

China Advanced Construction Materials Group, Inc
Form 10-Q
February 05, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **December 31, 2015**

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

For the transition period from _____ to _____

Commission File Number: **001-34515**

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-8468508

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

**9 North West Fourth Ring Road Yingu Mansion Suite 1708
Haidian District Beijing, People s Republic of China 100190**

(Address of principal executive offices, Zip Code)

+86 10 82525361

(Registrant s telephone number, including area code)

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

Yes No

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

Yes No

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-Q

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

The number of shares outstanding of each of the issuer's classes of common equity, as of February 2, 2016 is as follows:

| <u>Class of Securities</u> | <u>Shares Outstanding</u> |
|---------------------------------|---------------------------|
| Common Stock, \$0.001 par value | 2,180,799 |

TABLE OF CONTENTS

| PART I | | |
|-----------------------|---|------|
| FINANCIAL INFORMATION | | |
| | | PAGE |
| ITEM 1. | FINANCIAL STATEMENTS (UNAUDITED) | 3 |
| ITEM 2. | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 25 |
| ITEM 3. | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 34 |
| ITEM 4. | CONTROLS AND PROCEDURES | 34 |
| PART II | | |
| OTHER INFORMATION | | |
| ITEM 6. | EXHIBITS | 35 |

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

| ASSETS | December 31, 2015 | June 30, 2015 |
|---|----------------------|------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,855,214 | \$ 2,691,915 |
| Restricted cash | 8,262,218 | 11,062,358 |
| Accounts and notes receivable, net of allowance for doubtful accounts of \$28,145,372 and \$28,209,249, as of December 31, 2015 and June 30, 2015, respectively | 40,606,985 | 40,357,169 |
| Inventories | 1,581,449 | 1,416,664 |
| Short term investments | - | 5,401,499 |
| Other receivables | 696,988 | 1,080,187 |
| Prepayments and advances | 52,518,979 | 52,478,097 |
| Deferred tax assets | 1,729,042 | 1,836,757 |
| Total current assets | 107,250,875 | 116,324,646 |
| PROPERTY PLANT AND EQUIPMENT, net | 8,800,509 | 10,155,848 |
| ADVANCES ON EQUIPMENT PURCHASES, net of allowance of \$3,930,513 and \$3,578,891 as of December 31, 2015 and June 30, 2015, respectively | 561,502 | 1,684,064 |
| Total assets | \$ 116,612,886 | \$ 128,164,558 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Short term loans, banks and bank guarantees | \$ 14,639,500 | \$ 26,355,700 |
| Notes payable | 31,898,700 | 30,530,050 |
| Accounts payable | 30,287,994 | 23,399,883 |
| Customer deposits | 712,522 | 1,284,579 |
| Other payables | 1,566,188 | 2,704,233 |
| Other payables - shareholders | 175,725 | 83,678 |
| Accrued liabilities | 2,152,305 | 2,603,662 |
| Capital lease obligations - current | 400,004 | 1,489,384 |
| Taxes payable | 221,968 | 12,859 |
| Total current liabilities | 82,054,906 | 88,464,028 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock \$0.001 par value, 1,000,000 shares authorized, no shares issued or outstanding | - | - |
| Common stock, \$0.001 par value, 74,000,000 shares authorized, 2,180,799 shares issued and outstanding as of December 31 and June 30, 2015 | 2,181 | 2,181 |

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-Q

| | | |
|--|----------------|----------------|
| Additional paid-in-capital | 38,373,584 | 38,373,584 |
| Accumulated deficit | (18,242,605) | (15,398,817) |
| Statutory reserves | 6,248,357 | 6,248,357 |
| Accumulated other comprehensive income | 8,176,463 | 10,475,225 |
| Total shareholders' equity | 34,557,980 | 39,700,530 |
| Total liabilities and shareholders' equity | \$ 116,612,886 | \$ 128,164,558 |

4

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

| | For the three months ended December 31, | | For the six months ended December 31, | |
|---|--|----------------|--|----------------|
| | 2015 | 2014 | 2015 | 2014 |
| REVENUE | | | | |
| Sales of concrete | \$ 16,979,755 | \$ 17,638,416 | 30,452,586 | 38,539,106 |
| Manufacturing services | - | 579 | - | 313,642 |
| Total revenue | 16,979,755 | 17,638,995 | 30,452,586 | 38,852,748 |
| COST OF REVENUE | | | | |
| Concrete | 14,962,725 | 16,049,839 | 26,818,056 | 35,095,227 |
| Manufacturing services | - | 1,642 | - | 285,094 |
| Total cost of revenue | 14,962,725 | 16,051,481 | 26,818,056 | 35,380,321 |
| GROSS PROFIT | 2,017,030 | 1,587,514 | 3,634,530 | 3,472,427 |
| PROVISION FOR DOUBTFUL ACCOUNTS | (1,567,739) | (1,427,942) | (2,462,523) | (399,969) |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | (1,718,953) | (2,899,501) | (3,263,641) | (5,566,805) |
| RESEARCH AND DEVELOPMENT EXPENSES | (156,283) | (348,881) | (286,729) | (849,048) |
| LOSS REALIZED FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT | - | (584) | - | (81,316) |
| LOSS FROM OPERATIONS | (1,425,945) | (3,089,394) | (2,378,363) | (3,424,711) |
| OTHER (EXPENSE) INCOME, NET | | | | |
| Subsidy income | - | 529,187 | - | 1,174,992 |
| Non-operating expense, net | (192,877) | (178,023) | (325,771) | (296,787) |
| Interest income | 76,204 | 198,277 | 248,040 | 901,786 |
| Interest expense | (209,019) | (353,049) | (387,694) | (826,708) |
| TOTAL OTHER (LOSS) INCOME, NET | (325,692) | 196,392 | (465,425) | 953,283 |
| LOSS BEFORE PROVISION FOR INCOME TAXES | (1,751,637) | (2,893,002) | (2,843,788) | (2,471,428) |
| PROVISION FOR INCOME TAXES | - | (9,649) | - | (346,313) |
| NET LOSS | \$ (1,751,637) | \$ (2,902,651) | \$ (2,843,788) | \$ (2,817,741) |
| COMPREHENSIVE LOSS: | | | | |
| Net loss | \$ (1,751,637) | \$ (2,902,651) | (2,843,788) | (2,817,741) |
| Foreign currency translation adjustment | (715,655) | 81,965 | (2,298,762) | 156,414 |

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-Q

| | | | | |
|--------------------|----------------|----------------|----------------|----------------|
| COMPREHENSIVE LOSS | \$ (2,467,292) | \$ (2,820,686) | \$ (5,142,550) | \$ (2,661,327) |
|--------------------|----------------|----------------|----------------|----------------|

LOSS PER COMMON SHARE

Weighted average number of shares:

| | | | | |
|---------|-----------|-----------|-----------|-----------|
| Basic | 2,180,799 | 1,811,054 | 2,180,799 | 1,701,121 |
| Diluted | 2,180,799 | 1,961,054 | 2,180,799 | 1,793,241 |

Loss per share:

| | | | | |
|---------|-----------|-----------|-----------|-----------|
| Basic | \$ (0.80) | \$ (1.60) | \$ (1.30) | \$ (1.66) |
| Diluted | \$ (0.80) | \$ (1.48) | \$ (1.30) | \$ (1.57) |

5

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

| | For the six months ended December 31, | |
|---|--|----------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (2,843,788) | \$ (2,817,741) |
| Adjustments to reconcile net loss to cash used in operating activities: | | |
| Depreciation | 1,019,519 | 1,084,271 |
| Stock-based compensation expense | 498,604 | 201,560 |
| Deferred tax provision | - | 16,487 |
| Provision for doubtful accounts | 2,462,523 | 399,969 |
| Loss realized from disposal of property, plant and equipment | - | 81,316 |
| Changes in operating assets and liabilities | | |
| Accounts and notes receivable | (4,564,368) | (1,558,668) |
| Inventories | (254,137) | (682,986) |
| Other receivables | 71,811 | (283,266) |
| Prepayments and advances | (3,880,311) | (11,020,554) |
| Accounts payable | 8,469,425 | (6,369,916) |
| Customer deposits | (509,296) | (90,798) |
| Other payables | (1,233,668) | 282,567 |
| Accrued liabilities | (351,778) | 1,190,124 |
| Taxes payable | 215,174 | (10,165) |
| Net cash used in operating activities | (900,290) | (19,577,800) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Redemptions of short-term investments, net | 5,213,420 | 12,421,990 |
| Purchase of property, plant and equipment | (1,153) | (39,406) |
| Net cash provided by investing activities | 5,212,267 | 12,382,584 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short term loans and bank guarantees | 10,270,000 | 31,544,400 |
| Payments of short term loans and bank guarantees | (20,698,000) | (47,113,187) |
| Payments of short term loans - other | - | (3,252,000) |
| Proceeds from notes payable | 32,706,000 | 20,568,900 |
| Payments of notes payable | (29,467,000) | (9,756,000) |
| Payable to shareholder | 92,047 | 128,492 |
| Principal payments on capital lease obligations | (114,651) | (519,275) |
| Restricted cash | 2,205,848 | 2,227,597 |
| Proceeds from issuance of common stock | - | 1,167,552 |
| Net cash used in financing activities | (5,005,756) | (5,003,521) |
| EFFECTS OF EXCHANGE RATE CHANGE IN CASH | (142,922) | 117,420 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (836,701) | (12,081,317) |
| CASH AND CASH EQUIVALENTS, beginning of period | 2,691,915 | 15,431,110 |

| | | | |
|--|---|--------------|--------------|
| CASH AND CASH EQUIVALENTS, end of period | 6 | \$ 1,855,214 | \$ 3,349,793 |
|--|---|--------------|--------------|

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Organization and description of business

China Advanced Construction Materials Group, Inc. (CADC Delaware) was incorporated in the State of Delaware on February 15, 2007. CADC Delaware, through its 100% owned subsidiaries and its variable interest entities (VIEs), is engaged in producing general ready-mix concrete, customized mechanical refining concrete, and other concrete-related products that are mainly sold in the People's Republic of China (PRC). CADC Delaware has a wholly-owned subsidiary in the British Virgin Islands, Xin Ao Construction Materials, Inc. (BVI-ACM), which is a holding company with no operations. BVI-ACM has a wholly-owned foreign enterprise, Beijing Ao Hang Construction Material Technology Co., Ltd. (China-ACMH), and China-ACMH has contractual agreements with an entity which is considered as a VIE.

Beijing XinAo Concrete Group (Xin Ao), our VIE, is engaged in the business of consulting, concrete mixing and equipment rental services. Xin Ao has five wholly-owned subsidiaries (collectively, and with Xin Ao, the VIEs) in the PRC: (1) Beijing Heng Yuan Zheng Ke Technical Consulting Co., Ltd (Heng Yuan Zheng Ke), (2) Beijing Hong Sheng An Construction Materials Co., Ltd (Hong Sheng An), (3) Beijing Heng Tai Hong Sheng Construction Materials Co., Ltd (Heng Tai), (4) Da Tong Ao Hang Wei Ye Machinery, Equipment Rental Co., Ltd (Da Tong) and (5) Luan Xian Heng Xin Technology Co., Ltd (Heng Xin).

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

Note 2 Summary of significant accounting policiesBasis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information pursuant to the rules and regulations of the Securities Exchange Commission (SEC). The financial statements include the accounts of all directly, indirectly owned subsidiaries and variable interest entities listed below. All material intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary to give a fair presentation have been included. Interim results are not necessarily indicative of results of a full year. The information in this Form 10-Q should be read in conjunction with information included in the annual report for the fiscal year ended June 30, 2015 on Form 10-K filed with the SEC on September 25, 2015 and have been consistently applied.

Principles of consolidation

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

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

Edgar Filing: China Advanced Construction Materials Group, Inc - Form 10-Q

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

| | December 31, 2015 | June 30, 2015 |
|-------------------------------|----------------------|------------------|
| Current assets | \$ 107,058,515 | \$ 115,628,360 |
| Property, plant and equipment | 8,799,964 | 10,154,170 |
| Other noncurrent assets | - | 491,100 |
| Total assets | 115,858,479 | 126,273,630 |
| Liabilities | (81,104,243) | (87,520,412) |
| Intercompany payables* | (8,138,611) | (8,650,651) |
| Total liabilities | (89,242,854) | (96,171,063) |
| Net assets | \$ 26,615,625 | \$ 30,102,567 |

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

Use of estimates and assumptions

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates and assumptions made in the preparation of the Company's consolidated financial statements include deferred income taxes, allowance for doubtful accounts, allowance for inventory valuation, deferred stock-based compensation, the fair value and useful lives of property, plant and equipment. Actual results could be materially different from those estimates, upon which the carrying values were based.

Foreign currency translation

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

necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Asset and liability accounts at December 31 and June 30, 2015, were translated at RMB 6.49 to \$1.00 and RMB 6.11 to \$1.00, respectively. The average translation rates applied to the consolidated statements of operations and comprehensive income (loss) and cash flows for the six months ended December 31, 2015 and 2014 were RMB 6.33 and RMB 6.15 to \$1.00, respectively.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue recognition

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

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

Delivery has occurred or services have been rendered;

The seller's price to the buyer is fixed or determinable; and

Collectability of payment is reasonably assured.

The Company sells its concrete products and provides concrete technical services primarily to major local construction companies. Sales agreements are signed with each customer. The agreements list all terms and conditions with the exception of delivery date and quantity, which are evidenced separately in purchase orders. The purchase price of products is fixed in the agreement and customers are not permitted to renegotiate after the contracts have been signed. The agreements include a cancellation clause if the Company or customers breach the contract terms specified in the agreement.

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

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

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

Financial instruments

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

The three levels of inputs are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

Level 3 inputs to the valuation methodology are unobservable.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Cash and cash equivalents

The Company considers all highly liquid investments with the original maturity of three months or less at the date of purchase to be cash equivalents. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions within PRC and US. As of December 31, 2015 and June 2015, the Company had deposits in excess of federally insured limits totaling approximately \$1.8 million and \$ 2.7 million, respectively.

Restricted cash

As of December 31, 2015 and June 30, 2015, restricted cash consisted of collateral representing cash deposits for short term loans, bank guarantees and notes payable.

Accounts receivable

During the normal course of business, the Company extends unsecured credit to its customers. Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers the historical experience, the economy, trends in the construction industry, the expected collectability of the amount receivable that is past due and the expected collectability of the overdue receivable. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote. There were no write offs of account balances against the allowance for the three and six months ended December 31, 2015. For the three and six months ended December 31, 2014, approximately \$27,000 was written off against the allowance balance.

Other receivables

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

Inventories

Inventories consist of raw materials and are stated at the lower of cost or market, as determined using the weighted average cost method. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. As of December 31 and June 30, 2015, the Company determined that no reserves for obsolescence were necessary.

Short term investments

The Company entered into an investment agreement with a financial investment company in April 2015. The agreement allows the Company to invest up to RMB 100 million (\$16.4 million) for maximum periods of two years. The Company can redeem the investment at any time within the agreed period upon 30-day notice. The financial investment company invests the Company's funds in certain financial instruments including bonds, mortgage trust or mutual funds. The rates of return on these investments were guaranteed to be no less than 10% per annum by such a financial investment company. As of December 31, 2015 the Company did not experience gain or loss on its investment. However, the Company's funds deposited with the financial investment company are not insured and the income guaranteed by the financial investment company is subject to the financial investment company's ability in future, to pay such income.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Prepayments and advances, and advances on equipment purchases, net

The Company advances monies to certain suppliers for raw materials, plant and equipment, and factory rent. These advances are interest free and unsecured. For each of the three months ended December 31, 2015 and 2014, the Company recorded a bad debt allowance for advances on equipment purchases for approximately \$0.3 million. For each of the six months ended December 31, 2015 and 2014, the Company recorded a bad debt allowance for advances on equipment purchases for approximately \$0.6 million.

Stock-based compensation

The Company records stock-based compensation expense at fair value on the grant date and recognizes the expense over the employee's requisite service period. Unrecognized expense is deferred and included in the unaudited condensed consolidated balance sheets, and amortized over the remaining requisite service period. The Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is based on the Company's current and expected dividend policy.

Property, plant and equipment

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

The estimated useful lives of assets are as follows:

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

Accounting for long-lived assets

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

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. It is possible that these assets could become impaired as a result of technology or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived

asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

If the value of an asset is determined to be impaired, the impairment to be recognized is measured in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less disposition costs. There was no impairment charge for each of the three and six months ended December 31, 2015 and 2014.

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

Income taxes

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

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

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

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

Value Added Tax

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

Research and development and repair and maintenance

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Research and development, advertising and repair and maintenance costs are expensed as incurred. The cost of materials and equipment that are acquired or constructed for research and development activities, and have alternative future uses, either in research and development, marketing, or sales, are classified as property and equipment, and depreciated over their estimated useful lives. Research and development costs for the three months ended December 31, 2015 and 2014 were approximately \$0.2 million and \$ 0.3 million, respectively. Research and development costs for the six months ended December 31, 2015 and 2014 were approximately \$0.3 million and \$0.8 million, respectively. Repair and maintenance costs for the three months ended December 31, 2015 and 2014 were approximately \$36,000 and \$23,000, respectively. Repair and maintenance costs for each of the six months ended December 31, 2015 and 2014 were approximately \$0.1 million.

Earnings (loss) per share

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

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

Comprehensive income

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

Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. The update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The update applies to all entities that present a classified statement of financial position. For public business entities, the ASU is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the ASU is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods with annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The Company does not expect the adoption of ASU 2015-17 to have material impact on its financial position, results of operations or cash flows.

Note 3 Supplemental disclosure of cash flow information

For the six months ended December 31, 2015 and 2014, the Company paid interest in the amounts of approximately \$0.4 million and \$0.8 million, respectively.

Cash payments for income tax for the six months ended December 31, 2015 and 2014 were approximately \$27,000 and \$0.3 million, respectively.

Non-cash investing and financing activities

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During the six months ended December 31, 2015, pursuant to certain three-party settlement agreements, the Company offset capital lease obligations with prepayment and advances on equipment purchase for approximately \$0.7 million, and with accounts and notes receivable for approximately \$0.2 million. The Company had payables of approximately \$0.2 million as a result of acquisition of property and equipment.

The Company had receivables of approximately \$0.8 million as a result of disposal of property, plant and equipment during the six months ended December 31, 2014. The Company offset prepayments with addition of property, plant and equipment for approximately \$0.1 million during the six months ended December 31, 2014. The Company issued stock to payoff shareholder debt of approximately \$0.9 million (see Note 12).

Note 4 Accounts and notes receivable

Accounts and notes receivable are generated from concrete products sold to the Company's customers and other concrete companies with which the Company conducts business. The payment terms are defined in the respective contracts. Notes receivable represents trade accounts receivable due from various customers where the customers' banks have guaranteed the payment. The notes are non-interest bearing and normally paid within three to six months. The Company has the ability to submit requests for payment to the customer's bank earlier than the scheduled payment date, but will incur an interest charge and a processing fee.

Based on the historical experience and its individual evaluation process, the Company's estimates of its allowance for doubtful accounts as of December 31, 2015 were as follows: 15% for accounts receivable past due more than 180 days but less than one year, 60% for accounts receivable past due from one to two years, 75% for accounts receivable past due beyond two years, and 100% for accounts receivable past due beyond three years, plus any additional amounts as necessary.

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

| | December 31, 2015 | June 30, 2015 |
|--|----------------------|------------------|
| Accounts receivable | \$ 68,752,357 | \$ 68,566,418 |
| Notes receivable | - | - |
| | 68,752,357 | 68,566,418 |
| Less: Allowance for doubtful accounts | (28,145,372) | (28,209,249) |
| Total accounts and notes receivable, net | \$ 40,606,985 | \$ 40,357,169 |

Note 5 Other receivables

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

| | December 31, 2015 | June 30, 2015 |
|--|----------------------|------------------|
| Other receivables, current | \$ 3,209,222 | \$ 3,483,549 |
| Less: Allowance for doubtful accounts, current | (2,512,234) | (2,403,362) |
| Other receivables - current, net | \$ 696,988 | \$ 1,080,187 |

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 6 Property, plant and equipment

Property, plant and equipment consist of the following:

| | December 31, 2015 | June 30, 2015 |
|--------------------------------|----------------------|------------------|
| Machinery and equipment | \$ 2,224,729 | \$ 2,363,324 |
| Transportation equipment | 970,265 | 1,030,710 |
| Leased equipment | 10,625,503 | 11,287,442 |
| Office equipment | 1,247,788 | 1,305,992 |
| Buildings and improvements | 586,354 | 393,205 |
| Total | 15,654,639 | 16,380,673 |
| Less: Accumulated depreciation | (6,854,130) | (6,224,825) |
| Plant and equipment, net | \$ 8,800,509 | \$ 10,155,848 |

Depreciation expense for each of the three months ended December 31, 2015 and 2014 amounted to approximately \$0.5 million. Depreciation expense for the six months ended December 31, 2015 and 2014 amounted to approximately \$1.0 million and \$1.1 million, respectively. Depreciation expense for the leased equipment was \$0.4 million for each of the three months ended December 31, 2015 and 2014. Depreciation expense for the leased equipment was \$0.7 million and \$0.8 million for the six months ended December 31, 2015 and 2014, respectively. Accumulated depreciation for the leased equipment as of December 31 and June 30, 2015 was \$4.0 million and \$3.3 million, respectively. There was no impairment charge for each of the three and six months ended December 31, 2015 and 2014.

Note 7 Prepayments and advances

Prepayments and advances consisted of the following:

| | December 31, 2015 | June 30, 2015 |
|-----------------------------------|----------------------|------------------|
| Advances on inventory purchases | \$ 52,518,979 | \$ 51,979,493 |
| Deferred stock-based compensation | - | 498,604 |
| Total prepayments and advances | \$ 52,518,979 | \$ 52,478,097 |

Note 8 Credit FacilitiesShort term loans - banks:

The outstanding balances on these loans consisted of the following:

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| | Decem 20 |
|---|-------------|
| Loans from China Construction Bank, each with an interest rate at 5% per annum, due September, October and December, 2016; guaranteed by Jinshengding Mineral Products Co., LTD and Mr. Xianfu Han. | 10, |
| Loan from Bank of Beijing, interest rate at 6.4% per annum, due March 12, 2016, guaranteed by Beijing Jinshengding Mineral Products Co., LTD and Mr. Xianfu Han. | 4, |
| Loan from Citic Bank, interest rate at 7.80% per annum; guaranteed by Jinshengding Mineral Products Co., LTD, Mr. Xianfu Han and Mr. Weili He. This loan was repaid in full in August 2015. | \$ 14, |

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

Bank guarantees:

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

| | December 31, 2015 | June 30, 2015 |
|---|----------------------|------------------|
| Bank guarantees due to China Construction Bank, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, and Mr. Xianfu Han, a related party. The guarantees were repaid in full in November 2015. | \$ - | \$ 12,441,200 |

As of December 31 and June 30, 2015, the Company had restricted cash for short-term loans and bank guarantees of approximately \$0.1 million and \$2.6 million, respectively.

Notes payable:

Bank notes are issued to a third party for inventory purchases. The notes payable were guaranteed by Beijing Jinshengding Mineral Products Co., LTD and Mr. Xianfu Han and amounted to approximately \$31.9 million (RMB 207 million) and \$30.5 million (RMB 187 million) as of December 31 and June 30, 2015, respectively, and were non-interest bearing with expiration dates between January and June 2016. The restricted cash for the notes was approximately \$8.2 million and \$8.5 million as of December 31 and June 30, 2015, respectively.

Note 9 Capital lease obligations

Capital lease obligations consist of the following:

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| | December 31, 2015 | June 30, 2015 |
|--|----------------------|------------------|
| Lease obligations for concrete pump trucks maturing in January 2016, lease payment at \$186,000 per month with interest at 7.68% per annum | \$ 391,887 | \$ 1,152,950 |
| Lease obligations for concrete mixer trucks, paid off in September 2015 | - | 95,420 |
| Lease obligations for concrete mixer trucks maturing in May 2014, lease payment at \$156,000 per month with interest at 7.28% per annum | 8,117 | 266,757 |
| Total | 400,004 | 1,515,127 |
| Less: Deferred interest | - | (25,743) |
| | 400,004 | 1,489,384 |
| Less: Capital lease obligations - current | (400,004) | (1,489,384) |
| Capital lease obligations - non current | \$ - | \$ - |

Note 10 Related party transactionsOther payables - shareholders

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

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

| | December 31, 2015 | June 30, 2015 |
|------------|----------------------|------------------|
| Xianfu Han | \$ 74,856 | \$ 15,762 |
| Weili He | 100,869 | 67,916 |
| | \$ 175,725 | \$ 83,678 |

Note 11 Income taxes**(a) Corporate income tax**

China ACM was organized in the United States. China ACM had no taxable income for United States income tax purposes for the six months ended December 31, 2015. As of December 31, 2015, China ACM's net operating loss carry forward for United States income taxes was approximately \$0.9 million. The net operating loss carry forward are available to reduce future years' taxable income through year 2033. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's operating history and continued losses in the United States. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset to reduce the asset to zero. There was no change in the valuation for deferred tax assets for each of the three and six months ended

December 31, 2015 and 2014. Management reviews this valuation allowance periodically and makes adjustments accordingly.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

China-ACMH and VIEs-Chinese operations

All of the Company's income is generated in the PRC, through VIEs. The Company's VIEs had cumulative losses of approximately \$3.1 million and \$1.0 million as of December 31, 2015 and June 30, 2015, respectively. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings.

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

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

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

Loss before provision for income taxes consisted of:

| | Three months ended December 31, | |
|-------------|------------------------------------|----------------|
| | 2015 | 2014 |
| USA and BVI | \$ (349,001) | \$ (524,455) |
| China | (1,402,636) | (2,368,547) |
| | \$ (1,751,637) | \$ (2,893,002) |

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| | Six months ended December 31, | |
|-------------|----------------------------------|----------------|
| | 2015 | 2014 |
| USA and BVI | \$ (748,847) | \$ (659,525) |
| China | (2,094,941) | (1,811,903) |
| | \$ (2,843,788) | \$ (2,471,428) |

Provision for income taxes consisted of:

| | Three months ended December 31, | |
|----------------------------------|------------------------------------|------------|
| | 2015 | 2014 |
| Current provision: | | |
| USA | \$ - | \$ - |
| China | - | (92,437) |
| Total current provision | - | (92,437) |
| Deferred benefit: | | |
| USA | - | - |
| China | - | 82,788 |
| Total deferred benefit | - | 82,788 |
| Total provision for income taxes | \$ - | \$ (9,649) |

| | Six months ended December 31, | |
|----------------------------------|----------------------------------|--------------|
| | 2015 | 2014 |
| Current provision: | | |
| USA | \$ - | \$ - |
| China | - | (329,826) |
| Total current provision | - | (329,826) |
| Deferred provision: | | |
| USA | - | - |
| China | - | (16,487) |
| Total deferred provision | - | (16,487) |
| Total provision for income taxes | \$ - | \$ (346,313) |

Significant components of deferred tax assets were as follows:

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| | December 31, 2015 | June 30, 2015 |
|---|----------------------|------------------|
| Deferred tax assets - current | | |
| Allowance for doubtful accounts | \$ 4,322,604 | \$ 4,591,891 |
| Valuation allowance | (2,593,562) | (2,755,134) |
| Total deferred tax assets - current | \$ 1,729,042 | \$ 1,836,757 |
| Deferred tax assets - non-current | | |
| Net operating loss carryforward in the U.S. | \$ 309,393 | \$ 309,393 |
| Impairment loss of long-lived assets | - | - |
| | 309,393 | 309,393 |
| Valuation allowance | (309,393) | (309,393) |
| Total deferred tax assets - non-current | \$ - | \$ - |

As of December 31, 2015 and June 30, 2015 the Company believes it is more likely than not that its China operations will be unable to fully utilize its deferred tax assets related to provision for doubtful accounts. As such, as of December 31 and June 30, 2015, the Company provided approximately \$2.6 million and \$2.8 million of valuation allowance to the deferred tax assets related to its China operations, all of which was against deferred tax assets current related to its allowance for doubtful accounts, as management estimates that certain bad debts may not be deductible against future pre-tax income by the Chinese tax authorities.

The Company has incurred losses from its U.S. operations during all periods presented. Accordingly, management provided approximately \$0.3 million of valuation allowance against the deferred tax assets related to the Company's U.S. operations as of December 31 and June 30, 2015, since the deferred tax benefits of the net operating loss carry forward in the U.S. might not be utilized.

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

| | Valuation Allowance |
|---|------------------------|
| For deferred tax assets - current | |
| As of June 30, 2015 | \$ 2,755,134 |
| Allowance for doubtful accounts | - |
| Effect of exchange rate difference | (161,572) |
| As of December 31, 2015 | \$ 2,593,562 |
| For deferred tax assets - noncurrent | |
| As of June 30, 2015 | \$ 309,393 |
| Net operating loss carryforward in the U.S. | - |

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Taxes payable consisted of the following:

| | December 31, 2015 | June 30, 2015 |
|----------------------|----------------------|------------------|
| Income taxes payable | \$ - | \$ - |
| Other taxes payable | 221,968 | 12,859 |
| Total taxes payable | \$ 221,968 | \$ 12,859 |

(b) Uncertain tax positions

There were no uncertain tax positions as of December 31, 2015 and June 30, 2015. Management does not anticipate any potential future adjustments which would result in a material change to its tax positions. For the six months ended December 31, 2015 and 2014, the Company did not incur any tax related interest and penalties.

Note 12 Shareholders equityRestricted Stock Grants

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

Effective September 9, 2014, the Board granted an aggregate of 150,000 shares of common stock, which were issued with a market value of \$625,500 to its 13 employees under the Company's 2009 Equity Incentive Plan (the 2009 Plan). These shares are vested in two equal installments every six months from the date of grant. As of December 31, 2015, all of the shares were vested.

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

Effective June 29, 2015, the Board granted an aggregate of 100,000 shares of common stock, which were issued with a market value of \$380,000 to its two employees under the 2009 Plan. These shares are vested in two equal installments every three months from the date of grant. As of December 31, 2015, all of the shares were vested.

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

For the three months ended December 31, 2015 and 2014, the Company recognized \$0.2 million of compensation expenses related to restricted stock grants. For the six months ended December 31, 2015 and 2014, the Company recognized \$0.5 million and \$0.2 million of compensation expenses related to restricted stock grants, respectively.

Following is a summary of the restricted stock grants:

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

| Restricted stock grants | Shares | Weighted Average Grant Date Fair Value Per Share | Aggregate Intrinsic Value |
|-----------------------------------|-----------|--|---------------------------------|
| Nonvested as of June 30, 2014 | - | \$ - | \$ - |
| Granted | 251,875 | 4.02 | 1,013,413 |
| Vested | (76,875) | 4.17 | 320,663 |
| Nonvested as of June 30, 2015 | 175,000 | \$ 3.96 | \$ 692,750 |
| Vested | (175,000) | 3.96 | 692,750 |
| Nonvested as of December 31, 2015 | - | \$ - | \$ - |

Stock Issuance

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

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

Note 13 Reserves and dividends

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

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. The remaining reserve to fulfill the 50% registered capital requirement amounted to approximately \$2.0 million and \$2.1 million as of December 31, 2015 and June 30, 2015.

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

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

Note 14 Employee post-retirement benefits

The Company offers a defined contribution plan to eligible employees which consists of two parts: (i) the first part, paid by the Company, is 20% of the employee's compensation from the prior year and (ii) the second part, paid by the employee, is 8% of the employee's compensation. The Company's contributions of employment benefits were approximately \$0.2 million and 0.3 million for the three months ended December 31, 2015 and 2014, respectively. The Company's contributions of employment benefits were approximately \$0.4 million and \$0.5 million for each of

the six months ended December 31, 2015 and 2014.

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

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Note 15 Commitments and contingencies

Lease Commitments

The Company has a lease agreement for a concrete service plant with an unrelated party which will expire on September 30, 2017, with annual payments of approximately \$213,000. The Company has a lease agreement to lease office space from a third party through October 31, 2016, with annual payments of approximately \$26,000. The Company also has an eight-year operating lease agreement for a concrete service plant with an unrelated party through August 17, 2021, with a monthly payment of approximately \$53,000.

Operating lease expenses are allocated between the cost of revenue and selling, general, and administrative expenses. Total operating lease expenses for the three months ended December 31, 2015 and 2014 were approximately \$0.2 million and \$0.5 million, respectively. Total operating lease expenses for the six months ended December 31, 2015 and 2014 were approximately \$0.4 million \$1.1 million, respectively. Future annual lease payments, net of rent prepayment non-cancelable operating leases with a term of one year or more consist of the following:

| Twelve months ending December 31, | Amount |
|-----------------------------------|------------|
| 2016 | \$ 866,000 |
| 2017 | 792,000 |
| 2018 | 632,000 |
| 2019 | 632,000 |
| 2020 | 632,000 |

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Legal Contingencies

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

Note 16 - Concentrations

For the three months ended December 31, 2015, the Company had one customer that represented approximately 10.3% of total revenue. For the six months ended December 31, 2015, the same customer represented approximately 14.4% of total revenue. For the three months ended December 31, 2014, one customer represented approximately 16.5% of total revenue. For the six months ended December 31, 2014, the same customer represented approximately 14.7% of total revenue. As of December 31, 2015 and 2014, no customer accounted for more than 10% of the total balance of accounts receivable.

For the three months ended December 31, 2015, no vendor represented more than 10% of total purchases. For the six months ended December 31, 2015, no vendor accounted for more than 10% of total purchases. For the three months ended December 31, 2014, the Company had one vendor that represented approximately 19.1% of total purchases. For the six months ended December 31, 2014, the same vendor represented approximately 17.1% of total purchases. As of December 31, 2015 and 2014, no vendor accounted for more than 10% of the total balance of accounts payable.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULT OF OPERATIONS

Overview

We are a holding company whose primary business operations are conducted through our wholly-owned subsidiaries BVI-ACM and China-ACMH, and our variable interest entities, Xin Ao and its subsidiaries. We engage in the production and supply of advanced construction materials for large scale commercial, residential, and infrastructure developments, and are primarily focused on producing and supplying a wide range of advanced ready-mix concrete materials for highly technical, large scale, and environmentally-friendly construction projects.

During the three months ended December 31, 2015, we supplied materials and provided services to our projects through our network of ready-mixed concrete plants throughout Beijing (two as of December 31, 2015).

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

Principal Factors Affecting Our Financial Performance

We believe that the following factors will continue to affect our financial performance:

- *Large Scale Contractor Relationships.* We have contracts with major construction contractors which are constructing key infrastructure, commercial and residential projects. Our sales efforts focus on large-scale projects and large customers which place large recurring orders and present less credit risk to us. For the three months ended December 31, 2015, one customer accounted for approximately 10.3% of our sales and 6.6% of our accounts receivable as of December 31, 2015. Should we lose any large scale customers in the future and are unable to obtain additional customers, our revenues will suffer.
- *Experienced Management.* Management's technical knowledge and business relationships give us the ability to secure major infrastructure projects, which provides us with leverage to acquire less sophisticated operators, increase production volumes, and implement quality standards and environmentally sensitive policies. If there were to be any significant turnover in our senior management, it could deplete the institutional knowledge held by our existing senior management team.
- *Innovation Efforts.* We strive to produce the most technically and scientifically advanced products for our customers and maintain close relationships with Tsinghua University, Xi'an University of Architecture and Technology and Beijing Dongfang Jianyu Institute of Concrete Science & Technology. We entered technical service contracts with these research institutes to further improve our production and products. If our research and development efforts are not sufficient to adapt to the change in technology in the industry, our products may not compete effectively.
- *Competition.* Our competition includes a number of state-owned and large private PRC-based manufacturers and distributors that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Essentially, all of the contracts on which we bid are awarded through a competitive bid process, with award contracts often being made awarded to the lowest bidder, though other factors such as shorter schedules or prior experience with the customer are often just as important. Within our markets, we compete with many national, regional and local state-owned and private construction entities some of which have achieved greater market penetration or have greater financial and other resources than us. In addition, there are a number of larger national companies in our industry that could potentially establish a presence in our markets and compete with us for contracts. If we

are unable to compete successfully in our markets, our relative market share and profits could be reduced.

Consolidated Results of Operations

Comparison of the three months ended December 31, 2015 and 2014

The following table sets forth key components of our results of operations for the three months ended December 31, 2015 and 2014, in US dollars:

| | | | Three months ended December 31, | | |
|---|----------------|----------------|--|------------------------------|--|
| | 2015 | 2014 | Change | Percentage Change | |
| | | 17,638,995 | | | |
| Total revenue | \$ 16,979,755 | \$ | (659,240) | (4)% | |
| Total cost of revenue | 14,962,725 | 16,051,481 | (1,088,756) | (7)% | |
| Gross profit | 2,017,030 | 1,587,514 | 429,516 | 27% | |
| Provision for doubtful accounts | (1,567,739) | (1,427,942) | (139,797) | 10% | |
| Selling, general and administrative expenses | (1,718,953) | (2,899,501) | 1,180,548 | (41)% | |
| Research and development expenses | (156,283) | (348,881) | 192,598 | (55)% | |
| Loss realized from disposal of property, plant and equipment | - | (584) | 584 | (100)% | |
| Loss from operations | (1,425,945) | (3,089,394) | 1,663,449 | 54% | |
| Other (loss) income, net | (325,692) | 196,392 | (522,084) | (266)% | |
| Loss before provision for income taxes | (1,751,637) | (2,893,002) | (1,141,365) | (39)% | |
| Provision for income taxes | - | (9,649) | 9,649 | (100)% | |
| Net loss | \$ (1,751,637) | \$ (2,902,651) | \$ 1,151,014 | (40)% | |

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products. For the three months ended December 31, 2015, we generated total revenue of approximately \$17.0 million, as compared to approximately \$17.6 million during the three months ended December 31, 2014, a decrease of approximately \$0.7 million, or 4%. The slight decrease in revenue was principally due to the devaluation of Chinese Renminbi (RMB) relative to US dollars.

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 \$15.0 million for the three months ended December 31, 2015, as compared to approximately \$16.1 million for the three months ended December 31, 2014, a decrease of approximately \$1.1 million, or 7%. The slight decrease in cost of revenue was principally due to the devaluation of RMB relative to US dollars.

Gross Profit. Total gross profit was approximately \$2.0 million for the three months ended December 31, 2015, as compared to approximately \$1.6 million for the three months ended December 31, 2014, an increase of approximately \$0.4 million.

Provision for Doubtful Accounts. We incurred provision for doubtful accounts of approximately \$1.6 million for the three months ended December 31, 2015, as compared to approximately \$1.4 million for the three months ended December 31, 2014. In accordance with our allowance for doubtful accounts policy, at the end of each quarter, we conduct an aging analysis of each customer's arrears to determine whether the allowance for doubtful accounts is adequate. In establishing the allowance for doubtful accounts, we consider the historical experience, the economy, trends in the construction industry, expected collectability of amounts receivable that are past due and the expected collectability of overdue receivables. An estimate of doubtful accounts is recorded when collection of the full amount is no longer probable. Known bad debts are written off against allowance for doubtful accounts when identified. After reviewing individual balances, we provide a provision of 15% for accounts receivable past due more than 180 days but less than one year, 60% for accounts receivable past due from one to two years, 75% for accounts receivable past due beyond two years, 100% for accounts receivable past due beyond three years, plus additional amount as necessary.

As of December 31, 2015, our accounts and notes receivable aging are as follows:

| | Balance | 1-90 days | 91-180 days | 181-360 days | 361-720 days | over 720 days | Over 1,080 Days |
|------------------------------------|---------------|---------------|----------------|-----------------|-----------------|------------------|--------------------|
| Accounts and notes receivable | \$ 68,752,357 | \$ 15,981,248 | \$ 10,878,121 | \$ 8,331,801 | \$ 14,491,551 | \$ 3,639,910 | \$ 15,429,726 |
| Allowance for doubtful accounts | (28,145,372) | - | - | (1,250,037) | (8,735,676) | (2,729,933) | (15,429,726) |
| Accounts receivable and notes, net | \$ 40,606,985 | \$ 15,981,248 | \$ 10,878,121 | \$ 7,081,764 | \$ 5,755,875 | \$ 909,777 | \$ - |

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional fees paid to third parties. We incurred selling, general and administrative expenses of approximately \$1.7 million for the three months ended December 31, 2015, as compared to approximately \$2.9 million for the three months ended December 31, 2014, a decrease of approximately

\$1.2 million. The decrease was primarily due to \$0.8 million decrease in salaries and benefits and \$0.2 million decrease in rental expense as compared to the three months ended December 31, 2014.

Research and Development Expenses. Research and development expenses were approximately \$0.2 million and \$0.3 million for the three months ended December 31, 2015 and 2014, respectively. Our research and development expenditure was maintained at a similar percentage year over year as to the revenue and was adjusted based on economic outlook, plus any discretionary spending on projects that were deemed to help improve our competitive advantage.

Loss from Operations. We incurred loss from operations of approximately \$1.4 million and \$3.1 million for the three months ended December 31, 2015 and 2014. Such decrease of approximately \$1.7 million in loss from operations was primarily due to a \$0.4 million increase in gross profit and a \$1.2 million decrease in selling, general and administration expenses.

Other Income (Expense), Net. Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), and other non-operating income (expense). We incurred net other expense of approximately \$0.3 million for the three months ended December 31, 2015, while we recognized \$0.2 million other income for the three months ended December 31, 2014. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us a VAT tax exemption, which expired June 2015. From July 2015 going forward, the Company is subject to VAT at the rate of 3% of the gross sales price. The VAT tax collected from our customers during the aforementioned period had been retained by the Company and recorded as other subsidy income. Approximately \$0.5 million of subsidy income was recorded for the three months ended December 31, 2014. We also recorded \$0.2 million and \$0.4 million interest expense for the three months ended December 31, 2015 and 2014, respectively. Decrease in interest expense was a result of decreased average borrowings.

Provision for Income Taxes. We incurred provision for income taxes of approximately \$0 and \$10,000 for the three months ended December 31, 2015 and 2014, respectively. We have used recycled raw materials in our concrete production since our inception, which has entitled us to an income tax rate reduction from 25% to 15% through June 2018, as granted by the State Administration of Taxation, PRC. Since January 1, 2009, we have been subject to a 15% income tax rate. In the past, Xin Ao has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at present the Company is unable to determine the extent of such liability, if any.

Net Loss. We incurred net loss of approximately \$1.8 million and \$2.9 million for the three months ended December 31, 2015 and 2014, respectively, a decrease of \$1.2 million in net loss. Such decrease was the result of the combination of the changes as discussed above.

Comparison of the six months ended December 31, 2015 and 2014

The following table sets forth key components of our results of operations for the six months ended December 31, 2015 and 2014, in US dollars:

| | Six months ended December 31, | | | Percentage Change |
|---|--|----------------|----------------|----------------------|
| | 2015 | 2014 | Change | |
| Total revenue | \$ 30,452,586 | \$ 38,852,748 | \$ (8,400,162) | (22)% |
| Total cost of revenue | 26,818,056 | 35,380,321 | (8,562,265) | (24)% |
| Gross profit | 3,634,530 | 3,472,427 | 162,103 | 5% |
| Provision for doubtful accounts | (2,462,523) | (399,969) | (2,062,554) | 516% |
| Selling, general and administrative expenses | (3,263,641) | (5,566,805) | 2,303,164 | (41)% |
| Research and development expenses | (286,729) | (849,048) | 562,319 | (66)% |
| Loss realized from disposal of property, plant and equipment | - | (81,316) | 81,316 | (100)% |
| Loss from operations | (2,378,363) | (3,424,711) | 1,046,348 | (31)% |
| Other (loss) income, net | (465,425) | 953,283 | (1,418,708) | (149)% |
| Loss before provision for income taxes | (2,843,788) | (2,471,428) | (372,360) | 15% |
| Provision for income taxes | - | (346,313) | 346,313 | (100)% |
| Net loss | \$ (2,843,788) | \$ (2,817,741) | \$ (26,047) | 1% |

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products. For the six months ended December 31, 2015, we generated total revenue of approximately \$30.5 million, as compared to approximately \$38.9 million during the six months ended December 31, 2014, a decrease of approximately \$8.4 million, or 22%. The decrease in revenue was principally due to the decreased sales volume resulted from an approximately six weeks of government-mandated suspension of industrial activities in the city of Beijing where

multiple international events were hosted during the period. In addition, the devaluation of RMB also had an adverse effect on our revenue.

Cost of Revenue. Total cost of revenue, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was approximately \$26.8 million for the six months ended December 31, 2015, as compared to approximately \$35.4 million for the six months ended December 31, 2014, a decrease of approximately \$8.6 million, or 24%. The decrease in cost of revenue was primarily associated to the decrease in production from our concrete plants during the six months ended December 31, 2015 compared to the six months ended December 31, 2014.

Gross Profit. Total gross profit was approximately \$3.6 million for the six months ended December 31, 2015, as compared to approximately \$3.5 million for the six months ended December 31, 2014, an increase of approximately \$0.2 million.

Provision for Doubtful Accounts. We incurred provision for doubtful accounts of approximately \$2.5 million and \$0.4 million for the six months ended December 31, 2015 and 2014, respectively. The increase in provision for doubtful accounts was mainly attributed to adversely affected collection experienced in the six months ended December 31, 2015 as compared to the same period of 2014. Accounts aged over one year increased to 49% of total outstanding accounts receivables as of December 31, 2015, from 45% as of June 30, 2015. In accordance with our allowance for doubtful accounts policy, at the end of each quarter, we conduct an aging analysis of each customer's arrears to determine whether the allowance for doubtful accounts is adequate. In establishing the allowance for doubtful accounts, we consider the historical experience, the economy, trends in the construction industry, expected collectability of amounts receivable that are past due and the expected collectability of overdue receivables. An estimate of doubtful accounts is recorded when collection of the full amount is no longer probable. Known bad debts are written off against allowance for doubtful accounts when identified. After reviewing individual balances, we provide a provision of 15% for accounts receivable past due more than 180 days but less than one year, 60% for accounts receivable past due from one to two years, 75% for accounts receivable past due beyond two years, 100% for accounts receivable past due beyond six years, plus additional amount as necessary.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional fees paid to third parties. We incurred selling, general and administrative expenses of approximately \$3.3 million for the six months ended December 31, 2015, as compared to approximately \$5.6 million for the six months ended December 31, 2014, a decrease of approximately \$2.3 million. We incurred approximately an increase of \$0.3 million of stock-based compensation for the six months ended December 31, 2015, which was primarily offset by the decreases of \$0.2 million in consulting expense, \$0.4 million in rent and \$1.2 million in salary as compared to the six months ended December 31, 2014.

Research and Development Expenses. Research and development expenses were approximately \$0.3 million and \$0.9 million for the six months ended December 31, 2015 and 2014, respectively. Our research and development expenditure was maintained at a similar percentage year over year as to the revenue and was adjusted based on economic outlook, plus any discretionary spending on projects that were deemed to help improve our competitive advantage.

Loss from Operations. We incurred loss from operations of approximately \$2.4 million and \$3.4 million for the six months ended December 31, 2015 and 2014. Such decrease of approximately \$1.0 million in loss from operations was primarily due to a \$0.2 million increase in gross profit, a \$2.3 million decrease in selling, general and administration expenses and a \$0.6 million decrease in research and development expenses, and was primarily offset by a \$2.1 million increase in provision of doubtful accounts.

Other Income (Expense), Net. Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), and other non-operating income (expense). We incurred net other expense of approximately \$0.5 million for the six months ended December 31, 2015, while we recognized \$1.0 million other income for the six months ended December 31, 2014. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation in China granted us a VAT tax exemption, which expired June 2015. From July 2015 going forward, the Company is subject to VAT at the rate of 3% of the gross sales price. The VAT tax collected during the aforementioned period from our customers had been retained by the Company and recorded as other subsidy income. Approximately \$1.2 million of subsidy income was recorded for the six months ended December 31, 2014. We also recorded \$0.4 million and \$0.8 million interest expense for the six months ended December 31, 2015 and 2014, respectively. Decrease in interest expense was a result of decreased average borrowings.

Provision for Income Taxes. We incurred provision for income taxes of approximately \$0 and \$0.3 million for the six months ended December 31, 2015 and 2014, respectively. We have used recycled raw materials in our concrete production since our inception, which has entitled us to an income tax rate reduction from 25% to 15% through June

2018, as granted by the State Administration of Taxation, PRC. Since January 1, 2009, we have been subject to a 15% income tax rate. In the past, Xin Ao has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at present the Company is unable to determine the extent of such liability, if any.

Net Loss. We incurred net loss of approximately \$2.8 million for each of the six months ended December 31, 2015 and 2014.

Liquidity and Capital Resources

As of December 31, 2015, we had cash and cash equivalents of approximately \$1.9 million and restricted cash of approximately \$8.3 million, which was held by subsidiaries and VIEs outside the U.S in its entirety. We would be required to accrue and pay U.S. taxes if we were to repatriate these funds. Any company which is registered in mainland China must apply to the State Foreign Exchange Administration for approval in order to remit foreign currency to any foreign country. We currently do not intend to repatriate to the U.S. the cash and short-term investments held by our foreign subsidiaries. However, if we were to repatriate funds to the U.S., we would assess the feasibility and plan any transfer in accordance with foreign exchange regulations, taking into account tax consequences. As we conduct all of our operations in China, the inability to convert cash and short-term investments held in RMB to other currencies should not affect our liquidity. As of December 31, 2015, we had working capital of approximately \$25.2 million. We believe that our cash and cash equivalents along with our working capital will be sufficient to fund our operations for the next twelve months.

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

| | For the six months ended December 31, | |
|---|--|-----------------|
| | 2015 | 2014 |
| Net cash used in operating activities | \$ (900,291) | \$ (19,577,800) |
| Net cash provided by investing activities | 5,212,267 | 12,382,584 |
| Net cash used in financing activities | (5,005,756) | (5,003,521) |
| Effect of foreign currency translation on cash and cash equivalents | (142,921) | 117,420 |
| Net change in cash | \$ (836,701) | \$ (12,081,317) |

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

Operating Activities. Net cash used in operating activities totaled approximately \$0.9 million for the six months ended December 31, 2015, which was primarily attributable to the net loss adjusted to reconcile to net cash provided by operating activities of \$1.1 million, primarily including adjustments for \$1.0 million of depreciation, \$0.5 million of stock-based compensation expense, and \$2.5 million of provision of doubtful accounts. Net cash from changes in operating assets and liabilities resulted in a net cash outflow of approximately \$2.0 million, which mainly included cash outflow for additional accounts receivable of \$4.6 million, \$3.9 million of reduction in prepayments and advances and reduction of other payables of approximately \$1.2 million, and was primarily offset by additional accounts payable of \$8.5 million.

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

We are making improvements in our cash inflows from operating activities, combined with winning more favorable terms with our suppliers and customers which will be accompanied by greater working capital needs for our expanding operations.

Investing Activities. Net cash provided by investing activities was approximately \$5.2 million for the six months ended December 31, 2015, which was primarily attributable to approximately \$5.2 million net redemption of short term investments. Net cash provided by investing activities was approximately \$12.4 million for the six months ended December 31, 2014, which was primarily attributable to \$12.4 million net redemption of short term investments.

Financing Activities. Net cash used in financing activities totaled approximately \$5.0 million for the six months ended December 31, 2015, which was primarily attributable to \$20.7 million for repayments of bank loans and bank guarantees, \$29.5 million for repayments of notes payable and \$0.1 million for repayments of capital lease obligations, and was offset by \$10.3 million cash proceeds from bank loans and bank guarantees, \$32.7 million proceeds from notes payable and \$2.2 million decrease in restricted cash. Net cash used in financing activities totaled approximately \$5.0 million for the six months ended December 31, 2014, which was primarily attributable to \$47.1 million for repayments of bank loans and bank guarantees, \$3.3 million for repayments of other short term loans and \$9.8 million for repayments of notes payable, which was offset by \$31.5 million cash proceeds from bank loans and bank guarantees, \$20.6 million proceeds from notes payable, \$2.2 million decrease in restricted cash and \$1.2 million proceeds from issuance of common stock.

Cash and cash equivalents. As of December 31, 2015, we had cash and cash equivalents of approximately \$1.9 million as compared to approximately \$2.7 million as of June 30, 2015. We believe that our cash and revenues from ongoing operations, in addition to closely managing our accounts payable and accounts receivable and the ability to obtain loan financing, is sufficient to meet our liquidity and capital requirements for all of our ongoing operations. However, we may need to raise additional capital if we undertake any plan for expansion.

Loan Facilities

We had a total of approximately \$14.6 million and \$26.4 million outstanding on loans and credit facilities as of December 31, 2015 and June 30, 2015, respectively. See Note 8 to our unaudited condensed consolidated financial statements included elsewhere in this report.

Seasonality

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

Critical Accounting Policies and Estimates

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

Principles of consolidation

The accompanying unaudited condensed consolidated financial statements include the financial statements of China ACM and its wholly owned subsidiaries, BVIACM, China-ACMH, its variable interest entity Xin Ao and its subsidiaries (collectively, the Company). All significant inter-company transactions and balances have been eliminated in consolidation. In accordance with FASB ASC 810, Consolidation of Variable Interest Entities, variable interest entities, or VIEs, are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes. In connection with the adoption of this ASC810, the Company concludes that Xin Ao is a VIE and China ACM is the primary beneficiary. The financial statements of Xin Ao are then consolidated with China ACM's financial statements.

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

Use of estimates and assumptions

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates and assumptions made in the preparation of the Company's consolidated financial statements include deferred income taxes, allowance for doubtful accounts, allowance for inventory valuation, the fair value and useful lives of property, plant and equipment. Actual results could be materially different from those estimates, upon which the carrying values were based.

Revenue recognition

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

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

Delivery has occurred or services have been rendered;

The seller's price to the buyer is fixed or determinable; and

Collectability of payment is reasonably assured.

The Company sells its concrete products and provides concrete technical services primarily to major local construction companies. Sales agreements are signed with each customer. The agreements list all terms and conditions with the exception of delivery date and quantity, which are evidenced separately in purchase orders. The purchase price of products is fixed in the agreement and customers are not permitted to renegotiate after the contracts have been signed. The agreements include a cancellation clause if the Company or the customers breach the contract terms specified in the agreement.

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

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

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

Financial instruments

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

The three levels of inputs are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;

Level 3 inputs to the valuation methodology are unobservable.

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

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

Accounts receivable

During the normal course of business, the Company extends unsecured credit to its customers. Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers the historical experience, the economy, trends in the construction industry, the expected collectability of the amount receivable that is past due and the expected collectability of the overdue receivable. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote.

Accounting for long-lived assets

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

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

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

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

Income taxes

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

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

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

Recently issued accounting pronouncements

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

Interest Rate Risk

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

Credit Risk

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

Foreign Exchange Risk

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. The RMB 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 RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. In August 2015, China's currency dropped by a cumulative 4.4% against the U.S. dollar on hopes of boosting the domestic economy, making Chinese exports cheaper and imports into China more expensive by that amount. The effect on trade can be substantial. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

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

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

Inflation

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of our Chief Executive Officer and our Interim Chief Financial Officer have evaluated the design and operating effectiveness of our disclosure controls and procedures as of December 31, 2015. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures were not effective as of December 31, 2015, 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 Interim Chief Financial Officer, Financial Manager, and others, in the principles and rules of U.S. GAAP, SEC reporting requirements and the application thereof.

Design and implement a program to provide ongoing company-wide training regarding the Company's internal controls, with particular emphasis on our finance and accounting staff.

Implement an internal review process over financial reporting to review all recent accounting pronouncements and to verify that the accounting treatment identified in such report have been fully implemented and confirmed by our internal control department. In the future, we will continue to improve our ongoing review and supervision of our internal control over financial reporting.

Hire an individual that possesses the requisite U.S. GAAP experience and education.

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

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2015, there were no changes in our internal control over financial reporting identified in connection with the evaluation performed during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS

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

35

EXHIBIT INDEX

Exhibit No. Description

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

37
