

China Advanced Construction Materials Group, Inc  
Form 10-Q  
May 15, 2014

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended: **March 31, 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).

Yes  No

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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)

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

The number of shares outstanding of each of the issuer's classes of common equity, as of May 13, 2014 is as follows:

<u>Class of Securities</u>	<u>Shares Outstanding</u>
Common Stock, \$0.001 par value	1,486,871

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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)

	March 31, 2014	June 30, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 6,108,443	\$ 3,949,939
Restricted cash	10,749,108	6,491,175
Accounts and notes receivable, net of allowance for doubtful accounts of \$32,677,813 and \$36,469,156, respectively	40,049,203	59,696,331
Inventories	1,401,197	1,122,380
Short term investment	26,185,758	5,168,000
Other receivables	4,694,773	6,298,088
Other receivable from termination of lease, net	-	8,932,029
Prepayments and advances	29,282,396	27,827,638
Deferred tax assets	2,658,965	3,987,738
<b>Total current assets</b>	<b>121,129,843</b>	<b>123,473,318</b>
<b>PROPERTY PLANT AND EQUIPMENT, net</b>	<b>14,120,990</b>	<b>14,357,349</b>
<b>OTHER ASSETS:</b>		
Other receivable from termination of lease, net	-	3,710,455
Advances on equipment purchases, net	3,148,113	4,015,294
Deferred tax assets	200,808	217,380
<b>Total other assets</b>	<b>3,348,921</b>	<b>7,943,129</b>
<b>Total assets</b>	<b>\$ 138,599,754</b>	<b>\$ 145,773,796</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short term loans, banks and bank guarantees	\$ 42,441,450	\$ 43,766,500
Short term loans - other	7,465,800	-
Notes payable	9,738,000	-
Accounts payable	26,664,978	33,730,871
Customer deposits	1,079,453	1,732,662
Other payables	2,112,059	1,989,023
Other payables - shareholders	858,027	757,328
Accrued liabilities	1,393,306	988,598
Capital lease obligations - current	4,525,884	2,448,883
Taxes payable	60,953	107,013
<b>Total current liabilities</b>	<b>96,339,910</b>	<b>85,520,878</b>
<b>OTHER LIABILITIES</b>		
Capital lease obligations - non current	1,793,905	3,560,819
<b>Total liabilities</b>	<b>98,133,815</b>	<b>89,081,697</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		

## SHAREHOLDERS' EQUITY:

Preferred stock \$0.001 par value, 1,000,000 shares authorized, no shares	-	-
Common stock, \$0.001 par value, 74,000,000 shares authorized, 1,486,871 shares issued and outstanding as of March 31, 2014 and June 30, 2013	1,487	1,487
Additional paid-in-capital	35,233,305	35,233,305
(Accumulated deficit) Retained earnings	(11,166,672)	5,412,387
Statutory reserves	6,248,357	6,248,357
Accumulated other comprehensive income	10,149,462	9,796,563
Total shareholders' equity	40,465,939	56,692,099
Total liabilities and shareholders' equity	\$ 138,599,754	\$ 145,773,796

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

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

	For the three months ended		For the nine months ended	
	March 31,		March 31,	
	2014	2013	2014	2013
<b>REVENUE</b>				
Sales of concrete	\$ 6,925,301	\$ 7,221,971	\$ 28,020,724	\$ 55,159,367
Manufacturing services	103,005	5,616	999,334	4,456,196
Total revenue	7,028,306	7,227,587	29,020,058	59,615,563
<b>COST OF REVENUE</b>				
Concrete	6,861,157	6,595,355	25,422,000	45,178,730
Manufacturing services	245,692	573,922	1,031,447	3,849,999
Total cost of revenue	7,106,849	7,169,277	26,453,447	49,028,729
<b>GROSS (LOSS) PROFIT</b>	<b>(78,543)</b>	<b>58,310</b>	<b>2,566,611</b>	<b>10,586,834</b>
<b>PROVISION FOR DOUBTFUL ACCOUNTS</b>	<b>(311,911)</b>	<b>(1,292,052)</b>	<b>(8,416,932)</b>	<b>(11,101,244)</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>(3,057,335)</b>	<b>(3,761,220)</b>	<b>(8,703,235)</b>	<b>(9,408,162)</b>
<b>RESEARCH AND DEVELOPMENT EXPENSES</b>	<b>(375,330)</b>	<b>(205,343)</b>	<b>(826,892)</b>	<b>(779,135)</b>
<b>LOSS REALIZED FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT</b>	<b>(291,727)</b>	<b>(3,596,059)</b>	<b>(1,665,410)</b>	<b>(3,766,895)</b>
<b>IMPAIRMENT LOSS OF LONG-LIVED ASSETS</b>	<b>-</b>	<b>(250,746)</b>	<b>-</b>	<b>(250,746)</b>
<b>LOSS FROM TERMINATION OF LEASE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,096,984)</b>
<b>LOSS FROM OPERATIONS</b>	<b>(4,114,846)</b>	<b>(9,047,110)</b>	<b>(17,045,858)</b>	<b>(18,816,332)</b>
<b>OTHER (EXPENSE) INCOME, NET</b>				
Subsidy income	401,971	433,656	1,721,476	3,576,935
Non-operating (expense) income, net	(16,179)	(47,303)	56,755	(517,339)
Change in fair value of warrant liability	-	30,776	-	132,427
Interest income	900,871	280,342	2,084,952	338,403
Interest expense	(844,635)	(404,424)	(2,024,316)	(1,585,696)
<b>TOTAL OTHER INCOME, NET</b>	<b>442,028</b>	<b>293,047</b>	<b>1,838,867</b>	<b>1,944,730</b>
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	<b>(3,672,818)</b>	<b>(8,754,063)</b>	<b>(15,206,991)</b>	<b>(16,871,602)</b>
	<b>(1,372,068)</b>	<b>(36,027)</b>	<b>(1,372,068)</b>	<b>(811,363)</b>



PROVISION FOR INCOME  
TAXES

NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	) \$ (5,044,886	) \$ (8,790,090	) \$ (16,579,059	) \$ (17,682,965)
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COMPREHENSIVE INCOME

(LOSS):

Net loss	\$ (5,044,886)	\$ (8,790,090)	\$ (16,579,059)	\$ (17,682,965)
Foreign currency translation adjustment	) (357,665	378,779	352,899	417,965

COMPREHENSIVE LOSS	\$ (5,402,551)	\$ (8,411,311)	\$ (16,226,160)	\$ (17,265,000)
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LOSS PER COMMON SHARE  
ALLOCATED TO COMMON  
SHAREHOLDERS

Weighted average number of  
shares (\*):

Basic and diluted	1,486,871	1,486,622	1,486,871	1,486,461
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Loss per share:

Basic and diluted (*)	\$ (3.39)	\$ (5.91)	\$ (11.15)	\$ (11.90)
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(\*) Retrospectively restated shares for a 1-for-12 reverse split.

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

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

	For the nine months ended March 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (16,579,059)	\$ (17,682,965)
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation	1,420,242	2,732,964
Stock-based compensation expense	-	54,757
Deferred tax provision	1,372,068	-
Provision for doubtful accounts	8,416,932	11,101,244
Change in fair value of warrant liabilities	-	(132,427)
Loss realized from disposal of property, plant and equipment	1,665,410	3,766,895
Impairment loss of long-lived assets	-	250,746
Imputed interest on other receivable from termination of leases	(708,996)	-
Loss from termination of lease	-	4,096,984
Changes in operating assets and liabilities		
Accounts and notes receivable	13,057,519	(1,386,175)
Inventories	(274,435)	1,114,636
Other receivables	1,925,723	(479,144)
Other receivable from termination of lease	13,083,021	2,409,825
Prepayments	(2,500,580)	2,528,160
Accounts payable	(7,315,865)	(2,688,926)
Customer deposits	(664,646)	414,518
Other payables	114,003	(2,995,764)
Accrued liabilities	402,738	(897,456)
Taxes payable	(46,790)	(492,554)
Net cash provided by operating activities	13,367,285	1,715,318
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of short-term investments, net	(21,082,697)	-
Proceeds from disposal of property, plant and equipment	400,336	673,315
Purchase of property, plant and equipment	(325,006)	(267,744)
Net cash (used in) provided by investing activities	(21,007,367)	405,571
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short term loans and bank guarantees	61,858,500	23,375,600
Payments of short term loans and bank guarantees	(63,407,000)	(27,798,500)
Proceeds from short term loan - shareholders	2,934,000	-
Payments of short term loan - shareholders	(2,934,000)	-
Proceeds from short term loan - other	11,410,000	-
Payments of short term loan - other	(3,912,000)	-
Proceeds from short term borrowing	-	3,773,251
Payments for short term borrowing	-	(3,507,270)
Proceeds from notes payable	13,040,000	-
Payments of notes payable	(3,260,000)	-

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Rent payable to shareholder	100,699	(52,723)
Principal payments on capital lease obligations	(1,794,045)	(287,707)
Restricted cash	(4,244,004)	2,243,361
Net cash provided by (used in) financing activities	9,792,150	(2,253,988)
<b>EFFECTS OF EXCHANGE RATE CHANGE IN CASH</b>	<b>6,436</b>	<b>(24,319)</b>
<b>NET CHANGE IN CASH</b>	<b>2,158,504</b>	<b>(157,418)</b>
CASH, beginning of period	3,949,939	2,409,914
CASH, end of period	\$ 6,108,443	\$ 2,252,496

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

## 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 ) (collectively, and together with China ACM hereinafter defined, the Company ), is engaged in producing general ready-mix concrete, customized mechanical refining concrete, and other concrete-related products that are mainly sold in the People s Republic of China ( PRC ). 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, after the completion of the Reverse Split (See note 12), 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.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 2013 annual report in the Form 10-K filed with the SEC on September 25, 2013.

Principles of consolidation

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

Subsidiaries and VIEs	Place incorporated	Ownership percentage
BVI-ACM	British Virgin Island	100%
China-ACMH	Beijing, China	100%

Xin Ao	Beijing, China	VIE
Heng Yuan Zheng Ke	Beijing, China	VIE
Hong Sheng An	Beijing, China	VIE
Heng Tai	Beijing, China	VIE
Da Tong	Datong, China	VIE
Heng Xin	Luanxian, China	VIE

## 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:

	March 31, 2014	June 30, 2013
Current assets	\$ 120,911,062	\$ 123,024,176
Property, plant and equipment	14,116,601	14,351,355
Other noncurrent assets	687,708	4,412,335
Total assets	135,715,371	141,787,866
Liabilities	(97,150,850)	(88,101,262)
Intercompany payables*	(7,413,027)	(7,378,365)
Total liabilities	(104,563,877)	(95,479,627)
Net assets	\$ 31,151,494	\$ 46,308,239

\* 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 unaudited condensed consolidated financial statements include the valuation of warrants and share-based payments, deferred income taxes, income tax payable, allowance for doubtful accounts, capital lease obligations, 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 March 31, 2014 and June 30, 2013, were translated at RMB 6.16 to \$1.00 and RMB 6.19 to \$1.00. The average translation rates applied to the consolidated statements of income and cash flows for the nine months ended March 31, 2014 and 2013, were RMB 6.13 and RMB 6.30 to \$1.00, respectively.

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.

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.

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 qualify and current capital lease obligations 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.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The fair value of non-current other receivable, advances on equipment purchases, net and long-term capital lease obligations approximate their fair value as interest rates approximate the market rate. The Company's Long-lived assets were recorded at fair value on a nonrecurring basis as a result of impairment changes determined 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 recognize the expense over the employee's 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 March 31, 2014 and June 30, 2013, the Company had deposits in excess of federally insured limits totaling approximately \$5.9 million and \$3.8 million, respectively.

Restricted cash

As of March 31, 2014 restricted cash consists of collateral totaling \$10.7 million 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 nine months ended March 31, 2014, approximately \$7.5 million and \$10.9 million was written off against the allowance balances, respectively. There were no write offs for the three and nine months ended March 31, 2013.

Other receivables

Other receivables primarily include other receivables from termination of lease, advances to employees, unrelated entities, and 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 \$2.8 million and \$2.2 million at March 31, 2014 and June 30, 2013, 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 March 31, 2014 and June 30, 2013, 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

During May 2013, the Company entered into an investment agreement for a maximum period of two years with a financial investment company, whereby the Company could invest up to approximately RMB 100 million (\$16.2 million). 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 rate of return on this investment was guaranteed to be no less than 7% per annum. In October 2013, the Company entered into another investment agreement with the same financial investment company for a maximum period of eighteen months and up to approximately RMB 100 million (\$16.2 million). The rate of return on the additional investment was guaranteed to be no less than 10% per annum. The Company's investment is not subject to market fluctuation; therefore, the Company did not experience gain or loss on its investment. However, the Company's funds deposited with the financial investment company are not insured.

Prepayments and advances, and advances on equipment purchases, net

The Company advances monies to certain suppliers for raw materials, plant and equipment, and factory rent. These advances are interest free and unsecured. For the three and nine months ended March 31, 2014, the Company recorded a bad debt allowance for advances on equipment purchases for approximately \$0.3 million and \$0.9 million, respectively.

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	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 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. There were no impairment charges for the three and nine months ended March 31, 2014. The Company recognized approximately \$0.3 million of impairment charges relating to the portable plants for the three and nine months ended March 31, 2013.

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

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. 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 the three months ended March 31, 2014 and 2013, were approximately \$0.4 million and \$0.2 million, respectively. Research and development costs for the nine months ended March 31, 2014 and 2013, were approximately \$0.8 million and \$0.8 million, respectively. Advertising costs for the three months ended March 31, 2014 and 2013, were approximately \$4,000 and \$0.4 million, respectively. Advertising costs for the nine months ended March 31, 2014 and 2013, were approximately \$14,000 and \$0.4 million, respectively. Repair and maintenance costs for the three months ended March 31, 2014 and 2013, were approximately \$0.1 million and \$42,000, respectively. Repair and maintenance costs for the nine months ended March 31, 2014 and 2013, were approximately \$0.2 million and \$0.7 million, respectively.

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.

All share and per share amounts used in the Company's unaudited condensed consolidated financial statements and notes thereto have been retroactively restated to reflect the 1-for-12 reverse stock split effective on August 1, 2013 (See Note 12).

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.

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



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For the nine months ended March 31, 2014 and 2013, the Company paid interest in the amounts of approximately \$2.0 million and \$1.3 million, respectively.

Cash payments for income tax for the nine months ended March 31, 2014 and 2013 were \$0.7 million and \$1.3 million, respectively.

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Non-cash investing and financing activities

For the nine months ended March 31, 2014, 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 \$0.8 million as a result of disposal of property, plant and equipment during the nine months ended March 31, 2014. The Company had payables of approximately \$0.1 million as a result of purchases of property, plant and equipment during the nine months ended March 31, 2014. The Company offset other payables from acquisitions of property, plant and equipment for approximately \$0.4 million with other receivables from the termination of leases during the nine months ended March 31, 2014. The Company offset prepayments with addition of property, plant and equipment for approximately \$1.2 million during the nine months ended March 31, 2014.

**Note 4 Accounts and notes receivable**

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

The Company's estimates of its allowance for doubtful accounts as of March 31, 2014 and June 30, 2013 were as follows: 15% for accounts receivable past due more than 180 days but less than one year, 60% for accounts receivable past due from one to two years, and 75% for accounts receivable past due beyond two years. The allowance for doubtful accounts was approximately \$32.7 million and \$36.5 million at March 31, 2014 and June 30, 2013, respectively.

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

	March 31, 2014	June 30, 2013
Accounts receivable, current	\$ 72,662,096	\$ 96,092,812
Notes receivable, current	64,920	72,675
	72,727,016	96,165,487
Less: Allowance for doubtful accounts, current	(32,677,813)	(36,469,156)
Total accounts and notes receivable, net	\$ 40,049,203	\$ 59,696,331

**Note 5 Other receivables and other receivable from termination of lease**Other receivables from termination of lease

On September 25, 2012, the Company entered an agreement with a third party to terminate an operating lease, which was originally effective from June 15, 2009 to June 14, 2014. Under the agreement, the fair value of net assets of the related operation was determined to be RMB 130.1 million (approximately \$20.6 million) on September 25, 2012 (the closing date), and were sold for total cash proceeds of RMB 112 million (approximately \$17.8 million). As of June 30, 2013, the Company had received approximately \$4.0 million of the total \$17.8 million; as of March 31, 2014, the Company had received in full the total cash proceeds from the transaction. In connection with this transaction, we have returned \$1.2 million to the lessor as it was considered as part of the \$20.6 million net assets. Since the note is interest-free, the Company has imputed the interest rate based on bank borrowing rate of 7%, and imputed interest was approximately \$1.2 million. At March 31, 2014 and June 30, 2013, the receivables from termination of lease had net

balances of approximately \$0 and \$12.6 million, respectively, net of allowances of \$0 and \$0.7 million, respectively, and discount on note of \$0 and \$0.7 million, respectively.

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

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	March 31, 2014	June 30, 2013
Other receivables, current	\$ 7,469,825	\$ 7,807,391
Less: Allowance for doubtful accounts, current	(2,775,052)	(1,509,303)
Other receivables - current, net	\$ 4,694,773	\$ 6,298,088
Other receivables from termination of lease	\$ -	\$ 14,049,440
Less: Discount on note	-	(704,484)
Allowance for doubtful accounts	-	(702,472)
Other receivables from termination of lease, net	-	12,642,484
Less: Other receivables from termination of lease - current	-	(8,932,029)
Other receivables from termination of lease non current	\$ -	\$ 3,710,455

As of the disposal date, the book value of the net assets underlying the lease and the determination of the approximately \$4.1 million loss is as follows:

Total consideration	\$ 17,752,000
Less:	
Interest expense	(1,227,078)
Total consideration (less cash held in Huacheng station and imputed interest)	16,524,922
Net assets	
Cash held in Huacheng station as of disposal date	1,141,427
Account receivables	34,664,492
Inventories	88,617
Fixed assets	306,108
Long term deferred lease expenditure	1,299,700
Other long term deferred expenses	16,322
Account payables	(16,512,117)
Salary payable	(184,092)
Tax payable	(2,514)
Other payables	(198,119)

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Note 6 Property, plant and equipment**

Property, plant and equipment consist of the following:

	March 31, 2014	June 30, 2013
Machinery and equipment	\$ 4,517,771	\$ 5,653,211
Transportation equipment	1,094,199	5,377,121
Leased equipment (A)	11,190,910	7,542,050
Office equipment	1,291,043	1,272,683
Buildings and improvements	298,706	228,487
Total	18,392,629	20,073,552
Less: Accumulated depreciation	(4,271,639)	(5,716,203)
Plant and equipment, net	\$ 14,120,990	\$ 14,357,349

Depreciation expense for the three months ended March 31, 2014 and 2013 amounted to approximately \$0.5 million and \$0.9 million, respectively. Depreciation expense for the nine months ended March 31, 2014 and 2013 amounted to approximately \$1.4 million and \$2.7 million, respectively. Depreciation expense for the leased equipment was \$0.3 million and \$0.7 million for the three and nine months ended March 31, 2014, respectively. Depreciation expense for the leased equipment was \$0.1 million for the three and nine months ended March 31, 2013. Accumulated depreciation for the leased equipment as of March 31, 2014 and June 30, 2013 was \$1.0 million and \$0.1 million, respectively.

(A) Capital lease

In January 2013, the Company entered into two lease agreements with a third party to lease eight concrete pump trucks for total lease payments of approximately \$6.7 million. The lease term for each is for three years, starting in January 2013 and ending in January 2016 with monthly lease payments of approximately \$0.2 million and an interest rate per annum of 7.68%. The ownership of the equipment will be transferred to the Company if there is no default of the lease payment within the three-year lease term (see Note 9). For the three and nine months ended March 31, 2014, the Company recognized approximately \$0.1 million and \$0.3 million of interest expense, and \$0.1 million and \$0.4 million of depreciation expense, respectively. For the three and nine months ended March 31, 2013, the Company recognized approximately \$0.1 million of interest expense and \$0.1 million of depreciation expense.

In June 2013, the Company entered into lease agreements with a third party to lease 28 concrete mixer trucks for total lease payments of approximately \$1.0 million. The lease terms range from 5 to 27 months, between June 2013 and September 2015, and the interest rate per annum was 7.98%. The ownership of the equipment will be transferred to the Company if there is no default of the lease payment within the lease term (see Note 9). For the three and nine months ended March 31, 2014, the Company recognized approximately \$0.01 and \$0.04 million of interest expense, and \$0.04 million \$0.1 million of depreciation expense, respectively. One of the leases was fully paid off in November 2013.

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In July 2013, the Company entered into five lease agreements with third parties to lease fifty concrete mixer trucks, two concrete pump trucks and one sedan for total lease payments of approximately \$2.2 million. The lease terms range from 10 to 22 months, from August 2013 to June 2015, with interest rates ranging from 0% to 7.28% per annum. The ownership of the equipment will be transferred to the Company if there is no default of the lease payment within the lease term (see Note 9). For the three and nine months ended March 31, 2014, the Company recognized approximately \$0.02 million and \$0.07 million of interest expense, and \$0.09 million and \$0.2 million of depreciation expense, respectively. One of the leases was paid off early in October 2013.

**Note 7 Prepayments and advances**

Prepayments consisted of the following:

	March 31, 2014	June 30, 2013
Advances on inventory purchases	\$ 29,063,712	\$ 27,714,588
Rent prepayments (see Note 16)	218,684	113,050
Total prepayments, current	\$ 29,282,396	\$ 27,827,638

**Note 8 Short term loans, banks, Bank guarantees and Notes payable**Short term loans, banks:

The outstanding balances on these loans consisted of the following:

	March 31, 2014	June 30, 2013
Loan from Shanghai Pudong Development Bank, interest rate of 7.2% per annum, various due dates between July 2014 and January 2015, guaranteed by Beijing Jinshengding Mineral Products Co., LTD	\$ 10,955,250	\$ 4,845,000
Loan from Construction Bank, interest rate of 6.00% per annum, due November 14, 2014, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, and Mr. Han Xianfu.	5,680,500	5,652,500
Loan from Citibank, repaid in full in January 2014.	-	4,037,500
Loan from Beijing Bank, interest rate of 7.2% per annum, due March 21, 2015, guaranteed by Beijing Shouchuang Financing Inc.	4,869,000	5,006,500
Loan from Hana Bank, interest rate of 6.90% per annum, due September 1, 2014, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Han Xianfu and Mr. He Weili.	6,492,000	-
Loan from Citic Bank, interest rate of 7.80% per annum, due August 4, 2014, guaranteed by Jinshengding Mineral Products Co., LTD, Mr. Han Xianfu and Mr. He Weili.	3,246,000	-



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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Interest expense on short term loans - bank for each of the three month periods ended March 31, 2014 and 2013 amounted to approximately \$0.4 million. Interest expense on short-term loans for the nine months ended March 31, 2014 and 2013 amounted to approximately \$1.3 million and \$1.6 million, respectively.

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:

	March 31, 2014	June 30, 2013
Bank guarantees due to Construction Bank, various due dates from June 2014 to September 2014, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, and Mr. Han Xianfu, a related party.	\$ 11,198,700	\$ 24,225,000

As of March 31, 2014 and June 30, 2013, the Company had restricted cash for short-term loans and bank guarantees of approximately \$7.8 million and \$6.5 million, respectively.

Short term loans - other:

The outstanding balance consisted of the following:

	March 31, 2014	June 30, 2013
Short term loans due to third-party individual and investment corporation, interest rates ranging from 0% to 10.5% per annum, various due dates between April 2014 and July 2014.*	\$ 7,465,800	\$ -

\*On April 1, 2014, \$4.2 million of such short term loans was repaid.

Interest expense on short term loans other for the three and nine months ended March 31, 2014 amounted to approximately \$0.1 million.

Notes payable:

During the nine months ended March 31, 2014, bank notes were issued to a third party for inventory purchases. The notes payable were approximately \$9.7 million (RMB 60 million) as of March 31, 2014, and were non-interest bearing with expiration dates of July 17, 2014 and September 3, 2014. The restricted cash for the notes was approximately \$2.9 million as of March 31, 2014.

**Note 9 Capital lease obligations**

Capital lease obligations consist of the following:





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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	March 31, 2014	June 30, 2013
Lease obligations for concrete pump trucks expiring in January 2016, lease payment at \$184,000 per month with interest at 7.68% per annum	\$ 5,066,317	\$ 5,596,394
Lease obligations for concrete mixer trucks expiring September 2015, lease payment at \$32,000 per month with interest at 7.98% per annum	567,262	994,670
Lease obligations for concrete mixer trucks expiring in May 2014, lease payment at \$155,000 per month with interest at 7.28% per annum	605,306	-
Lease obligations for concrete pump trucks expiring in January 2015, lease payment at \$33,000 per month with interest at 6.76% per annum	384,764	-
<b>Total</b>	<b>6,623,649</b>	<b>6,591,064</b>
<b>Less: Deferred interest</b>	<b>(303,860)</b>	<b>(581,362)</b>
	<b>6,319,789</b>	<b>6,009,702</b>
<b>Less: Capital lease obligations - current</b>	<b>(4,525,884)</b>	<b>(2,448,883)</b>
<b>Capital lease obligations - non current</b>	<b>\$ 1,793,905</b>	<b>\$ 3,560,819</b>

Future annual capital lease payments approximately consist of the following:

Twelve months ending March 31,	Amount
2015	\$ 4,774,000
2016	1,850,000
	\$ 6,624,000

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

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

Total other payables - shareholders consist of the following:

	March 31, 2014	June 30, 2013
Han Xianfu, shareholder	\$ 450,540	\$ 450,540
He Weili, shareholder	407,487	306,788

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**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 three and nine months ended March 31, 2014. As of March 31, 2014, China ACM's net operating loss carry forward for United States income taxes was approximately \$1.7 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 company. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset to reduce the asset to zero. There were no changes in the valuation allowance for the three and nine months ended March 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 cumulative loss of approximately \$1.4 million as of March 31, 2014, and undistributed earnings of approximately \$17.8 million as of June 30, 2013, 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.

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

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

deferred tax expense related to withholding tax on the future repatriation of these earnings.

(Loss) income before provision for income taxes consisted of:

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	2014	2013
USA and BVI	\$ (67,249)	\$ 12,206	\$ (233,592)	\$ (680,534)
China	(3,605,569)	(8,766,269)	(14,973,399)	(16,191,068)
	\$ (3,672,818)	\$ (8,754,063)	\$ (15,206,991)	\$ (16,871,602)

Provision for income taxes consisted of:

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	2014	2013
<b>Current provision:</b>				
USA	\$ -	\$ -	\$ -	\$ -
China	-	(36,027)	-	(811,363)
Total current provision	-	(36,027)	-	(811,363)
<b>Deferred provision:</b>				
USA	-	-	-	-
China	(1,372,068)	-	(1,372,068)	-
Total deferred provision	(1,372,068)	-	(1,372,068)	-
Total provision for income taxes	\$ (1,372,068)	\$ (36,027)	\$ (1,372,068)	\$ (811,363)

Significant components of deferred tax assets were as follows:

	March 31, 2014	June 30, 2013
<b>Deferred tax assets - current</b>		
Allowance for doubtful accounts	\$ 5,317,930	\$ 5,696,769
Valuation allowance	(2,658,965)	(1,709,031)
Total deferred tax assets - current	\$ 2,658,965	\$ 3,987,738

**Deferred tax assets - non-current**

Net operating loss carryforward in the U.S.	\$ 590,613	\$ 590,613
Net operating loss carryforward in the PRC	2,377,168	-

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2014 and June 30, 2013, 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. As such, as of March 31, 2014, the Company provided approximately \$5.0 million of valuation allowance, \$2.6 million against deferred tax assets – current and \$2.4 million against deferred tax assets – noncurrent, related to its allowance for doubtful accounts and net operating loss carry forwards, as management estimates that certain bad debts and net operating loss carry forwards may not be deductible against future pre-tax income by the Chinese tax authorities. As of June 30, 2013, the Company provided approximately \$1.7 million against deferred tax assets – current related to its allowance for doubtful accounts.

The Company has incurred losses from operations during all periods presented. Accordingly, management provided approximately \$0.6 million of valuation allowance against the deferred tax assets related to the Company's U.S. operations as of March 31, 2014 and June 30, 2013, 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, 2013	\$ 1,709,031
Allowance for doubtful accounts	941,468
Effect of exchange rate difference	8,466
As of March 31, 2014	\$ 2,658,965

	Valuation Allowance
For deferred tax assets - noncurrent	
As of June 30, 2013	\$ 590,613
Net operating loss carryforward in PRC	2,377,168
As of March 31, 2014	\$ 2,967,781

Taxes payable consisted of the following:

	March 31, 2014	June 30, 2013
Income taxes payable	\$ -	\$ 79,718

## 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 March 31, 2014 and June 30, 2013. Management does not anticipate any potential future adjustments in the next twelve months which would result in a material change to its tax positions. For the three and nine months ended March 31, 2014 and 2013, the Company did not incur any interest and penalties arising from tax payment.

**Note 12 Shareholders equity**Reverse stock split

On August 1, 2013, the Company effectuated a 1-for-12 reverse stock split (the Reverse Split ) of its issued and outstanding shares of common stock. All share and per share amounts used in the Company's unaudited condensed consolidated financial statements and notes thereto have been retroactively restated to reflect the Reverse Split. The Reverse Split did not change the authorized number of shares of the Company's common stock or its par value.

**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.

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. The remaining reserve to fulfill the 50% registered capital requirement amounted to approximately \$2.1 million and 2.0 million as of March 31, 2014 and June 30, 2013, 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 Loss per share**

The basic and diluted loss per share for the three and nine months ended March 31, 2014 and 2013 are as follows:

		Three months ended		Nine months ended	
		March 31,		March 31,	
		2014	2013	2014	2013
	\$	(5,044,886)	\$ (8,790,090)	\$ (16,579,059)	\$ (17,682,965)

Net loss attributed to  
common shareholders

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2014, there were no warrants outstanding. For the three and nine months ended March 31, 2013, 585,125 warrants outstanding were excluded from the diluted EPS calculation, respectively, because their effect was anti-dilutive.

**Note 15 Employee pension**

The Company offers a discretionary pension fund, a defined contribution plan, to eligible employees. The pension consists of two parts: (i) the first part, is paid by the Company, and is 20% of the employee's actual salary from the prior year and (ii) the second part, is paid by the employee, and is 8% of the employee's actual salary. The Company's contributions of employment benefits including pension were approximately \$0.2 million for the three months ended March 31, 2014 and 2013. The Company's contributions of employment benefits including pension were approximately \$0.5 million and \$0.6 million for the nine months ended March 31, 2014 and 2013, respectively.

On November 21, 2013 the Company adopted the Company's 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.

As of March 31, 2014, the Company has not issued any shares under the ESPP.

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**Note 16 Commitments and contingencies**Lease Commitments

The Company entered into a lease agreement for a manufacturing plant with an unrelated party which expires on September 30, 2015, with annual payments of approximately \$220,000. On August 31, 2010, the Company entered into a lease agreement to lease office space from a third party, starting from November 1, 2010 to October 31, 2013, with annual payments of approximately \$391,000. This lease was renewed through October 31, 2014, with annual payments of approximately \$27,000. On April 30, 2012, the Company entered a lease agreement to lease new office space from a third party, from May 1, 2012 to March 28, 2021, with annual payments of approximately \$429,000, with three different lease terms, 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 entered into three five-year and one four-year operating lease agreements for four manufacturing plants with various unrelated parties for a total monthly payment of approximately \$238,000. Three of the lease agreements were terminated early on November 30, 2010, September 25, 2012 and March 31, 2013, respectively. The four-year lease was renewed in September 2013 through December 31, 2018, with a monthly payment of \$68,000.

In August 2013, the Company entered into an eight-year operating lease agreement for a manufacturing plant with an unrelated party for a monthly payment of \$54,000.

Operating lease expenses are included in the cost of revenue, selling, general, and administrative expenses. Total operating lease expenses for the three months ended March 31, 2014 and 2013, were approximately \$0.6 million and \$0.4 million, respectively. Total operating lease expenses for the nine months ended March 31, 2014 and 2013, were approximately \$1.5 million and \$1.9 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 March 31,	Amount
2015	\$ 2,131,000
2016	2,006,000
2017	1,896,000
2018	1,692,000
2019	1,081,000
Thereafter	2,325,000
Total	\$ 11,131,000

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 unaudited consolidated financial position, results of operations and cash flows.

**Note 17 Business Segments**

The Company's operations are classified into three reportable segments that provide different products or services. The Company is engaged in the business of selling concrete and manufacturing concrete. Separate segments are required because each business unit is subject to different production and technology strategies.

For the three months ended March 31, 2014:

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Sales of concrete	Manufacturing services	Corporate (1)	Total
Net revenue	\$ 6,925,301	\$ 103,005	\$ -	\$ 7,028,306
Depreciation	\$ (338,874)	\$ (53,592)	\$ (63,588)	\$ (456,054)
Segment loss (2)	\$ (1,784,197)	\$ (142,687)	\$ (2,187,962)	\$ (4,114,846)
Other income (expenses)	\$ 439,082	\$ 6,181	\$ (59,471)	\$ 385,792
Interest income	\$ 135	\$ -	\$ 900,736	\$ 900,871
Interest expense	\$ -	\$ -	\$ (844,635)	\$ (844,635)
Capital expenditures	\$ (61,188)	\$ (458)	\$ -	\$ (61,646)
Total assets as of March 31, 2014	\$ 133,826,936	\$ 4,772,818	\$ -	\$ 138,599,754

For the nine months ended March 31, 2014:

	Sales of concrete	Manufacturing services	Corporate (1)	Total
Net revenue	\$ 28,020,724	\$ 999,334	\$ -	\$ 29,020,258
Depreciation	\$ (1,012,587)	\$ (168,829)	\$ (238,826)	\$ (1,420,242)
Segment loss (2)	\$ (2,011,633)	\$ (32,113)	\$ (15,002,112)	\$ (17,045,858)
Other income	\$ 1,717,685	\$ 59,944	\$ 602	\$ 1,778,231
Interest income	\$ 457	\$ -	\$ 2,084,495	\$ 2,084,952
Interest expense	\$ -	\$ -	\$ (2,024,316)	\$ (2,024,316)
Capital expenditures	\$ (313,814)	\$ (11,192)	\$ -	\$ (325,006)
Total assets as of March 31, 2014	\$ 133,826,936	\$ 4,772,818	\$ -	\$ 138,599,754

For the three months ended March 31, 2013:

	Sales of concrete	Manufacturing services	Corporate (1)	Total
Net revenue	\$ 7,221,971	\$ 5,616	\$ -	\$ 7,227,587
Depreciation	\$ (514,817)	\$ (311,884)	\$ (109,420)	\$ (936,121)
Segment loss (2)	\$ (3,793,401)	\$ (819,693)	\$ (4,434,016)	\$ (9,047,110)
Other income (expenses)	\$ 4,612,241	\$ (18,901)	\$ (4,176,211)	\$ 417,129
Interest income	\$ 267,276	\$ -	\$ 13,066	\$ 280,342
Interest expense	\$ -	\$ -	\$ (404,424)	\$ (404,424)
Capital expenditures	\$ (646)	\$ -	\$ (736)	\$ (1,382)
Total assets as of June 30, 2013	\$ 135,651,579	\$ 10,122,217	\$ -	\$ 145,773,796

For the nine months ended March 31, 2013:

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Sales of concrete	Manufacturing services	Corporate (1)	Total
Net revenue	\$ 55,159,367	\$ 4,456,196	\$ -	\$ 59,615,563
Depreciation	\$ (1,459,328)	\$ (1,027,477)	\$ (246,159)	\$ (2,732,964)
Segment profit (loss) (2)	\$ 6,017,909	\$ 197,271	\$ (25,031,512)	\$ (18,816,332)
Other income (expenses)	\$ 6,975,515	\$ 267,372	\$ (4,050,864)	\$ 3,192,023
Interest income	\$ 267,276	\$ -	\$ 71,127	\$ 338,403
Interest expense	\$ -	\$ -	\$ (1,585,696)	\$ (1,585,696)
Capital expenditures	\$ (125,202)	\$ -	\$ (142,542)	\$ (267,744)
Total assets as of June 30, 2013	\$ 135,651,579	\$ 10,122,217	\$ -	\$ 145,773,796

(1) All amounts shown in the Corporate column were incurred at the company headquarters level and did not relate specifically to any of the other reportable segments. Included in the segment loss was the provision for doubtful accounts which management determined by customers and not by segment.

(2) Segment loss of corporate reflected general and administrative expenses not specifically allocated by segments.

**Note 18 - Concentrations**

For the three months ended March 31, 2014, the Company had two customers that represented approximately 15.8% and 11.0% of the total revenue, respectively. For the nine months ended March 31, 2014, the Company had one customer that represented approximately 11.9% of the total revenue. As of March 31, 2014, no customer accounted for more than 10% of the total balance of accounts receivable. For the three months ended March 31, 2013, the Company had one customer that represented approximately 17.7% of the total revenue. For the nine months ended March 31, 2013, the Company had no customer that represented for more than 10% of the total revenue. As of March 31, 2013, no customer accounted for more than 10% of the total balance of accounts receivable.

For the three months ended March 31, 2014, the Company had two vendors that represented approximately 15.2% and 10.2% of total purchases, respectively. For the nine months ended March 31, 2014, the Company had one vendor that represented approximately 10.3% of total purchases. As of March 31, 2014, no vendor accounted for more than 10% of the total balance of accounts payable. For the three and nine months ended March 31, 2013, the Company had no vendor that represented for more than 10% of the total purchases or 10% of the total balance of accounts payable.

INTRODUCTORY NOTE

In this report, unless indicated otherwise, references to

China, Chinese and PRC, are references to the People's Republic of China;

BVI are references to the British Virgin Islands;

China Advanced, China-ACM, the Company, we, us, or our, are references to the combined business of China Advanced Construction Materials, Group, Inc. and its wholly-owned subsidiaries, BVI-ACM and China-ACMH, as well as Xin Ao, but do not include the stockholders of China Advanced;

BVI-ACM are references to Xin Ao Construction Materials, Inc.;

China-ACMH are references to Beijing Ao Hang Construction Materials Technology Co., Ltd.;

AIH are references to Advance Investment Holding Co., Inc.;

Xin Ao are references to Beijing Xin Ao Concrete Group;

RMB are references to the Renminbi, the legal currency of China; and

U.S. dollars, dollars and \$ are references to the legal currency of the United States.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

our expectations regarding the market for our concrete products and services;

our expectations regarding the continued growth of the concrete industry;

our beliefs regarding the competitiveness of our products;

our expectations regarding the expansion of our manufacturing capacity;

our expectations with respect to increased revenue growth and our ability to maintain profitability resulting from increases in our production volumes;

our future business development, results of operations and financial condition;

competition from other manufacturers of concrete products;

the loss of any member of our management team;

our ability to integrate acquired subsidiaries and operations into existing operations;

market conditions affecting our equity capital;

our ability to successfully implement our selective acquisition strategy;

changes in general economic conditions; and

changes in accounting rules or the application of such rules.

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

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

## 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 and nine months ended March 31, 2014, we supplied materials and provided services to our high speed railway projects through our network of ready-mixed concrete plants throughout Beijing (three as of March 31, 2014) and our portable plants (one as of March 31, 2014) located in An Hui province in China. We own one concrete plant and its related equipment.

We produce ready-mix concrete at portable plants, which can be dismantled and moved to new sites for new projects. Our management believes that we have the ability to capture a greater share of the Beijing market 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 March 31, 2014, two customers accounted for approximately 26.8% of our sales and 5.3% of our accounts receivable as of March 31, 2014. Should we lose any of these customers in the future and are unable to obtain additional customers, our revenues will suffer.
- *Experienced Management.* Management's technical knowledge and business relationships 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.
- *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. After January 1, 2008, under the 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 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 manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise. The State Administration of Taxation issued a SAT Circular 82 on April 22, 2009, which provides that the place of effective management of a Chinese-controlled overseas incorporated enterprise is located in China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly located in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies located in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders meetings are located or kept in the PRC; and (iv) no less than half of the enterprise's directors or senior management with voting rights reside in the PRC. SAT Circular 82 applies only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals. If 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.



**Business Segments and Periods Presented**

We have provided a discussion of our results of operations on a consolidated basis and have also provided certain detailed segment information for each of our business segments below for the three and nine months ended March 31, 2014 and 2013, in order to provide a meaningful discussion of our business segments. We have organized our operations into three principal segments: concrete sales, manufacturing services, and corporate. We present our segment information along the same lines that our chief executives review our operating results in assessing performance and allocating resources.

For the three months ended March 31, 2014:

	Sales of concrete	Manufacturing services	Corporate (1)	Total
Net revenue	\$ 6,925,301	\$ 103,005	\$ -	\$ 7,028,306
Depreciation	\$ (338,874)	\$ (53,592)	\$ (63,588)	\$ (456,054)
Segment loss (2)	\$ (1,784,197)	\$ (142,687)	\$ (2,187,962)	\$ (4,114,846)
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Interest expense	\$ -	\$ -	\$ (844,635)	\$ (844,635)
Capital expenditures	\$ (61,188)	\$ (458)	\$ -	\$ (61,646)
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Interest income	\$ 267,276	\$ -	\$ 13,066	\$ 280,342
Interest expense	\$ -	\$ -	\$ (404,424)	\$ (404,424)
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Total assets as of June 30, 2013	\$ 135,651,579	\$ 10,122,217	\$ -	\$ 145,773,796

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Segment profit (loss) (2)	\$ 6,017,909	\$ 197,271	\$ (25,031,512)	\$ (18,816,332)
Other income (expenses)	\$ 6,975,515	\$ 267,372	\$ (4,050,864)	\$ 3,192,023
Interest income	\$ 267,276	\$ -	\$ 71,127	\$ 338,403
Interest expense	\$ -	\$ -	\$ (1,585,696)	\$ (1,585,696)
Capital expenditures	\$ (125,202)	\$ -	\$ (142,542)	\$ (267,744)
Total assets as of June 30, 2013	\$ 135,651,579	\$ 10,122,217	\$ -	\$ 145,773,796

(1) All amounts shown in the Corporate column were incurred at the company headquarter level and did not relate specifically to any of the other reportable segments. Included in the segment loss was the provision for doubtful accounts which management determined by customers and not by segment.

(2) Segment profit reflects general and administrative expenses not specifically allocated by segments.

### *Concrete Sales Business*

Our concrete sales business segment is comprised of the formulation, production and delivery of the Company's line of C10-C100 concrete mixtures primarily through our current fixed plant network of two ready-mix concrete batching plants in Beijing. During the nine months ended March 31, 2014, we entered into a new lease agreement for a manufacturing plant in the suburban area of Beijing. Production at this facility commenced in the first calendar quarter of 2014. For this segment of our business, we procure all of our own raw materials, mix them according to our measured mixing formula, ship the final products in mounted transit mixers to the destination work sites, and, for more sophisticated structures, we will pump the mixture and set it into structural frame molds as per structural design parameters.

### *Manufacturing Services Business*

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

## **Consolidated Results of Operations**

### *Comparison of the Three months ended March 31, 2014 and 2013*

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

	Three months ended March 31,			
	2014	2013	Change	Percentage Change
<b>Total revenue</b>	\$ 7,028,306	\$ 7,227,587	\$ (199,281)	(3)%
Total cost of revenue	7,106,849	7,169,277	(62,428)	(1)%
<b>Gross (loss) profit</b>	(78,543)	58,310	(136,853)	(235)%

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Provision for doubtful accounts	(311,911)	(1,292,052)	(980,141)	(76)%
Selling, general and administrative expenses	(3,057,335)	(3,761,220)	703,885	(19)%
Research and development expenses	(375,330)	(205,343)	(169,987)	83%
Loss realized from disposal of property, plant and equipment	(291,727)	(3,596,059)	3,304,332	(92)%
Impairment loss of long-lived assets	-	(250,746)	250,746	(100)%
Loss from operations	(4,114,846)	(9,047,110)	4,932,264	(55)%
Other income, net	442,028	293,047	148,981	51%
Loss before provision for income taxes	(3,672,818)	(8,754,063)	5,081,245	(58)%
Provision for income taxes	(1,372,068)	(36,027)	(1,336,041)	3,708%
Net loss available to common shareholders	\$ (5,044,886)	\$ (8,790,090)	\$ 3,745,204	(43)%

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**Revenue.** Our revenue is primarily generated from sales of our advanced ready-mix concrete products and manufacturing services. For the three months ended March 31, 2014, we generated total revenue of approximately \$7.0 million, as compared to approximately \$7.2 million during the three months ended March 31, 2013, a decrease of approximately \$0.2 million, or 3%. Such decrease was primarily due to our sales generated from the concrete division for the three months ended March 31, 2014, which was approximately \$6.9 million, a decrease of approximately \$0.3 million, or 4%, as compared to \$7.2 million for the three months ended March 31, 2013. The decrease in revenue attributable to concrete sales was principally due to the decreased average sales price, which, compared to that of the three months ended March 31, 2013, decreased by 8% in the three months ended March 31, 2014. The decreased average sales price was mainly attributable to the increased competition in the area where we operate. The effect of decrease in unit price on revenue was partially offset by a 4% increase in sales volume, as operation of our manufacturing plant in the suburban area of Beijing commenced in the three months ended March 31, 2014.

During the three months ended March 31, 2014, we continued to supply concrete products to three railway projects in China through our portable plants, specifically our projects located in Anhui Province. Since the three months ended March 31, 2013, we suspended the operations of some of our portable plants due to inspections of high speed railroad projects by the government in China. The three railway projects contributed approximately \$0.1 million to our total revenue for the three months ended March 31, 2014, an increase of approximately \$0.1 million, or 1,734%, as compared approximately \$6,000 for the three months ended March 31, 2013. The increase in revenues attributable to our manufacturing services was principally due to the operations of these three projects during the three months ended March 31, 2014 whereas we had minimal operation of our manufacturing service due to suspension of operations of our portable plants during the three months ended March 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 \$7.1 million for the three months ended March 31, 2014, as compared to approximately \$7.2 million for the three months ended March 31, 2013, a decrease of approximately \$0.1 million, or 1%. The decrease in the cost of revenue was primarily due to the overall decrease in production from our fixed concrete plants in the Beijing area, offset by increased production from manufacturing services compared to the three months ended March 31, 2013.

The cost of revenue on concrete sales increased by approximately \$0.3 million, or 4%, for the three months ended March 31, 2014, as compared to the three months ended March 31, 2013 due to the increase in our concrete production volume.

Cost of revenue with respect to our manufacturing services was primarily due to our manufacturing services, which decreased by approximately \$0.3 million, or 57%, during the three months ended March 31, 2014, as compared to the same period last year.

**Gross (Loss) Profit.** Gross loss or profit is equal to the difference between our revenue and cost of revenue. Total gross loss was approximately \$0.1 million for the three months ended March 31, 2014, as compared to gross profit of approximately \$0.1 million for the three months ended March 31, 2013. Our gross profit with respect to our sales of concrete was approximately \$0.06 million, or 1% of revenue, for the three months ended March 31, 2014, as compared to approximately \$0.6 million, or 9% of revenue for the three months ended March 31, 2013, a decrease of approximately \$0.6 million. The decrease in gross profit for concrete sales for the three months ended March 31, 2014, as compared with the same period last year, was primarily due to decrease in sales price.

Our gross loss with respect to our manufacturing services was approximately \$0.2 million, for the three months ended March 31, 2014, a decrease of \$0.4 million from gross loss of \$0.6 million during the three months ended March 31, 2013. Such decrease was principally due to the decrease in cost of revenue from manufacturing services for the three months ended March 31, 2014, as a result of the decrease in the number of portable plants and thus lowered overhead.

**Provision for Doubtful Accounts.** The provision for doubtful accounts was approximately \$0.3 million for the three months ended March 31, 2014, a decrease of approximately \$1.0 million, as compared to approximately \$1.3 million for the three months ended March 31, 2013. 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, the 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. The provision is 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 and 75% for accounts receivable past due beyond two years. The allowance for doubtful accounts decreased to approximately \$32.7 million at March 31, 2014, as compared to approximately \$36.5 million at June 30, 2013, mainly attributable to a \$10.9 million write-off of bad debts against allowance balances, offset by additional provision.

As of March 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
Accounts receivable and notes	\$ 72,727,016	\$ 7,896,545	\$ 10,542,433	\$ 9,428,140	\$ 23,308,069	\$ 21,551,829

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**Selling, General and Administrative Expenses.** Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional and legal fees paid to third parties. We incurred selling, general and administrative expenses of approximately \$3.1 million for the three months ended March 31, 2014, a decrease of approximately \$0.7 million, or 19%, as compared to approximately \$3.8 million for the three months ended March 31, 2013. The decrease was principally due to a \$0.4 million decrease in advertising expense, a \$0.3 million decrease in labor service expense and a \$0.1 million decrease in meals and entertainment expense, offset by a \$0.1 million increase in consulting expense.

**Research and development expenses.** Research and development expenses were approximately \$0.4 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively. The Company's research and development expenditure was maintained at a certain percentage of revenue, plus discretionary spending on projects that helped to improve our competitive advantage. The \$0.2 million increase was mainly due to increased research and development expenditures resulting from certain technical support services obtained from third parties.

**Loss realized from disposal of property, plant and equipment.** For the three months ended March 31, 2014 and 2013, we incurred a \$0.3 million and \$3.6 million loss realized from disposal of property, plant and equipment, respectively.

**Loss from Operations.** We recognized a loss from operations of approximately \$4.1 million for the three months ended March 31, 2014, as compared to a loss from operations of approximately \$9.0 million for the three months ended March 31, 2013, a decrease of approximately \$4.9 million in our loss from operations. Such a decrease in loss from operations was primarily due to a \$1.0 million decrease in provision of doubtful accounts, a \$0.7 million decrease in selling, general and administrative expenses and a \$3.3 million decrease from loss realized from disposal of property, plant and equipment.

We recognized a \$1.8 million loss from operations of our concrete sales business for the three months ended March 31, 2014, as compared to loss from operations from this segment of \$3.8 million for the three months ended March 31, 2013. The decrease in loss was primarily due to the decrease in operating expenses.

Loss from operations of our manufacturing services business for the three months ended March 31, 2014, was approximately \$0.1 million, a decrease of \$0.7 million from approximately \$0.8 million loss from operations of this segment for the three months ended March 31, 2013. The decrease was primarily due to a decrease in gross profit during the three months ended March 31, 2014 as compared to the same period in 2013.

Our corporate segment recorded depreciation of approximately \$0.1 million for the three months ended March 31, 2014 and 2013. Corporate recorded a segment loss of approximately \$2.2 million for the three months ended March 31, 2014, as compared to a recorded segment loss of approximately \$4.4 million for the three months ended March 31, 2013. The \$2.2 million decrease in corporate segment loss was primarily due to a \$3.3 million decrease in loss realized from disposal of property, plant and equipment and \$1.0 decrease in provision for doubtful accounts, offset by increase in research and development expense and selling, general and administration expenses.

**Other Income (Expense), net.** Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), change in fair value of warrants, and other non-operating income (expense). We recorded net other income of approximately \$0.4 million for the three months ended March 31, 2014, as compared to net other income of approximately \$0.3 million for the three months ended March 31, 2013, an increase of approximately \$0.1 million, or 51%. The increase in net other income was mainly due to a \$0.6 million increase in interest income, offset by a \$0.4 million increase in interest expense. 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 from August 2005 to 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 \$0.4 million of subsidy income was recorded for the three months ended March 31, 2014 and 2013.

***Provision for Income Taxes.*** We incurred provision for income taxes of \$1.4 million and \$0.04 million for the three months ended March 31, 2014 and 2013, respectively. The provision for income taxes incurred for the three months ended March 31, 2014 was mainly due to additional valuation allowance to deferred tax assets as we estimates that certain bad debts may not be deductible against future pre-tax income by the Chinese tax authorities. 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 available to Common Shareholders.*** We recognized a net loss of approximately \$5.0 million for the three months ended March 31, 2014, as compared to a net loss of approximately \$8.8 million for the three months ended March 31, 2013, an decrease of \$3.8 million in net loss. Such decrease in net loss was primarily due to the decrease in provision of doubtful accounts, selling, general and administration expenses and loss realized from disposal of property, plant and equipment, offset by the increase in provision for income taxes.

*Comparison of the Nine months ended March 31, 2014 and 2013*

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

	Nine months ended March 31,				Percentage Change
	2014	2013	Change		
<b>Total revenue</b>	\$ 29,020,058	\$ 59,615,563	\$ (30,595,505)		(51)%
Total cost of revenue	26,453,447	49,028,729	(22,575,282)		(46)%
<b>Gross profit</b>	2,566,611	10,586,834	(8,020,223)		(76)%
Provision for doubtful accounts	(8,416,932)	(11,101,244)	2,684,312		(24)%
Selling, general and administrative expenses	(8,703,235)	(9,408,162)	704,927		(7)%
Research and development expenses	(826,892)	(779,135)	(47,757)		6%
Loss realized from disposal of property, plant and equipment	(1,665,410)	(3,766,895)	2,101,485		(56)%
Impairment loss of long-lived assets	-	(250,746)	250,746		100%
Loss from termination of lease	-	(4,096,984)	4,096,984		100%
Loss from operations	(17,045,858)	(18,816,332)	(1,770,474)		(9)%
Other income, net	1,838,867	1,944,730	(105,863)		(5)%
Loss before provision for income taxes	(15,206,991)	(16,871,602)	1,664,611		(10)%
Provision for income taxes	(1,372,068)	(811,363)	(560,705)		69%
Net loss available to common shareholders	\$ (16,579,059)	\$ (17,682,965)	\$ 1,103,906		(6)%

**Revenue.** Our revenue is primarily generated from sales of our advanced ready-mix concrete products and manufacturing services. For the nine months ended March 31, 2014, we generated total revenue of approximately \$29.0 million, as compared to approximately \$59.6 million during the nine months ended March 31, 2013, a decrease of approximately \$30.6 million, or 51%. Such decrease was primarily due to our sales generated from the concrete division for the nine months ended March 31, 2014, which was approximately \$28.0 million, a decrease of approximately \$27.1 million, or 49%, as compared to \$55.2 million for the nine months ended March 31, 2013. The decrease in revenue attributable to concrete sales was principally due to the decreased sales in the areas in which we operate. After the suspension due to 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, but had yet to achieve full capacity. Furthermore, China's central government continues to impose restrictions on the purchase of residential apartments in order to regulate housing prices in China, and China's economic growth has been decelerating since 2012, which has caused an adverse impact on the construction industry in China.

During the nine months ended March 31, 2014, we continued to supply concrete products to three railway projects in China through our portable plants, specifically our projects located in Anhui Province. We suspended the operations of some of our portable plants since the three months ended March 31, 2013 due to inspections of high speed railroad projects by the government in China. The three railway projects contributed approximately \$1.0 million to our total revenue for the nine months ended March 31, 2014, a decrease of approximately \$3.5 million, or 78%, as compared



\$4.5 million for the nine months ended March 31, 2013. The decrease in revenues attributable to our manufacturing services was principally due to the suspension of operations of a number of our portable plants during the nine months ended March 31, 2014.

**Cost of Revenue.** Total cost of revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was approximately \$26.5 million for the nine months ended March 31, 2014, as compared to approximately \$49.0 million for the nine months ended March 31, 2013, a decrease of approximately \$22.5 million, or 46%. The decrease of cost of revenue was primarily due to the overall decrease in production from our fixed concrete plants in the Beijing area and decreased production on manufacturing services compared to the nine months ended March 31, 2013.

The cost of revenue on concrete sales decreased by approximately \$19.8 million, or 44%, for the nine months ended March 31, 2014, as compared to the nine months ended March 31, 2013. Such decrease was due to a decrease in our concrete production volume.

Cost of revenue with respect to our manufacturing services was primarily due to our manufacturing services, which decreased by approximately \$2.8 million, or 73%, during the nine months ended March 31, 2014, as compared to the same period last year.

**Gross (Loss) Profit.** Gross profit is equal to the difference between our revenue and cost of revenue. Total gross profit was approximately \$2.6 million for the nine months ended March 31, 2014, as compared to approximately \$10.6 million for the nine months ended March 31, 2013. Our gross profit with respect to our sales of concrete was approximately \$2.6 million, or 9% of revenue, for the nine months ended March 31, 2014, as compared to approximately \$10.0 million, or 18% of revenue for the nine month ended March 31, 2013, a decrease of approximately \$7.4 million. The decrease in gross profit for concrete sales for the nine months ended March 31, 2014, as compared with the same period last year, was primarily due to lower production volume while we were subject to similar level of fixed costs.

Our gross loss with respect to our manufacturing services was approximately \$0.03 million, for the nine months ended March 31, 2014, a decrease of \$0.6 million from a gross profit of \$0.6 million during the nine months ended March 31, 2013. Such decrease was principally due to the decrease in revenue from manufacturing services for the nine months ended March 31, 2014, as a result of the decrease in the number of portable plants and lower production rates at our plants.

**Provision for Doubtful Accounts.** The provision for doubtful accounts was approximately \$8.4 million for the nine months ended March 31, 2014, a decrease of approximately \$2.7 million, as compared to approximately \$11.1 million for nine months ended March 31, 2013. The change was primarily due to a change in our allowance for doubtful accounts policy in the fourth quarter of fiscal year 2013. Management believes that the current policy is in line with our collections. The allowance for doubtful accounts decreased to approximately \$32.7 million at March 31, 2014, as compared to approximately \$36.5 million at June 30, 2013, mainly attributable to a \$10.9 million write-off of bad debts against allowance balances, offset by additional provision.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional and legal fees paid to third parties. We incurred selling, general and administrative expenses of approximately \$8.7 million and \$9.4 million for the nine months ended March 31, 2014 and 2013, respectively. The decrease of \$0.7 million was mainly due to a \$0.4 million decrease in advertising expense, a \$0.3 million decrease in labor service expense, a \$0.1 million decrease in rent and a \$0.2 million decrease in meals and entertainment expense, offset by a \$0.1 million increase in consulting expense, a \$0.1 million increase in conference expense and a \$0.1 million increase in salary.

**Research and development expenses.** Research and development expenses were approximately \$0.8 million for the nine months ended March 31, 2014 and 2013. The Company's research and development expenditure was maintained at a certain percentage of revenue, plus discretionary spending on projects that helped to improve our competitive advantage.

**Loss realized from disposal of property, plant and equipment.** For the nine months ended March 31, 2014 and 2013, we incurred a \$1.7 million and \$3.8 million loss realized from disposal of property, plant and equipment, respectively.

**Loss from Operations.** We recognized a loss from operations of approximately \$17.0 million for the nine months ended March 31, 2014, as compared to a loss from operations of approximately \$18.8 million for the nine months ended March 31, 2013, a decrease of approximately \$1.8 million in our loss from operations. Such a decrease in our loss from operations was primarily due to a \$2.7 million decrease in our provision for doubtful accounts, a \$0.7 million decrease in selling, general and administrative expenses, a \$4.1 million decrease in our loss from termination of lease and a \$2.1 million decrease in loss from disposal of property, plant and equipment, which were offset by an \$8.0 million decrease in gross profit from our concrete sales and manufacturing services segments.

We incurred \$2.0 million of loss from operations of our concrete sales business for the nine months ended March 31, 2014, as compared to income from operations from this segment of \$6.0 million for the nine months ended March 31, 2013. The change from profit to loss was primarily due to decrease in our concrete production resulting from a lower

overall volume of concrete sales and a lower gross profit margin.

Loss from operations of our manufacturing services business for the nine months ended March 31, 2014, was approximately \$0.03 million, compared to approximately \$0.2 million income from operations of this segment for the nine months ended March 31, 2013. The decrease was primarily due to a decrease in volume and gross profit during the nine months ended March 31, 2014 as compared to the same period in 2013.

Our corporate segment recorded depreciation of approximately \$0.2 million for the nine months ended March 31, 2014 and 2013. Corporate recorded a segment loss of approximately \$15.0 million for the nine months ended March 31, 2014, as compared to a recorded segment loss of approximately \$25.0 million for the three months ended March 31, 2013. The decrease in corporate segment loss was primarily due to decrease in provision for doubtful accounts and selling, general and administration expenses.

***Other Income (Expense), net.*** Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), change in fair value of warrants, and other non-operating income (expense). We recorded net other income of approximately \$1.8 million for the nine months ended March 31, 2014, as compared to net other income of approximately \$1.9 million for the nine months ended March 31, 2013, a decrease of approximately \$0.1 million, or 5%. The decrease in net other income was mainly due to an \$1.8 million decrease in other subsidy income and a \$0.4 million increase in interest expense, offset by a \$1.7 million increase in interest income and a \$0.4 million decrease in non-operating expense. 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 from August 2005 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 \$1.7 million and \$3.6 million of subsidy income was recorded for the nine months ended March 31, 2014 and 2013, respectively.

**Provision for Income Taxes.** We incurred provision for income taxes of \$1.4 million and \$0.8 million for the nine months ended March 31, 2014 and 2013, respectively. The provision for income taxes incurred for the nine months ended March 31, 2014 was mainly due to additional valuation allowance to deferred tax assets as we estimates that certain bad debts may not be deductible against future pre-tax income by the Chinese tax authorities. 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 available to Common Shareholders.** We recognized a net loss of approximately \$16.6 million for the nine months ended March 31, 2014, as compared to a net loss of approximately \$17.7 million for the nine months ended March 31, 2013, a decrease of \$1.1 million in net loss. Such decrease in net loss was primarily due to a \$2.7 million decrease in our provision for doubtful accounts, a \$0.7 million decrease in selling, general and administrative expenses, a \$4.1 million decrease in our loss from termination of lease, a \$2.1 million decrease in loss from disposal of property, plant and equipment and a \$0.8 million decrease in provision for income taxes, which were offset by an \$8.0 million decrease in gross profit from our concrete sales and manufacturing services segments and a \$0.6 million increase in provisions for income taxes.

### Liquidity and Capital Resources

As of March 31, 2014, we had cash and cash equivalents of approximately \$6.1 million and restricted cash of approximately \$10.7 million, which was 100% held by subsidiaries and VIEs outside the U.S. 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 March 31, 2014, we had working capital of approximately \$24.8 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 nine months ended March 31,	
	2014	2013
Net cash provided by operating activities	\$ 13,367,285	\$ 1,715,318
Net cash (used in) provided by investing activities	(21,007,367)	405,571
Net cash provided by (used in) financing activities	9,792,150	(2,253,988)
Effect of foreign currency translation on cash and cash equivalents	6,436	(24,319)
Net change in cash	\$ 2,158,504	\$ (157,418)

Principal demands for liquidity are for construction or 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 provided by operating activities totaled approximately \$13.4 million for the nine months ended March 31, 2014, was primarily attributable to the net loss adjusted to reconcile to net cash provided by operating activities of \$4.4 million, including adjustments for \$1.4 million of depreciation, \$1.4 million of deferred tax provision, \$8.4 million of provision for doubtful accounts and \$1.7 million of loss realized from disposal of property,

plant and equipment. Net cash provided by changes in operating assets and liabilities resulted in a net cash inflow of \$17.8 million, which mainly included cash \$13.1 million inflow from collections of accounts and notes receivable, a cash inflow from collections in other receivable of \$1.9 million and a \$13.1 million collection of other receivable from termination of lease, offset by additional prepayments of \$2.5 million, cash payments for accounts payable of \$7.3 million and a reduction in customer deposits \$0.7 million.

Net cash provided by operating activities totaled approximately \$1.7 million for the nine months ended March 31, 2013, which was primarily attributable to net loss and adjustments to reconcile to net cash provided by operating activities of \$4.2 million, which primarily included adjustments for \$2.7 million of depreciation, an \$11.1 million provision for doubtful accounts, \$3.8 million of loss realized from disposal of property, plant and equipment and \$4.1 million loss from termination of lease. Net cash used in changes in operating assets and liabilities resulted in a net cash outflow of \$2.5 million, which mainly included an increase from accounts and notes receivable of \$1.4 million, an increase in accounts payable of \$2.7 million, an increase in other payables of \$3.0 million and cash outflow in accrued liabilities of \$0.9 million, offset by \$1.1 million of cash paid to acquire inventories, a \$2.4 million collection of other receivable from termination of lease and reduction in prepayments of \$2.5 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 to make improvements in our cash flow 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 used in investing activities was approximately \$21.0 million for the nine months ended March 31, 2014, which was primarily attributable to \$21.0 million acquisition of short term investments. Net cash provided by investing activities was approximately \$0.4 million for the nine months ended March 31, 2013, and was attributable to proceeds from disposal of property, plant and equipment, offset by purchases of property, plant and equipment.

**Financing Activities.** Net cash provided by financing activities totaled approximately \$9.8 million for the nine months ended March 31, 2014, which was primarily attributable to \$61.8 million cash proceeds from bank loans and letters of credit, \$2.9 million proceeds from short term loan - shareholders, \$11.4 million proceeds from short term loan - other and \$13.0 million proceeds from notes payable, which was offset by \$63.4 million for repayments of bank loans and bank guarantees, \$2.9 million for repayments of short term loan - shareholders, \$3.9 million for repayments of short term loan - other, \$3.3 million for repayments of notes payable, \$1.8 million of principal payments for capital lease obligations and an increase in restricted cash of approximately \$4.2 million. Net cash used in financing activities totaled approximately \$2.3 million for the nine months ended March 31, 2013, was primarily attributable to \$27.8 million of loan repayments and \$3.5 million repayments of short term borrowing, offset by \$23.4 million of cash proceeds from bank loans, \$3.8 million of cash proceeds from short term borrowing and decrease in restrict cash of approximately \$2.2 million.

**Cash.** As of March 31, 2014, we had cash of approximately \$6.1 million as compared to approximately \$3.9 million as of June 30, 2013. We believe that our cash and revenues from ongoing operations, in addition to closely managing our accounts payable and accounts receivable, is sufficient to meet our liquidity and capital requirements for all of our ongoing operations. However, we may need to raise additional capital in order to undertake our plans for expansion.

**Loan Facilities**

We had a total of approximately \$49.9 million and \$43.8 million outstanding on loans and credit facilities as of March 31, 2014 and June 30, 2013, respectively.

Short term loans, banks and bank guarantees:

	March 31, 2014	June 30, 2013
Loan from Shanghai Pudong Development Bank, interest rate of 7.2% per annum, various due dates between July 2014 and January 2015, guaranteed by Beijing Jinshengding Products Co., LTD	\$ 10,955,250	\$ 4,845,000
Loan from Construction Bank, interest rate of 6.00% per annum, due November 14, 2014, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, and Mr. Han Xianfu.	5,680,500	5,652,500



\*On April 1, 2014, \$4.2 million was repaid.

Each of the guarantors identified above are suppliers of 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 in Notes to the unaudited condensed consolidated financial statements.

**Obligations Under Material Contracts**

Below is a table setting forth our contractual obligations as of March 31, 2014:

	Total	Payments due by period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Loan obligations \$	49,907,250	\$ 49,907,250	\$ -	\$ -	\$ -
Notes payable	9,738,000	9,738,000	-	-	-



### **Seasonality**

Our manufacturing operations are primarily located in northeastern China, which is extremely cold during the winter months. During such time, we are able to manufacture our advanced ready-mix concrete materials, however many construction projects operate on an abbreviated work schedule, if at all.

### **Critical Accounting Policies and Estimates**

We prepare the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ( US GAAP ). These accounting principles require us to make judgments, estimates and assumptions on the reported amounts of assets and liabilities at the end of each fiscal period, and the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable.

There have been no material changes during the three months and nine months ended March 31, 2014 in the Company's significant accounting policies to those previously disclosed in the June 30, 2013 annual report.

### **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.

### **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 \$45.7 million as of March 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 receivable 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 March 31, 2014. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures were not effective as of March 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 consolidated financial statements.

#### *Changes in Internal Control Over Financial Reporting*

During the quarter ended March 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**





**EXHIBIT INDEX**

Exhibit No. Description

31.1	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certifications of Interim Chief Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certifications of 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

The interactive data files in Exhibit No. 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.