,135,000
Payments of notes payable	(9,756,000)	-
Payable to shareholder	128,492	86,736
Principal payments on capital lease obligations	(519,275)	(1,197,898)
Restricted cash	2,227,597	(5,267,631)
Proceeds from issuance of common stock	1,167,552	-
Net cash (used in) provided by financing activities	(5,003,521)	8,394,367

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EFFECTS OF EXCHANGE RATE CHANGE IN CASH	117,420	40,079
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,081,317)	(1,590,705)
CASH AND CASH EQUIVALENTS, beginning of period	15,431,110	3,949,939
CASH AND CASH EQUIVALENTS, end of period	\$ 3,349,793	\$ 2,359,234

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED 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 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 policiesBasis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information pursuant to the rules and regulations of the Securities Exchange Commission (SEC). The financial statements include the accounts of all directly, indirectly owned subsidiaries and variable interest entities listed below. All material intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary to give a fair presentation have been included. Interim results are not necessarily indicative of results of a full year. The information in this Form 10-Q should be read in conjunction with information included in the 2014 annual report in the Form 10-K filed with the SEC on September 23, 2014.

Principles of consolidation

The unaudited 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%

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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

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

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:

	December 31, 2014	June 30, 2014
Current assets	\$ 124,520,612	\$ 136,681,518
Property, plant and equipment	11,197,669	12,874,414
Other noncurrent assets	488,100	487,500
Total assets	136,206,381	150,043,432
Liabilities	(97,458,381)	(111,066,630)
Intercompany payables*	(8,597,808)	(7,397,342)
Total liabilities	(106,056,189)	(118,463,972)
Net assets	\$ 30,150,192	\$ 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 December 31, 2014 and June 30, 2014, were translated at RMB 6.15 to \$1.00. The average translation rates applied to the consolidated statements of operations and comprehensive income (loss) and cash flows for the six months ended December 31, 2014 and 2013 were RMB 6.15 and RMB 6.15 to \$1.00.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

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). All of the Company's concrete products that are sold in the PRC are subject to a Chinese VAT at the rate of 6% of the gross sales price. On July 1, 2014, the standard VAT rate for concrete products decreased to 3% of the gross sales price. Since the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company a VAT exemption through June 2015.

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 unaudited condensed 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.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The fair value of long-term capital lease obligations approximate their fair value as interest rates approximate the market rate. The Company's advances on equipment purchases were recorded at fair value on a nonrecurring basis at June 30, 2014 and assessed for impairment for the advances on equipment purchases using Level 3 inputs. The Level 3 inputs used were management's projected cash flows.

Stock-based compensation

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 unaudited condensed 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.

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 December 31, 2014 and June 30, 2014, the Company had deposits in excess of federally insured limits totaling approximately \$3.2 million and \$15.3 million, respectively.

Restricted cash

As of December 31, 2014 and June 30, 2014, restricted cash consists 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 three and six months ended December 31, 2014, approximately \$27,000 was written off against the allowance balance. For the three and six months ended December 31, 2013, approximately \$3.4 million was written off against the allowance balance.

Other receivables

Other receivables primarily include advances to employees, due from unrelated entities, receivables from an insurance company, 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. The allowance for other receivables was approximately \$3.2 million and \$2.8 million at December 31, 2014 and June 30, 2014, respectively.

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 December 31, 2014 and June 30, 2014, the Company determined that no reserves for obsolescence were necessary.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Short term investments

The Company has two investment agreements of up to RMB 200 million (\$32.4 million) with a financial investment company, entered during May 2013 and October 2013, respectively, for maximum periods from eighteen months to 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 7% per annum, and investments over RMB 100 million to be no less than 10%. 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 three months ended December 31, 2014 and 2013, the Company recorded a bad debt allowance for advances on equipment purchases for approximately \$0.3 million. For each of the six months ended December 31, 2014 and 2013, the Company recorded a bad debt allowance for advances on equipment purchases for approximately \$0.6 million.

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.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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. There was no impairment charge for three and six months ended December 31, 2014 and 2013.

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 2011 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 is 6% of gross sales for the Company's industry, which was decreased to 3% of gross sales on July 1, 2014. A credit is available whereby VAT paid on the purchases of raw materials used in the production of the Company's finished products can be used to offset the VAT due on sales of finished products. Since the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company a VAT exemption through June 2015.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 each of the three months ended December 31, 2014 and 2013 were approximately \$0.3 million. Research and development costs for the six months ended December 31, 2014 and 2013 were approximately \$0.8 million and \$0.5 million, respectively. Advertising costs for the three months ended December 31, 2014 and 2013 were approximately \$100 and \$7,000, respectively. Advertising costs for the six months ended December 31, 2014 and 2013 were approximately \$51,000 and \$10,000, respectively. Repair and maintenance costs for the three months ended December 31, 2014 and 2013 were approximately \$23,000 and \$0.1 million, respectively. Repair and maintenance costs for each of the six months ended December 31, 2014 and 2013 were approximately \$0.1 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 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.

ASC 260-10-55 requires that 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.

Reclassifications

Certain amounts from prior period have been reclassified to conform to the current period's presentation. The reclassification did not have any impact on the consolidated statements of operations and comprehensive loss.

Recent Accounting Pronouncements

In November 2014, FASB issued ASU No. 2014-17, (*Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force.)*) The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an

acquirer obtains control of the acquired entity. The adoption of ASU 2014-17 did not have a material impact on the Company's consolidated financial statements.

In January 2015, FASB issued ASU No. 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2015-01 to have material impact on the Company's consolidated financial statements.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 Supplemental disclosure of cash flow information

For the six months ended December 31, 2014 and 2013, the Company paid interest in the amounts of approximately \$0.8 million and \$1.1 million, respectively.

Cash payments for income tax for the six months ended December 31, 2014 and 2013 were \$0.3 million and \$0.5 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 six months ended December 31, 2014. The Company offset prepayments with addition of property, plant and equipment for approximately \$0.1 million during the six months ended December 31, 2014. The Company offset prepayments with addition of property, plant and equipment for approximately \$0.1 million during the six months ended December 31, 2014. The Company issued stock to payoff shareholder debt of approximately \$0.9 million (see Note 12).

For the six months ended December 31, 2013, the Company acquired property, plant and equipment under capital lease agreements for approximately \$3.6 million (See note 6).

The Company had other receivables of approximately \$0.5 million as a result of disposal of property, plant and equipment during the six months ended December 31, 2013. 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 six months ended December 31, 2013. The Company offset prepayments with addition of property, plant and equipment for approximately \$1.2 million during the six months ended December 31, 2013.

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' 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.

In addition to its individual evaluation process, the Company's estimates of its allowance for doubtful accounts as of December 31, 2014 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. The allowance for doubtful accounts was approximately \$31.1 million and \$31.7 million at December 31, 2014 and June 30, 2014, respectively.

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

	December 31, 2014	June 30, 2014
Accounts receivable	\$ 82,053,855	\$ 80,662,464

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Notes receivable	715,880	372,791
	82,769,735	81,035,255
Less: Allowance for doubtful accounts	(31,120,660)	(31,667,803)
Total accounts and notes receivable, net	\$ 51,649,075	\$ 49,367,452

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 Other receivables

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

	December 31, 2014	June 30, 2014
Other receivables, current	\$ 7,878,484	\$ 6,932,437
Less: Allowance for doubtful accounts, current	(3,180,504)	(2,810,887)
Other receivables - current, net	\$ 4,697,980	\$ 4,121,550

Note 6 Property, plant and equipment

Property, plant and equipment consist of the following:

	December 31, 2014	June 30, 2014
Machinery and equipment	\$ 2,386,690	\$ 4,158,656
Transportation equipment	1,072,817	1,095,548
Leased equipment	11,218,490	11,204,700
Office equipment	1,334,596	1,310,508
Buildings and improvements	390,803	299,074
Total	16,403,396	18,068,486
Less: Accumulated depreciation	(5,202,966)	(5,190,223)
Plant and equipment, net	\$ 11,200,430	\$ 12,878,263

Depreciation expense for each of the three months ended December 31, 2014 and 2013 amounted to approximately \$0.5 million. Depreciation expense for the six months ended December 31, 2014 and 2013 amounted to approximately \$1.1 million and \$1.0 million, respectively. Depreciation expense for the leased equipment was \$0.4 million and \$0.3 million for the three months ended December 31, 2014 and 2013, respectively. Depreciation expense for the leased equipment was \$0.8 million and \$0.5 million for the six months ended December 31, 2014 and 2013, respectively. Accumulated depreciation for the leased equipment as of December 31, 2014 and June 30, 2014 was \$2.5 million and \$1.7 million, respectively.

Note 7 Prepayments and advances

Prepayments consisted of the following:

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2014	June 30, 2014
Advances on inventory purchases	\$ 46,713,112	\$ 35,373,493
Rent prepayments (see Note 15)	-	325,572
Total prepayments and advances	\$ 46,713,112	\$ 35,699,065

Note 8 Short term loans - banks, Bank guarantees, Short term loans - other, and Notes payableShort term loans - banks:

The outstanding balances on these loans consisted of the following:

	December 31, 2014	June 30, 2014
Loan from Shanghai Pudong Development Bank, interest rate at 7.2% per annum, due January 2015, guaranteed by Beijing Jinshengding Mineral Products Co., LTD*	\$ 2,440,500	\$ 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.	5,694,500	5,687,500
Loan from Beijing Bank, interest rate at 7.2% per annum, due March 21, 2015, guaranteed by Beijing Jinshengding Mineral Products Co., LTD.	4,881,000	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, Mr. Xianfu Han and Mr. Weili He	3,254,000	3,250,000
	\$ 16,270,000	\$ 31,281,250

* On January 1, 2015, the amount was repaid in full.

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 and presented the letters of credit to advising banks. Bank guarantees are non-interest bearing and due within six months. The outstanding balances on these bank guarantees consisted of the following:

	December 31, 2014	June 30, 2014
	\$ 22,615,300	\$ 23,115,463

Bank guarantees due to Construction Bank, various due dates from January to July 2015, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, and Mr. Xianfu Han, a related party. *

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

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* On January 30 and February 2, 2015, \$4.6 million in total was repaid.

As of December 31, 2014 and June 30, 2014, the Company had restricted cash for short-term loans and bank guarantees of approximately \$6.6 million and \$10.5 million, respectively.

Short term loans - other:

The outstanding balance consisted of the following:

	December 31, 2014	June 30, 2014
Short term loans due to unrelated third-party individual, repaid in full on August 28, 2014	\$ -	\$ 3,250,000

Notes payable:

Bank notes are issued to a third party for inventory purchases. The notes payable were approximately \$20.6 million (RMB 127 million) and \$9.8 million (RMB 60 million) as of December 31, 2014 and June 30, 2014, respectively, and were non-interest bearing with expiration dates between February and May 2015. The restricted cash for the notes was approximately \$4.6 million and \$2.9 million as of December 31, 2014 and June 30, 2014, respectively.

Note 9 Capital lease obligations

Capital lease obligations consist of the following:

	December 31, 2014	June 30, 2014
Lease obligations for concrete pump trucks maturing in January 2016, lease payment at \$185,000 per month with interest at 7.68% per annum	\$ 4,471,374	\$ 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	284,510	473,600
Lease obligations for concrete mixer trucks maturing in May 2014, lease payment at \$155,000 per month with interest at 7.28% per annum	606,798	606,052
Lease obligations for concrete pump trucks maturing in January 2015, lease payment at \$33,000 per month with interest at 6.76% per annum	60,472	187,801
Total	5,423,154	6,058,330
Less: Deferred interest	(98,222)	(220,988)
	5,324,932	5,837,342
Less: Capital lease obligations - current	(5,324,932)	(4,659,756)
Capital lease obligations - non current	\$ -	\$ 1,177,586

Interest expense on capital lease obligations for each of the three and six months ended December 31, 2014 and 2013 was approximately \$0.1 million.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 10 Related party transactionsOther 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 consist of the following:

	December 31, 2014	June 30, 2014
Xianfu Han, shareholder	\$ 25,952	\$ 450,540
Weili He, shareholder	67,916	474,845
	\$ 93,868	\$ 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 six months ended December 31, 2014. As of December 31, 2014, China ACM's net operating loss carry forward for United States income taxes was approximately \$1.5 million. The net operating loss carry forwards 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. There was no change in the valuation allowance for deferred tax assets for each of the three and six months ended December 31, 2014 and 2013. Management reviews this valuation allowance periodically and makes adjustments accordingly.

BVI-ACM was incorporated in the British Virgin Islands (BVI) and is not subject to income taxes 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 VIE entities had undistributed earnings of approximately \$0.5 million as of December 31, 2014 and cumulative loss of approximately \$1.5 million as of June 30, 2014, included in consolidated retained earnings. 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 June 12, 2015.

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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.

Income (loss) before provision for income taxes consisted of:

	Three months ended December 31,	
	2014	2013
USA and BVI	\$ (524,455)	\$ (133,041)
China	(2,368,547)	(5,565,748)
	\$ (2,893,002)	\$ (5,698,789)

	Six months ended December 31,	
	2014	2013
USA and BVI	\$ (659,525)	\$ (166,343)
China	(1,811,903)	(11,367,830)
	\$ (2,471,428)	\$ (11,534,173)

Provision for income taxes consisted of:

	Three months ended December 31,	
	2014	2013
Current provision:		
USA	\$ -	\$ -
China	(92,437)	-
Total current provision	(92,437)	-
Deferred benefit:		
USA	-	-
China	82,788	-

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Total deferred benefit		82,788		-
Total provision for income taxes	\$	(9,649)	\$	-

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Six months ended December 31,	
	2014	2013
Current provision:		
USA	\$ -	\$ -
China	(329,826)	-
Total current provision	(329,826)	-
Deferred provision:		
USA	-	-
China	(16,487)	-
Total deferred provision	(16,487)	-
Total provision for income taxes	\$ (346,313)	\$ -

Significant components of deferred tax assets were as follows:

	December 31, 2014	June 30, 2014
Deferred tax assets - current		
Allowance for doubtful accounts	\$ 5,145,174	\$ 5,171,804
Valuation allowance	(2,572,587)	(2,585,902)
Total deferred tax assets - current	\$ 2,572,587	\$ 2,585,902
Deferred tax assets - non-current		
Net operating loss carryforward in the U.S.	\$ 506,644	\$ 506,644
Impairment loss of long-lived assets	-	244,931
	506,644	751,575
Valuation allowance	(506,644)	(751,575)
Total deferred tax assets - non-current	\$ -	\$ -

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2014 and June 30, 2014, the Company believes it is more likely than not that its China operations will be unable to generate sufficient future pre-tax income to fully realize its deferred tax assets. As such, as of December 31, 2014, the Company provided approximately \$2.6 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.

The Company has incurred losses from its U.S. operations during all periods presented. Accordingly, management provided approximately \$0.5 million of valuation allowance against the deferred tax assets related to the Company's U.S. operations as of December 31, 2014 and June 30, 2014, respectively, since the deferred tax benefits of the net operating loss carry forwards in the U.S. might not be utilized.

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

	Valuation Allowance
For deferred tax assets - current	
As of June 30, 2014	\$ 2,585,902
Allowance for doubtful accounts	(99,519)
Effect of exchange rate difference	86,204
As of December 31, 2014	\$ 2,572,587

	Valuation Allowance
For deferred tax assets - noncurrent	
As of June 30, 2014	\$ 751,575
Net operating loss carryforward in the U.S.	-
Impairment loss of long-lived assets	(244,931)
As of December 31, 2014	\$ 506,644

Taxes payable consisted of the following:

	December 31, 2014	June 30, 2014
Income taxes payable	\$ 164,993	\$ 163,753
Other taxes payable	17,277	28,452
Total taxes payable	\$ 182,270	\$ 192,205

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(b) Uncertain tax positions

There were no unrecognized tax benefits as of December 31, 2014 and June 30, 2014. Management does not anticipate any potential future adjustments which would result in a material change to its tax positions. For the six months ended December 31, 2014 and 2013, the Company did not incur any tax related interest and penalties arising from tax payment.

Note 12 Shareholders equityRestricted 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 board of directors, 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.

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.

For the three months ended December 31, 2014 and 2013, the Company recognized \$157,660 and \$0 of compensation expenses related to restricted stock grants, respectively. For the six months ended December 31, 2014 and 2013, the Company recognized \$201,560 and \$0 of compensation expenses related to restricted stock grants, respectively. The total deferred share-based compensation as of December 31, 2014 and June 30, 2014 was \$431,852 and \$0, respectively.

Following is a summary of the restricted stock grants:

Restricted stock grants	Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Nonvested as of June 30, 2014	-	\$ -	\$ -
Granted - from June 30, 2014 to December 31, 2014	326,740	4.88	1,593,422
Vested - from June 30, 2014 to December 31, 2014	(176,740)	5.48	967,922
Nonvested as of December 31, 2014	150,000	\$ 4.17	\$ 625,500

Stock Issuance

Effective December 2, 2014, the Board authorized the Company to issue an aggregate 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 of directors, after the statutory reserves. The statutory reserves include the surplus reserve fund and the common welfare fund.

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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 \$2.0 million and \$2.1 million as of December 31, 2014 and June 30, 2014, respectively.

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 actual salary from the prior year and (ii) the second part, paid by the employee, and is 8% of the employee's actual salary. The Company's contributions of employment benefits were approximately \$0.3 million and \$0.2 million for the three months ended December 31, 2014 and 2013. The Company's contributions of employment benefits were approximately \$0.5 million and \$0.4 million for each of the six months ended December 31, 2014 and 2013.

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 of directors of the Company 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 of directors or the Committee, as defined below.

The ESPP will be administered by the board of directors of the Company unless and until the board of directors 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 of directors 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 of directors.

The ESPP is implemented by sequential offerings, the commencement and duration of which will be determined by the board of directors. 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 of directors. 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.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 contingenciesLease 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 has another lease agreement to lease office space from a third party through October 31, 2015, with annual payments of approximately \$26,000. The Company also has a lease agreement to lease office space from a third party through March 28, 2021, with annual payments of approximately \$428,000, with three renewal options, each having three-year expiration periods which will be automatically renewed for additional three-year terms provided the office building is not acquired or demolished by the city government.

The Company had a four-year operating lease agreement for a concrete service plant with an unrelated party through December 31, 2018, with a monthly payment of approximately \$68,000. This lease was early terminated as of December 31, 2014 due to administrative order imposed by the Chinese government.

The Company 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 three months ended December 31, 2014 and 2013 were approximately \$0.5 million and \$0.4 million, respectively. Total operating lease expenses for the six months ended December 31, 2014 and 2013 were approximately \$1.1 million \$0.9 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 December 31,	Amount
2015	\$ 1,250,000
2016	1,101,000
2017	1,079,000
2018	1,079,000
2019	1,079,000
Thereafter	1,511,000
Total	\$ 7,099,000

Executive cash bonuses

Effective December 25, 2014, the compensation committee of the Board of Directors 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 three and six months ended December 31, 2014, these targets were not made and no expense related to the cash bonuses had been accrued.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED 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 three months ended December 31, 2014, the Company had one customer that represented approximately 16.5% of total revenue. For the six months ended December 31, 2014, the same customer represented approximately 14.7% of total revenue. For the three months ended December 31, 2013, the Company had three customers that represented approximately 12.0%, 11.7% and 11.6% of total revenue. For the six months ended December 31, 2013, the Company had two customers that represented approximately 12.2% and 10.6% of total revenue. As of December 31, 2014 and 2013, no customer accounted for more than 10% of the total balance of accounts receivable.

For the three months ended December 31, 2014, the Company had one vendor that represented approximately 19.1% of total purchases. For the six months ended December 31, 2014, the same vendor represented approximately 17.1% of total purchases. For the three months ended December 31, 2013, the Company had two vendors that represented approximately 14.5% and 11.7% of total purchases. For the six months ended December 31, 2013, the Company had one vendor that represented approximately 10.3% of total purchases. As of December 31, 2014 and 2013, no vendor accounted for more than 10% of the total balance of accounts payable.

Item 2. 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 entity, 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 three months ended December 31, 2014, we supplied materials and provided services to our projects through our network of ready-mixed concrete plants throughout Beijing (two as of December 31, 2014). Effective December 31, 2014, one of our concrete plants in the western suburban area of Beijing had been involuntarily closed due to early termination of the lease of the plant. The early termination was a result of an administrative order imposed by the Chinese government to indefinitely restrict certain industrial activities in the area. Management believes this plant had no significant impact to our results of operations or financial positions as whole, as the operation at this plant had been intermittently interruptive since first quarter of fiscal year 2014, attributed to other governmental orders. As of February 13, 2015, we did not record any significant disposal of assets related to the

discontinuation of this plant, and do not expect such.

On August 15, 2014, the Board of Directors decided to discontinue the manufacturing service business segment. The discontinuation has no significant impact to our results of operations or financial position.

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 three months ended December 31, 2014, one customer accounted for approximately 16.5% of our sales and 8.0% of our accounts receivable as of December 31, 2014. Should we lose any of 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 DongfangJianyu 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.

PRC Taxation

China-ACMH and the VIEs are governed by the income tax laws of the PRC and the income tax provision in respect to operations in the PRC is calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the current Chinese Enterprise Income Tax (EIT) law, the statutory corporate income tax rate applicable to most companies is 25%. As granted by the State Administration of Taxation of the PRC, Xin Ao was qualified and entitled to an income tax rate reduction from 25% to 15% through June 12, 2015.

In accordance with the EIT Law and related regulations, 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 subject to the PRC income tax at the rate of 25% on worldwide income. The regulations define the term place of effective management as establishments that carry out substantial and overall management and control over the 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 non-PRC incorporated entities are deemed PRC tax residents, such entities would be subject to PRC tax under the EIT Law. We have analyzed the applicability of this law, and for each of the applicable periods presented, our non-PRC incorporated entities have not accrued any PRC tax liability on such basis. We continue to monitor changes in the interpretation and/or guidance of this law.

Consolidated Results of Operations

Comparison of the three months ended December 31, 2014 and 2013

The following table sets forth key components of our results of operations for the three months ended December 31, 2014 and 2013, in US dollars:

	Three months ended			
	December 31,			
	2014	2013	Change	Percentage Change
Total revenue	\$ 17,638,995	\$ 11,828,332	\$ 5,810,663	49%
Total cost of revenue	16,051,481	10,320,700	5,730,781	56%
Gross profit	1,587,514	1,507,632	79,882	5%
Provision for doubtful accounts	(1,427,942)	(5,055,600)	3,627,658	(72)%
Selling, general and administrative expenses	(2,899,501)	(2,735,275)	(164,226)	6%
Research and development expenses	(348,881)	(247,563)	(101,318)	41%
Loss realized from disposal of property, plant and equipment	(584)	(4,222)	3,638	(86)%
Loss from operations	(3,089,394)	(6,535,028)	3,445,634	(53)%
Other income, net	196,392	836,239	(639,847)	(77)%
Loss before provision for income taxes	(2,893,002)	(5,698,789)	2,805,787	(49)%
Provision for income taxes	(9,649)	-	(9,649)	100%
Net loss	\$ (2,902,651)	\$ (5,698,789)	\$ 2,796,138	(49)%

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products. For the three months ended December 31, 2014, we generated total revenue of approximately \$17.6 million, as compared to approximately \$11.8 million during the three months ended December 31, 2013, an increase of approximately \$5.8 million, or 49%. Such increase was primarily due to our sales generated from the concrete sales for the three months ended December 31, 2014, which was approximately \$17.6 million, an increase of approximately \$6.3 million, or 55%, as compared to \$11.4 million for the three months ended December 31, 2013. The increase in revenue attributable to concrete sales was principally due to the commencement of operation of our manufacturing plant in the suburban area of Beijing in early 2014. In addition, after the suspension caused by the China International Garden

Expo and a temporary suspension order imposed by the Beijing government for industrial activities in the area, operations at one of our concrete producing plants recommenced in the first calendar quarter of 2014 and regained capacity, which contributed to the increase in revenue. The increase in concrete sales was insignificantly offset by the absence of sales from manufacturing service, which generated \$0.5 million for the three months ended December 31, 2013.

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 \$16.1 million for the three months ended December 31, 2014, as compared to approximately \$10.3 million for the three months ended December 31, 2013, an increase of approximately \$5.7 million, or 56%. The increase in cost of revenue was primarily due to the increase in production from our concrete plants in the Beijing area and the increase in material price compared to the three months ended December 31, 2013.

Gross Profit. Total gross profit was approximately \$1.6 million for the three months ended December 31, 2014, as compared to approximately \$1.5 million for the three months ended December 31, 2013. Our gross profit with respect to our sales of concrete was approximately \$1.6 million, or 9% of revenue, for the three months ended December 31, 2014, as compared to approximately \$1.4 million, or 13% of revenue for the three months ended December 31, 2013, an increase of approximately \$0.1 million. The increase in gross profit for concrete sales for the three months ended December 31, 2014, as compared with the same period last year, was primarily due to increased production volume, partially offset by the increased material prices.

Provision for Doubtful Accounts. Provision for doubtful accounts was approximately \$1.4 million and \$5.1 for the three months ended December 31, 2014 and 2013, respectively. 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. The allowance for doubtful accounts decreased to approximately \$31.1 million at December 31, 2014, as compared to approximately \$31.7 million at June 30, 2014.

As of December 31, 2014, our accounts and notes receivable aging are as follows:

	Balance	1-90 days	91-180 days	181-360 days	361-720 days	over 720 days	Over 1,080 Days
Accounts receivable and notes	\$ 82,769,735	\$ 18,240,967	\$ 18,579,389	\$ 8,512,796	\$ 9,990,782	\$ 14,519,163	\$ 12,926,638
Allowance for doubtful accounts	(31,120,660)	-	-	(1,310,179)	(5,994,469)	(10,889,373)	(12,926,638)
Accounts receivable and notes, net	\$ 51,649,075	\$ 18,240,967	\$ 18,579,389	\$ 7,202,617	\$ 3,996,313	\$ 3,629,790	\$ -

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 \$2.9 million and \$2.7 million for the three months ended December 31, 2014 and 2013, respectively. The increase of \$0.2 million was mainly due to a \$0.2 million increase in stock-based compensation.

Research and Development Expenses. Research and development expenses were approximately \$0.3 million and \$0.2 million for the three months ended December 31, 2014 and 2013, respectively. The Company's research and development expenditure was maintained at a certain percentage of revenue and adjusted by outside consultants on certain projects based on economic outlook, plus discretionary spending on projects that helped to improve our competitive advantage.

Loss from Operations. We recognized loss from operations of approximately \$3.1 million for the three months ended December 31, 2014, as compared to a loss from operations of approximately \$6.5 million for the three months ended

December 31, 2013. Such decrease of \$3.4 million in loss from operations was primarily due to a \$3.6 million decrease in provision of doubtful accounts, which was offset by \$0.2 million increase in selling, general and administrative expense and a \$0.1 million increase in research and development expenses.

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 recorded net other income of approximately \$0.2 million for three months ended December 31, 2014 as compared to \$0.8 million for three months ended December 31, 2013. 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 through June 2015. The VAT tax collected during the aforementioned period from our customers is retained by the Company and recorded as other subsidy income. Approximately \$0.5 million and \$0.7 million of subsidy income was recorded for each of the three months ended December 31, 2014 and 2013, respectively. We also recorded \$0.4 million and \$0.7 million interest expense for the three months ended December 31, 2014 and 2013, respectively. Decrease in interest expense was a result of decreased average borrowings.

Provision for Income Taxes. We incurred provision for income taxes of approximately \$10,000 and \$0 for the three months ended December 31, 2014 and 2013, 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 12, 2015, 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 \$2.9 million and \$5.7 million for the three months ended December 31, 2014 and 2013, respectively. Such decrease of approximately \$2.8 million in net loss was the result of the combination of the changes as discussed above.

Comparison of the six months ended December 31, 2014 and 2013

The following table sets forth key components of our results of operations for the six months ended December 31, 2014 and 2013, in US dollars:

	Six months ended December 31,			Change	Percentage Change
	2014	2013			
Total revenue	\$ 38,852,748	\$ 21,991,752	\$ 16,860,996	77%	
Total cost of revenue	35,380,321	19,346,598	16,033,723	83%	
Gross profit	3,472,427	2,645,154	827,273	31%	
Provision for doubtful accounts	(399,969)	(8,105,021)	7,705,052	(95)%	
Selling, general and administrative expenses	(5,566,805)	(5,645,900)	79,095	(1)%	
Research and development expenses	(849,048)	(451,562)	(397,486)	88%	
Loss realized from disposal of property, plant and equipment	(81,316)	(1,373,683)	1,292,367	(94)%	
Loss from operations	(3,424,711)	(12,931,012)	9,506,301	(74)%	
Other income, net	953,283	1,396,839	(443,556)	(32)%	
Loss before provision for income taxes	(2,471,428)	(11,534,173)	9,062,745	(79)%	
Provision for income taxes	(346,313)	-	(346,313)	100%	
Net loss	\$ (2,817,741)	\$ (11,534,173)	\$ 8,716,432	(76)%	

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products. For the six months ended December 31, 2014, we generated total revenue of approximately \$38.9 million, as compared to approximately \$22.0 million during the six months ended December 31, 2013, an increase of approximately \$16.9 million, or 77%. The increase in revenue was principally due to the commencement of operation of our manufacturing plant in the suburban area of Beijing in early 2014. In addition, after the suspension caused by the China International Garden Expo and a temporary suspension order imposed by the Beijing government for industrial activities in the area, operations at one of our concrete producing plants recommenced in the first calendar quarter of 2014 and regained capacity, which contributed to the increase in revenue. The increase in concrete sales was partially offset by a decrease of approximately \$0.5 million in sales from manufacturing service.

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 \$35.4 million for the six months ended December 31, 2014, as compared to approximately \$19.3 million for the six months ended December 31, 2013, an increase of approximately \$16.0 million, or 83%. The increase in cost of revenue was primarily due to the increase in production from our concrete plants and the increase in material price compared to the six months ended December 31, 2013.

Gross Profit. Total gross profit was approximately \$3.5 million for the six months ended December 31, 2014, as compared to approximately \$2.6 million for the six months ended December 31, 2013. Our gross profit with respect to our sales of concrete was approximately \$3.4 million, or 9% of revenue, for the six months ended December 31, 2014, as compared to approximately \$2.5 million, or 12% of revenue for the six months ended December 31, 2013, an increase of approximately \$0.9 million. The increase in gross profit for concrete sales for the six months ended December 31, 2014, as compared with the same period last year, was primarily due to increased production volume, partially offset by increased material prices.

Provision for Doubtful Accounts. Provision for doubtful accounts was approximately \$0.4 million and \$8.1 million for the six months ended December 31, 2014 and 2013, respectively. 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. The allowance for doubtful accounts decreased to approximately \$31.1 million at December 31, 2014, as compared to approximately \$31.7 million at June 30, 2014.

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 \$5.6 million for each of the six months ended December 31, 2014 and 2013. We incurred approximately \$0.2 million of stock-based compensation for the six months ended December 31, 2014, which was offset by a decrease of \$0.2 million in business development expenses as compared to the six months ended December 31, 2013.

Research and Development Expenses. Research and development expenses were approximately \$0.8 million and \$0.5 million for the six months ended December 31, 2014 and 2013, respectively. The Company's research and development expenditure was maintained at a certain percentage of revenue and adjusted by outside consultants on certain projects based on economic outlook, plus discretionary spending on projects that helped to improve our competitive advantage.

Loss Realized from Disposal of Property, Plant and Equipment. For the six months ended December 31, 2014 and 2013, we incurred approximately \$0.1 million and \$1.4 million of loss realized from disposal of property, plant and equipment, respectively. We disposed certain vehicles at loss during the six months ended December 31, 2013.

Loss from Operations. We recognized loss from operations of approximately \$3.4 million for the six months ended December 31, 2014, as compared to a loss from operations of approximately \$12.9 million for the six months ended December 31, 2013. Such decrease of \$9.5 million in loss from operations was primarily due to a \$0.8 million increase in gross profit, a \$7.7 million decrease in provision of doubtful accounts and \$1.3 million decrease in loss realized from disposal of property, plant and equipment, which was offset by \$0.4 million increase in research and development expenses.

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 recorded net other income of approximately \$1.0 million for the six months ended December 31, 2014 as compared to \$1.4 million for six months ended December 31, 2013. 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 through June 2015. The VAT tax collected during the aforementioned period from our customers is retained by the Company and recorded as other subsidy income. Approximately \$1.2 million and \$1.3 million of subsidy income was recorded for each of the six months ended December 31, 2014 and 2013, respectively. We also recorded \$0.8 million and \$1.2 million interest expense for the six months ended December 31, 2014 and 2013, respectively. Decrease in interest expense was a result of decreased average borrowings.

Provision for Income Taxes. We incurred provision for income taxes of approximately \$0.3 million and \$0 for the six months ended December 31, 2014 and 2013, 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 12, 2015, 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 \$2.8 million and \$11.5 million for the six months ended December 31, 2014 and 2013, respectively. Such decrease in net loss of approximately \$8.7 million was the result of the combination of the changes as discussed above.

Liquidity and Capital Resources

As of December 31, 2014, we had cash and cash equivalents of approximately \$3.3 million and restricted cash of approximately \$11.2 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 December 31, 2014, we had working capital of approximately \$27.1 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.

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

	For the six months ended December 31,	
	2014	2013
Net cash (used in) provided by operating activities	\$ (19,577,800)	\$ 9,418,204
Net cash provided by (used in) investing activities	12,382,584	(19,443,355)
Net cash (used in) provided by financing activities	(5,003,521)	8,394,367
Effect of foreign currency translation on cash and cash equivalents	117,420	40,079
Net change in cash	\$ (12,081,317)	\$ (1,590,705)

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

Operating Activities. Net cash used in operating activities totaled approximately \$19.6 million for the six months ended December 31, 2014, which was primarily attributable to the net income adjusted to reconcile to net cash used in operating activities of \$0.9 million, primarily including adjustments for \$1.1 million of depreciation, \$0.2 million of stock-based compensation expense and \$0.4 million of provision for doubtful accounts. Net cash from changes in operating assets and liabilities resulted in a net cash outflow of \$18.5 million, which mainly included \$1.6 million increase of accounts receivable from credit sales and advances for additional notes receivable, cash outflow for prepayments and advances of \$11.2 million and cash payment of accounts payable of \$6.3 million.

Net cash provided by operating activities totaled approximately \$9.7 million for the six months ended December 31, 2013, was primarily attributable to the net loss adjusted to reconcile to net cash provided by operating activities of \$1.3 million, including the adjustments for \$1.0 million of depreciation, \$8.1 million of provision for doubtful accounts and \$1.4 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 \$11.0 million, which mainly included cash \$5.7 million from collections of accounts and notes receivable, a \$11.1 million collection of other receivable from termination of lease and \$1.5 million from additional other payables, offset by outflow for prepayments of \$2.4 million and cash outflow in accounts payable \$4.5 million.

One factor that had an impact on our net cash provided by operating activities was increased prepayments for raw material purchases. Prices of raw materials for our productions had a tendency to increase as the Chinese government increased restrictions on the quality of concrete materials as part of the efforts to reduce air pollution. We adopted the strategy of increased prepayments for raw material purchases as an approach to stabilize our cost of productions in the near future.

We aim at making improvements in our cash inflows from operating activities stemming from anticipated increases in construction industry activity in Beijing, combined with winning more favorable terms with our suppliers and customers which will be offset by greater working capital needs for our expanding operations.

Investing Activities. Net cash provided by investing activities was approximately \$12.4 million for the six months ended December 31, 2014, which was primarily attributable to \$12.4 million net redemption of short term investments. Net cash used in investing activities was approximately \$19.4 million for the six months ended December 31, 2013, and was attributable to \$19.6 million net acquisition of short term investments.

Financing Activities. Net cash used in financing activities totaled approximately \$5.0 million for the six months ended December 31, 2014, which was primarily attributable to \$47.1 million for repayments of bank loans and bank guarantees, \$3.3 million for repayments of other short term loans and \$9.8 million for repayments of notes payable, which was offset by \$31.5 million cash proceeds from bank loans and bank guarantees, \$20.6 million proceeds from notes payable, \$2.2 million decrease in restricted cash and \$1.2 million proceeds from issuance of common stock. Net cash provided by financing activities totaled approximately \$8.1 million for the six months ended December 31, 2013, which was primarily attributable to \$38.6 million cash proceeds from bank loans and letters of credit, \$2.9 million

proceeds from short term loan - shareholders and \$8.1 million proceeds from notes payable, which was offset by \$35.2 million for repayments of bank loans and bank guarantees, \$1.2 million of repayments for capital lease obligations and an increase in restricted cash of approximately \$5.3 million.

Cash and cash equivalents. As of December 31, 2014, we had cash and cash equivalents of approximately \$3.3 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 \$38.9 million and \$57.6 million outstanding on loans and credit facilities as of December 31, 2014 and June 30, 2014, respectively. See Note 8 in Notes to the unaudited condensed consolidated financial statements.

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

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). All of the Company's concrete products that are sold in the PRC are subject to a Chinese VAT at the rate of 6% of the gross sales price. On July 1, 2014, the VAT rate for concrete products decreased to 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. The Company's advances on equipment purchases were recorded at fair value on a nonrecurring basis and assessed for impairment for the advances on equipment purchases using Level 3 inputs. The Level 3 inputs used were management's projected cash flows.

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 makes various assumptions and estimates regarding estimated future cash flows and other factors in determining the fair values of the respective assets. We 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 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. No impairment charge was recorded for each of the three and six months ended December 31, 2014 and 2013.

The estimated fair value of these assets might be lower than their current fair value, thus could result in future impairment charge if potential events will occur to further the estimated selling price of these assets or increase our cost that are associated with our revenues. Competitive pricing pressure and changes in interest rates could materially and adversely affect our estimates of future net cash flows to be generated by the long-lived assets, and thus could result in future impairment losses.

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 2011 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 Unaudited Condensed 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. Our total borrowings that were subject to interest were approximately \$16.3 million as of December 31, 2014.

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 and other receivables 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of our Chief Executive Officer and our Interim Chief Financial Officer have evaluated the design and operating effectiveness of our disclosure controls and procedures as of December 31, 2014. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures were not effective as of December 31, 2014, due to the ineffective internal controls over financial reporting that stemmed from the fact that we do not have any full-time accounting personnel who have U.S. GAAP experience.

In an effort to remedy this material weakness in the future, we intend to:

Develop a comprehensive training and development plan, for our finance, accounting and internal audit personnel, including our 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 unaudited condensed 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 due to the fact that we have retained a consultant who has U.S. GAAP experience to assist us in the preparation of our unaudited condensed consolidated financial statements.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2014, there were no changes in our internal control over financial reporting identified in connection with the evaluation performed during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS

The exhibits required by this item are set forth in the Exhibit Index attached hereto.

EXHIBIT INDEX

Exhibit No. Description

<u>31.1</u>	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certifications of Interim Chief Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certifications of Interim Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document