

China Advanced Construction Materials Group, Inc  
Form 10-Q  
November 16, 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: September 30, 2012

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

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

Commission File Number: 333-141568

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

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

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

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

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

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

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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 November 15, 2012 is as follows:

<u>Class of Securities</u>	<u>Shares Outstanding</u>
Common Stock, \$0.001 par value	17,839,464

**EXPLANATORY NOTE**

On November 14, 2012, the U.S. Securities and Exchange Commission, or the SEC, published Release No. 68224, which stated that registrants who were directly or indirectly affected by Hurricane Sandy who were required to make certain filings with the SEC between October 29, 2012 and November 20, 2012, would be allowed to make such filings on or before November 21, 2012, and still remain in compliance with SEC regulations. We are relying on the extension of time granted by the SEC in Release No. 68224, in good faith, due to the fact that our independent auditors, Friedman LLP, are located in New York City and were in the process of conducting our September 30, 2012 quarterly review when Hurricane Sandy made landfall. As a result of Hurricane Sandy, Friedman LLP lost power, internet and telephone services within their office for 4 days, and many employees of Friedman LLP were unable to commute to work, and were stranded without power and internet services at their homes for extended periods of time. Accordingly, we required additional time in order to finalize the preparation and review of this Quarterly Report on Form 10-Q.

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TABLE OF CONTENTS

PART I	
FINANCIAL INFORMATION	
	PAGE
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)	2
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	25
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	35
ITEM 4. CONTROLS AND PROCEDURES	36
PART II	
OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	36
ITEM 1A. RISK FACTORS	37
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	37
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	37
ITEM 4. MINE SAFETY DISCLOSURES	37
ITEM 5. OTHER INFORMATION	37
ITEM 6. EXHIBITS	37

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page
Condensed Consolidated Balance Sheets as of September 30, 2012 and June 30, 2012	3
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three Months Ended September 30, 2012 and 2011	4
Condensed Consolidated Statements of Cash Flows for the three Months Ended September 30, 2012 and 2011	5
Notes to Unaudited Condensed Consolidated Financial Statements	6

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF SEPTEMBER 30, 2012 and JUNE 30, 2012  
(UNAUDITED)

ASSETS	September 30, 2012	June 30, 2012
<b>CURRENT ASSETS:</b>		
Cash	\$ 4,163,928	\$ 2,409,914
Restricted cash	8,282,587	6,536,082
Accounts and notes receivable, net of allowance for doubtful accounts of \$33,925,282 and \$24,913,151, respectively	109,339,446	109,977,143
Inventories	1,152,200	2,042,156
Other receivables and advances	1,219,094	1,298,942
Prepayments	13,183,057	11,694,758
Deferred tax assets	3,293,051	3,293,051
Total current assets	140,633,363	137,252,046
 PROPERTY, PLANT AND EQUIPMENT, net	 19,013,944	 20,622,505
<b>OTHER ASSETS:</b>		
Advances on equipment purchases	4,608,615	4,617,360
Prepayments and advances	500,986	1,140,498
Deferred tax assets	578,413	578,413
Total other assets	5,688,014	6,336,271
Total assets	\$ 165,335,321	\$ 164,210,822
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short term loans, banks	\$ 18,972,000	\$ 19,008,000
Notes payable	4,743,000	-
Accounts payable	60,804,383	57,171,917
Customer deposits	861,487	798,096
Other payables	2,976,539	4,514,828
Other payables - shareholders	803,901	804,001
Accrued liabilities	1,276,999	1,712,414
Warrants liability	9,330	132,427
Taxes payable	1,410,206	1,064,953
Total current liabilities	91,857,845	85,206,636
Commitments and contingencies		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.001 par value, 74,000,000 shares authorized, 17,839,464 and 17,829,464 shares issued and outstanding as of September 30, 2012 and June 30, 2012, respectively	17,839	17,829
Additional paid-in capital	35,172,633	35,154,257
Retained earnings	23,625,943	29,010,766
Statutory reserves	6,248,357	6,248,357
Accumulated other comprehensive income	8,412,704	8,572,977
Total shareholders' equity	73,477,476	79,004,186

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Total liabilities and shareholders' equity	\$ 165,335,321	\$ 164,210,822
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The accompanying notes are an integral part of these condensed consolidated financial statements

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011  
(UNAUDITED)

	For the three months ended September 30,	
	2012	2011
<b>REVENUE</b>		
Sales of concrete	\$ 28,876,908	\$ 40,085,039
Manufacturing services	1,933,721	4,499,968
Total revenue	30,810,629	44,585,007
<b>COST OF REVENUE</b>		
Concrete	21,861,154	30,137,524
Manufacturing services	1,616,527	3,692,937
Total cost of revenue	23,477,681	33,830,461
<b>GROSS PROFIT</b>	7,332,948	10,754,546
<b>PROVISION FOR DOUBTFUL ACCOUNTS</b>	9,341,595	7,001,540
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	3,189,614	2,408,705
<b>RESEARCH AND DEVELOPMENT EXPENSES</b>	288,880	300,735
<b>INCOME (LOSS) FROM OPERATIONS</b>	(5,487,141)	1,043,566
<b>OTHER INCOME (EXPENSE), NET</b>		
Other subsidy income	1,827,526	2,685,390
Non-operating expense, net	(575,735)	(54,205)
Change in fair value of warrants liability	123,097	195,476
Interest income	27,434	222,644
Interest expense	(500,837)	(299,176)
<b>TOTAL OTHER INCOME, NET</b>	901,485	2,750,129
<b>INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES</b>	(4,585,656)	3,793,695
<b>PROVISION FOR INCOME TAXES</b>	799,167	701,629
<b>NET INCOME (LOSS)</b>	\$ (5,384,823)	\$ 3,092,066
<b>COMPREHENSIVE INCOME (LOSS):</b>		
Net Income (Loss)	(5,384,823)	3,092,066
Foreign currency translation adjustment	(160,273)	936,597
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ (5,545,096)	\$ 4,028,662
<b>EARNINGS (LOSS) PER COMMON SHARE ALLOCATED TO COMMON SHAREHOLDERS</b>		
Weighted average number of shares:		
Basic	17,833,703	17,806,072
Diluted	17,833,703	17,828,572



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Earnings (Loss) per share:

Basic	\$	(0.30)	\$	0.17
Diluted	\$	(0.30)	\$	0.17

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011  
(UNAUDITED)

	For the three months ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (5,384,823)	\$ 3,092,066
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	909,044	1,082,560
Stock-based compensation expense	18,386	46,268
Provision for doubtful accounts	9,341,595	7,001,540
Change in fair value of warrants liability	(123,097)	(195,476)
Loss realized from disposal of property, plant, and equipment	344,425	3,989
Changes in operating assets and liabilities		
Accounts and notes receivable	(8,912,188)	(21,895,542)
Inventories	886,088	(717,970)
Other receivables	446,235	(171,396)
Prepayments	(1,510,448)	1,154,199
Long term prepayment	637,352	451,864
Accounts payable	3,740,746	13,440,000
Customer deposits	64,903	179,067
Other payables	(1,529,864)	2,175,686
Accrued liabilities	(432,979)	(255,984)
Taxes payable	339,938	422,662
Net cash (used in) provided by operating activities	(1,164,687)	5,813,533
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of property, plant, and equipment	-	6,236
Purchases of property, plant and equipment	(52,813)	(53,240)
Investments	-	7,296,120
Net cash (used in) provided by investing activities	(52,813)	7,249,116
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short term loan	5,928,750	795,090
Payments for short term loan	(5,927,500)	(12,082,250)
Proceeds from bank notes	4,743,000	-
Rent payable to shareholder	-	11,792
Restricted cash	(1,758,884)	(187,080)
Net cash provided by (used in) financing activities	2,985,366	(11,462,448)
EFFECT OF EXCHANGE RATE CHANGE ON CASH	(13,852)	20,734
NET INCREASE IN CASH	1,754,014	1,620,935
CASH, beginning of period	2,409,914	1,610,699

CASH, end of period	\$	4,163,928	\$	3,231,634
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SUPPLEMENTAL DISCLOSURE OF NON-CASH  
TRANSACTIONS

Uncollected proceeds from disposal of portable plant equipment recorded as other receivables	\$	368,847	\$	-
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The accompanying notes are an integral part of these 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**

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 8 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 position, results of operations and cash flows of the Company for the periods presented. The results of operations for the three months ended September 30, 2012, 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 on Form 10-K for the year ended June 30, 2012, which was originally filed on September 26, 2012.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated on consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and have been consistently applied.

Principles of consolidation

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

Ownership

<u>Subsidiaries and VIEs</u>	<u>Place Incorporated</u>	<u>Percentage</u>
BVI-ACM	British Virgin Island	100%
China-ACMH	Beijing, China	100%
Xin Ao	Beijing, China	VIE
Heng Yuan Zheng Ke	Beijing, China	VIE
Hong Sheng An	Beijing, China	VIE
Heng Tai	Beijing, China	VIE
Da Tong	Datong, China	VIE
Heng Xin	Luanxian, China	VIE

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

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

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

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

	September 30, 2012	June 30, 2012
Current assets	\$ 139,848,164	\$ 137,562,780
Property, plant and equipment	19,006,483	20,614,498
Other noncurrent assets	3,292,799	3,358,098
Total assets	162,148,446	161,535,376
Liabilities	(90,790,467)	(83,829,907)
Intercompany payables*	(7,221,358)	(8,266,799)
Total liabilities	(98,011,825)	(92,096,706)
Net assets	\$ 64,136,621	\$ 69,438,670

\* 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 fair value and useful lives of property, plant and equipment. Actual results could be materially different from those estimates, upon which the carrying values were based.

Foreign currency translation

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

Asset and liability accounts at September 30, 2012 and June 30, 2012, were translated at RMB 6.33 and RMB 6.31 to \$1.00, respectively. The average translation rates applied to the consolidated statements of income and cash flows for the three months ended September 30, 2012 and 2011, were RMB 6.33 and RMB 6.41 to \$1.00, respectively.

Translation gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive income.

Revenue recognition

Revenue is realized or realizable and earned when four criteria are met:

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

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

- 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.

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 at face value or cost, which approximate fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

The fair value of the warrants liability was determined using the Cox-Ross-Rubinstein (CRR) Binomial Model, as Level 2 inputs (See Note 8).

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.

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

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 September 30, 2012 and June 30, 2012, the Company had deposits in excess of federally insured limits totaling \$3,632,067 and \$1,844,308, respectively.

Restricted cash

Restricted cash represents collateral of \$8,092,867 in the form of cash deposits for short term loans and \$189,720 in the form of cash deposits relating to sales agreements.

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 ended September 30, 2012 and 2011.

Expecting longer collection periods on accounts receivable and higher probability of uncollectable accounts receivable, the Company changed its estimate of its allowance for doubtful accounts within one year from historical default rate 2% to 5% based on peers' comparable rates in the domestic construction industry during the year ended June 30, 2012.

Inventories

Inventories consist of raw materials and are stated at the lower of cost or market, as determined using the weighted average cost method. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. As of September 30, 2012 and June 30, 2012, the Company determined that no reserves for obsolescence were necessary.

Other receivables

Other receivables primarily include advances to employees, an unrelated entity, and receivables from an insurance company, VAT tax refund and other deposits. Management regularly reviews aging of receivables and changes in payment trends and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off after exhaustive efforts at collection. Write offs for the three months ended September 30, 2012 and 2011, approximated \$0.3 million and \$0, respectively.

Investments

During October, 2010, the Company entered into a one-year investment agreement with a financial investment company, whereby the Company could invest up to approximately RMB 100,000,000 (\$12,221,300 at June 30, 2011). The financial investment company would then invest the Company's funds in certain financial instruments including

bonds, mortgage trust or mutual funds. The rate of return on this investment was guaranteed at 7% per annum. The Company's investment was not subject to market fluctuation; therefore, the Company did not experience gain or loss on its investment. However, the Company's funds deposited with the financial investment company were 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 the financial investment company during the year ended June 30, 2012.

During November and December 2011, the Company entered into two two-month agreements with another financial investment company. Under the agreements, an RMB 26,000,000 (approximately \$4.1 million) investment expired on January 23, 2012, and RMB an 15,000,000 (approximately \$2.3 million) investment expired on February 1, 2012. The interest rate was 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.

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

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
Machinery and equipment	5-10 years
Office equipment	5-10 years
Buildings and improvements	10-20 years

Accounting for long-lived assets

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

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

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

If the value of such an asset is determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less disposition costs. The Company did not recognize any impairment charges for the three months ended September 30, 2012 and 2011.

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

Income taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes, which requires the Company to use the assets and liability method of accounting for income taxes. Under the assets and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carry forward. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

**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% 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 2010 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 September 30, 2012 and 2011, were \$288,880 and \$300,735, respectively. Advertising costs for three months ended September 30, 2012 and 2011, were \$2,762 and \$31,533, respectively. Repair and maintenance costs for three months ended September 30, 2012 and 2011, were \$177,666 and \$351,410, respectively.

Earnings (loss) per share

The Company reports earnings (loss) per share in accordance with the US GAAP, which requires presentation of basic and diluted earnings (loss) per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings (loss) per share excludes dilution and is computed by dividing income (loss) available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts, such as warrants, options, restricted stock based grants and convertible preferred stock, to issue common stock were exercised and converted into common stock. Common stock equivalents having an anti-dilutive effect on earnings per share are excluded from the calculation of diluted earnings per share. Diluted loss per share is the same as basic loss per share since the addition of any contingently issuable share would be anti-dilutive.

Comprehensive income

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

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

**Reclassifications**

Certain amounts from prior periods have been reclassified to conform to the current periods presentation. The reclassification did not have any impact to the condensed consolidated statements of operations and comprehensive income (loss).

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

For the three months ended September 30, 2012 and 2011, the Company paid interest in the amount of \$404,873 and \$297,869 respectively.

Cash payments for income tax for the three months ended September 30, 2012 and 2011 were \$464,198 and \$254,607, respectively.

**Note 4 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:

	September 30, 2012	June 30, 2012
Accounts receivable, current	\$ 142,435,591	\$ 132,355,894
Notes receivable, current	829,137	2,534,400
	143,264,728	134,890,294
Less: allowance for doubtful accounts, current	(33,925,282)	(24,913,151)
Total accounts and notes receivable, net	\$ 109,339,446	\$ 109,977,143

**Note 5 Property, plant and equipment**

Property, plant and equipment consist of the following:

	September 30, 2012	June 30, 2012
Machinery and equipment	\$ 14,565,482	\$ 16,802,708
Transportation equipment	20,888,151	20,920,148
Office equipment	1,321,918	1,316,273
Buildings and improvements	223,677	224,101
Total	36,999,228	39,263,230
Less: Accumulated depreciation	(17,985,284)	(18,640,725)
Plant and equipment, net	\$ 19,013,944	\$ 20,622,505

Depreciation expense for the three months ended September 30, 2012 and 2011, amounted to \$909,044 and \$1,082,560, respectively.





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

**Note 6 Prepayments and advances**

Prepayments and advances 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:

	September 30, 2012	June 30, 2012
Advances on inventory purchases	\$ 11,206,807	\$ 9,858,320
Rent prepayments	2,477,236	2,976,936
Total prepayments	\$ 13,684,043	\$ 12,835,256
Minus: Current portion of prepayments	(13,183,057)	(11,694,758)
Total long-term prepayments	\$ 500,986	\$ 1,140,498

**Note 7 Short term loans and Notes payable**

Short term loans:

Short term loans represent amounts due to banks and the Company's employees that are due within one year or on demand. As of September 30, 2012 and June 30, 2012, the outstanding balances on these loans consisted of the following:

	September 30, 2012	June 30, 2012
Loan from Shanghai Pudong Development Bank, interest rate of 8.53% per annum, \$2,371,500 due October 27, 2012, and \$2,371,500 due November 29, 2012, guaranteed by Beijing Xinhang Construction Group.	4,743,000	4,752,000
Loan from Construction bank, interest rate of 6.89% per annum, due October 20, 2012, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Han XianFu and Mr. He Weili.	5,533,500	5,544,000
Loan from Citibank, interest rate of 8.81% per annum, \$1,185,750 due October 25, 2012, and interest rate of 8.12%, \$1,185,750 due December 7, 2012, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili.	2,371,500	2,376,000
Loan from Merchant Bank, interest rate of 7.54% per annum, due November 7, 2012, guaranteed by Mr. Han Xian Fu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Group.	1,581,000	1,584,000
Loan from ANZ bank, interest rate of 7.28% per annum, \$1,581,000 due October 26, 2012, \$1,581,000 due December 19, 2012, \$1,581,000 due December 25, 2012, guaranteed by Beijing Xinhang Construction Group.	4,743,000	3,168,000
Loan from HSBC, interest rate of 7.61% per annum, paid off on September 29, 2012.	-	1,584,000
	\$ 18,972,000	\$ 19,008,000

The above guarantors are various suppliers to the Company.

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

The Company repaid \$2,371,500 of loan from Pudong Development Bank on October 26, 2012, \$5,533,500 of loan from Construction bank on October 19, 2012, \$1,185,750 of loan from Citibank on November 7, 2012, \$1,581,000 of loan from Merchant Bank on November 7, 2012, and \$1,581,000 of loan from ANZ Bank on October 26, 2012.

Interest expense on short-term loans for the three months ended September 30, 2012 and 2011, amounted to \$405,988 and \$290,018, respectively.

Notes payable:

During the three months ended September 30, 2012, bank notes were issued to a third party for deposits of a purchase agreement. The notes amounted to \$4,743,000 (30 million RMB) as of September 30, 2012, and is non-interest bearing with expiration date on November 4, 2012.

**Note 8 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 a 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:

	September 30, 2012	June 30, 2012
Annual dividend yield	-	-
Expected life (years)	0.70	0.95
Risk-free interest rate	0.15%	0.20%
Expected volatility	107%	49%

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 is measured at fair value on a recurring basis.

	Carrying Value at September 30, 2012		Fair Value Measurement at September 30, 2012		
			Level 1	Level 2	Level 3
Warrants liability \$	\$ 9,330	\$ -	\$ 9,330	\$ -	



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

	Carrying Value at June 30, 2012		Fair Value Measurement at June 30, 2012		
			Level 1	Level 2	Level 3
Warrants liability \$	132,427	\$	-	\$ 132,427	\$ -

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

Beginning balance, June 30, 2012	\$ 132,427
Warrants exercised for the three months ended September 30, 2012	-
Change in fair value for the three months ended September 30, 2012	(123,097)
Ending balance, September 30, 2012	\$ 9,330

**Note 9 Related party transactions**

Other payables - shareholders

Mr. He Weili, our chief operating officer, our interim chief financial officer, and a major 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 September 30, 2012 and 2011, the Company recorded rent expense to the shareholder \$0 and \$46,090, respectively. As of September 30, 2012 and June 30, 2012, approximately \$53,000 remained unpaid, and were 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:

	September 30, 2012	June 30, 2012
Han Xianfu, shareholder	\$ 471,684	\$ 450,540
He Weili, shareholder	332,217	353,461
	\$ 803,901	\$ 804,001

**Note 10 Income taxes**

**(a) Corporate income tax**

China ACM and AIH were organized in the United States. China ACM has incurred a tax loss of \$0 for income tax purposes for the three months ended September 30, 2012, which excludes \$18,385 stock based compensation expenses and gain in fair value of warrant liabilities of \$123,097. As of September 30, 2012, net operating loss carry forward for United States income taxes was approximately \$1,714,000. The net operating loss carry forwards is 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 in United States companies. 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 three months ended September 30, 2012 and 2011, were an increase of approximately \$0 and \$20,000, respectively. Management reviews this valuation allowance periodically and makes adjustments accordingly. AIH had no operations since it was incorporated and no

income tax incurred; it was dissolved on August 30, 2011.

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

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 \$36.5 million and \$40.9 million as of September 30, 2012 and June 30, 2012, 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. 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%. In 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 June 12, 2012. The Company is currently applying for the extension of 15% income tax rate for the periods after June 12, 2012.

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 located in the PRC. As a result, there is no deferred tax expense related to withholding tax on the future repatriation of these earnings.

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

	Three Months Ended September 30,	
	2012	2011
USA	\$ (401,818)	\$ (122,934)
China	(4,183,838)	3,916,629
	\$ (4,585,656)	\$ 3,793,695

Provision for income taxes consisted of:





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

	Three Months Ended September 30,	
	2012	2011
Current provision:		
USA	\$ -	\$ -
China	799,167	701,629
Total current provision	799,167	701,629
Deferred provision:		
USA	-	-
China	-	-
Total deferred provision	-	-
Total provision for income taxes	\$ 799,167	\$ 701,629

Significant components of deferred tax assets were as follows:

	September 30, 2012		June 30, 2012	
Deferred tax assets - current				
Provision for doubtful accounts	\$ 4,692,218		\$ 3,293,051	
	4,692,218		3,293,051	
Valuation allowance	(1,399,167)		-	
Total deferred tax assets - current	\$ 3,293,051		\$ 3,293,051	
Deferred tax assets - non-current				
Net operating loss carryforward in the U.S.	\$ 541,813		\$ 541,813	
Impairment loss of long-lived assets	578,413		578,413	
	1,120,226		1,120,226	
Valuation allowance	(541,813)		(541,813)	
Total deferred tax assets - non-current	\$ 578,413		\$ 578,413	

The Company has incurred losses from operations since the quarter ended June 30, 2012. In expecting the loss from operations in the near term, the Company decided to provide \$1,399,167 valuation allowances for the deferred tax assets as of September 30, 2012, since the deferred tax benefits might not be utilized.

Taxes payable consisted of the following:

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

	September 30, 2012		June 30, 2012
Income taxes payable	\$ 1,392,413	\$	1,030,952
Other taxes payable	17,793		34,001
Total taxes payable	\$ 1,410,206	\$	1,064,953

**(b) Uncertain tax positions**

There were no unrecognized tax benefits as of September 30, 2012 and June 30, 2012. 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 September 30, 2012 and 2011, the Company did not incur any interest and penalties.

**Note 11 Shareholders equity**

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 (in years)
Outstanding as of June 30, 2012	585,125	\$ 2.40	0.95
Granted	-		
Forfeited	-		
Exercised	-		
Outstanding as of September 30, 2012	585,125	\$ 2.40	0.70

**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 didn't grant restricted stocks during the three months ended September 30, 2011.

For the three months ended September 30, 2012 and 2011, the Company recognized \$18,386 and \$46,268 of compensation expenses related to restricted stock grants, respectively. The total unrecognized share-based compensation expense as of September 30, 2012, was approximately \$44,000, which is expected to be recognized over a weighted average period of approximately 0.7 years.

Following is a summary of the restricted stock grants:

	Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Restricted stock grants			
Nonvested as of June 30, 2012	40,000	\$ 1.72	\$ 65,600
Granted	-		
Forfeited	-		

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Vested	(10,000)		1.72		2,350
Nonvested as of September 30, 2012	30,000	\$	1.72	\$	12,600

18

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

**Note 12 Reserves and dividends**

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

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. The remaining reserve to fulfill the 50% registered capital requirement amounted to approximately \$2 million as of September 30, 2012 and June 30, 2012.

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

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

**Note 13 Earnings (loss) per share**

The following is a reconciliation of the basic and diluted earnings (loss) per share computation for the three months ended September 30, 2012 and 2011:

	Three Months Ended September 30,	
	2012	2011
<b>Basic earnings (loss) per share</b>		
Net income (loss) available to common shareholders	\$ (5,384,823)	\$ 3,092,066
Weighted average shares outstanding-Basic	17,833,703	17,806,072
Earnings (loss) per share-Basic	\$ (0.30)	\$ 0.17
<b>Diluted earnings (loss) per share</b>		
Net income (loss) available to common shareholders	\$ (5,384,823)	\$ 3,092,066
Weighted average shares outstanding-Basic	17,833,703	17,806,072
Restricted stock	-	22,500
Warrants and options	-	0
Weighted shares outstanding-Diluted	17,833,703	17,828,572
Earnings (loss) per share-Diluted	\$ (0.30)	\$ 0.17

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

For the three months ended September 30, 2012 and 2011, 585,125 warrants outstanding were excluded in the diluted EPS calculation because their effect was anti-dilutive.

**Note 14 Employee pension**

The Company offers a discretionary pension fund, a defined contribution plan, to qualified employees. The pension includes two parts: the first to be paid by the Company is 20% of the employee's actual salary 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 approximately \$170,000 for the three months ended September 30, 2012 and 2011.

**Note 15 Operating leases**

The Company entered into a lease agreement for a manufacturing plant with an unrelated party which expires on September 30, 2013, with annual payments of approximately \$197,000. Further, the Company agreed to lease office space from the Company's shareholder and chief operating officer, Mr. He Weili, from July 2010 until the lease was terminated on December 31, 2011, with annual payments totalling approximately \$176,000. The rent is valued at fair value from the main property management. 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, from October 19, 2011 to January 18, 2014, with annual payments of approximately \$73,000, the lease was terminated on April 30, 2012. On April 30, 2012, The Company entered a lease agreement to lease new office space from a third party, from May 1, 2012 to March 28, 2021, with annual payments of approximately \$415,000, the lease agreement is separated into three lease terms, each term has three-year expiration period and will be automatically renewed to next three-year term and so on if the office building would not be acquired or demolished by the city government.

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 September 30, 2012 and 2011, were \$746,263 and \$644,007, respectively. Operating lease expense is included in cost of revenue, selling, general, and administrative expenses. Future annual lease payments, net of rent prepayment made as of September 30, 2012, under non-cancelable operating leases with a term of one year or more consist of the following:

<u>For the twelve months ending September 30,</u>	<u>Amount</u>
2013	\$ 1,009,000
2014	903,000
2015	416,000
2016	416,000
2017	416,000
Thereafter	1,107,000

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

**Note 16-- 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 other, which includes mixer rentals, sales of materials and marketing cooperation. Separate segments are required because each business unit is subject to different production and technology strategies.

For the three months ended September 30, 2012:

	Sales of concrete	Manufacturing services	Other	Corporate	Total
Net revenue	\$ 28,876,908	\$ 1,933,721	\$ -	\$ -	\$ 30,810,629
Depreciation	(478,935)	(361,452)	-	(68,657)	(909,044)
Segment profit (loss) (1)	6,388,360	274,663	-	(12,150,164)	(5,487,141)
Other income (expenses)	1,484,949	118,396	-	(228,457)	1,374,888
Interest income	-	-	-	27,434	27,434
Interest expenses	-	-	-	(500,837)	(500,837)
Capital expenditure	(48,655)	-	-	(4,158)	(52,813)
Total assets as of September 30, 2012	\$ 158,339,582	\$ 6,995,739	\$ -	\$ -	\$ 165,335,321

For the three months ended September 30, 2011:

	Sales of concrete	Manufacturing services	Other	Corporate	Total
Net revenue	\$ 40,085,039	\$ 4,499,968	\$ -	\$ -	\$ 44,585,007
Depreciation	(372,727)	(642,760)	-	(67,073)	(1,082,560)
Segment profit (loss) (1)	9,689,252	778,038	-	(9,423,724)	1,043,566
Other income (expenses)	2,405,102	280,288	-	141,271	2,826,661
Interest income	-	-	-	222,644	222,644
Interest expenses	-	-	-	(299,176)	(299,176)
Capital expenditure	(47,866)	(5,374)	-	-	(53,240)
Total assets as of June 30, 2012	\$ 155,859,109	\$ 8,350,707	\$ 1,006	\$ -	\$ 164,210,822

(1) Segment loss of corporate reflected general and administrative expenses. General and administrative expenses primarily consisted of bad debt expense; salary, benefits and social insurance payments; rent; stock compensation; director fees, professional and legal fees paid to third parties.

All amounts shown in the Corporate column were incurred at the company headquarter level and did not relate to any of the reportable segments. Therefore, we do not believe it is appropriate to allocate these amounts were not allocated to the reportable segments.

**Note 17 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, results of operations and cash flows.



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

Following is the summary of current litigation:

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.

On August 14, 2012, the plaintiffs in the Stockholder Actions requested that the case be dismissed and the court approved the dismissal. The Company considers the matter to be concluded.

**Merger Agreement and Termination Agreement**

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 would 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 would 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 would be cancelled without the Rollover Investors receiving any consideration.

On July 9, 2012, the Board of Directors of the Company, acting on the unanimous recommendation of the Special Committee of the Board of Directors, decided to terminate the merger agreement based on the determination by all parties that the conditions to consummate the Merger cannot be satisfied, and the Company and the other parties to the Merger Agreement entered into a Termination of Agreement to terminate the Merger Agreement. The termination took effect immediately, and no fees are payable by the Company or the other parties in connection therewith.

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

Termination of employment

On November 14, 2011, the Company entered into an employee termination agreement (the "Termination Agreement") with 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
- changes in accounting rules or the application of such rules.

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

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



## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **Overview**

We are a holding company whose primary business operations are conducted through our wholly-owned subsidiaries BVI-ACM and China-ACMH, and our variable interest entity, Xin Ao and its subsidiaries. We engage in the production 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 quarter ended September 30, 2012, we supplied materials and provided services to our high speed railway projects through our network of ready-mixed concrete plants throughout Beijing (three as of September 30, 2012) and our portable plants (fourteen as of September 30, 2012) located in various provinces throughout China. We own one concrete plant and its related equipment, and we lease three additional plants in Beijing. In addition, we have technical and preferred procurement agreements with three independently owned concrete mixture stations, pursuant to which we are paid by percentages of cost savings for technical support provided to clients and of sales price for projects we refer to other stations due to the geographical location of our owned and leased plants. Two of the technically serviced plants are located in Datong, Shaanxi and one is located in Mianyang, Sichuan.

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

### **Going-Private Transaction**

On October 24, 2011, the Company announced that it had 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.

On July 9, 2012, the Board of Directors of the Company, acting on the unanimous recommendation of the Special Committee of the Board of Directors, determined to terminate the merger agreement based on the determination by all parties that the conditions to consummate the Merger cannot be satisfied, and the Company and the other parties to the Merger Agreement entered into the Termination of Agreement and Merger Agreement to terminate the Merger Agreement. The termination takes effect immediately, and no fees are payable by the Company or the other parties in connection therewith.



## 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 quarter ended September 30, 2012, five customers accounted for approximately 20.3% of the Company's sales and 5.5% of the Company's account receivables as of September 30, 2012. Should we lose 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. During our 5 year agreement with the Institute, we have realized an advantage over many of our competitors by gaining access to a wide array of resources and knowledge. One payment of approximately \$2.3 million to Dongfang Jianyu Institute of Concrete Science and Technology was paid under the agreement.
- *Competition.* Our competition includes a number of state-owned and large private PRC-based manufacturers and distributors that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Essentially all of the contracts on which we bid are awarded through a competitive bid process, with awards often being made to the lowest bidder 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 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 new Chinese Enterprise Income Tax ( EIT ) law, the statutory corporate income tax rate applicable to most companies is 25%. As granted by the State Administration of Taxation of the PRC, Xin Ao was entitled to an income tax reduction from 25% to 15% from January 1, 2009 to June 12, 2012. The Company is currently applying for the extension of 15% income tax rate for the periods after June 12, 2012.

In accordance with the EIT Law and related regulations, enterprises established under the laws of foreign countries or regions and whose place of effective management is located within the PRC territory are considered PRC resident enterprises and subject to the PRC income tax at the rate of 25% on worldwide income. The regulations define the term place of effective management as establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise. The State Administration of Taxation issued a SAT Circular 82 on April 22, 2009, which provides that the place of effective management of a Chinese-controlled overseas incorporated enterprise is located in China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly located in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies located in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders meetings are located or kept in the PRC; and (iv) no less than half of the enterprise's directors or senior management with voting rights reside in the PRC. SAT Circular 82 applies only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals. If the Company's non-PRC incorporated entities are deemed PRC tax residents, such entities would be subject to PRC tax under the EIT Law. The Company has analyzed the applicability of this law, and for each of the applicable periods presented, the Company has not accrued for PRC tax on such basis. The Company continues to monitor changes in the interpretation and/or guidance of this law.

The EIT Law also imposes a 10% withholding income tax, subject to reduction based on tax 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 located 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**

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

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

## **Business Segments and Periods Presented**



We have provided a discussion of our results of operations on a consolidated basis and have also provided certain detailed segment information for each of our business segments below for the three months ended September 30, 2012 and 2011, in order to provide a meaningful discussion of our business segments. We have organized our operations into four principal segments: selling concrete, manufacturing concrete 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.

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For the three months ended September 30, 2012:

	Sales of concrete	Manufacturing services	Other	Corporate	Total
Net revenue	\$ 28,876,908	\$ 1,933,721	\$ -	\$ -	\$ 30,810,629
Depreciation	(478,935)	(361,452)	-	(68,657)	(909,044)
Segment profit (loss) (1)	6,388,360	274,663	-	(12,150,164)	(5,487,141)
Other income (expenses)	1,484,949	118,396	-	(228,457)	1,374,888
Interest income	-	-	-	27,434	27,434
Interest expenses	-	-	-	(500,837)	(500,837)
Capital expenditure	(48,655)	-	-	(4,158)	(52,813)
Total assets as of September 30, 2012	\$ 158,339,582	\$ 6,995,739	\$ -	\$ -	\$ 165,335,321

For the three months ended September 30, 2011:

	Sales of concrete	Manufacturing services	Other	Corporate	Total
Net revenue	\$ 40,085,039	\$ 4,499,968	\$ -	\$ -	\$ 44,585,007
Depreciation	(372,727)	(642,760)	-	(67,073)	(1,082,560)
Segment profit (loss) (1)	9,689,252	778,038	-	(9,423,724)	1,043,566
Other income (expenses)	2,405,102	280,288	-	141,271	2,826,661
Interest income	-	-	-	222,644	222,644
Interest expenses	-	-	-	(299,176)	(299,176)
Capital expenditure	(47,866)	(5,374)	-	-	(53,240)
Total assets as of June 30, 2012	\$ 155,859,109	\$ 8,350,707	\$ 1,006	\$ -	\$ 164,210,822

(1) All amounts shown in the Corporate column were incurred at the company headquarter level and did not relate specifically to any of the other reportable segments.

(2) Segment profit reflects general and administrative expenses. General and administrative expenses primarily consist of bad debt expense, salary, benefits and social insurance payments, rent, stock compensation, director fees, and professional and legal fees paid to third parties.

## 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.



*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 September 30, 2012 and 2011*

The following table sets forth key components of our results of operations for the three months ended September 30, 2012 and 2011, in US dollars:

	<b>Three Months Ended September 30,</b>			
	<b>2012</b>	<b>2011</b>	<b>Increase / (Decrease)</b>	<b>Percentage Increase / (Decrease)</b>
<b>Total revenue</b>	\$ 30,810,629	\$ 44,585,007	\$ (13,774,378)	(31) %
Total cost of revenue	23,477,681	33,830,461	(10,352,780)	(31) %
<b>Gross profit</b>	7,332,948	10,754,546	(3,421,598)	(32) %
Provision for doubtful accounts	9,341,595	7,001,540	2,340,055	33 %
Selling, general and administrative expenses	3,189,614	2,408,705	780,909	32 %
Research and development expenses	288,880	300,735	(11,855)	(4) %
Other income, net	901,485	2,750,129	(1,848,644)	(67) %
Income (Loss) before provision for income taxes	(4,585,656)	3,793,695	(8,379,351)	(221) %
Income taxes provision	799,167	701,629	97,538	14 %
Net income (loss) available to Common shareholders	\$ (5,384,823)	\$ 3,092,066	\$ (8,476,889)	(274) %

**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 September 30, 2012, we generated total revenue of approximately \$30.8 million compared to approximately \$44.6 million during the three months ended September 30, 2011, a decrease of approximately \$13.8 million, or 31%. Such decrease is due to our sales generated from the concrete division for the three months ended September 30, 2012, which was approximately \$28.9 million, a decrease of approximately \$11.2 million, or 28%, compared to the three months ended September 30, 2011. The decrease in revenues attributable to concrete sales was principally due to the slowing down of the housing market and overall economic growth. The PRC government continues to impose restrictions on the purchase of residential apartments in order to contain housing prices in China. In addition, China's economic growth has been decelerating for seven quarters in a row, down to 7.4% in the third quarter of 2012, the slowest growth rate in recent years. These factors have had an adverse effect on the construction industry in China.



During the three months ended September 30, 2012, we continued to supply concrete products to ten railway projects throughout China through our portable plants, specifically our projects located in Shaanxi Province, Jiangsu Province, Hebei Province, Guangxi Province, Zhejiang Province, Liaoning Province, and Anhui Province. These seven projects contributed approximately \$1.9 million to our total revenue for the three months ended September 30, 2012, a decrease of approximately \$2.6 million, or 57%, compared to the three months ended September 30, 2011. The decrease in revenues attributable to our manufacturing services was principally due to the suspension of operations of certain of our portable plants during the three months ended September 30, 2012, in light of an increase in audit inspections at high speed rail construction sites around China due recent heightened public scrutiny of railway safety in China. For these railway projects, the general contractors generally supplied their own raw materials while we provided manufacturing and transportation services.

**Cost of Revenue.** Total cost of revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was approximately \$23.5 million for the three months ended September 30, 2012, as compared to approximately \$33.8 million for the three months ended September 30, 2011, a decrease of approximately \$10.3 million, or 31%. The decrease of cost of revenue was due to the overall decrease in production from our fixed concrete plants in the Beijing area and decreased production of our manufacturing services compared to the three months ended September 30, 2011.

The cost of revenue on concrete decreased approximately \$8.3 million, or 27%, for the three months ended September 30, 2012, as compared to the three months ended September 30, 2011. Such decrease was due to a decrease in our concrete production, leading to a smaller base of raw material purchases with lower overall volume of traditional concrete sales. Cost of revenue with respect to our manufacturing services decreased approximately \$2.1 million, or 56%, during the three months ended September 30, 2012, as compared to the same period during the three months ended September 30, 2011. The decrease in our cost of sales was due to decreased revenue from our manufacturing services.

**Gross Profit.** Our gross profit is equal to the difference between our revenue and cost of sales. Total gross profit was approximately \$7.3 million for the three months ended September 30, 2012, as compared to approximately \$10.8 million for the three months ended September 30, 2011. Our gross profit for sale of concrete was approximately \$7 million, or 24% of revenue, for the three months ended September 30, 2012, compared to approximately \$9.9 million, or 25% of revenue for the three months ended September 30, 2011, a decrease of approximately \$3 million. The lower gross profit for concrete sales for the three months ended September 30, 2012, compared with the three months ended September 30, 2011, reflects lower demand and lower prices for our concrete products in Beijing as compared to the prior fiscal year.

Our gross profit with respect to our manufacturing services was approximately \$0.3 million, or 16%, for the three months ended September 30, 2012, a decrease of \$0.5 million from \$0.8 million during the three months ended September 30, 2011. Such decrease was principally due to the suspension of operations of certain of our portable plants for three months ended September 30, 2012. The primary reasons for the margin increase compared to the same period last year were the higher production rates at plants and a decrease in costs of transportation.

**Provision for Doubtful Accounts.** Provision for doubtful accounts was approximately \$9.3 million for the three months ended September 30, 2012, an increase of approximately \$2.3 million, compared to approximately \$7.0 million for three months ended September 30, 2011. In accordance with our allowance for doubtful accounts policy, at the end of each quarter, we conduct an aging analysis of each customer's arrears to determine whether allowance for doubtful accounts is adequate. In establishing allowance for doubtful accounts, we consider historical experience, economy, trends in the construction industry, the expected collectability of amount receivable that are past due, and the expected collectability of overdue receivables. An estimate of doubtful accounts is recorded when collection of the full amount is no longer probable. Known bad debts are written off against allowance for doubtful accounts when identified. The accrual ratio is 5% for accounts receivable past due less than one year, 50% for accounts receivable past due from one to two years and 100% for accounts receivable past due beyond two years. We have experienced

delays in payment on our projects from China's Ministry of Railways, or MOR. After the Minister of MOR was arrested for corruption charges, the MOR conducted payment chain audits, and 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, due to concern over inflation, the Chinese government began to tighten its monetary policy between October 2010 and the present, which has adversely affected the real estate and construction industries. In addition, some of our customers have had problems with declines in their businesses and shortages in cash. As a result, our accounts receivable and our provision for doubtful accounts increased.

The allowance for doubtful accounts increased to approximately \$33.9 million at September 30, 2012, compared to approximately \$24.9 million at June 30, 2012.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional and legal fees paid to third parties. We incurred selling, general and administrative expenses of approximately \$3.2 million for the three months ended September 30, 2012, an increase of approximately \$0.8 million, or 32%, as compared to approximately \$2.4 million for the three months ended September 30, 2011. The increase was principally due to \$0.5 million increase in consulting services, \$0.3 million increase in salary and employment benefit expense, \$0.1 million increase in conference expenses and meal & entertainment expenses, and \$0.1 million increase in office expenses, offset by \$0.1 million decrease in share-based compensation expenses and board of director fees, and \$0.1 million decrease in professional expenses.

***Research and development expenses.*** Research and development expenses were approximately \$0.3 million for the three months ended September 30, 2012 and 2011.

***Income (loss) from Operations.*** We recognized loss from operations of approximately \$5.5 million for the three months ended September 30, 2012, as compared to income from operations of approximately \$1 million for the three months ended September 30, 2011, a decrease of approximately \$6.5 million. Such decrease in income from operations was primarily due to an increase of \$2.3 million in provision of doubtful accounts, an increase of \$0.4 million in general and administrative expenses, and \$3.8 million decrease in income from operation of our concrete sales and manufacturing services.

Income from operations of our concrete sales business for the three months ended September 30, 2012, was approximately \$6.4 million, a decrease of 34% from income from operations of this segment of \$9.7 million for the three months ended September 30, 2011. The \$3.3 million decrease was primarily due to the lower demand in the housing market, and lower prices for our concrete products in Beijing as compared to the prior fiscal year.

Income from operations of our manufacturing services business for the three months ended September 30, 2012, was approximately \$0.3 million, compared to income from operations of this segment of approximately \$0.8 million for the three months ended September 30, 2011. The \$0.5 million decrease was primarily due to \$0.5 million decrease in gross profit during the three months ended September 30, 2012, resulting from decreased operating of our manufacturing services business as discussed above.

Our corporate segment recorded depreciation of approximately \$0.1 million in the three months ended September 30, 2012 and 2011. Corporate recorded segment loss of approximately \$12.1 million in the three months ended September 30, 2012, compared to recorded segment loss of approximately \$9.4 million in the three months ended September 30, 2011. The \$2.7 million increase in segment loss was primarily due to a \$2.3 million increase in provision for doubtful accounts and \$0.4 million increase in general and administrative expenses during the three months ended September 30, 2012.

***Other Income (Expense), net.*** Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), change in fair value of warrants, and other non-operating income (expense). We recorded net other income of approximately \$0.9 million for three months ended September 30, 2012, as compared to net other income of approximately \$2.7 million for the three months ended September 30, 2011, a decrease in other income of approximately \$1.8 million, or 67%. The decrease in net other income was due to \$0.3 million increase in loss realized from disposal of fixed assets, and a decrease in change in fair value of warrants liability to a positive adjustment of \$0.1 million during the three months ended September 30, 2012, as compared to a positive adjustment of \$0.2 million during the three months ended September 30, 2011. We also recognized other subsidy income of approximately \$1.8 million for the three months ended September 30, 2012, as compared to \$2.7 million for the three months ended September 30, 2011, a decrease of \$0.9 million, or 32%. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us VAT tax exemption from August 2005 to August 2009, and thereafter a two year extension on the VAT tax exemption from June 2009 to June 2011. The Company has 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. In addition, we had interest expense of \$0.5 million for the three months ended September 30, 2012, as compared to \$0.3 million for the three months ended September 30, 2011, an increase of \$0.2 million related to short-term loans. The Company also had interest income of \$27,434 for the three months ended September 30, 2012, as compared to \$222,644 in the three months ended September 30, 2011, a decrease of \$195,210, which is related to a decrease in short-term investments.

***Provision for Income Taxes.*** Provision for income taxes amounted to approximately \$0.8 million for the three months ended September 30, 2012, as compared to \$0.7 million provision for income taxes for the three months ended September 30, 2011. The Company had loss from operations since the quarter ended June 30, 2012. In expecting the loss from operations in the near term, the Company decided to provide a \$1.4 million valuation allowance against the deferred tax assets related to provision for doubtful accounts as of September 30, 2012, since the deferred tax benefits might not be utilized if the Company continues to have loss from operations. We have used recycled raw materials in our concrete production since our inception, which entitled us to an income tax rate reduction through June 12, 2012, as granted by the State Administration of Taxation, PRC. Since January 1, 2009, we have been subject to a 15% income tax rate. In the past, 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. The Company is currently applying for the extension of 15% income tax rate for the periods after June 12, 2012.

**Net Income (loss).** We recognized net loss of approximately \$5.4 million for the three months ended September 30, 2012, as compared to net income of approximately \$3.1 million for the three months ended September 30, 2011, a decrease of \$8.5 million. Such decrease in net income was primarily due to the decrease in gross profits of concrete sales and manufacturing service, and the increase in provision of doubtful accounts, consulting services and selling, general, and administrative expenses from an increase in our labor base and scale of operations.

### Liquidity and Capital Resources

As of September 30, 2012, we had cash and cash equivalents of approximately \$4.2 million, and restricted cash of approximately \$8.3 million. As of September 30, 2012, subsidiaries outside the U.S. held, in the aggregate, cash and cash equivalents of approximately \$3.6 million, and restricted cash of approximately \$8.3 million, which represented 95% of our cash. Our BVI subsidiary holds a negligible amount of cash. We would be required to accrue and pay U.S. taxes if we were to repatriate these funds. Any company which is registered in mainland China must apply to the State Foreign Exchange Administration for approval in order to remit foreign currency to any foreign country. We currently do not intend to repatriate the cash and short-term investments held by our foreign subsidiaries to the U.S.. However, if we were to repatriate funds to the U.S., we would assess the feasibility and plan any transfer in accordance with foreign exchange regulations, taking into account tax consequences. As we conduct all of our operations in China, the inability to convert cash and short-term investments held in RMB to other currencies should not affect our liquidity. As of September 30, 2012, we had working capital of approximately \$48.8 million. We believe that our cash and cash equivalents along with our working capital will be sufficient to fund our operations for the year ending June 30, 2013.

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

	For the Three Months Ended September 30,	
	2012	2011
Net cash (used in) provided by operating activities	\$ (1,164,687)	\$ 5,813,533
Net cash (used in) provided by investing activities	(52,813)	7,249,116
Net cash provided by (used in) financing activities	2,985,366	(11,462,448)
Effect of foreign currency translation on cash and cash equivalents	(13,852)	20,734
Net increase in cash and cash equivalents	\$ 1,754,014	\$ 1,620,935
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 \$1.2 million for the three months ended September 30, 2012, as compared to net cash provided by operating activities of approximately \$5.8 million for the three months ended September 30, 2011. The increase in net cash used in operating activities was primarily due to a \$9.7 million decrease in accounts payable for payment to trade vendor from \$13.4 million for the three months ended September 30, 2011, to \$3.7 million for the three months ended September 30, 2012, which were offset by a \$13 million decrease in accounts receivable from collection of customers from \$21.9 million for the three months ended September 30, 2011, to \$8.9 million for the three months ended September 30, 2012.

One factor that had an impact on our net cash used in operating activities was slower collection of accounts receivable and other receivables on account of the tightening of monetary policy since October 2010 by the Chinese government due to its concern over inflation, which affected the real estate and construction industries adversely. Since some of our customers had the problems with declines in their businesses and shortages in cash, our days sales outstanding lengthened to 320 days in the three months ended September 30, 2012, compared to 187 days in the three months ended September 30, 2011. Accordingly, our accounts receivable turnover ratio was 1.14 in the three months ended September 30, 2012, compared to 1.95 in the three months ended September 30, 2011.

Other factors that affected our net cash used in operating activities include: (i) a \$1.6 million decrease in inventory during the three months ended September 30, 2012 due to a higher inventory turnover, and (ii) a \$2.7 million increase in prepayment, from \$1.2 million decrease in prepayment during the three months ended September 30, 2011, to \$1.5 million increase in prepayment during the three months ended September 30, 2012, because the Company prepaid suppliers of crucial raw materials in order to guarantee the supply of these materials, and a \$0.2 million decrease in long-term prepayment (from \$0.4 million during the three months ended September 30, 2011 to \$0.6 million during the three months ended September 30, 2012). In addition, other receivables increased \$0.6 million, customer deposits decreased \$0.1 million, other payables decreased \$3.7 million, and accrued liability decreased \$0.2 million.

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

***Investing Activities.*** Net cash used in investing activities was approximately \$0.1 million for the three months ended September 30, 2012, as compared to approximately \$7.2 million net cash provided by investing activities for the three months ended September 30, 2011. The \$7.3 million increase in cash used in investing activities was mainly due to \$7.3 million cash proceeds received from investments during the three months ended September 30, 2011.

***Financing Activities.*** Net cash provided by financing activities totaled approximately \$3 million for the three months ended September 30, 2012, as compared to net cash used in financing activities of approximately \$11.5 million during the three months ended September 30, 2011. The \$3 million net cash provided by financing activities for the three months ended September 30, 2012, was due to \$4.7 million cash proceeds from bank notes, and offset by \$1.7 million increase in restricted cash. The \$11.5 million net cash used in financing activities for the three months ended September 30, 2011, was due to \$12.1 million of loan repayments and a \$0.2 million increase in restricted cash, offset by \$0.8 million in proceeds from a short term loan.

***Cash.*** As of September 30, 2012, we had cash of approximately \$4.2 million, as compared to approximately \$3.2 million as of September 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***

#### **Short-term loans**

We had a total of \$19 million outstanding on loans and credit facilities as of September 30, 2012. The loans consisted of the following:

Sep

Loan from Shanghai Pudong Development Bank, interest rate of 8.53% per annum, \$2,371,500 due October 27, 2012 and \$2,371,500 due November 29, 2012, guaranteed by Beijing Xinhang Construction Group.

Loan from Construction bank, interest rate of 6.89% per annum, due October 20, 2012, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Han XianFu and Mr. He Weili.

Loan from Citibank, interest rate of 8.81% per annum, \$1,185,750 due October 25, 2012 and interest rate of 8.12%, \$1,185,750 due December 7, 2012, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili.

Loan from Merchant Bank, interest rate of 7.54% per annum, due November 7, 2012, guaranteed by Mr. Han Xian Fu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Group.

Loan from ANZ bank, interest rate of 7.28% per annum, \$1,581,000 due October 26, 2012, \$1,581,000 due December 19, 2012, \$1,581,000 due December 25, 2012, guaranteed by Beijing Xinhang Construction Group.

Loan from HSBC, interest rate of 7.61% per annum, paid off on September 29, 2012.

\$

The above guarantors are various suppliers to the Company.

The Company repaid \$2,371,500 of loan from Pudong Development Bank on October 26, 2012, \$5,533,500 of loan from Construction bank on October 19, 2012, \$1,185,750 of loan from Citibank on November 7, 2012, \$1,581,000 of loan from Merchant bank on November 7, 2012 and \$1,581,000 of loan from ANZ Bank on October 26, 2012.

Interest expense on short-term loans for the three months ended September 30, 2012 and 2011, amounted to \$405,988 and \$290,018, respectively.

Notes payable:

During the three months ended September 30, 2012, Bank notes were issued to a third party for deposits of a purchase agreement. The Notes amounted to \$4,743,000 (30 million RMB) as of September 30, 2012, and are non-interest bearing with expiration date on November 4, 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 in Form 10-K for the fiscal year ended June 30, 2012, 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) financial instruments, (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 three months ended September 30, 2012.

**Contingencies**

Management assesses the probability of loss for certain contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. Management believes that any liability to the Company that may arise as a result of having to pay out additional expenses that may have a material adverse effect on the financial condition of the Company taken as a whole should be disclosed. Refer to Note 17 to the Notes to Unaudited 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 6.0% for Renminbi bank loans with a term of 12 months or less. The change in interest rates has minimum impact on our bank loans. Our total borrowings were approximately \$19 million as of September 30, 2012.

## **Credit Risk**

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

## **Foreign Exchange Risk**

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. The Renminbi does not fluctuate with the U.S. Dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Because substantially all of our earnings and cash assets are denominated in Renminbi, but our reporting currency is the U.S. dollar, fluctuations in the exchange rate between the U.S. dollar and the Renminbi will affect our balance sheet and our earnings per share in U.S. dollars. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue in the future that will be exchanged into U.S. dollars and earnings from, and the value of, any U.S. dollar-denominated investments we make in the future.

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

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

## **Inflation**

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

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

Not Applicable.

## **ITEM 4. CONTROLS AND PROCEDURES.**

### *Evaluation of Disclosure Controls and Procedures*

We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of our Chief Executive Officer and our Chief Financial Officer have evaluated the design and operating effectiveness of our disclosure controls and procedures as of September 30, 2012. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures were not effective as of September 30, 2012, due to the ineffective internal controls over financial reporting that stemmed from the fact that we do not have any full-time accounting personnel who have U.S. GAAP experience.

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

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

Despite the material weakness reported above, our management believes that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented due to the fact that we have retained a consultant who has U.S. GAAP experience to assist us in the preparation of our consolidated financial statements.

### *Changes in Internal 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, its internal control over financial reporting during the three months ended September 30, 2012.

## **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.



Since July 29, 2011, multiple class action complaints (the “Stockholder Actions”) were 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 (together with Xianfu Han and their affiliates, the “Buyer Group”), 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 were consolidated under the caption *In re China Advanced Construction Materials Group Litigation*, Consolidated C.A. No. 6729-CS.

On July 9, 2012, the Company announced that it and the Buyer Group determined to terminate the merger agreement the parties signed on October 24, 2011, (the “Merger Agreement”) based on the determination by all parties that the conditions to consummate the merger contemplated by the Merger Agreement cannot be satisfied, and the Company and the Buyer Group entered into the Termination of Agreement and Merger Agreement. On August 14, 2012, the plaintiffs in the Stockholder Actions requested that the case be dismissed and the court approved the dismissal.

## 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, 2012, 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 September 30, 2012.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the fiscal quarter ended September 30, 2012.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

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

### Exhibit No. Description

<u>31.1</u>	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
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<u>31.2</u>	<u>Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
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<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>
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<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>
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101.INS	XBRL Instance Document
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101.SCH	XBRL Taxonomy Extension Schema Document
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101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
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101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

**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: November 16, 2012      **CHINA ADVANCED CONSTRUCTION  
MATERIALS GROUP, INC.**

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

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

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