

China Advanced Construction Materials Group, Inc  
Form 10-Q  
February 13, 2012

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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: December 31, 2011

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34515

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

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**

*(State or other jurisdiction of incorporation or  
organization)*

**20-8468508**

*(I.R.S. Employer Identification No.)*

**9 North West Fourth Ring Road**

**Yingu Mansion Suite 1708**

**Haidian District, Beijing**

**People's Republic of China 100190**

*(Address of principal executive offices, Zip Code)*

**+86 10 82525361**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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

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

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

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

Yes  No

The number of shares outstanding of each of the issuer's classes of common equity, as of February 12, 2012 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	17,821,054

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets as of December 31, 2011 and June 30, 2011

Condensed Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended December 31, 2011 and 2010

Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2011 and 2010

Notes to Unaudited Condensed Consolidated Financial Statements

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

ASSETS	December 31, 2011	June 30, 2011
<b>CURRENT ASSETS:</b>		
Cash	\$ 3,431,812	\$ 1,610,699
Restricted cash	8,369,015	928,200
Accounts and notes receivable, net of allowance for doubtful accounts of \$16,049,479 and \$5,627,049, respectively	100,547,582	84,793,355
Inventories	2,101,683	1,474,728
Investments	6,449,300	12,221,300
Other receivables	2,286,316	2,226,803
Prepayments	5,946,187	5,089,935
Deferred tax assets	1,761,377	-
Total current assets	130,893,272	108,345,020
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>27,775,235</b>	<b>29,279,440</b>
<b>OTHER ASSETS:</b>		
Advances on equipment purchases	4,585,295	4,509,505
Prepayments	1,978,550	2,702,409
Total other assets	6,563,845	7,211,914
<b>Total assets</b>	<b>\$ 165,232,352</b>	<b>\$ 144,836,374</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short term loans, banks	\$ 22,037,730	\$ 15,470,000
Accounts payable	47,943,905	41,320,769
Customer deposits	541,305	391,550
Other payables	761,256	488,022
Other payables - shareholders	803,158	790,592
Accrued liabilities	1,396,761	1,921,582
Taxes payable	2,779,408	747,165
Total current liabilities	76,263,523	61,129,680
<b>OTHER LIABILITIES</b>		
Warrants liability	820,155	618,657
Total liabilities	77,083,678	61,748,337
Commitments and contingencies		
<b>SHAREHOLDERS EQUITY:</b>		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding	-	-
	17,821	17,795

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Common stock, \$0.001 par value, 74,000,000 shares authorized, 17,821,054 and 17,794,387 shares issued and outstanding as of December 31, 2011 and June 30, 2011, respectively

Additional paid-in capital	35,066,357	34,981,023
Retained earnings	38,271,093	35,240,851
Statutory reserves	6,754,825	6,248,357
Accumulated other comprehensive income	8,038,578	6,600,011
Total shareholders' equity	88,148,674	83,088,037
Total liabilities and shareholders' equity	\$ 165,232,352	\$ 144,836,374

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

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

	For the three months ended December 31,		For the six months ended December 31,	
	2011	2010	2011	2010
<b>REVENUE</b>				
Sales of concrete	\$ 39,981,717	\$ 26,205,792	\$ 80,066,756	\$ 51,526,739
Manufacturing services	2,578,178	7,108,447	7,078,146	11,580,224
Technical services	-	1,207,396	-	2,366,456
Other	-	4,311	-	9,609
Total revenue	42,559,895	34,525,946	87,144,902	65,483,028
<b>COST OF REVENUE</b>				
Concrete	32,675,610	22,835,629	62,813,134	46,344,312
Manufacturing services	2,350,816	4,913,916	6,043,753	8,131,041
Technical services	-	94,291	-	200,301
Total cost of revenue	35,026,426	27,843,836	68,856,887	54,675,654
<b>GROSS PROFIT</b>	7,533,469	6,682,110	18,288,015	10,807,374
<b>PROVISION FOR DOUBTFUL ACCOUNTS</b>				
	3,359,502	509,639	10,361,042	676,697
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>				
	5,276,670	2,122,579	7,986,110	4,149,310
<b>INCOME (LOSS) FROM OPERATIONS</b>	(1,102,703)	4,049,892	(59,137)	5,981,367
<b>OTHER INCOME (EXPENSE), NET</b>				
Other subsidy income	2,553,633	1,998,855	5,239,023	3,786,418
Non-operating income (expense), net	15,296	(357,201)	(38,909)	(187,974)
Change in fair value of warrants liability	(396,974)	(1,414,408)	(201,498)	(1,260,150)
Interest income	112,807	157,220	335,451	162,149
Interest expense	(400,039)	(224,136)	(699,215)	(237,042)
<b>TOTAL OTHER INCOME, NET</b>	1,884,723	160,330	4,634,852	2,263,401
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	782,020	4,210,222	4,575,715	8,244,768
<b>PROVISION FOR INCOME TAXES</b>	337,376	978,233	1,039,005	1,704,459
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	\$ 444,644	\$ 3,231,989	\$ 3,536,710	\$ 6,540,309
<b>COMPREHENSIVE INCOME:</b>				
Net Income	444,644	3,231,989	3,536,710	6,540,309

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Foreign currency translation adjustment	501,972	693,572	1,438,568	1,763,754
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COMPREHENSIVE INCOME	\$ 946,616	\$ 3,925,561	\$ 4,975,278	\$ 8,304,063
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EARNINGS PER COMMON SHARE ALLOCATED TO COMMON SHAREHOLDERS

Weighted average number of shares:

Basic	17,815,900	17,651,620	17,810,986	17,585,082
Diluted	17,838,400	18,202,555	17,833,486	18,067,924

Earnings per share:

Basic	\$ 0.02	\$ 0.18	\$ 0.20	\$ 0.37
Diluted	\$ 0.02	\$ 0.18	\$ 0.20	\$ 0.36

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

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

	For the six months ended December 31,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,536,710	\$ 6,540,309
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation	2,191,189	1,819,065
Stock-based compensation expense	85,359	462,189
Deferred tax provision (benefit)	(1,761,377)	129,354
Provision for doubtful accounts	10,361,042	676,697
Change in fair value of warrants liability	201,498	1,260,150
Loss realized from disposal of property, plant, and equipment	4,004	252,727
Changes in operating assets and liabilities		
Accounts and notes receivable	(24,617,295)	(25,411,159)
Inventories	(599,107)	(217,625)
Other receivables	(21,976)	(2,135,501)
Prepayments	(766,787)	(886,350)
Long term prepayment	765,365	864,656
Accounts payable	5,898,517	12,598,938
Customer deposits	142,446	125,331
Other payables	264,800	50,438
Accrued liabilities	(553,924)	202,793
Taxes payable	2,018,372	1,234,213
Net cash used in operating activities	(2,851,164)	(2,433,775)
Proceeds from disposal of property, plant, and equipment	6,260	742,242
Purchases of property, plant and equipment	(215,310)	(890,859)
Proceeds from sale of investments	12,363,500	-
Purchase of investments	(6,416,500)	(11,880,800)
Net cash provided by (used in) investing activities	5,737,950	(12,029,417)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short term loan	22,537,570	12,285,820
Payments for short term loan	(16,178,660)	(74,580)
Rent payment to shareholder	11,838	(5,775)
Restricted cash	(7,387,451)	<u>57,580</u>
Net cash (used in) provided by financing activities	(1,016,703)	12,263,045
EFFECT OF EXCHANGE RATE CHANGE ON CASH	(48,970)	2,052,476
NET INCREASE (DECREASE) IN CASH	1,821,113	(147,671)
CASH, beginning of period	1,610,699	3,300,820

CASH, end of period	\$	3,431,812	\$	3,153,149
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Organization and description of business

China Advanced Construction Materials Group, Inc. ( China ACM ) was incorporated in the State of Delaware on February 15, 2007. China ACM through its 100% owned subsidiaries and its variable interest entities ( VIEs ) (collectively, the Company ), is engaged in producing general ready-mix concrete, customized mechanical refining concrete, and other concrete-related products that are mainly sold in the People s Republic of China ( PRC ). China ACM has a wholly-owned subsidiary in the British Virgin Islands, 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 a VIE.

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

On September 20, 2010, China ACM established a 100% owned subsidiary, Advance Investment Holdings Co., Inc. ( AIH ) in the State of Nevada. AIH never commenced operations following its incorporation and was thereafter dissolved on August 30, 2011.

Note 2 Summary of significant accounting policies

Basis of presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by US GAAP for complete financial statements. The unaudited condensed consolidated financial statements include all adjustments including normal recurring adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows of the Company for the periods presented. The results of operations for the three and six months ended December 31, 2011 are not necessarily indicative of operating results expected for the full year or future interim periods. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report of Form 10-K for the year ended June 30, 2011, which was originally filed on September 23, 2011, and subsequently amended on September 26, 2011.

Principles of consolidation

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

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

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
NOTES TO 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 assessment 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 the Company is the primary beneficiary. Accordingly, the financial statements of Xin Ao and its subsidiaries are consolidated into the financial statements of the Company.

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

	December 31, 2011	June 30, 2011
Current assets	\$ 129,831,531	\$ 107,996,610
Property, plant and equipment	27,110,775	28,576,830
Other noncurrent assets	4,180,750	4,868,209
Total assets	161,123,056	141,441,649
Liabilities	(75,446,018)	(60,206,978)
Intercompany payables*	(7,960,404)	(9,808,542)
Total liabilities	(83,406,422)	(70,015,520)
Net assets	\$ 77,716,634	\$ 71,426,129

\* Payables to China - ACMH and BVI-ACMH 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 share-based payments, deferred income taxes, income tax payable, allowance for doubtful accounts, and the useful lives of property, plant and equipment. Actual results could be materially different from those estimates, upon which the carrying values were based.

#### Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The functional currency of China ACM and BVI-ACM is the U.S. dollar. China-ACMH and its VIEs use their local currency Chinese Renminbi ( RMB ) as their functional currency. In accordance with the US GAAP guidance on Foreign Currency Translation, the Company's results of operations and cash flows are translated at the average exchange rates during the period, assets and liabilities are translated at the exchange rates at the balance sheet dates, and equity is translated at historical exchange rates. As a

result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Asset and liability accounts at December 31, 2011 and June 30, 2011 were translated at RMB 6.36 and RMB 6.46 to \$1.00, respectively. The average translation rates applied to the consolidated statements of income and cash flows for the six months ended December 31, 2011 and 2010 were RMB 6.39 and RMB 6.72 to \$1.00, respectively.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
NOTES TO 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 stockholder's 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 does not sell products to customers on a consignment basis. There is no right of return after the product has been delivered into the location specified by the contract and accepted by the customer. 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 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 and significant to the fair value measurement. Cash, restricted cash, investment, accounts receivable, other assets, short term loans, accounts payable, and accrued expenses qualify as financial instruments, and their carrying amounts are reported in the consolidated balance sheets for accounts receivable, other assets, short term loans, accounts payable and accrued expenses, 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 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The fair value of cash, restricted cash and investment were derived from the quoted prices of the similar financial institutions, as Level 1 inputs. The fair value of the warrants liability was determined using the Cox-Ross-Rubinstein (CRR) Binomial Model, as Level 2 inputs, and recorded the unrealized gains and loss in earnings at each reporting period (see Note 9).

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 & expected dividend policy.

Concentration of credit risk

For the three months and six months ended December 31, 2011, no customer represented more than 10% of the Company's total revenue. For the three months ended December 31, 2010, no customer represented more than 10% of the Company's total revenue for the six months ended December 31, 2010, one customer represented 12% of the Company's total revenue. As of December 31, 2011 and June 30, 2011, no customer accounted for more than 10% of the Company's accounts receivable balance.

Cash and cash equivalents

The Company considers all highly liquid investments with maturity of three months or less at the date of purchase to be cash equivalents. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions within PRC and US. As of December 31, 2011 and June 30, 2011, the Company had deposits in excess of federally insured limits totaling \$2,962,727 and \$767,963, respectively.

Restricted cash

Restricted cash represents \$8,180,255 cash deposits for short term loans collateral and \$188,760 cash deposits in connection with sales agreements.

Other receivables

Other receivables primarily include advances to employees, an unrelated entity, and receivables from insurance company, VAT tax refund and other deposits.

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, economy, trend in the construction industry, the expected collectability of amount receivable that past due and the expected collectability of 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. Accounts balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote.

There were no write offs for each of the three months and six months ended December 31, 2011 and 2010.

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 compare the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. As of December 31, 2011 and June 30, 2011, the Company determined no reserves for obsolescence were necessary.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Investments

During October, 2010, the Company entered into a one-year investment agreement with a financial investment company, whereby the Company may invest up to approximately RMB 100,000,000 (\$12,221,300 at June 30, 2011). The financial investment company will then invest the Company's funds in certain financial instruments including bonds, mortgage trust or mutual funds. The rate of return on this investment is guaranteed at 7% per annum. The Company's investment is not subject to market fluctuation; therefore, the Company will not experience gain or loss on its investment. However, the Company's funds deposited with the financial investment company are not insured. The investment contract with the financial investment company was terminated at expiration in October, 2011. The Company received approximately \$12.4 million cash proceeds from investment with the above financial investment company during the six months ended December 31, 2011.

During November and December 2011, the Company entered into two two-month agreements with another financial investment company for aggregate amount of RMB 41,000,000 (approximately \$6.4 million). Under the agreements, RMB 26,000,000 (approximately \$4.1 million) investment expires on January 23, 2012 and RMB 15,000,000 (approximately \$2.3 million) investment expires on February 1, 2012. The interest rates are 9% per annum. The Company received \$4.1 million cash proceeds plus interest from the above financial investment company on January 21, 2012 and another \$2.3 million on February 3, 2012.

Prepayments and advances

The Company advances monies to certain suppliers for raw materials, plant and equipment, and factory rent. These advances are interest free and unsecured.

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 betterments 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

Long-lived assets such as, property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company did not recognize any impairment charges for the three months and six months ended December 31, 2011 and 2010.

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.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ASC 740-10, Accounting for Uncertainty in Income Taxes defines uncertainty in income taxes and the evaluation of a tax position is a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met.

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 2009 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 VAT exemption through June 2013.

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 December 31, 2011 and 2010 were \$1,754,720 and \$5,422, respectively. Research and development costs for the six months ended December 31, 2011 and 2010 were \$2,055,455 and \$153,322, respectively. Advertising costs for the three months ended December 31, 2011 and 2010 were \$81,692 and \$26,028, respectively. Advertising costs for the six months ended December 31, 2011 and 2010 were \$113,225 and \$42,546, respectively. Repair and maintenance costs for the three months ended December 31, 2011 and 2010 were \$303,909 and \$313,706, respectively. Repair and maintenance costs for the six months ended December 31, 2011 and 2010 were \$655,319 and \$603,123, respectively.

Earnings per share

The Company reports earnings per share in accordance with the US GAAP, which requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts, such as warrants, options, 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.

Comprehensive income

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

Reclassifications

Certain amounts from prior periods have been reclassified to conform to the current periods presentation.

Note 3 Change in accounting estimate

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Expecting longer collection period on accounts receivable and higher probability of uncollectable accounts receivable, the Company changed the accounting estimate on allowance for doubtful accounts within one year from historical default rate 2% to 5% based on peers' comparable rate in domestic construction industry during the six months ended December 31, 2011. The allowance for doubtful accounts increased to approximately \$16 million at December 31, 2011, compared to approximately \$5.6 million at June 30, 2011.

Note 4 Supplemental disclosure of cash flow information

For the six months ended December 31, 2011 and 2010, the Company paid interest in the amount of \$462,829 and \$190,929 respectively.

Cash payments for income tax for the six months ended December 31, 2011 and 2010 were \$755,541 and \$419,961, respectively.

Note 5 Accounts and notes receivable

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

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

	December 31, 2011	June 30, 2011
Accounts receivable, current	\$ 116,046,511	\$ 90,420,404
Notes receivable, current	550,550	-
	116,597,061	90,420,404
Less: allowance for doubtful accounts, current	(16,049,479)	(5,627,049)
Total accounts and notes receivable, net	\$ 100,547,582	\$ 84,793,355

Note 6 Property, plant and equipment

Property, plant and equipment consist of the following:

	December 31, 2011	June 30, 2011
Plant and machinery	\$ 22,212,776	\$ 21,687,400
Transportation equipment	20,696,290	20,354,203
Office equipment	1,298,310	1,269,255
Buildings and improvements	381,150	344,852
Construction-in-progress	-	-
Total	44,588,526	43,655,710
Less: accumulated depreciation	(16,813,291)	(14,376,270)
Plant and equipment, net	\$ 27,775,235	\$ 29,279,440

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Depreciation expense for the three months ended December 31, 2011 and 2010 amounted to \$1,108,629 and \$956,925, respectively. Depreciation expense for the six months ended December 31, 2011 and 2010 amounted to \$2,191,189 and \$1,819,065, respectively.

#### Note 7 Prepayments

Prepayments are comprised of plant factory rental prepayments the Company made (see Note 16 for more information on the plant rental) and advances on inventory purchases. Prepayments consisted of the following:

	December 31, 2011	June 30, 2011
Advances on inventory purchases	\$ 4,122,502	\$ 3,156,185
Rent prepayments	3,802,235	4,636,159
Total prepayments	\$ 7,924,737	\$ 7,792,344
Minus: Current portion of prepayments	(5,946,187)	(5,089,935)
Total long-term prepayments	\$ 1,978,550	\$ 2,702,409

#### Note 8 Short term loans, banks

Short term loans represent amounts due to banks and the Company's employees that are due within one year or on demand. As of December 31, 2011 and June 30, 2011, the outstanding balances on these loans consisted of the following:

	Decem 2011
Loan from Huaxia Bank, interest rate of 6.94% per annum, due February 9, 2012, guaranteed by Mr. Han Xian Fu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Group.	\$ 22,000,000
Loan from Shanghai Pudong Development Bank, interest rate of 8.53% per annum, \$2,359,500 due October 27, 2012 and \$2,359,500 due November 29, 2012, guaranteed by Beijing Xinhang Construction Group	4,719,000
Loan from Construction bank, interest rate of 5.83% per annum, due October 20, 2012, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Han XianFu and Mr. He Weili	5,000,000
Loan from Hengsheng bank, interest rate of 5.84% per annum, due April 21, 2012, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili	6,000,000
Loan from Citibank, interest rate of 5.83% per annum, due October 18, 2012, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili	2,000,000
Loan from Zhaoshang Bank, interest rate of 6.12% per annum, due November 8, 2012, guaranteed by Mr. Han Xian Fu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Group.	1,000,000
Loan from Industrial & Commercial Bank, interest rate of 6.01% per annum, due April 6, 2012, collateral by accounts receivable from China Construction 1st Bureau.	1,000,000
	\$ 22,000,000

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The Company paid off the loan from Huaxia Bank on February 9, 2012.

The above guarantors are the suppliers to the Company.

Interest expense on short-term loans for the three months ended December 31, 2011 and 2010 amounted to \$192,471 and \$186,611, respectively. Interest expense on short-term loans for the six months ended December 31, 2011 and 2010 amounted to \$482,489 and \$198,057, respectively.

Note 9 Warrants liability

A contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position is not considered a derivative financial instrument. This accounting standard provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception.

The Company's warrants have down-round ratchet provision on the exercise price. As a result, the warrants are not considered indexed to the Company's own stock, and are classified as liabilities with all future changes in the fair value of these warrants recognized in earnings until such time as the warrants are exercised or expired.

These common stock purchase warrants do not trade in an active securities market, and as such, their fair value is estimated by using the Cox-Ross-Rubinstein (CRR) Binomial Model using the following assumptions:

	December 31, 2011	June 30, 2011
Annual dividend yield	-	-
Expected life (years)	1.45	1.98
Risk-free interest rate	0.18%	0.44%
Expected volatility	60%	75%

Expected volatility is based on the historical volatility of the Company's common stock. The Company has no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the warrants. The expected dividend yield was based on the Company's current and expected dividend policy.

The following table sets forth by level within the fair value hierarchy the warrants liability that was accounted at fair value on a recurring basis.

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	Carrying Value at December 31, 2011	Fair Value Measurement at December 31, 2011		
		Level 1	Level 2	Level 3
Warrants liability	\$ 820,155	\$ -	\$ 820,155	\$ -

	Carrying Value at June 30, 2011	Fair Value Measurement at June 30, 2011		
		Level 1	Level 2	Level 3
Warrants liability	\$ 618,657	\$ -	\$ 618,657	\$ -

The following is a reconciliation of the beginning and ending balances:

Beginning balance, June 30, 2011	\$ 618,657
Change in fair value for the six months ended December 31, 2011	201,498
Ending balance, December 31, 2011	\$ 820,155

Note 10 Related party transactions

Other payables - shareholders

Mr. He Weili, an approximately 17.0% shareholder, leased office space to the Company at approximately the current fair market value from July 2009 until the lease was terminated on December 31, 2011, with annual payments of approximately \$176,000. For the three months ended December 31, 2011 and 2010, the Company recorded rent expense to the shareholder in the amount of approximately \$46,000 and \$44,000, respectively. For the six months ended December 31, 2011 and 2010, the Company recorded rent expense to the shareholder in the amount of approximately \$92,000 and \$88,000, respectively. As of December 31 and June 30, 2011, approximately \$52,000 and \$40,000, respectively, remained unpaid, and is included in other payables - shareholders.

The Company's 32.5% and 17.0% shareholders, Mr. Han Xianfu and Mr. He Weili, respectively, together loaned \$750,900 to BVI-ACM on March 12, 2008 for working capital purposes. The loan is non-interest bearing, unsecured, and is payable in cash on demand.

Total other payables - shareholders consisted of the following:

	December 31, 2011	June 30, 2011
Han Xianfu, shareholder	\$ 450,540	\$ 450,540
He Weili, shareholder	352,618	340,052
	\$ 803,158	\$ 790,592

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Note 11 Income taxes

(a) Corporate income tax

China ACM and AIH were organized in the United States. China ACM has incurred a tax loss of \$65,113 for income tax purposes for the six months ended December 31, 2011, which excludes \$85,359 stock based compensation expenses and loss in fair value of warrant liabilities of \$201,498. As of December 31, 2011, net operating loss carry forward for United States income taxes was approximately \$1,713,000. The net operating loss carry forwards may be available to reduce future years' taxable income through year 2031. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's limited operating history and continued losses for United States income tax purpose. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset to reduce the asset to zero. The net changes in the valuation allowance for the six months ended December 31, 2011 and 2010 were an increase of approximately \$22,000 and \$129,310, respectively. Management reviews this valuation allowance periodically and makes adjustments accordingly. AIH has had no operations since it was incorporated and no income tax incurred, it was dissolved on August 30, 2011.

BVI-ACM was incorporated in the British Virgin Islands ( BVI ) and is not subject to income taxes under the current laws of the British Virgin Islands.

*China-ACMH and VIEs-Chinese operations*

All of the Company's income is generated in the PRC, through VIEs. The Company's VIE entities have cumulative undistributed earnings of approximately \$49.5 million and \$44.5 million as of December 31, 2011 and June 30, 2011, respectively, included in consolidated retained earnings and will continue to be indefinitely reinvested in the PRC. 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. After January 1, 2008, under the Chinese Enterprise Income Tax ( EIT ) law, the statutory corporate income tax rate applicable to most companies is 25% instead of the former tax rate of 33%. During the fourth quarter of 2009, Xin Ao has applied and received the 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 was entitled to an income tax reduction from 25% to 15% from January 1, 2009 to December 31, 2011.

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 subject to the PRC income tax at the rate of 25% on worldwide income. The definition of place of effective management refers to an establishment that exercises, in substance, 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 New 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 treaty 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 considers permanently reinvested undistributed earnings of Chinese operations in the PRC. As a result, there is no deferred tax expense related to withholding tax on the future repatriation of these earnings.

Income before provision for income taxes consisted of:

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	For the three months ended December 31, 2011		For the six months ended December 31, 2011		For the six months ended December 31, 2010	
USA	\$ (1,380,985)	\$ (1,994,601)	\$ (1,503,919)	\$ (2,334,420)		
China	2,163,005	6,204,823	6,079,634	10,579,188		
	\$ 782,020	\$ 4,210,222	\$ 4,575,715	\$ 8,244,768		

Provision for income taxes consisted of:

	For the three months ended December 31, 2011		For the six months ended December 31, 2011		For the six months ended December 31, 2010	
Current provision:						
USA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
China	908,491	978,233	2,800,382	1,576,198		
Total current provision	908,491	978,233	2,800,382	1,576,198		
Deferred provision (benefit):						
USA	-	-	-	-		
China	(571,115)	-	(1,761,377)	128,261		
Total deferred provision (benefit)	(571,115)	-	(1,761,377)	128,261		
Total provision for income taxes	\$ 337,376	\$ 978,233	\$ 1,039,005	\$ 1,704,459		

Significant components of deferred tax assets were as follows:

	December 31, 2011	June 30, 2011
Deferred tax assets - current		
Provision for doubtful accounts	\$ 1,761,377	\$ -
Total deferred tax assets - current	\$ 1,761,377	\$ -
Deferred tax assets - non-current		
Net operating loss carryforward in the U.S.	\$ 582,760	\$ 560,660
Net operating loss carryforward in China	-	-
	582,760	560,660
Valuation allowance	(582,760)	(560,660)
Total deferred tax assets - non-current	\$ -	\$ -

Taxes payable consisted of the following:

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	December 31, 2011	June 30, 2011
Income taxes payable	\$ 2,759,636	\$ 701,556
Other taxes payable	19,772	45,609
Total taxes payable	\$ 2,779,408	\$ 747,165

## (b) Uncertain tax positions

There were no unrecognized tax benefits for the three months ended December 31, 2011 and 2010. 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 months ended December 31, 2011 and 2010, the Company did not incur any interest and penalties.

## Note 12 Shareholders' equity

The value of the warrants issued to a placement agent from a private placement which occurred in June 2008 was \$169,345 calculated by using the Cox-Ross-Rubinstein (CRR) Binomial option price Model. The fair value of these warrants of \$169,345 was recognized as offering expense and charged to additional paid-in capital. The value of the warrants was determined using the CRR Binomial Model using the following assumptions: volatility 75%; risk-free interest rate of 3.49% of the Investor Warrants, the Placement and Advisory Warrants; dividend yield of 0%, and expected term of 5 years of the Investor Warrants and the Placement and Advisory Warrants. The volatility of the Company's common stock was estimated by management based on the historical volatility of a similar U.S. public company due to limited trading history of the Company's common stock. The risk-free interest rate was based on the Treasury Constant Maturity Rates published by the U.S. Federal Reserve for periods applicable to the expected life of the warrants. The expected dividend yield was based on the Company's current and expected dividend policy and the expected term is equal to the contractual life of the warrants.

Following is a summary of the investor warrants activity issued in connection with a private placement which occurred in June 2008:

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding as of June 30, 2011	616,375	\$ 2.40	1.94
Granted	-	-	-
Forfeited	-	-	-
Exercised	-	-	-
Outstanding as of December 31, 2010	616,375	\$ 2.40	1.94

Stock Option Plan

Under the employee stock option plan, the Company's stock options expire ten years from the date of grant. On October 3, 2008, the Company entered into a one-year agreement with one of the Company's board of directors. In connection with his services, the Company issued an aggregate of 50,000 options of the Company's common stock at an exercise price of \$2.90 per share. The options vest in equal quarterly installments over the first year of the agreement. As of June 30, 2011, all of the 50,000 options have been fully vested.

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In January, 2010, the Company appointed a CFO who was also the President of the Company. In connection with his services, the Company granted 12,500 options which vested on February 23, 2010 with an exercise price of \$4.64, 35,000 options which vested on March 5, 2010 with an exercise price \$5.38, 15,000 options which were scheduled to vest on June 30, 2010 contingent upon a performance condition and exercise price at \$5.38, and 50,000 options which were scheduled to vest on July 15, 2010 contingent upon a performance condition and exercise price at \$5.38. As of June 30, 2011, the 15,000 and 50,000 contingent options were forfeited due to failure to meet performance condition. On November 14, 2011, the Company entered into an employee termination agreement with the President and CFO. Upon termination of his service, all of his vested 97,500 option were forfeited.

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

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

The following is a summary of the stock option activity:

Stock options	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding as of June 30, 2011	97,500	\$ 4.01	\$ -
Granted	-	-	-
Forfeited	(97,500)	4.01	-
Exercised	-	-	-
Outstanding as of December 31, 2011	-	\$ -	\$ -
Exercisable as of December 31, 2011	-	\$ -	\$ -

For the three and six months ended December 31, 2011 and 2010, the Company recognized \$0 as compensation expenses under its stock option plan.

#### Restricted Stock Grants

Restricted stock grants are measured based on the market price on the grant date. The Company has granted restricted shares of common stock to the board of directors, senior management, and consultants. The Company did not grant any restricted stock during the six months ended December 31, 2011.

During May, 2010, the Company entered into an agreement with a communication consultant and agreed to grant 10,000 restricted shares of common stock on an annual basis with 2,500 restricted shares of common stock vesting quarterly. The service agreement was terminated on December 31, 2011 and the Company agreed to issue 4,167 restricted shares to the consultant for the service provided from June to September 2011. 2,500 shares were issued on October 14, 2011 for fair value of \$4,125 and 1,667 shares were issued on October 31, 2011 for fair value of \$3,767.

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For the three months ended December 31, 2011 and 2010, the Company recognized \$39,090 and \$283,887 of compensation expenses related to restricted stock grants, respectively. For the six months ended December 31, 2011 and 2010, the Company recognized \$85,359 and \$462,189 of compensation expenses related to restricted stock grants, respectively. The total unrecognized share-based compensation expense as of December 31, 2011 was approximately \$33,000, which is expected to be recognized over a weighted average period of approximately 0.3 years.

Following is a summary of the restricted stock grants:

Restricted stock grants	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Nonvested as of June 30, 2011	82,500	\$ 3.95	\$ 138,600
Granted	4,167	1.89	
Forfeited	(25,000)	5.04	
Vested	(44,167)	3.59	84,242
Nonvested as of December 31, 2011	17,500	\$ 2.82	\$ 41,650

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 \$1.6 million and \$2.1 million as of December 31, 2011 and June 30, 2011.

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

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

Note 14 Earnings per share

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

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	Three months ended December 31,		Six months ended December 31,	
	2011	2010	2011	2010
<b>Basic earnings per share</b>				
Net income available to common shareholders	\$ 444,644	\$ 3,231,989	3,536,710	\$ 6,540,309
Weighted average shares outstanding-Basic	17,815,900	17,651,620	17,810,986	17,585,082
Earnings per share-Basic	\$ 0.02	\$ 0.18	0.20	\$ 0.37
<b>Diluted earnings per share</b>				
Net income available to common shareholders	\$ 444,644	\$ 3,231,989	3,536,710	\$ 6,540,309
Weighted average shares outstanding-Basic	17,815,900	17,651,620	17,810,986	17,585,082
Restricted stock	22,500	5,000	22,500	5,000
Warrants and options	-	545,935	-	477,842
Weighted shares outstanding-Diluted	17,838,400	18,202,555	17,833,486	18,067,924
Earnings per share-Diluted	\$ 0.02	\$ 0.18	0.20	\$ 0.36

For the three and six months ended December 31, 2011, 616,375 warrants outstanding were excluded in the diluted EPS calculation because their effect was anti-dilutive. Further, 22,500 shares of restricted stock vested but not issued were included in the diluted EPS calculation.

## Note 15 Employee pension

The Company offers a discretionary pension fund, a defined contribution plan, to qualified employees. The pension includes two parts: the first to be paid by the Company is 20% of the employee's actual salary from the prior year. The other part, paid by the employee, is 8% of the actual salary. The Company's contributions of employment benefits, including pension were \$125,989 and \$114,357 for the three months ended December 31, 2011 and 2010, respectively. The Company's contributions of employment benefits, including pension were \$296,334 and \$185,610 for the six months ended December 31, 2011 and 2010, respectively.

## Note 16 Operating leases

The Company entered into a lease agreement for a manufacturing plant with an unrelated party which expires on September 30, 2013 with annual payments of approximately \$197,000. Further, the Company agreed to lease office space from the Company's shareholder and chief operating officer, Mr. He Weili, from July 2010 to June 2012 with annual payment of approximately \$176,000. The rent is valued at fair value from the main property management. The lease with Mr. He was terminated on December 31, 2011. On August 31, 2010, The Company entered a lease agreement to lease office space from a third party, starting from November 1, 2010 to October 31, 2013 with annual payment of approximately \$363,000. In addition, On October 14, 2011, The Company entered a lease agreement to lease office space from a third party, starting from October 19, 2011 to January 18, 2014 with annual payment of approximately \$73,000.

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

on November 30, 2010.

Total operating lease expenses for the three months ended December 31, 2011 and 2010 were \$663,606 and \$792,155, respectively. Total operating lease expenses for the six months ended December 31, 2011 and 2010 were \$1,307,613 and \$1,499,225, respectively. Operating lease expense is included in cost of revenue, selling, general, and administrative expenses.

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Future annual lease payments, net of rent prepayment made as of December 31, 2011, under non-cancelable operating leases with a term of one year or more consist of the following:

Years ending December 31,	Amount
2012	\$ 662,000
2013	610,000
2014	262,000
Thereafter,	-

Note 17 -- Business Segment

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

For the three months ended December 31, 2011:

	Sales of concrete	Manufacturing services	Technical services	Mixer rental	Corporate	Total
Net revenue	\$ 39,981,717	\$ 2,578,178	\$ -	\$ -	\$ -	\$ 42,559,895
Depreciation	(397,887)	(632,723)	-	-	(78,019)	(1,108,629)
Segment profit	6,819,244	190,484	-	-	(8,112,430)	(1,102,702)
Other income (expenses)	2,438,515	141,858	-	-	(408,418)	2,171,955
Interest income	-	-	-	-	112,807	112,807
Interest expenses	-	-	-	-	(400,039)	(400,039)
Capital expenditure	(149,956)	(12,115)	-	-	-	(162,071)
Total assets as of						
December 31, 2011	\$ 151,811,731	\$ 13,420,621	\$ -	\$ -	\$ -	\$ 165,232,352

For the six months ended December 31, 2011:

	Sales of concrete	Manufacturing services	Technical services	Mixer rental	Corporate	Total
Net revenue	\$ 80,066,756	\$ 7,078,146	\$ -	\$ -	\$ -	\$ 87,144,902
Depreciation	(766,657)	(1,277,076)	-	-	(147,456)	(2,191,189)
Segment profit	16,508,496	968,522	-	-	(17,536,155)	(59,137)
Other income (expenses)	4,843,618	422,146	-	-	(267,148)	4,998,616
Interest income	-	-	-	-	335,451	335,451
Interest expenses	-	-	-	-	(699,215)	(699,215)
Capital expenditure	(197,822)	(17,488)	-	-	-	(215,310)
Total assets as of						
December 31, 2011	\$ 151,811,731	\$ 13,420,621	\$ -	\$ -	\$ -	\$ 165,232,352

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended December 31, 2010:

	Sales of concrete	Manufacturing services	Technical services	Mixer rental	Corporate	Total
Net revenue	\$ 26,205,792	\$ 7,108,447	\$ 1,207,396	\$ 4,311	\$ -	\$ 34,525,946
Depreciation	(296,245)	(644,991)	(1,394)	-	(14,295)	(956,925)
Segment profit	1,807,073	1,776,332	1,041,106	4,051	(578,670)	4,049,892
Other income (expenses)	1,636,091	362,763	-	-	(1,771,608)	227,246
Interest income	-	-	-	-	157,220	157,220
Interest expenses	-	-	-	-	(224,136)	(224,136)
Capital expenditure	(2,706,519)	(741,112)	-	(442)	-	(3,448,073)
Total assets as of June 30, 2011	\$ 114,759,372	\$ 26,911,329	\$ 3,153,809	\$ 11,864	\$ -	\$ 144,836,374

For the six months ended December 31, 2010:

	Sales of concrete	Manufacturing services	Technical services	Mixer rental	Corporate	Total
Net revenue	\$ 51,526,739	\$ 11,580,224	\$ 2,366,456	\$ 9,609	\$ -	\$ 65,483,028
Depreciation	(597,692)	(1,171,412)	(1,426)	-	(48,535)	(1,819,065)
Segment profit	2,229,451	2,785,525	2,030,535	9,059	(1,073,203)	5,981,367
Other income (expenses)	3,155,348	631,070	-	-	(1,448,124)	2,338,294
Interest income	-	-	-	-	162,149	162,149
Interest expenses	-	-	-	-	(237,042)	(237,042)
Capital expenditure	(2,766,073)	(751,629)	-	(454)	-	(3,518,156)
Total assets as of June 30, 2011	\$ 114,759,372	\$ 26,911,329	\$ 3,153,809	\$ 11,864	\$ -	\$ 144,836,374

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 18 Commitments and contingencies

Legal Contingencies

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

Following is the summary of the current litigation:

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

In August 2006, Xin Ao filed a lawsuit against Beijing Boda Guosheng Investment Co., Ltd ( Boda ) seeking specific performance of Boda's obligations under the sales contract to pay approximately \$294,600 (RMB 2,000,000) for the cement supplied by Xin Ao between March 2005 and June 2005 and compensatory damages of approximately \$23,500 (RMB 171,000) to cover the interest incurred on the unpaid balance. The Court ruled against Boda and ordered Boda to pay the amounts requested by Xin Ao; however, Boda appealed the court's rulings. In November 2007, the Appeals Court upheld the original verdict and again ordered Boda to pay all the damages. As of June 30, 2011, the Company has factored this amount to an unrelated third party trust company and the trust company has received the payment from Boda.

On July 26 2011, the Company issued a press release announcing that its board of directors received a preliminary, non-binding offer from its Chairman and Chief Executive Officer, Mr. Xianfu Han, and its Vice Chairman and Chief Operating Officer, Mr. Weili He, to acquire all of the outstanding shares of the Company's common stock not currently owned by them in a going private transaction at a proposed price of \$2.65 per share in cash ( Proposed Transaction ).

Since July 29, 2011, multiple class action complaints (the Stockholder Actions ) have been filed against the Company and its Board of Directors in the Court of Chancery of the State of Delaware, generally alleging that the Company and all of our directors breached their fiduciary duties in connection with the receipt by the Company of a preliminary, non-binding offer from Xianfu Han, the Company's Chairman and Chief Executive Officer, and Weili He, the Company's Vice Chairman and Chief Operating Officer, to acquire all of the outstanding shares of our common stock not currently owned by them in a going private transaction at a proposed price of \$2.65 per share in cash (the Proposed Transaction ). The Stockholder Actions have been consolidated under the caption In re China Advanced Construction Materials Group Litigation, Consolidated C.A. No. 6729-CS. The Stockholder Actions seek, among other things, to declare that the Proposed Transaction is unfair, unjust and inequitable, to enjoin the Company from taking any steps necessary to accomplish or implement the Proposed Transaction, and damages in the event the Proposed Transaction is consummated

Agreement and plan of merger

On October 24, 2011, the Company announced that it has entered into a definitive agreement and plan of merger with Novel Gain Holdings Limited, a British Virgin Islands company ("Novel Gain"), CACMG Acquisition, Inc., a Delaware corporation and a wholly owned, direct subsidiary of Novel Gain ("Merger Sub"), Mr. Xianfu Han and Mr. Weili He, pursuant to which Merger Sub will merge with and into the Company with the Company continuing as the surviving corporation and a wholly owned subsidiary of Novel Gain.

Under the terms of the merger agreement, each share of the Company Common Stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive \$2.65 in cash without interest, except for (i) shares in respect of which appraisal rights have been properly exercised under Delaware law, and (ii) shares owned by Novel Gain and Merger Sub (including shares to be contributed to Novel Gain by Messrs. Han and He (the "Rollover Investors") pursuant to a rollover agreement between Novel Gain and the Rollover Investors immediately prior to the effective time of the merger), which shares will be cancelled without the Rollover Investors receiving any consideration.

The merger contemplated by the merger agreement is subject to customary closing conditions set forth in the merger agreement, including obtaining approval of the existing stockholders of the Company. If completed, the merger would, under the laws of the State of Delaware, result in the Company becoming a privately held company and the Company Common Stock would no longer be listed on the NASDAQ Global Market.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Termination Agreement

On November 14, 2011, the Company entered into an employee termination agreement (the Termination Agreement), the Company's President and Chief Financial Officer, pursuant to which his employment with the Company terminated on the date of filing of its quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2011. The Termination Agreement provides that the termination of Mr. Goodwin's employment is by mutual agreement and not for cause or good reason. Pursuant to the Termination Agreement, the Company is required to pay (i) within five business days following the termination of his employment, a fee equal to \$45,000, and (ii) within five business days after the date that the Form 15 deregistering the common stock of the Company with the SEC becomes effective under the Securities Exchange Act of 1934, as amended (the Act), an additional fee equal to \$45,000. In addition, the Company agreed to use reasonable efforts to remove the former officer as a defendant in the class action lawsuits identified in Part II, Item 1 Legal Proceedings, on the basis that he was not party either to the management buyout proposal or to the Board of Director's review of such proposal and so long as is a named defendant in such suits, and prior to the deregistration of the Company's common stock under the Act, use commercially reasonable efforts to obtain and maintain D&O liability insurance which provides the same rights and benefits as are accorded to the most favorably insured of the Company's directors (provided that such insurance is not prohibited by the Merger Agreement).

## 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 XinAo, but do not include the stockholders of China Advanced;
- BVI-ACM are references to XinAo 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.
- XinAo are references to Beijing XinAo 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, predicts, 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 the regulatory environment; 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, XinAo and its subsidiaries. We engage in the production 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 six months ended December 31, 2011, we supported materials, services and our high speed railway projects through our network of ready-mixed concrete plants throughout Beijing (four as of December 31, 2011) and our portable plants (twenty as of December 31, 2011) located in various provinces throughout China. We own one concrete plant and its related equipment, and we lease three additional plants in Beijing.

Our manufacturing services are used primarily for our national high speed railway projects. Typically, the general contractors on the high speed railway projects supply the raw materials required for the project, which results in higher gross margins for us and reduces our upfront capital investments needed to purchase raw materials. We also produce ready-mix concrete at portable plants, which can be dismantled and moved to new sites for new projects.

### **Going-Private Transaction**

On October 24, 2011, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Novel Gain Holdings Limited, a British Virgin Islands company (Novel Gain), CACMG Acquisition, Inc., a Delaware corporation and a wholly owned, direct subsidiary of Novel Gain (Merger Sub), Mr. Xianfu Han and Mr. Weili He. Pursuant to the Merger Agreement, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation and a wholly owned subsidiary of Novel Gain (the Merger). Mr. Han is our Chief Executive Officer and the Chairman of our Board of Directors, and beneficially owns approximately 32.5% of our outstanding common stock. Mr. He is our Chief Operating Officer and Vice-Chairman of our Board of Directors, and beneficially owns approximately 17.0% of our outstanding common stock.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger (the Effective Time), each share of our common stock issued and outstanding immediately prior to the Effective Time (other than (i) Rollover Shares (as defined in the Merger Agreement), (ii) shares owned by Novel Gain and Merger Sub and (iii) shares in respect of which appraisal rights have been properly exercised under Delaware law) will be canceled and will be automatically converted into the right to receive \$2.65 in cash (the Merger Consideration), without interest. In connection with the Merger, each outstanding share of our common stock that is subject to vesting and/or forfeiture restrictions will become fully vested immediately prior to the Effective Time. Each warrant that is outstanding at the Effective Time will be converted into the right to receive, upon exercise of such warrant after the Effective Time, a cash amount equal to (i) the total number of shares of our common stock subject to such warrant immediately prior to the Effective Time multiplied by (ii) the excess, if any, of (x) the Merger Consideration over (y) the exercise price payable per share of our common stock issuable under such warrant. In addition, each option to purchase our common stock pursuant to the our 2009 Equity Incentive Plan (the Plan) that is then outstanding and unexercised, whether or not then vested, shall be converted into the right to receive, upon exercise of such option after the Effective Time, a cash amount equal to (i) the total number of shares of our common stock subject to such option immediately prior to the Effective Time multiplied by (ii) the excess, if any, of (x) the Merger Consideration over (y) the exercise price payable per share of our common stock issuable under such option. Unless otherwise determined by Novel Gain, the Plan shall terminate as of the Effective Time.

We, Novel Gain and Merger Sub each have made customary representations and warranties to each other in the Merger Agreement. Completion of the Merger is subject to customary closing conditions, including, but not limited to, (i) adoption of the Merger Agreement by our stockholders, (ii) the absence of any order or injunction prohibiting the consummation of the Merger and (iii) the truth and correctness of each party's representations and warranties at closing.

The Merger Agreement may be terminated under certain circumstances, including, among others, (i) termination by mutual agreement of the parties, (ii) termination by either party if the Merger is not consummated on or before June 30, 2012, (iii) termination by the Company if we enter into an agreement with respect to a Superior Proposal (as defined in the Merger Agreement), (iv) termination under certain circumstances by the Company or Novel Gain after an Alternative Transaction Proposal (as defined in the Merger Agreement) is publicly disclosed and not withdrawn after December 23, 2011 and receipt of the Facility Agreement (as defined in the Merger Agreement), assuming that within 12 months of termination we enter into an agreement or transaction with respect to the Alternative Transaction Proposal, (v) termination by Novel Gain upon certain breaches of provisions of the Merger Agreement by the Company or by our Board of Directors, and (vi) termination by the Company after certain breaches by Novel Gain or Merger Sub. If the agreement is terminated pursuant to (iii), (iv) or (v), then we will be required to pay to Novel Gain a termination fee of \$500,000. If the agreement is terminated pursuant to (vi) or prior to Novel Gain's execution of a Facility Agreement (as defined in the Merger Agreement) and following 60 days from the execution of the Merger Agreement, then Novel Gain, or at our request, Mr. Han and Mr. He, will be required to pay to us a termination fee of \$1,500,000; provided, however, such termination fee will be increased to \$2,500,000 prior to Novel Gain's execution of a Facility Agreement and following 90 days from the execution of the Merger Agreement.

The foregoing description of the Merger Agreement is qualified in its entirety by reference to the full text of the Merger Agreement, a copy of which has been filed as Exhibit 10.1 to our current report on Form 8-K dated October 24, 2011, and which is incorporated herein by reference.

### **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 six months ended December 31, 2011, five customers accounted for approximately 13.0% of the Company's sales and 9.4% of our account receivables as of December 31, 2011. Should we lose any of these customers in the future and are unable to obtain additional customers, our revenues will suffer.

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

*Innovation Efforts.* We strive to produce the most technically and scientifically advanced products for our customers and maintain close relationships with Tsinghua University, Xi'an University of Architecture and Technology and Beijing Dongfang Jianyu Institute of Concrete Science & Technology which assist us with our research and development activities.

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

### **PRC Taxation**

China-ACMH and our 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% instead of the former tax rate of 33%. As granted by the State Administration of Taxation of the PRC, XinAo was entitled to an income tax reduction from 25% to 15% from January 1, 2009 to December 31, 2011.

In accordance with the New 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 subject to the PRC income tax at the rate of 25% on worldwide income. The definition of place of effective management refers to an establishment that exercises, in substance, 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 New 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. We continue to monitor changes in the interpretation and/or guidance of this law.

The New EIT Law also imposes a 10% withholding income tax, subject to reduction based on tax treaty 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 foreign investment enterprises have been subject to the withholding tax since January 1, 2008. We consider permanently reinvested undistributed earnings of Chinese operations in the PRC. As a result, there is no deferred tax expense related to withholding tax on the future repatriation of these earnings.

### Warrants Liability

Effective July 1, 2009, we adopted the provisions of ASC 815, which determines whether an instrument (or embedded feature) is indexed to an entity's own stock. This accounting standard specifies that a contract which would otherwise meet the definition of a derivative but is both (a) indexed to our own stock and (b) classified as stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. This accounting standard provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception.

As such, warrants are not afforded equity treatment because the warrants have a down-round provision on the exercise price. As a result, the warrants are not considered indexed to our own stock, and, as such, all changes in the fair value of these warrants are recognized as earnings until such time as the warrants are exercised or expired.

### 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 six months ended December 31, 2011 and 2010, in order to provide a meaningful discussion of our business segments. We have organized our operations into four principal segments: selling concrete, manufacturing concrete, providing technical support services and others, which include mixer rental, sales of materials and marketing cooperation. We present our segment information along the same lines that our chief executives review our operating results in assessing performance and allocating resources.

For the three months ended December 31, 2011:

	Sales of concrete	Manufacturing services	Technical services	Mixer rental	Corporate	Total
Net revenue	\$ 39,981,717	\$ 2,578,178	\$ -	\$ -	\$ -	\$ 42,559,895
Depreciation	(397,887)	(632,723)			(78,019)	(1,108,629)
Segment profit	6,819,244	190,484	-	-	(8,112,430)	(1,102,702)
Other income (expenses)	2,438,515	141,858	-	-	(408,418)	2,171,955

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Interest income	-	-	-	-	112,807	112,807
Interest expenses	-	-	-	-	(400,039)	(400,039)
Capital expenditure	(149,956)	(12,115)	-	-	-	(162,071)
Total assets as of						
December 31, 2011	\$ 151,811,731	\$ 13,420,621	\$ -	\$ -	\$ -	\$ 165,232,352

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For the six months ended December 31, 2011:

	Sales of concrete	Manufacturing services	Technical services	Mixer rental	Corporate	Total
Net revenue	\$ 80,066,756	\$ 7,078,146	\$ -	\$ -	\$ -	\$ 87,144,902
Depreciation	(766,657)	(1,277,076)			(147,456)	(2,191,189)
Segment profit	16,508,496	968,522	-	-	(17,536,155)	(59,137)
Other income (expenses)	4,843,618	422,146	-	-	(267,148)	4,998,616
Interest income	-	-	-	-	335,451	335,451
Interest expenses	-	-	-	-	(699,215)	(699,215)
Capital expenditure	(197,822)	(17,488)	-	-	-	(215,310)
Total assets as of December 31, 2011	\$ 151,811,731	\$ 13,420,621	\$ -	\$ -	\$ -	\$ 165,232,352

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Net revenue	\$ 26,205,792	\$ 7,108,447	\$ 1,207,396	\$ 4,311	\$ -	\$ 34,525,946
Depreciation	(296,245)	(644,991)	(1,394)	-	(14,295)	(956,925)
Segment profit	1,807,073	1,776,332	1,041,106	4,051	(578,670)	4,049,892
Other income (expenses)	1,636,091	362,763	-	-	(1,771,608)	227,246
Interest income	-	-	-	-	157,220	157,220
Interest expenses	-	-	-	-	(224,136)	(224,136)
Capital expenditure	(2,706,519)	(741,112)	-	(442)	-	(3,448,073)
Total assets as of June 30, 2011	\$ 114,759,372	\$ 26,911,329	\$ 3,153,809	\$ 11,864	\$ -	\$ 144,836,374

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Depreciation	(597,692)	(1,171,412)	(1,426)	-	(48,535)	(1,819,065)
Segment profit	2,229,451	2,785,525	2,030,535	9,059	(1,073,203)	5,981,367
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Capital expenditure	(2,766,073)	(751,629)	-	(454)	-	(3,518,156)
Total assets as of June 30, 2011	\$ 114,759,372	\$ 26,911,329	\$ 3,153,809	\$ 11,864	\$ -	\$ 144,836,374

*Concrete Sales Business*

Our concrete sales business segment is comprised of the formulation, production and delivery of the Company's line of C10-C100 concrete mixtures primarily through our current fixed plant network of 4 ready mix concrete batching plants in Beijing. For this segment of our business, we procure all of our own raw materials, mix them according to our measured mixing formula, ship the final product in mounted transit mixers to the destination work site, and, for more sophisticated structures, will pump the mixture and set it into structural frame 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 24 rapid assembly and deployment batching plants, located in various provinces throughout China. Our clients will purchase and provide the raw materials in volume on a separate account which we will then proportion and mix according to our formulation for a given project's specifications. At present, our manufacturing services business segment is primarily dedicated to various high-speed rail projects in China which demand very high quality standards on a time sensitive work schedule.

*Technical Services Business*

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

*Other Services*

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

**Consolidated Results of Operations***Comparison of the Three Months Ended December 31, 2011 and 2010*

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

	2011	Three Months Ended December 31, 2010	Increase	Percentage Increase
<b>Total revenue</b>	\$ 42,559,895	\$ 34,525,946	\$ 8,033,949	23 %
Total cost of revenue	35,026,426	27,843,836	7,182,590	26 %
<b>Gross profit</b>	7,533,469	6,682,110	851,359	13 %
Provision for doubtful accounts	3,359,502	509,639	2,849,863	559 %
Selling, general and administrative expenses	5,276,670	2,122,579	3,154,091	149 %
Other income, net	1,884,723	160,330	1,724,393	1,076 %

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<b>Income before provision for income taxes</b>	782,020	4,210,222	(3,428,202)	(81) %
<b>Income taxes expense</b>	337,376	978,233	(640,857)	(66) %
Net income available to Common shareholders	\$ 444,644	\$ 3,231,989	\$ (2,787,345)	(86) %

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**Revenue.** Our revenue is primarily generated from sales of our advanced ready-mix concrete products, manufacturing services and technical consulting services. For the three months ended December 31, 2011, we generated revenue of approximately \$42.6 million compared to \$34.5 million during the three months ended December 31, 2010, an increase of approximately \$8.1 million or 23%. Such increase is due to our sales generated from the concrete division for the three months ended December 31, 2011. In addition, on November 15, 2010, we announced a 25% average price increase across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8%. As a result, our concrete sales revenue was approximately \$40 million for the three months ended December 31, 2011, an increase of approximately \$13.8 million, or 53% compared to the three months ended December 31, 2010. The increase in revenues attributable to concrete sales was principally due to greater capacity utilization at our Beijing fixed plants coupled with higher prices and organic growth to include a broader client base.

During the three months ended December 31, 2011, we continued to supply concrete products to nine railway projects throughout China through our portable plants, specifically our projects located in Shanxi Province, Jiangxi Province, Hebei Province, Guangxi Province, Zhejiang Province, Guangdong Province, and Anhui Province. These nine projects contributed approximately \$2.6 million to our total revenue for the three months ended December 31, 2011, a decrease of approximately \$4.5 million, or 64%, compared to the three months ended December 31, 2010. 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 three months ended December 31, 2011 in light of an increase in audit inspections at high speed rail construction sites around China resulting from the recent heightened public scrutiny of public railway safety in China. For these railway projects, the general contractors generally supplied their own raw materials while we provided manufacturing and transportation services.

In addition, no revenue was generated through our technical consulting services during the three months ended December 31, 2011, a decrease of approximately \$1.2 million, compared to the three months ended December 31, 2010. The decrease was due to the service term expiration of two technically serviced contract plants in Datong, Shaanxi and one technically serviced contract plant in Mianyang, Sichuan. Unless we add additional concrete plants or experience continual pricing increases or an improvement in capacity utilization at our portable plants currently dedicated to high-speed rail, we anticipate that our overall sales revenue will remain flat due to constraints in finding additional capacity utilization going forward.

**Cost of Revenue.** Cost of revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was approximately \$35 million for the three months ended December 31, 2011, as compared to approximately \$27.8 million for the three months ended December 31, 2010, an increase of approximately \$7.2 million, or 26%. The increase of cost of revenue was due to the overall increase in production from our fixed concrete plants in the Beijing area compared to the three months ended December 31, 2010. The increase in cost of revenue was also due to the increase of inflation in China, as well as increases in labor and crude oil prices, which increased the costs of raw materials and transportation during this quarter compared to the prior fiscal year. We are uncertain whether crude oil prices or raw material prices will maintain at the current level in the near future. We intend to adjust our concrete prices to keep pace with changes in raw material pricing, particularly the price of cement.

The cost of revenue on concrete increased approximately \$9.8 million, or 43%, for the three months ended December 31, 2011, as compared to the three months ended December 31, 2010. Such increase was due to an increase in our concrete sales and production and the resulting increase in raw material purchases required for production, as well as the increased labor costs, crude oil prices and raw materials as indicated above.

Cost of revenue with respect to our manufacturing services decreased approximately \$2.6 million or 52%, during the three months ended December 31, 2011, as compared to the three months ended December 31, 2010. The decrease in our cost of sales was due to decreased revenue from manufacturing services.

**Gross Profit.** Gross profit is equal to the difference between our revenue and cost of sales. Gross profit was approximately \$7.5 million for the three months ended December 31, 2011, as compared to approximately \$6.7 million for the three months ended December 31, 2010. Our gross profit for sale of concrete was approximately \$7.3 million, or 18% of revenue, for the three months ended December 31, 2011, compared to approximately \$3.4 million, or 13% of revenue for the three months ended December 31, 2010, an increase of approximately \$3.9 million. The higher gross profit for concrete sales for the three months ended December 31, 2011, compared with the three months ended December 31, 2010, reflects higher demand and higher prices for our concrete products in Beijing. The primary reason for the margin increase in concrete sales from 13% in the three months ended December 31, 2010 is due to a 25% average price increase in the second fiscal quarter of our 2011 fiscal year across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8% in addition to improving overall operational efficiencies at our Beijing fixed plants. We intend to continue to adjust our concrete sales prices in tandem with price fluctuations in cement.

Our gross profit with respect to our manufacturing services was approximately \$0.2 million, or 9% for the three months ended December 31, 2011, a decrease of approximately \$2 million from approximately \$2.2 million during the three months ended December 31, 2010. Such decrease was principally due to the suspension of operations of a number of our portable plants during the three months ended December 31, 2011. The primary reasons for the margin decrease compared to the same period last year were the slowing production rates at plants nearing project completion and extended project delays stemming from delayed municipal government resident relocation efforts, increase in costs of transportation, a larger employee base, and suspended operations due to ongoing government quality and audit inspections at high speed rail construction sites around China .

***Provision for Doubtful Accounts.*** Provision for doubtful accounts was approximately \$3.4 million for the three months ended December 31, 2011, an increase of approximately \$2.8 million, compared to approximately \$0.5 million for the three months ended December 31, 2010. We have experienced delays in payment on our projects from China's Ministry of Railways, or MOR. Following the arrest of its head on corruption charges, the MOR conducted payment chain audits; in addition, the MOR was under pressure to repay its debts incurred during the years of expansion. As a result, the MOR has delayed payments to construction companies, including us. Furthermore, the government tightened its monetary policy in order to regulate inflation, which in turn led to delayed payment on our housing construction projects. We expect longer collection period on accounts receivable and higher probability of uncollectable accounts receivable, and therefore have changed the accounting estimate on allowance for doubtful accounts within one year from our historical default rate of 2% to 5% based on peers' comparable rate in the domestic construction industry during the three months ended December 31, 2011. The allowance for doubtful accounts increased to approximately \$16 million at December 31, 2011, compared to approximately \$5.6 million at June 30, 2011. The new estimate of peers' comparable rate on allowance for doubtful accounts increased provision for doubtful accounts for approximately \$2.9 million compared to the previous estimate of historical default rates. If the new accounting estimate on allowance for doubtful accounts was adopted at June 30, 2011 or December 31, 2010, the provision for doubtful accounts would have been increased approximately \$2.5 million and \$ 1.8 million for the year ended June 30, 2011 and the three months ended December 31, 2010, respectively.

***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, professional and legal fees paid to third parties, and research and development expenses. We incurred selling, general and administrative expenses of approximately \$5.3 million for the three months ended December 31, 2011, an increase of approximately \$3.2 million, or 149%, as compared to approximately \$2.1 million for the three months ended December 31, 2010. The increase was primarily due to a \$1.7 million increase in research and development expenses, a \$0.9 million increase in consulting service, a \$0.2 million increase in salary and employment benefit expense, and a \$0.4 million increase in other business expenses resulting from higher production.

***Other Income (Expense), net.*** Our other income (expense) consists of value added tax, or VAT, 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 \$1.9 million for the three months ended December 31, 2011, as compared to net other income of \$0.2 million for the three months ended December 31, 2010, an increase of approximately \$1.7 million. The increase in net other income was primarily due to an increase in other subsidy income to approximately \$2.6 million for the three months ended December 31, 2011, as compared to approximately \$2 million for the three months ended December 31, 2010, an increase of approximately \$0.6 million, or 28%. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us VAT tax exemption from August 2005 to August 2009, and thereafter a two year extension on the VAT tax exemption from June 2009 to June 2011. We applied for VAT tax exemption extension and recently received an extension through June 2013. The VAT tax collected during the aforementioned period from our customers is retained by the Company and recorded as other subsidy income. We also experienced a decrease in change in fair value of warrants liability to a charge of \$0.4 million for the three months ended December 31, 2011, as compared to a charge of \$1.4 million for the three months ended December 31, 2010, a net decrease of \$1 million, or 72%. In addition, we

had interest expense of \$0.4 million for the three months ended December 31, 2011, as compared to \$0.2 million for the three months ended December 31, 2010, an increase of \$0.2 million related to short-term loans. The Company also had interest income of \$0.1 million for the three months ended December 31, 2011, as compared to \$0.2 million in the three months ended December 31, 2010, a decrease of \$0.1 million, resulting from a decrease in short-term investment.

**Provision for Income Taxes.** Provision for income taxes amounted to approximately \$0.3 million and \$1 million for the three months ended December 31, 2011 and 2010, respectively. We have used recycled raw materials in our concrete production since our inception, which entitled us to an income tax rate reduction through December 31, 2011, as granted by the State Administration of Taxation, PRC. Since January 1, 2009, we are subject to a 15% income tax rate. In the past, XinAo has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at present the Company is unable to determine the extent of such liability, if any.

**Net Income available to Common Shareholders.** We recognized net income of approximately \$0.4 million for the three months ended December 31, 2011, as compared to net income of approximately \$3.2 million for the three months ended December 31, 2010, a decrease of \$2.8 million. Such decrease in net income was primarily due to an increase in provision of doubtful accounts, research and development expenses, consulting service associated with the current going private transaction and selling, general, and administrative expense from an increase in our labor base and scale of operations, offset by higher prices, growth of our client base, and increase in our plant production capacity across our Beijing concrete plant network.

*Comparison of the Six Months Ended December 31, 2011 and 2010*

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

	<b>Six Months Ended December 31,</b>			
	<b>2011</b>	<b>2010</b>		
<b>Total revenue</b>	\$ 87,144,902	\$ 65,483,028	\$ 21,661,874	33 %
Total cost of revenue	68,856,887	54,675,654	14,181,233	26 %
<b>Gross profit</b>	18,288,015	10,807,374	7,480,641	69 %
Provision for doubtful accounts	10,361,042	676,697	9,684,345	1,431 %
Selling, general and administrative expenses	7,986,110	4,149,310	3,836,800	92 %
Other income, net	4,634,852	2,263,401	2,371,451	105 %
<b>Income before provision for income taxes</b>	4,575,715	8,244,768	(3,669,053)	(45) %
<b>Income taxes expense</b>	1,039,005	1,704,459	(665,454)	(39) %
Net income available to Common shareholders	\$ 3,536,710	\$ 6,540,309	\$ (3,003,599)	(46) %

**Revenue.** Our revenue is primarily generated from sales of our advanced ready-mix concrete products, manufacturing services and technical consulting services. For the six months ended December 31, 2011, we generated revenue of approximately \$87.1 million compared to \$65.5 million during the six months ended December 31, 2010, an increase of approximately \$21.6 million or 33%. Such increase is due to our sales generated from the concrete division for the six months ended December 31, 2011. In addition, on November 15, 2010, we announced a 25% average price increase across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8%. As a result, our concrete sales revenue was approximately \$80.1 million for the six months ended December 31, 2011, an increase of approximately \$28.5 million, or 55% compared to the six months ended December 31, 2010. The increase in revenues attributable to concrete sales was principally due to greater capacity utilization at our Beijing fixed plants coupled with higher prices and organic growth to include a broader client base.



During the six months ended December 31, 2011, we continued to supply concrete products to nine railway projects throughout China through our portable plants, specifically our projects located in Shaanxi Province, Jiangxi Province, Hebei Province, Guangxi Province, Zhejiang Province, Guangdong Province, Liaoning Province, and Anhui Province. These nine projects contributed approximately \$7.1 million to our total revenue for the six months ended December 31, 2011, a decrease of approximately \$4.5 million, or 39%, compared to the six months ended December 31, 2010. The decrease in revenues attributable to our manufacturing services was principally due to the suspension of operations of a number of our portable plants for the six months ended December 31, 2011 in light of an increase in audit inspections at high speed rail construction sites around China resulting from the recent heightened public scrutiny of public railway safety in China. For these railway projects, the general contractors generally supplied their own raw materials while we provided manufacturing and transportation services.

In addition, no revenue was generated through our technical consulting services during the six months ended December 31, 2011, a decrease of approximately \$2.4 million, compared to the six months ended December 31, 2010. The decrease was due to the service term expiration of two technically serviced contract plants in Datong, Shaanxi and one technically serviced contract plant in Mianyang, Sichuan.

**Cost of Revenue.** Cost of revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was approximately \$68.9 million for the six months ended December 31, 2011, as compared to approximately \$54.7 million for the six months ended December 31, 2010, an increase of approximately \$14.2 million, or 26%. The increase of cost of revenue was due to the overall increase in production from our fixed concrete plants in the Beijing area compared to the six months ended December 31, 2010. The increase in cost of revenue was also due to the increase of inflation in China, as well as increases in labor and crude oil prices, which increased the costs of raw materials and transportation during this quarter compared to the prior fiscal year. We are uncertain whether crude oil prices or raw material prices will maintain at the current level in the near future. We intend to adjust our concrete prices to keep pace with changes in raw material pricing, particularly the price of cement.

The cost of revenue on concrete increased approximately \$16.5 million, or 36%, for the six months ended December 31, 2011, as compared to the six months ended December 31, 2010. Such increase was due to an increase in our concrete sales and production and resulting increase in raw material purchases, as well as the increased labor costs, crude oil prices and raw materials as indicated above.

Cost of revenue with respect to our manufacturing services decreased approximately \$2.1 million or 26%, during the six months ended December 31, 2011, as compared to the six months ended December 31, 2010. The decrease in our cost of sales is due to decreased revenue from manufacturing services.

**Gross Profit.** Gross profit is equal to the difference between our revenue and cost of sales. Gross profit was approximately \$18.3 million for the six months ended December 31, 2011, as compared to approximately \$10.8 million for the six months ended December 31, 2010. Our gross profit for sale of concrete was approximately \$17.3 million, or 22% of revenue, for the six months ended December 31, 2011, compared to approximately \$5.2 million, or 10% of revenue for the six months ended December 31, 2010, an increase of approximately \$12.1 million. The higher gross profit for concrete sales for the six months ended December 31, 2011, compared with the six months ended December 31, 2010, reflects higher demand and higher prices for our concrete products in Beijing. The primary reason for the margin increase in concrete sales from 10% in the six months ended December 31, 2010 is due to a 25% average price increase in the second fiscal quarter of our 2011 fiscal year across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8% in addition to improving overall operational efficiencies at our Beijing fixed plants. We intend to continue to adjust our concrete sales prices in tandem with price fluctuations in cement.

Our gross profit with respect to our manufacturing services was approximately \$1 million, or 15% for the six months ended December 31, 2011, a decrease of approximately \$2.4 million from the \$3.4 million during the six months ended December 31, 2010. Such decrease was principally due to the suspension of operations of a number of our

portable plants for the six months ended December 31, 2011. The primary reasons for the margin decrease compared to the same period last year were the slowing production rates at plants nearing project completion and extended project delays stemming from delayed municipal government resident relocation efforts, increase in costs of transportation, a larger employee base and suspended operations due to ongoing government quality and audit inspections at high speed rail construction sites around China.

**Provision for Doubtful Accounts.** Provision for doubtful accounts was approximately \$10.4 million for the six months ended December 31, 2011, an increase of approximately \$9.7 million, compared to approximately \$0.7 million for the six months ended December 31, 2010. We have experienced delays in payment on our projects from China's Ministry of Railways, or MOR. After arrest of its head on corruption charges, the MOR conducted payment chain audits; in addition, the MOR was under pressure to repay its debts incurred during the years of expansion. As a result, the MOR has delayed payments to construction companies, including us. Furthermore, the government tightened monetary policy in order to regulate inflation, which in turn led to delayed payment on our housing construction projects. We expect longer collection period on accounts receivable and higher probability of uncollectable accounts receivable, and therefore changed the accounting estimate on allowance for doubtful accounts within one year from our historical default rate of 2% to 5% based on peers' comparable rate in domestic construction industry during the six months ended December 31, 2011. The allowance for doubtful accounts increased to approximately \$16 million at December 31, 2011, compared to approximately \$5.6 million at June 30, 2011. The new estimate of peers' comparable rate on allowance for doubtful accounts increased provision for doubtful accounts for approximately \$2.9 million compared to the previous estimate of historical default rates. If the new accounting estimate on allowance for doubtful accounts was adopted at June 30, 2011 or December 31, 2010, the provision for doubtful accounts would have been increased approximately \$2.5 million and \$1.8 million for the year ended June 30, 2011 and the six months ended December 31, 2010, respectively.

**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, professional and legal fees paid to third parties, and research and development expenses. We incurred selling, general and administrative expenses of approximately \$8 million for the six months ended December 31, 2011, an increase of approximately \$3.9 million, or 92%, as compared to approximately \$4.1 million for the six months ended December 31, 2010. The increase was primarily due to a \$1.9 million increase in research and development expenses, a \$1 million increase in consulting service, a \$0.3 million increase in salary and employment benefit expense, and a \$0.7 million increase in other business expenses resulting from higher production.

**Other Income (Expense), net.** Our other income (expense) consists of VAT 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 \$4.6 million for the six months ended December 31, 2011, as compared to net other income of \$2.3 million for the six months ended December 31, 2010, an increase of approximately \$2.3 million, or 105%. The increase in net other income was primarily due to an increase in other subsidy income to approximately \$5.2 million for the six months ended December 31, 2011, as compared to approximately \$3.8 million for the six months ended December 31, 2010, an increase of approximately \$1.4 million, or 38%. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us VAT tax exemption from August 2005 to August 2009, and thereafter a two year extension on the VAT tax exemption from June 2009 to June 2011. We applied for VAT tax exemption extension and recently received an extension through June 2013. The VAT tax collected during the aforementioned period from our customers is retained by the Company and recorded as other subsidy income. We also experienced a decrease in change in fair value of warrants liability to a charge of \$0.2 million for the six months ended December 31, 2011, as compared to a charge of \$1.3 million for the six months ended December 31, 2010, a net decrease of \$1.1 million, or 84%. In addition, we had interest expense of \$0.7 million for the six months ended December 31, 2011, as compared to \$0.2 million for the six months ended December 31, 2010, an increase of \$0.5 million related to short-term loans. The Company also had interest income of \$0.3 million for the six months ended December 31, 2011, as compared to \$0.2 million in the six months ended December 31, 2010, an increase of \$0.1 million. The interest income increase was due to the interest income from short-term investments.

**Provision for Income Taxes.** Provision for income taxes amounted to approximately \$1 million and \$1.7 million for the six months ended December 31, 2011 and 2010, respectively. We have used recycled raw materials in our concrete production since our inception, which entitled us to an income tax rate reduction through December 31, 2011, as

granted by the State Administration of Taxation, PRC. Since January 1, 2009, we are subject to a 15% income tax rate. In the past, XinAo has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at present the Company is unable to determine the extent of such liability, if any.

***Net Income available to Common Shareholders.*** We recognized net income of approximately \$3.5 million for the six months ended December 31, 2011, as compared to net income of approximately \$6.5 million for the six months ended December 31, 2010, a decrease of \$3 million. Such decrease in net income was primarily due to an increase in provision of doubtful accounts, research and development expenses, consulting service associated with the current going private transaction and selling, general, and administrative expense from an increase in our labor base and scale of operations, offset by higher prices, growth of our client base, and increase in our plant production capacity across our Beijing concrete plant network.

## Liquidity and Capital Resources

As of December 31, 2011, we had cash and cash equivalents of approximately \$3.4 million and restricted cash of approximately \$8.4 million. The following table provides detailed information about our net cash flow for financial statement periods presented in this report:

<b>Summary of Cash Flow Statements</b>		
<b>For the six months ended</b>		
<b>December 31,</b>		
	<b>2011</b>	<b>2010</b>
Net cash used in operating activities	\$ (2,851,164)	\$ (2,433,775)
Net cash provided by (used in) investing activities	5,737,950	(12,029,417)
Net cash (used in) provided by financing activities	(1,016,703)	12,263,045
Effect of foreign currency translation on cash and cash equivalents	(48,970)	2,052,476
Net increase (decrease) in cash and cash equivalents	\$ 1,821,113	\$ (147,671)

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.

**Operating Activities.** Net cash used in operating activities totaled approximately \$2.9 million for the six months ended December 31, 2011, as compared to net cash used in operating activities of approximately \$2.4 million for the six months ended December 31, 2010. The increase in net cash used in operating activities was primarily due to a decrease in accounts payable, accrued liability and tax payable, offset by decrease in accounts receivable, other receivables, and prepayments during the six months ended December 31, 2011.

**Investing Activities.** Net cash provided by investing activities was approximately \$5.7 million for the six months ended December 31, 2011, as compared to approximately \$12 million net cash used in investing activities for the six months ended December 31, 2010. The increase in cash provided by investing activities was due to the fact that we received proceeds of approximately \$12.4 million from our sale of an investment in a financial investment guaranty company and entered into a \$6.4 million two-month short-term agreement with another financial investment company. During October, 2010, the Company entered into an investment agreement with financial investment guaranty company, whereby the Company may invest up to RMB 100,000,000. The financial investment company then invested the Company's funds in financial instruments including bonds, mortgage trust and mutual funds. The return on this investment was guaranteed at 7% per annum. Our funds deposited with the financial investment company were not insured. The investment contract with the financial investment company was terminated at expiration in October, 2011.

During November and December, 2011, the Company entered into two two-month agreements with another financial investment company for aggregate amount of RMB 41,000,000 (approximately \$6.4 million). Under the agreements, RMB 26,000,000 (approximately \$4.1 million) of the investment expired on January 23, 2012 and RMB 15,000,000 (approximately \$2.3 million) of the investment expired on February 1, 2012. The interest rates were 9% per annum. Subsequent to the end of the reporting period covered by this report, the Company received \$4.1 million cash proceeds plus interest from the above financial investment company on January 21, 2012 and another \$2.3 million on February 3, 2012. Investment income of approximately \$0.3 million was recognized and included in the non-operating income for the six months ended December 31, 2011.

**Financing Activities.** Net cash used in financing activities totaled approximately \$1 million for the six months ended December 31, 2011, as compared to net cash provided by financing activities of \$12.3 million during the six months ended December 31, 2010. The \$1 million net cash used in financing activities for the six months ended December 31, 2011 was due to \$16.2 million of loan repayments and a \$7.4 million increase in restricted cash offset by \$22.5 million of proceeds from a short-term loan. The \$12.3 million net cash provided by financing activities for the six months ended December 31, 2010 was due to \$12.3 million in proceeds from a short-term loan and \$0.1 million decrease in restricted cash and offset by \$0.1 million in loan repayments and rent payment to shareholders.

**Cash.** As of December 31, 2011, we had approximately \$3.4 million in cash as compared to approximately \$1.6 million as of June 30, 2011. We believe that our cash and revenues from ongoing operations, in addition to closely managing our accounts payable and accounts receivable, will be 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 borrowings totaling approximately \$22 million from loans and credit facilities as of December 31, 2011. The loans consisted of the following:

	December 31, 2011	June 30, 2011
Loan from Huaxia Bank, interest rate of 6.94% per annum, due February 9, 2012, guaranteed by Mr. Han Xian Fu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Group.	\$ 786,500	\$ 2,320,500
Loan from Shanghai Pudong Development Bank, interest rate of 8.53% per annum, \$2,359,500 due October 27, 2012 and \$2,359,500 due November 29, 2012, guaranteed by Beijing Xinhang Construction Group.	4,719,000	9,282,000
Loan from Construction Bank, interest rate of 5.83% per annum, due October 20, 2012, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Han XianFu and Mr. He Weili.	5,505,500	-
Loan from Hengsheng Bank, interest rate of 5.84% per annum, due April 21, 2012, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili.	6,292,000	-
Loan from Citibank, interest rate of 5.83% per annum, due October 18, 2012, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili.	2,359,500	2,320,500
Loan from Zhaoshang Bank, interest rate of 6.12% per annum, due November 8, 2012, guaranteed by Mr. Han Xian Fu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Group.	1,573,000	1,547,000
Loan from Industrial & Commercial Bank, interest rate of 6.01% per annum, due April 6, 2012, collateral by accounts receivable from China Construction 1st Bureau.	802,230	-
	\$ 22,037,730	\$ 15,470,000

The Company paid off the loan from Huaxia Bank on February 9, 2012.

### **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**

As discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, we consider our estimates on accounting for (i) revenue recognition, (ii) accounts receivable, (iii) accounting for long-lived assets, (iv) income taxes, (v) value-added tax, (vi) warrants, (vii) stock-based compensation, and (viii) investments to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements. There have been no significant changes to these estimates in the six months ended December 31, 2011.

### **Contingencies**

Management assesses the probability of loss for certain contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. Management reports all liabilities which, taken as a whole, may have a material adverse effect on the financial condition of the Company. Refer to Note 18 to the Notes to Condensed Consolidated Financial Statements.

### **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 new interest rates are approximately 6.56% for Renminbi bank loans with a term of 12 months. The change in interest rates has minimum impact on our bank loans. Our total borrowings were approximately \$22 million as of December 31, 2011.

### **Credit Risk**

We are exposed to credit risk from our cash held in bank accounts and fixed deposits, investments and accounts receivable. The credit risk on cash held in bank accounts and fixed deposits is limited because the counterparties are recognized financial institutions. However, our cash deposited in financial institutions in the PRC is not insured. We deposit some of our available cash with one or more financial investment companies. The rate of return on a \$5 million investment with our financial investment companies had a guaranteed minimum return at 9% per annum during the six months ended December 31, 2011. These investments are not subject to market fluctuation, and therefore, we will not experience gain or loss on our investment. However, our funds deposited with the financial investment company are 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. The investment contract with the financial investment company was terminated at expiration in October, 2011.

**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 our transactions are settled in Renminbi and U.S. dollars. In the opinion of our Board of Directors, currently we are 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 Chief Financial Officer have evaluated the design and operating effectiveness of our disclosure controls and procedures as of December 31, 2011. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of December 31, 2011.

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

There were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the three months ended December 31,

2011.

## PART II

### OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

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

As previously reported, since July 29, 2011, multiple class action complaints (the "Stockholder Actions") have been filed against the Company and its Board of Directors in the Court of Chancery of the State of Delaware, generally alleging that the Company and all of our directors breached their fiduciary duties in connection with the receipt by the Company of a preliminary, non-binding offer from Xianfu Han, the Company's Chairman and Chief Executive Officer, and Weili He, the Company's Vice Chairman and Chief Operating Officer, to acquire all of the outstanding shares of our common stock not currently owned by them in a going private transaction at a proposed price of \$2.65 per share in cash (the "Proposed Transaction"). The Stockholder Actions have been consolidated under the caption In re China Advanced Construction Materials Group Litigation, Consolidated C.A. No. 6729-CS. The Stockholder Actions seek, among other things, to declare that the Proposed Transaction is unfair, unjust and inequitable, to enjoin the Company from taking any steps necessary to accomplish or implement the Proposed Transaction, and damages in the event the Proposed Transaction is consummated.

#### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

There were no unregistered sales of equity securities during the fiscal quarter ended December 31, 2011, except as follows:

During May, 2010, the Company entered into an agreement with a communication consultant and agreed to grant 10,000 restricted shares of common stock on an annual basis with 2,500 restricted shares of common stock vesting quarterly. The service agreement was terminated on December 31, 2011 and the Company agreed to issue 4,167 restricted shares to the consultant for the service provided from June to September 2011. 2,500 shares were issued on October 14, 2011 and 1,667 shares were issued on October 31, 2011 in consideration of such services.

The shares were sold by the Company pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, or the Securities Act, for the offer and sale of securities not involving a public offering. The recipient of the shares agreed, pursuant to the terms and conditions of the restricted stock agreement, that (a) he had access to all of the Company's information pertaining to the investment and were provided with the opportunity to ask questions and receive answers regarding the offering, (b) he acquired the shares for his own account for investment and not for the account of any other person and not with a view to or for any distribution within the meaning of the Securities Act and (c) he will not sell or otherwise transfer the shares unless in compliance with state and federal securities laws. The recipient represented, pursuant to the terms and conditions of the restricted stock agreement, that he is an accredited investor as defined in Rule 501(a) under the Securities Act and that there was no general

solicitation or advertising in connection with the offer and sale of the shares.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

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

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

The following exhibits are filed with this report, except those indicated as having previously been filed with the SEC and are incorporated by reference to another report, registration statement or form. As to any shareholder of record requesting a copy of

this report, we will furnish any exhibit indicated in the list below as filed with this report upon payment to us of our expenses in furnishing the information.

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of October 24, 2011, by and among the Company, Novel Gain Holdings Limited, CACMG Acquisition, Inc., Mr. Xianfu Han and Mr. Weili He (incorporated to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on October 24, 2011).
<u>31.1</u>	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

**SIGNATURES**

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

Date: February 13, 2012 **CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.**

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

By: /s/ Yanwei He  
Yanwei He, Interim Chief Financial Officer  
*(Principal Financial Officer and Principal Accounting Officer)*

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