CLEAN SYSTEMS TECHNOLOGY GROUP LTD
Form 10QSB
June 02, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2003

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGES ACT

For the transition period from ______________ to ____________________

Commission file number 000-14646

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.
(Exact name of Small Business Issuer as Specified in Its Charter)

NEW YORK	06-1113228
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
4 Ashlagan Street, P.O. Box 8624, Kiryat Gat, Israel	82021
(Address of principal executive offices)	(Zip Code)

011 972 8 660 2108 (Issuer's telephone number, including area code)

Check whether the issuer: (1) 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 [X] No [ ]

The number of shares outstanding of the registrant's Common Stock, $0.01 Par Value, on May 30, 2003 was 42,766,540 shares.

Transitional Small Business Disclosure Format (check one):
Yes ____________ No X ___________

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. These statements are subject to uncertainties and risks including, but not limited to, product and service demand and acceptance, changes in technology, economic conditions, the impact of competition and pricing, government regulation, and other risks defined in this document and in statements filed from time to time with the Securities and Exchange Commission. These cautionary statements and any other cautionary statements that may accompany the forward-looking statements expressly qualify all such forward-looking statements. In addition, Clean Systems Technology Group, Ltd. disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2003.
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	$ 15
Accounts receivable - net	2,529
Inventory	2,442
Refundable value added tax	108
Employee advances	18
Deferred taxes	39
Other	148
TOTAL CURRENT ASSETS	5,299
PROPERTY AND EQUIPMENT - NET	1,634
OTHER ASSETS	219
TOTAL ASSETS	$ 7,152
LIABILITIES AND SHAREHOLDERS' DEFICIT:	
CURRENT LIABILITIES:	
Short-term bank borrowings	$ 562
Bank line of credit	520
Accounts payable	2,091
Accrued compensation	632
Accrued expenses	348
Short-term loans	372
Short-term loan - related party	103
Other liabilities	68
TOTAL CURRENT LIABILITIES	4,696

CONVERTIBLE NOTES	1,361
LONG-TERM BANK DEBT	1,366
COMMITMENTS AND CONTINGENCIES	--
SHAREHOLDERS' DEFICIT:	
Common stock, $.01 par value, 110,000,000 shares authorized, 42,766,087, issued and outstanding	428
Additional paid-in capital	428
Accumulated deficit	(1,127)
TOTAL SHAREHOLDERS' DEFICIT	(271)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 7,152

See Notes to the Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31, 2003	2002
REVENUES	$ 1,352	$ 3,099
COST OF REVENUE	779	1,757
GROSS PROFIT	573	1,342
OPERATING EXPENSES:		
Selling, general and administrative	327	515

INCOME FROM OPERATIONS	246	827
INTEREST EXPENSE	170	36
OTHER (EXPENSE)	(21)	(275)
INCOME BEFORE PROVISION FOR INCOME TAXES	55	516
PROVISION FOR INCOME TAXES	7	10
NET INCOME	$ 48	$ 506
NET INCOME PER SHARE - BASIC	$ --	$ .01
NET INCOME PER SHARE - DILUTED	$ --	$ .01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - BASIC	42,766,087	42,766,087
WEIGHTED AVERAGE NUMBER OF COMMON SHARES - DILUTED	44,321,516	43,809,087

See Notes to the Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIT
(UNAUDITED)
(IN THOUSANDS, EXCEPT NUMBER OF SHARE DATA)

	COMMON STOCK NUMBER OF SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' DEFICIT
BALANCE DECEMBER 31, 2002	42,766,087	$ 428	$ 428	$ (1,175)	$ (319)
Net Income	--	--	--	48	48

BALANCE MARCH 31, 2003	42,766,087	$ 428	$ 428	$ (1,127)	$ (271)
	==========	==========	==========	==========	==========

See Notes to the Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
OPERATING ACTIVITIES:		
Net income	$ 48	$ 506
Adjustments to reconcile net income to net cash (used for) operating activities:		
Amortization and depreciation	85	65
Gain from the sale of property and equipment	10	--
Change in accrued severance pay - net	(9)	6
Other	27	7
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable - net	(802)	(306)
Accounts receivable - related party	--	103
Inventory	(35)	33
Costs incurred in excess of billings on contracts in progress	--	(992)
Refundable value added tax	16	(10)
Employee advances	3	7
Deferred taxes	(2)	(2)
Other current assets	(46)	(55)
Increase (decrease) in:		
Accounts payable	363	(106)
Accrued compensation	(95)	(29)
Accrued expenses	31	(76)
Other liabilities	20	36
NET CASH - OPERATING ACTIVITIES	(386)	(813)
INVESTING ACTIVITIES:		
Acquisition of property and equipment	--	(331)

Proceeds from sale of property and equipment	44	--
Investment in unconsolidated subsidiary	--	(94)
Other assets	(3)	(2)
NET CASH - INVESTING ACTIVITIES	41	(427)
FINANCING ACTIVITIES:		
Proceeds from short-term loans	382	--
Proceeds from convertible notes	--	673
Changes in bank line of credit - net	3	623
Repayment of short-term loans - net	--	(68)
Repayment of short-term bank borrowings	(48)	--
Deferred loan costs	--	(72)
NET CASH - FINANCING ACTIVITIES	337	1,156
NET [DECREASE] IN CASH AND CASH EQUIVALENTS - FORWARD	$ (8)	$ (84)

See Notes to the Combined Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	2 0 0 3	2 0 0 2
NET [DECREASE] IN CASH AND CASH EQUIVALENTS - FORWARD	$ (8)	$ (84)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIODS	23	107
CASH AND CASH EQUIVALENTS - END OF PERIODS	$ 15	$ 23
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 106	$ 33
Income taxes	$--	$--

See Notes to the Consolidated Financial Statements.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND
PER SHARE DATA OR AS OTHERWISE NOTED)

[1] BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Clean Systems Technology Group, Ltd. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments [consisting of normal recurring accruals] considered necessary in order to make the interim financial statements not misleading have been included. Results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto of the Company and management's discussion and analysis of financial condition and results of options included in the Company's annual report on Form 10-KSB for the year ended December 31, 2002.

On October 17, 2001, Entertainment International Ltd. ("ENTI"), through its wholly-owned subsidiary ENTI Acquisition I Corp., closed a transaction (the "Transaction") providing for the acquisition of CSTI Hi-Tec, Ltd. an Israeli corporation. All of the issued and outstanding shares of CSTI Hi-Tec, Ltd. were exchanged for shares of ENTI's unregistered restricted common stock. Simultaneously with the closing, the Board of Directors authorized a one for twenty reverse stock split of all ENTI's issued and outstanding common stock. All references in the accompanying consolidated financial statements to the number of shares have been restated to reflect the reverse stock split.

For accounting purposes, the Transaction has been treated as a recapitalization of CSTI Hi-Tec, Ltd., with CSTI Hi-Tec, Ltd. as the acquirer. The shares issued in the Transaction are treated as being issued for cash and are shown as outstanding for all periods presented in the same manner as for a stock split. The consolidated financial statements reflect the results of operations of CSTI Hi-Tec, Ltd. and its subsidiaries and ENTI as of and for the three months ended March 31, 2003 and 2002. Pro forma information on the Transaction is not presented as, at the date of the Transaction, ENTI was considered a public shell and accordingly, the Transaction was not considered a business combination. On December 27, 2001, ENTI amended its certificate of incorporation to change its name from Entertainment International, Ltd. to Clean Systems Technology Group, Ltd. (the "Company" or "CSTI").

[2] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Company are set forth in Note 2 to the Company's consolidated financial statements included in the Company's Form 10-KSB for the year ended December 31, 2002.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include the Company's estimate of allowance for doubtful accounts and its revenue recognition policy using the percentage of completion method of accounting for contracts.

[2] SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

REVENUE RECOGNITION - The Company follows the percentage-of-completion method of accounting for contracts that extend for periods in excess of one year. Accordingly, income is recognized in the ratio that costs incurred bears to estimated total costs. Where contracts in progress are subject to negotiation and it is probable that the additional costs will be recovered, none of the costs are recognized in the income statement until pricing has been approved. Similarly, the revenue is not recognized until realization is assured beyond a reasonable doubt. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The aggregate of cost incurred on contracts in progress in excess of related billings is shown as a current asset, and the aggregate of billings on contracts in progress in excess of related costs incurred as shown as a current liability.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - In April 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Account Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"), which clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company expects that the adoption of SFAS 149 will not have a significant impact on its financial statements.

In May 2003 SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity was issued. The Statement improves the accounting for certain financial instruments that under previous guidance, issuers could account for as equity. The new Statement requires that those instruments be classified as liabilities in statements of financial position.

SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under this Statement is obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares.

Most of the guidance in Statement SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is not possible to quantify the impact on its financial statements until the newly issued statement has been studied.

[3] INVENTORY

Inventory, which consists of raw materials, is valued at the lower of cost or market. Cost is determined by the weighted average method.

[4] NET INCOME PER SHARE

Earnings per share are calculated in accordance with the provisions of Statement of Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 requires the reporting of both basic earnings per share, which is the weighted-average number of common shares outstanding, and diluted earnings per share, which includes the weighted-average number of common shares outstanding and all dilutive potential common shares outstanding, utilizing the treasury stock method. For the three months ended March 31, 2003 and 2002, the shares issued in the Transaction are treated as outstanding for all periods presented. For the three months ended March 31, 2003 and 2002, dilutive potential common shares outstanding reflect shares issuable under convertible notes [See Note 5]. Share and per share amounts reflect the effect of the one for twenty reverse stock split in October 2001.

[5] CONVERTIBLE NOTES

Principal amounts of the notes may be converted by the holder after eighteen months into shares of Company common stock, at a conversion price of $0.875 per share, at any time from issuance until eighteen months have passed since issuance. The notes automatically convert into shares of Company common stock at a price equal to $0.875, subject to adjustment. The adjustment entitles the noteholders to receive consideration at least equal to the original principal amount of the note plus accrued interest at eight percent per annum from the date of issuance. The consideration may be paid in cash or common stock at the sole discretion of the Company. At March 31, 2003, the outstanding balance plus accrued interest aggregated $1,361.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(ALL AMOUNTS IN THOUSANDS, EXCEPT SHARE AND
PER SHARE DATA OR AS OTHERWISE NOTED)

[6] OTHER (EXPENSE)

Aggregate amounts in other (expense) are primarily the result of foreign currency translation adjustments. Substantially all of the Company's sales are made in U.S. dollars. In addition, a substantial portion of the Company's costs are incurred in U.S. dollars. Since the U.S. dollar is the primary currency in the economic environment in which the Company operates, the U.S. dollar is its functional currency.

During the three months ended March 31, 2003, certain assets and liabilities were denominated in NIS while the payments to suppliers were linked to the U.S. dollar.

[7] GEOGRAPHIC REPORTING

Revenues by geographic classifications are as follows:

	[IN U.S. $ THOUSANDS]				
	ISRAEL	ITALY	INDIA	FRANCE	TOTAL
For the period ended March 31, 2003	$1,110	$ 15	$ --	$ 227	$1,352
For the period ended March 31, 2002	$3,007	$ 74	$ 18	$ --	$3,099

. . . .

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

FORWARD-LOOKING STATEMENTS

When used in this Form 10-QSB and in future filings by Clean Systems with the Securities and Exchange commission, the words or phrases "will likely result" and "the company expects," "will continue," "is anticipated," "estimated," "project," or "outlook" or similar expressions are intended to identify "forward-looking statements." Clean Systems wishes to caution readers not to place undue reliance on any such forward-looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Clean Systems has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

OVERVIEW

CSTI designs, engineers, manufactures, installs and services ultra high purity systems for transportation of clean gases and liquids from the source, where the gases and liquids are stored, to the point of use for the following processing industries:

- o Micro-electronics (semi conductors);
- o Optical fibers;
- o Pharmaceuticals and Bio-technology; and
- o Metal Blades.

CSTI product lines provide a total solution for the four major gas and chemical systems from source to the point of use referenced above. Since the gases and the chemicals are pure and extremely dangerous, the systems that CSTI manufactures must have the highest levels of safety and quality.

CSTI products are divided into three main categories:

- o Systems for ultra high purity gases from source to point of use;
- o Pre-manufactured products sub-systems; and
- o System upgrades.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of the Company's financial condition and results of operations are based on its consolidated financial statements that have been prepared under accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. All significant accounting policies are disclosed in note 2 to the consolidated financial statements included in Form 10-KSB. The consolidated financial statements and the related notes thereto should be read in conjunction with the following discussion of the Company's critical accounting policies. Critical accounting policies and estimates are:

- o Revenue Recognition
- o Use of Estimates

REVENUE RECOGNITION - The Company follows the percentage-of-completion method of accounting for contracts that extend for periods in excess of one year. Accordingly, income is recognized in the ratio that costs incurred bears to estimated total costs. Where contracts in progress are subject to negotiation and it is probable that the additional costs will be recovered, none of the costs are recognized in the income statement until pricing has been approved. Similarly, the revenue is not recognized until realization is assured beyond a reasonable doubt. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. The aggregate of cost incurred on contracts in progress in excess of related billings is shown as a current asset, and the aggregate of billings on contracts in progress in excess of related costs incurred as shown as a current liability.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - In April 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Account Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"), which clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company expects that the adoption of SFAS 149 will not have a significant impact on its financial statements.

RESULTS OF OPERATIONS

The following table sets forth, as a percentage of total revenue, certain consolidated statements of operations data for the periods indicated. These operating results are not necessarily indicative of the results for any future period.

	THREE MONTHS ENDED MARCH 31,	
	2003	2002
Revenues	100 %	100 %
Cost of Revenues	58 %	57 %
Gross Profit	42 %	43 %
Selling General and Administrative	24 %	16 %
Income from Operations	18 %	27 %
Interest Expense	12 %	1 %
Other (Expense)	(2)%	(9)%
Income Before Taxes on Income	4 %	17 %
Income Taxes	-- %	-- %
Net Income	4 %	17 %

THREE MONTHS ENDED MARCH 31, 2003 COMPARED WITH THREE MONTHS ENDED MARCH 31, 2002
(AMOUNTS IN THOUSANDS UNLESS OTHERWISE INDICATED)

REVENUES

Revenues in 2003 of $1,352 decreased $1,747 (or 57%) from $3,099 in 2002. Management's strategic decision is to continue to be a premier industry leader in Israel as well as to continue to gain market share in the European and Central Asian markets. During the three months ended March 31, 2003 and 2002, revenues to customers in Israel amounted to $1,110 and $3,007, respectively. Revenues to non-domestic customers amounted to $242 and $92 for the three months ended March31, 2003 and 2002, respectively. In general, the Company is not dependent upon any single customer or group of customers. The nature of the Company's business is such that it works on several large contracts at any one time. Therefore, several customers may comprise a significant portion of CSTI's revenues during any fiscal period. Once the Company installs a system for its customer, the customer is generally dependent on the Company for future upgrades of that system.

COST OF REVENUES

The following table sets forth a comparison of the costs of revenues for the periods indicated:

	THREE MONTHS ENDED MARCH 31, 2003	2002
Cost of materials and inventory	$243	$862
Salaries, Subcontractors and related expenses	279	696
Cost of service abroad	55	39
Rent and taxes	49	22
Vehicles and transportation	53	74
Equipment maintenance and insurance	42	9
Depreciation and Amortization	52	44
Miscellaneous	6	11
Cost of Revenues	$ 779	$ 1,757

Cost of revenues has decreased by $0.98 million (or 55.7%) to $0.78 million in 2003 from $1.76 million in 2002. The decrease is in line with the overall decline in Company revenues. The purchase cost of materials did not significantly increase in 2003 over 2002. Materials, inventory costs and labor as a percentage of revenues was 39% in 2003 as compared to 50% in 2002. The average number of employees during 2003 was 65 as compared to 145 for 2002. Other costs such as rent and taxes, transportation, equipment maintenance and insurance and depreciation have changed in relative proportion to the decrease in revenues.

GROSS PROFIT

Gross profit has decreased by $769 (or 57%) to $573 in 2003 from $1,342 in 2002. Gross profit margins remained consistent at 42% in 2003 versus 43% in 2002.

SELLING, GENERAL AND ADMINISTRATIVE

The following table sets forth details regarding selling, general and administrative expenses for the periods indicated:

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2002
Salaries and related expenses	$ 78	$243
Professional fees	105	94
Telephone and office maintenance	53	51
Travel vehicles and transportation	10	46
Depreciation	33	21
Sales and marketing	48	60
	$327	$515

Selling, General and Administrative Expenses ("SG&A") have decreased $0.19 million (or 36.5%) to $0.33 million in 2003 from $0.51 million in 2002. The decrease is primarily attributable to the termination of three senior employees at end of 2002.

INTEREST EXPENSE

Interest expense increased by $134 to $170 in 2003 from $36 in 2002. The increase is primarily attributable to a higher level of outstanding debt in 2003 as compared to 2002.

OTHER INCOME (EXPENSE)

The decrease in other expense of $(254) to $(21) in 2003 as compared to an expense of $(275) in 2002 is primarily the result of foreign currency translation adjustments. Substantially all of the Company's sales are made in U.S. dollars. In addition, a substantial portion of the Company's costs are incurred in U.S. dollars. Since the U.S. dollar is the primary currency in the economic environment in which the Company operates, the U.S. dollar is its functional currency.

During the three months ended March 31, 2003 and 2002, certain assets and liabilities were denominated in NIS while the payments to suppliers was linked to the U.S. dollar.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2003, the Company had cash and cash equivalents of $15 as compared to $23 at March 31, 2002.

Net cash used in operating activities was $386 for the three months ended March 31, 2003 as compared to $813 for the three months ended March 31, 2002. The use of net cash for operating activities is primarily attributable to increases in net accounts receivables and costs incurred in excess of billings. These cash outflows were partially offset by the increase in net income.

Net cash used in investing activities was $41 and $(427) for the three months ended March 31, 2003 and 2002, respectively. In 2002, the Company purchased real estate property ($200) and an equity investment in an unconsolidated subsidiary ($100) versus 2003 in which there were no such cash outlays.

Net cash provided by financing activities was $337 and $1,156 for the three months ended March 31, 2003 and 2002, respectively. The decrease was primarily due to a lower level of new borrowings to support the Company's working capital position in 2003 versus 2002.

The following summarizes certain financing outstanding as of March 31, 2003:

[a] Bank Guarantees - Certain customers require the Company to obtain bank guarantees of a portion of the contract undertaken. The Company has an agreement with the bank under which such guarantees are available. In the event the Company is unable to perform all aspects of the contracts, the bank will make contractual payments to customers and then seek reimbursement from the Company. As of March 31, 2003, the bank had extended approximately $333 in guarantees to five customers.

Subsequent to March 31, 2003, the Company issued an aggregate of $200 convertible notes with terms substantially the same as described in Note 5 of the unaudited consolidated interim financial statements.

Assuming there is no significant change in the business, the Company believes that additional funding such as described above and cash flow from operations and will be sufficient to fund its needs for at least the next twelve months.

ITEM 3. CONTROLS AND PROCEDURES.

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within 90 days of the filing date of this report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Other than as previously disclosed in the Company's Form 10-KSB, the Company is not party to any other material legal proceedings.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

99.1 - Certification of Chief Executive Officer pursuant to the Sarbanes-Oxley Act of 2002 99.2 - Certification of Chief Financial Officer pursuant to the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

There were no reports filed on Form 8-K during the quarter ended March 31, 2003.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on behalf by the undersigned, thereunto duly authorized.

CLEAN SYSTEMS TECHNOLOGY GROUP, LTD.

Dated: June 2, 2003 By: /S/ JACOB LUSTGARTEN

Jacob Lustgarten
Chief Executive Officer and
Chairman of the Board

Dated: June 2, 2003 By: /S/ YONA LIEBOWITZ

Yona Liebowitz
Chief Financial Officer

CERTIFICATIONS

CERTIFICATION BY JACOB LUSTGARTEN PURSUANT TO SECURITIES EXCHANGE ACT RULE 13A-14

I, Jacob Lustgarten, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Clean Systems Technology Group, Ltd.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 2,, 2003

/S/ JACOB LUSTGARTEN

CHIEF EXECUTIVE OFFICER AND CHAIRMAN

CERTIFICATION BY YONA LEIBOWITZ PURSUANT TO
SECURITIES EXCHANGE ACT RULE 13A-14

I, Yona Liebowitz, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Clean Systems Technology Group, Ltd.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 2, 2003

/S/ YONA LIEBOWITZ

CHIEF FINANCIAL OFFICER

CERTIFICATION BY MEIR ELAZAR PURSUANT TO
SECURITIES EXCHANGE ACT RULE 13A-14

I, Meir Elazar, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Clean Systems Technology Group, Ltd.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the

registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 2, 2003

/S/ MEIR ELAZAR

SECRETARY AND DIRECTOR

"BORDER-BOTTOM: #000000 1px solid" align=left width="5%"> **Highly Technical Blends**

- Ready-mixed Concrete Blends: C10 to C100
- Compound Admixture Concrete
- Controlled Low-Strength Material (CLSM)
- Lightweight Aggregate Concrete
- High-Strength Concrete with Customized Fibers
- Energy-saving Phase change thermostat concrete
- Soil Cement, Unique Foundation Concrete
- C100 High Performance Concrete

Our Customers

For the fiscal year ended June 30, 2012, we had no customer, whose sales accounted for more than 3% of our total sales. Five customers accounted for approximately 11% and 19% of the Company s sales for the years ended June 30, 2012 and 2011, respectively. The total accounts receivable from these customers amounted to approximately $9.2 million and $14.4 million as of June 30, 2012 and 2011, respectively.

Developing New Relationships

Our business will be damaged if project contracts with the Chinese government, for which we may act as a sub-contractor are cancelled. Our sales strategy balances these risks focusing on building new long-term cooperative relationships with some of China's top construction companies in order to benefit from their reputations and to enter new markets. Our sales representatives are actively building relationships with the Chinese government, general contractors, architects, engineers, and other potential sources of new business in our target markets. Our sales efforts are further supported by our executive officers and engineering personnel, who have substantial experience in the design, formulation and implementation of advanced construction and concrete materials projects.

Our Suppliers

We rely on third party suppliers of the raw materials to manufacture our products. Our top five suppliers accounted for approximately 12% and 18% of the Company's purchases for the years ended June 30, 2012 and 2011, respectively. The total accounts payable to these suppliers amounted to approximately $7.3 million and $7.1 million as of June 30, 2012 and 2011, respectively.

Sales and Marketing

Our marketing efforts are geared towards advancing China-ACMH as the supplier of choice for building China's most modern and challenging projects. The Company is constantly seeking ways to raise its profile and leverage additional publicity. To this end, the Company plans to expand its presence at leading construction industry events and in periodicals to build on its successful reputation. The primary goal when expanding into new markets is to reinforce the sales effort by promoting positive testimonials and success stories from the Company's strong base of high profile clients and projects.

Research and Development

Construction materials companies are under extreme pressure to respond quickly to industry demands with new designs and product innovations that support rapidly changing technical demand and regulatory requirements. We devote a substantial amount of attention to the research and development of advanced construction materials that meet the demands of project specific needs while striving to lead the industry in value, materials and processes. We have sophisticated in house R&D and testing facilities, a highly technical onsite team, access to highly specialized market research, cooperation with a leading research institution, experienced management and advisory board, and close relationships with leading concrete materials experts. Our research and development expense was approximately $2.9 million in the year ended June 30, 2012, as compared to $0.6 million for the year ended June 30, 2011.

University Relationships & Cooperation Agreements

We have strong relationships with Tsinghua University and the Xi'an University of Architecture and Technology. We have signed a ten-year cooperation agreement with Xi'an University on June 10, 2007, pursuant to which we expect to pay approximately $42,857 to Xi'an University per year and Xi'an University will set up a technical research center to conduct scientific research for the Company and work with the Company in the areas of technical development, engineering design and human resource training according to the Company's business strategies and requirements. Xi'an University is a top university in the fields of building and material science research and education and works with the Company to follow the advancements of the cement and concrete industries globally.

Beijing Concrete Institute Partnership

The Beijing Dongfang Jianyu Institute of Concrete Science & Technology, or Beijing Concrete Institute, has 40 employees, with five senior research fellows, and 15 mid-level researchers. The Institute and its staff have participated and collaborated with national and local government agencies to establish the following industry standards:

- Specification For Mix Proportion Design of Ordinary Concrete JGJ55-2000
- Code for Acceptance of Constructional Quality Of Concrete Structures GB 50204-2002
- Applied Technical Specification of Mineral Admixtures In Concrete DBJ/T01-64-2002
- Ready-Mixed Concrete GB/T 14902-2003

- Practice Code for Application of Ready-Mixed Mortar DBJ 01-99-2005
- Management Specification of Quality for Ready-Mixed Concrete
- Technical Requirement for Environmental Labeling Products Ready-Mixed Concrete HJ/T412-2007

We have a close association with the Beijing Concrete Institute and have been able to incorporate many of these research findings into our operations, products, and procedures. We work closely with the institute and, in return for sponsoring multiple research initiatives, have been granted exclusive work space for the development of the materials used for our existing plants' regional projects.

We are able to use the Research Findings & Technical Publication and Procedures of the Beijing Concrete Institute in our business, which provides us with an advantage over many of our competitors. Because of our five year exclusive contract with the institute, our competitors are unable to benefit from the same findings for commercial use. Some of these findings include:

- Research on Compound Admixture HPC; 3rd Class Award for China Building Materials Science & Technology Progress.
- Research and Application of C100 HPC; 3rd Class Award for Beijing Science & Technology Progress.
- Research on pumping Light Aggregate Concrete; Innovation Award for China Building Materials Science & Technology.
- Research and Application of Green (nontoxic) HPC; First Prize for Beijing Science & Technology Progress.
- Construction Technology of HPC for the Capital International Airport
- Research on Production and Construction Technology of Phase Change Energy-saving Thermostat Concrete and Mortar
- Polycarboxylate Series High Performance Water Reducing Agent Compositing Technique
- State Swimming Center for Concrete Cracking Control Technology

In addition, we are able to collaborate closely with the institute and its executives who play a strong role recommending industry standards, advising on major infrastructure developments, and creating and maintaining strong connections with leading developers, construction companies, and governmental officials.

Successful Innovations

Some of our more advanced products and processes developed through our relationships with research institutes and universities include:

C100 High Performance Concrete

High Strength Concrete is often defined as concrete with a compressive strength greater than 6000 psi (41 MPa). The primary difference between high-strength concrete and normal-strength concrete relates to the compressive strength that refers to the maximum resistance of a concrete sample to applied pressure. Manufacturing high-strength concrete involves making optimal use of the basic ingredients that constitute normal-strength concrete.

Through our collaborative efforts, we have developed a high performance concrete which can be produced at an impermeable grade above P35, and can be used as self-waterproofing concrete for structural engineering, as the water-cement (W/C) ratio and carbonized shrinking is minimal and the structure is close-grained.

Only a limited number of firms in the Beijing area have the expertise to produce C100 High Performance Concrete.

Compound Admixture Concrete

This compound mineral mixture is a composite of coal powder, mineral powder and mineral activators blended to specific proportions. This mixture improves activity, filling, and super-additive effects of the concrete and also improves the compatibility between cement and aggregate.

Lightweight Aggregate Concrete & Innovative Pumping Technology

This procedure involves a pumping technology of lightweight aggregate. It is a pretreatment method of lightweight aggregate. Setting appropriate times and pressure, lightweight aggregate will reach an appropriate saturation state under pressure once it is put into a custom designed sealed pressure vessel. Lightweight aggregate concrete prepared using the above pretreatment method, will dry quicker under pumping pressure, and maintain consistency. Accordingly, lightweight aggregate concrete will be easily pumped which can shorten construction time.

Energy-saving Technologies of Phase Change Thermostat Concrete

Energy conservation concrete may adjust and reflect process temperature, and temperature self-control may solve cracking brought about by cement heat of hydration in large-scale concrete pours.

Polycarboxylate Series High Performance Water Reducing Agent Compositing Technique

The research and production of water reducing admixture would improve performance while lowering pollution and environmental impact. Super plasticizer Polycarboxylate series which reduces water requirements is an attractive additive in that it enables high strength concrete, super-strength concrete, high fluidity and super plasticizer concrete, and self-defense concrete. The water reduction of Polycarboxylate may reach 20% to 25%, which is higher than the Naphthaline water reducing agent, which is the current industry standard. The cost of the water reducing agent is competitve, and it may be used to prepare high strength and high performance concrete instead of Naphthaline.

Application of Reused Water in Concrete

The re-use of waste water of a concrete plant to mix concrete is significant as it can reduce production costs, minimize fresh water use and represent an efficient approach to address industrial waste. The practical application of this effort is a further step towards the goal of minimal pollution and emissions.

Our Competition

Our principal market, Beijing, has enjoyed stronger economic growth and a higher demand for construction than other regions of China. As a result, we believe that competitors will try to expand their sales and build up their distribution networks in our principal market. Our future success depends on our ability to establish and maintain a competitive position in the marketplace.

We compete primarily on the basis of quality, technological innovation and price. Our main competitors include Jiangong Shanggong Center, Jinyu Group Concrete, Zhuzong Shanggong Center and Zhonghang Konggang Concrete.

Essentially all of the contracts on which we bid are awarded through a competitive bid process, with awards generally being made to the lowest bidder, though other factors such as shorter schedules or prior experience with the customer are often just as important. Within our markets, we compete with many national, regional and local construction firms. Some of these competitors have achieved greater market penetration or have greater financial and other resources than we do. In addition, we compete with a number of state-owned enterprises, which have significantly greater financial resources than we do and which may have a competitive advantage over us.

There are approximately 163 concrete mixture stations in the Beijing area. The concrete production industry is highly segmented, with no single supplier having greater than a 10% market share.

Intellectual Property

We currently own the following intellectual property rights:

C100 High Performance Concrete: Patent #2007102011320 Lightweight Pre-Processing Method and Device: Patent#2007*10201131.6* Compound mineral mixture with: Patent #200710107881.7

Lightweight Aggregate Pressure Pre-Heating Equipment: Utility Model# ZL200720200683.0

Environmental Matters

We are required to comply with environmental protection laws and regulations promulgated by the Ministry of Construction and the State Environmental Protection Administration. Some specific environmental regulations apply to sealed transportation of dust materials and final products, closed storage of sand and gravel, as well as reduction of noise and dust pollution on production sites and encouragement of the use of waste materials. The governmental regulatory authorities conduct periodic inspections. We have met all the requirements in the past inspections. We are one of ten companies in the industry that have been awarded the honor of Green Concrete Producer by the PRC government.

Regulation

The company has been in compliance with all registrations and requirements for the issuance and maintenance of all licenses and certificates required by the applicable governing authorities, including the Ministry of Construction and the Beijing Administration of Industry & Commerce. The Ministry of Construction awards Level II and Level III qualifications to concrete producers in the PRC construction industry, based on criteria such as production capacity, technical qualification, registered capital and capital equipment, as well as performance on past projects. Level II companies are licensed to produce concrete of all strength levels as well as special concretes, and Level III producers are licensed to produce concrete with strength level C60 and below. We are a Level II concrete producer.

Additionally, to make improvements at our currently existing plants, we do not need to apply for regulatory approval. However, in order to build a new concrete plant, we will need to (i) apply for a business license from the local Administration of Industry and Commerce, (ii) receive environmental approval from the local Environmental Protection Bureau in the relevant district area, and (iii) apply for an Industry Qualification Certificate from the local Municipal Construction Committee. The time estimated to receive each of these approvals is approximately one month. In the past, we have not been rejected by any of these three regulators for approval.

Our Labor Force

As of June 30, 2012, we employed 925 full-time employees. The following table sets forth the number of our full-time employees by function as of June 30, 2012.

Employees/Independent Contractors and their Functions

Management & Administrative Staff	92	9.95%
Sales	74	8.00%
Technical & Engineering Staff	105	11.35%
Production Staff	157	16.97%
Equipment & Maintenance	51	5.51%
Drivers & Heavy Equipment Operators	49	5.30%
Sub-Total	528	57.08%
Independent Contractors	397	42.92%
Total	925	100%

As required by applicable PRC law, we have entered into employment contracts with all of our officers, managers and employees. We believe that we maintain a satisfactory working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

In addition, we are required by PRC law to cover employees in China with various types of social insurance and believe that we are in material compliance with the relevant PRC laws.

Insurance

We believe our insurance coverage is customary and standard for companies of comparable size in comparable industries in China.

REPORTS TO SECURITY HOLDERS

We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission and our filings are available to the public over the internet at the Securities and Exchange Commission's website at http://www.sec.gov. The public may read and copy any materials filed by us with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street N.E. Washington D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-732-0330. The SEC also maintains an Internet site that contains reports, proxy and formation statements, and other information regarding issuers that file electronically with the SEC, at http://www.sec.gov.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

Our plans to build additional plants and to improve and upgrade our internal control and management system will require capital expenditures in fiscal year 2013.

Our plans to build additional plants and to maintain and continually upgrade our internal control and management systems in line with our growing scale will require significant capital expenditures in fiscal year 2012. We may also need further funding for working capital, investments, potential acquisitions and joint ventures and other corporate requirements. We cannot assure you that cash generated from our operations will be sufficient to fund these development plans, or that our actual capital expenditures and investments will not significantly exceed our current planned amounts. If either of these conditions arises, we may have to seek external financing to satisfy our capital needs. Our ability to obtain external financing at reasonable costs is subject to a variety of uncertainties. Failure to obtain sufficient external funds for our development plans could adversely affect our business, financial condition and operating performance.

Five customer orders consisted of 11% of the net sales of the Company for the fiscal year ended June 30, 2012, and the loss of any of these customers can result in a depressive effect on our net profit.

Our Company focuses on large projects for large Chinese customers. Five customers accounted for approximately 11% and 19% of the Company's sales for the years ended June 30, 2012 and 2011, respectively. The total accounts receivable from these customers amounted to approximately $9.2 million and $14.4 million as of June 30, 2012 and 2011, respectively. Should we lose any of these customers in the future and are unable to obtain additional customers, our revenues will decrease.

Our business is subject to the risk of supplier concentration.

Our top five suppliers provide approximately 12% of the sourcing of the raw materials for our concrete production business. As a result of this concentration in our supply chain, our business and operations would be negatively affected if any of our key suppliers were to experience significant disruption affecting the price, quality, availability or timely delivery of their products. The partial or complete loss of one of these suppliers, or a significant adverse change in our relationship with any of these suppliers, could result in lost revenue, added costs and distribution delays that could harm our business and customer relationships. In addition, concentration in our supply chain can exacerbate our exposure to risks associated with the termination by key suppliers of our distribution agreements or any adverse change in the terms of such agreements, which could have an adverse impact on our revenues and profitability.

We may experience major accidents in the course of our operations, which may cause significant property damage and personal injuries.

Significant industry-related accidents and natural disasters may cause interruptions to various parts of our operations, or could result in property or environmental damage, increase in operating expenses or loss of revenue. The occurrence of such accidents and the resulting consequences may not be covered adequately, or at all, by the insurance policies we carry. In accordance with customary practice in China, we do not carry any business interruption insurance or third party liability insurance for personal injury or environmental damage arising from accidents on our property or relating to our operations other than our automobiles. Losses or payments incurred may have a material adverse effect on our operating performance if such losses or payments are not fully insured.

Our planned expansion and technical improvement projects could be delayed or adversely affected by, among other things, failures to receive regulatory approvals, difficulties in obtaining sufficient financing, technical difficulties, or human or other resource constraints.

We intend to expand new production facilities during the next few years. The costs projected for our planned expansion and technical improvement projects and expansion may exceed those originally contemplated. Costs savings and other economic benefits expected from these projects may not materialize as a result of any such project delays, cost overruns or changes in market circumstances.

To make improvements at our currently existing plants, we do not need to apply for regulatory approval. However, in order to build a new concrete plant, we will need to (i) apply for a business license from the local Administration of Industry and Commerce, (ii) apply for an Industry Qualification Certificate from the local Municipal Construction Committee, and (iii) receive environmental approval from the local Environmental Protection Bureau in the relevant district area. There is no guarantee that we will be able to obtain these regulatory approvals in a timely manner or at all.

Additionally, in order to construct a new concrete plant, we may need to apply for a short term loan from a local commercial bank to be used for working capital. Because the lending policies of the local commercial banks are subject to change, there is no guarantee that we will be able to obtain approval for such a loan with conditions favorable to us in a timely manner or at all.

Failure to obtain intended economic benefits from these new plants and technical improvements projects, either due to cost overruns, our failure to obtain the necessary regulatory approvals or our failure to obtain necessary loan financing on terms favorable to us could adversely affect our business, financial condition and operating performances.

We cannot assure you that our growth strategy will be successful.

One of our strategies is to grow through increasing the distribution and sales of our products by penetrating existing markets in China and entering new geographic markets in China. However, many obstacles to entering such new markets exist including, but not limited to, competition from established companies in such existing markets in the China. We cannot, therefore, assure you that we will be able to successfully overcome such obstacles and establish our products in any additional markets. Our inability to implement this growth strategy successfully may have a negative impact on our growth, future financial condition, results of operations or cash flows.

If we fail to effectively manage our growth and expand our operations, our business, financial condition, results of operations and prospects could be adversely affected.

Our future success depends on our ability to expand our business to address growth in demand for our products and services. In order to maximize potential growth in our current and potential markets, we believe that we must expand our manufacturing and marketing operations. Our ability to accomplish these goals is subject to significant risks and uncertainties, including:

the need for additional funding to construct additional manufacturing facilities, which we may be unable to obtain on reasonable terms or at all;
delays and cost overruns as a result of a number of factors, many of which may be beyond our control, such as problems with equipment vendors and manufacturing services provided by third-party manufacturers or subcontractors;
• our receipt of any necessary government approvals or permits that may be required to expand our operations in a timely manner or at all;
• diversion of significant management attention and other resources; and
• failure to execute our expansion plan effectively.

To accommodate our growth, we will need to implement a variety of new and upgraded operational and financial systems, procedures, and controls, including improvements to our accounting and other internal management systems, by dedicating additional resources to our reporting and accounting function, and improvements to our record keeping and contract tracking system. We will also need to recruit more personnel and train and manage our growing employee base. Furthermore, our management will be required to maintain and expand our relationships with our existing customers and find new customers for our services. There is no guarantee that our management can succeed in maintaining and expanding these relationships.

18

If we encounter any of the risks described above, or if we are otherwise unable to establish or successfully operate additional capacity or increase our output, we may be unable to grow our business and revenues, reduce our operating costs, maintain our competitiveness or improve our profitability and, consequently, our business, financial condition, results of operations, and prospects will be adversely affected.

If we are unable to accurately estimate the overall risks or costs associated with a project on which we are bidding on, we may achieve a profit lower than anticipated or even incur a loss on the contract.

Substantially all of our revenues and contract backlog are typically derived from fixed unit price contracts. Fixed unit price contracts require us to perform the contract for a fixed unit price irrespective of our actual costs. As a result, we realize a profit on these contracts only if we successfully estimate our costs and then successfully control actual costs and avoid cost overruns. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, then cost overruns may cause the contract not to be as profitable as we expected, or may cause us to incur losses. This, in turn, could negatively affect our cash flow, earnings and financial position.

The costs incurred and gross profit realized on those contracts can vary, sometimes substantially, from the original projections due to a variety of factors, including, but not limited to:

- onsite conditions that differ from those assumed in the original bid;
- delays caused by weather conditions;
- later contract start dates than expected when we bid the contract;
- contract modifications creating unanticipated costs not covered by change orders;
- changes in availability, proximity and costs of materials, including steel, concrete, aggregate and other construction materials (such as stone, gravel and sand), as well as fuel and lubricants for our equipment;
- availability and skill level of workers in the geographic location of a project;
- our suppliers' or subcontractors' failure to perform;
- fraud or theft committed by our employees;
- mechanical problems with our machinery or equipment;
- citations issued by governmental authorities
- difficulties in obtaining required governmental permits or approvals;
- changes in applicable laws and regulations; and
- claims or demands from third parties alleging damages arising from our work or from the project of which our work is part.

Economic downturns or reductions in government funding of infrastructure projects could significantly reduce our revenues.

Our business is highly dependent on the amount of infrastructure work funded by various governmental entities, which, in turn, depends on the overall condition of the economy, the need for new or replacement infrastructure, the priorities placed on various projects funded by governmental entities and national or local government spending levels. Decreases in government funding of infrastructure projects could decrease the number of civil construction contracts available and limit our ability to obtain new contracts, which could reduce our revenues and profits.

The worldwide recession and credit crisis could impact our business.

The tightening of credit in financial markets and the general economic downturn could adversely affect the ability of our customers, and suppliers to obtain the financing they need to make purchases from us, to perform their obligations under agreements with us or even to continue their operations. The credit tightening and decreased cash availability could also result in an increase in cancellation of orders for our products and services and/or a decrease in demand for our products and services in the markets in which we operate. While we believe that the effects of the recession and credit crisis have abated, we are unable to predict potential future economic conditions and disruptions in financial markets or their effect on our business and results of operations, but the consequences may be materially adverse.

Our concrete production plants in Beijing may be subject to a general city rezoning plan which, if implemented in the future, may require us to relocate or possibly permanently shut down certain of these plants.

Certain of our concrete production plants in Beijing may be subject to a general city rezoning plan which has been prepared by the Beijing municipal government. Under the rezoning plan, it is intended that the properties where these plants are located will be rezoned from industrial to commercial use. If and when implemented in respect of those properties, the rezoning plan may require us to vacate these properties and relocate the plants. In the event we are required to vacate the above properties, we would implement certain strategies to minimize any loss of production capacity during relocation. There can be no assurance that our strategies to deal with the relocation of the facilities can be implemented, or that such strategies can be implemented before we are required to vacate the above properties due to the proposed general city rezoning plan. If we are required to relocate the facilities, our results of operation and financial condition may be materially and adversely affected.

Delays in government funding of high-speed railway projects by the State Planning Commission and the Chinese Ministry of Railways could significantly reduce our revenues.

In response to a high-speed railway crash in Zhejiang province on July 23, 2011, the State Planning Commission announced on August 10, 2011 and subsequently the Chinese Ministry of Railways announced that it was suspending approvals indefinitely for new rail projects until a comprehensive safety check on existing rail lines could be completed (http://www.prcgov.org/meet/meetings-content-61.html).

Our contracts with respect to construction and expansion of China's high speed rail system accounted for approximately 7% of our revenues for the year ended June 30, 2012. Accordingly, any project delays or cancellation of existing contracts would have a significant adverse effect on our results of operations. In addition, the cancellation of future projects for which we would have submitted a bid to provide our services could delay further growth of our Company and adversely affect our business operations.

Our exposure to financially troubled customers or suppliers could harm our business, financial condition and operating results.

We provide manufacturing services to companies, and rely on suppliers, that have in the past and may in the future experience financial difficulty, particularly in light of recent conditions in the credit markets and the overall economy that affected access to capital and liquidity. As a result, we devote significant resources to monitor receivables and inventory balances with certain of our customers. If our customers experience financial difficulty, we could have difficulty recovering amounts owed to us from these customers, or demand for our services from these customers could decline. We have experienced delays in payment on our projects from China's Ministry of Railways, or MOR. After the Minster of MOR was arrested for corruption charges, the MOR conducted payment chain audits; in addition, the MOR was under pressure to repay its debts incurred during the years of expansion. As a result, the MOR has delayed payments to construction companies, including us. Furthermore, the government tightened monetary policy in order to regulate inflation, which in turn led to delayed payment on our housing construction projects. We expect longer collection period on accounts receivable and higher probability of uncollectable accounts receivable, and therefore changed the estimate of our allowance for doubtful accounts within one year from our historical default rate of 2% to 5% based on peers' comparable rate in domestic construction industry during the year ended June 30, 2012. Due to concern over inflation, the Chinese government began to tighten its monetary policy from October of 2010, which affected the real estate and construction industries adversely. As a result, our accounts receivable increased and the provision for doubtful accounts also increased. Some of our customers appeared to have the problems of declining business and shortage in cash. The allowance for doubtful accounts increased to approximately $24.9 million at June 30, 2012, compared to approximately $5.6 million at June 30, 2011. In fact, our provision for doubtful accounts, as a percentage of our overall accounts receivable, has increased from approximately 6.6% as of June 30, 2011, to approximately 18.8% as of June 30, 2012. The inability to collect on our outstanding accounts receivable could adversely affect our operating cash flows and reduce our working capital. As a result, we may suffer material write-offs on our accounts receivable to bad debt expense. The inability of our suppliers to supply us with needed raw material could adversely affect our production process and therefore, we may not be able to fulfill our contract arrangements with customers.

We rely on internal models to manage risk, to provide accounting estimates and to make other business decisions. Our results could be adversely affected if those models do not provide reliable estimates or predictions of future activity.

We rely heavily on internal models in making a variety of decisions crucial to the successful operation of our business, including allowances for doubtful accounts and other accounting estimates. It is therefore important that our models are accurate, and any failure in this regard could have a material adverse effect on our results. Models are inherently imperfect predictors of actual results because they are based on historical data available to us and our assumptions about factors such as credit demand, payment rates, default rates, delinquency rates and other factors that may overstate or understate future experience. Our models could produce unreliable results for a number of reasons, including the limitations of historical data to predict results due to unprecedented events or circumstances, invalid or incorrect assumptions underlying the models, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models, incorrect data being used by the models or inappropriate application of a model to products or events outside of the model s intended use. In particular, models are less dependable when the economic environment is outside of historical experience, as has been the case recently. Due to the factors described above and in "Management s Discussion and Analysis of Financial Condition and Results of Operations", we may, among other things, experience actual charge-offs that exceed our estimates and which are possibly greater than our allowance for doubtful accounts, or which require material adjustments to the allowance. Unanticipated and excessive default and charge-off experience can adversely affect our profitability and financial condition and adversely affect our ability to finance our business.

Our business will be damaged if project contracts with the Chinese government, for which we may act as a sub-contractor are cancelled.

We do not enter into any contracts directly with the Chinese government. For contracts that are funded by the Chinese government, we place bids and enter into subcontracts with the private entity prime contractor. A sudden cancellation of a prime contract, and in turn our subcontract, could cause our equipment and work crews to remain idle for a significant period of time until other comparable work becomes available. This idle time could have a material adverse effect on our business and results of operations.

Our industry is highly competitive, with numerous larger companies with greater resources competing with us, and our failure to compete effectively could reduce the number of new contracts awarded to us or adversely affect our margins on contracts awarded.

Our competition includes a number of state-owned and large private PRC-based manufacturers and distributors that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Essentially all of the contracts on which we bid are awarded through a competitive bid process, with awards generally being made to the lowest bidder, though other factors such as shorter schedules or prior experience with the customer are often just as important. Within our markets, we compete with many national, regional and local state-owned and private construction firms. Some of these competitors 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. As a result, we may need to accept lower contract margins in order to compete against these competitors. If we are unable to compete successfully in our markets, our relative market share and profits could be reduced.

We could face increased competition in our principal market.

Our principal market, Beijing, has enjoyed stronger economic growth and a higher demand for construction than other regions of China. As a result, we believe that competitors will try to expand their sales and build up their distribution networks in our principal market. We anticipate that this trend will continue and likely accelerate. Increased competition may have a material adverse effect on our financial condition and results of operations.

Our dependence on subcontractors and suppliers of materials could increase our costs and impair our ability to compete on contracts on a timely basis or at all, which would adversely affect our profits and cash flow.

We rely on third-party subcontractors to perform some of the work on many of our contracts. We do not bid on contracts unless we have the necessary subcontractors committed for the anticipated scope of the contract and at prices that we have included in our bid. Therefore, to the extent that we cannot obtain third-party subcontractors, our profits and cash flow will suffer.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act or Chinese anti-corruption law could have a material adverse effect on our

business.

We are subject to the Foreign Corrupt Practice Act, or FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute for the purpose of obtaining or retaining business. Chinese anti-corruption law also strictly prohibits bribery of government officials. We have operations, agreements with third parties and make sales in China, where corruption may occur. Our activities in China create the risk of unauthorized payments or offers of payments by one of the employees, consultants, sales agents or distributors of our Company, even though these parties are not always subject to our control. It is our policy to implement safeguards to prevent these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants, sales agents or distributors of our Company may engage in conduct for which we might be held responsible.

Violations of the FCPA or other anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the United States government may seek to hold our Company liable for successor liability FCPA violations committed by companies in which we invest or that we acquire.

We depend heavily on key personnel, and turnover of key employees and senior management could harm our business.

Our future business and results of operations depend in significant part upon the continued contributions of our key technical and senior management personnel, including Xianfu Han, our Chairman and Chief Executive Officer and Weili He, our Vice-Chairman and Chief Operating Officer. They also depend in significant part upon our ability to attract and retain additional qualified management, technical, operational and support personnel for our operations. If we lose a key employee, if a key employee fails to perform in his or her current position, or if we are not able to attract and retain skilled employees as needed, our business could suffer. Significant turnover in our senior management could significantly deplete the institutional knowledge held by our existing senior management team. We depend on the skills and abilities of these key employees in managing the reclamation, technical, and marketing aspects of our business, any part of which could be harmed by turnover in the future.

Certain of our existing stockholders have substantial influence over our company, and their interests may not be aligned with the interests of our other stockholders.

Our Chairman, Xianfu Han, owns approximately 32.4% of our outstanding voting securities and our Vice-Chairman, Weili He, owns approximately 17% of our outstanding voting securities as of June 30, 2012, in a fully-diluted share base. As a result, each have significant influence over our business, including decisions regarding mergers, consolidations, liquidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may also have the effect of discouraging, delaying or preventing a future change of control, which could deprive our stockholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our shares.

We may require additional capital and we may not be able to obtain it on acceptable terms or at all.

We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of Chinese-based companies involved in construction supply or concrete industries;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows; and
- economic, political and other conditions in China.

Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition and results of operations.

We may be exposed to potential risks relating to our internal controls over financial reporting.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002 or SOX 404, the SEC adopted rules requiring public companies to include a report of management on the company s internal controls over financial reporting in their annual reports. Under current law, the auditor attestation will not be required as long as our filing status remains as a smaller reporting company, but we may cease to be a smaller reporting company in future years, in which case we will be subject to the auditor attestation requirement. We were subject to management attestation report for the fiscal year ended June 30, 2012, and a report of our management for the 2012 fiscal year is included under Item 9A of this annual report concluding that, as of June 30, 2012, our internal controls over financial reporting were not effective. If we cannot remediate the material weakness identified in a timely manner or, if and when we are subject to the auditor attestation report requirement, we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements, which could adversely affect the price of our common stock.

We have limited insurance coverage for our operations in China.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited insurance products. We have determined that the risks of disruption or liability from our business, the loss or damage to our property, including our facilities, equipment and office furniture, the cost of insuring for these risks, and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we do not have any business liability, disruption, litigation or property insurance coverage for our operations in China except for insurance on some company owned vehicles. Any uninsured occurrence of loss or damage to property, or litigation or business disruption may result in the incurrence of substantial costs and the diversion of resources, which could have an adverse effect on our operating results.

We may not be current in our payment of social insurance and housing accumulation fund for our employees and such shortfall may expose us to relevant administrative penalties.

The PRC laws and regulations require all employers in China to fully contribute their own portion of the social insurance premium and housing accumulation fund for their employees within a certain period of time. Failure to do so may expose the employers to make rectification for the accrued premium and fund by the relevant labor authority. Also, an administrative fine may be imposed on the employers as well as the key management members. As of June 30, 2012, Xin Ao has fully contributed the social insurance premium and housing accumulation fund according to PRC laws and regulations.

Our operations may incur substantial liabilities to comply with environmental laws and regulations.

Our concrete manufacturing operations are subject to laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. Applicable law required that we obtain an environmental impact report and environmental approval from the environmental protection administration prior to obtaining the business license and construction enterprise qualification certificate for Xin Ao. However, the local administration of industry and commerce and the Beijing Municipal Construction Commission did not require Xin Ao to provide the environmental impact report and environmental approval, and Xin Ao has not received any notice of non-compliance nor has any fine or other penalty been assessed. However, the environmental protection administration may in the future require that Xin Ao provide the applicable report and apply for the required environment approval. Our failure to have complied with the applicable laws regarding delivery of the report may result in the assessment of administrative, civil and criminal penalties, the incurrence of investigatory or remedial obligations and the imposition of injunctive relief. Resolution of these matters may require considerable management time and expense. In addition, changes in environmental laws and regulations occur frequently and any changes that result in more stringent or costly manufacturing, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to reach and maintain compliance and may otherwise have a material adverse effect on our industry in general and on our own results of operations, competitive position or financial condition.

RISKS RELATED TO DOING BUSINESS IN CHINA

In order to comply with PRC regulatory requirements, we operate our businesses through companies with which we have contractual relationships but in which we do not have controlling ownership. If the PRC government determines that our agreements with these companies are not in compliance with applicable regulations, our business in the PRC could be materially adversely affected.

We do not have direct or indirect equity ownership of our variable interest entity, or VIE, Xin Ao, which operates all our businesses in China. At the same time, however, we have entered into contractual arrangements with Xin Ao and its individual owners pursuant to which we received an economic interest in, and exert a controlling influence over Xin Ao, in a manner substantially similar to a controlling equity interest.

Although we believe that our current business operations are in compliance with the current laws in China, we cannot be sure that the PRC government would view our operating arrangements to be in compliance with PRC regulations that may be adopted in the future. There have been recent reports of potential PRC government efforts to regulate or perhaps limit the use of VIE structures for new foreign investment, particularly in the internet and other telecommunications industries. We are monitoring developments in this area and do not believe any adverse impact on our operations is likely.

If we are determined not to be in compliance with future PRC regulations, the PRC government could levy fines, revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our business, corporate structure or operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. As a result, our business in the PRC could be materially adversely affected.

We rely on contractual arrangements with our VIE for our operations, which may not be as effective in providing control over these entities as direct ownership.

Our operations and financial results are dependent on our VIE, Xin Ao, in which we have no equity ownership interest and must rely on contractual arrangements to control and operate the businesses of our VIE. These contractual arrangements are not as effective in providing control over the VIE as direct ownership. For example, the VIE may be unwilling or unable to perform its contractual obligations under our commercial agreements. Consequently, we would not be able to conduct our operations in the manner currently planned. In addition, the VIE may seek to renew its agreements on terms that are disadvantageous to us. Although we have entered into a series of agreements that provide us with substantial ability to control the VIE, we may not succeed in enforcing our rights under them insofar as our contractual rights and legal remedies under PRC law are inadequate. In addition, if we are unable to renew these agreements on favorable terms when these agreements expire or enter into similar agreements with other parties, our business may not be able to operate or expand, and our operating expenses may significantly increase.

If we become directly subject to the recent scrutiny, criticism and negative publicity involving certain U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, stock price and reputation and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved quickly.

Recently, U.S. public companies that have substantially all of their operations in China, particularly companies like us which have completed so-called reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, short sellers, financial commentators and regulatory agencies, such as the United States Securities and Exchange Commission. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities and mistakes, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits, SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what affect this sector-wide scrutiny, criticism and negative publicity will have on our company, our business and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation could be costly and time consuming and distract our management from growing our company. If such allegations are not proven to be groundless, our company and business operations will be severely impacted and your investment in our stock could be rendered worthless.

Adverse changes in political and economic policies of the PRC government could impede the overall economic growth of China, which could reduce the demand for our products and damage our business.

We conduct all of our operations and generate all of our revenue in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the higher level of government involvement;
- the early stage of development of the market-oriented sector of the economy;
- the rapid growth rate;
- the higher level of control over foreign exchange; and
- the allocation of resources.

As the PRC economy has been transitioning from a planned economy to a more market-oriented economy, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. While these measures may benefit the overall PRC economy, they may also have a negative effect on us.

Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and imposing policies that impact particular industries or companies in different ways.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of new construction investments and expenditures in China, which in turn could lead to a reduction in demand for our services and consequently have a material adverse effect on our business and prospects.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

We conduct substantially all of our business through our operating subsidiary in the PRC. Our operating subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, a series of new PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to you and us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. In addition, all of our executive officers and all of our directors are residents of China and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to affect service of process in the United States or to enforce a judgment obtained in the United States against our Chinese operations and subsidiaries.

The PRC government exerts substantial influence over the manner in which we must conduct our business activities.

The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of the jurisdictions in which we operate may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations.

Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof and could require us to divest ourselves of any interest we then hold in Chinese properties or joint ventures.

A slowdown or other adverse developments in the PRC economy may materially and adversely affect our customers, demand for our services and our business.

We are a holding company. All of our operations are conducted in the PRC and all of our revenues are generated from sales in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that such growth will continue. A slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in the PRC may materially reduce the demand for new construction projects and adversely affect our business.

Restrictions on currency exchange may limit our ability to receive and use our sales revenue effectively.

Most of our sales revenue and expenses are denominated in RMB. Under PRC law, the RMB is currently convertible under the “current account,” which includes dividends and trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment and loans. Currently, our PRC operating subsidiary may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future. Since a significant amount of our future revenue will be denominated in RMB, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in RMB to fund our business activities outside China that are denominated in foreign currencies.

Foreign exchange transactions by PRC operating subsidiaries under the capital account continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC government authorities, including SAFE. In particular, if our PRC operating subsidiaries borrow foreign currency through loans from us or other foreign lenders, these loans must be registered with SAFE, and if we finance the subsidiaries by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the Ministry of Commerce, or MOFCOM, or their respective local counterparts. These limitations could affect their ability to obtain foreign exchange through debt or equity financing.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident stockholders to personal liability, limit our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, limit our PRC subsidiaries ability to distribute profits to us or otherwise materially adversely affect us.

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75, which required PRC residents to register with the competent local SAFE branch (1) before they establish or gain control of an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing (including convertible debt financing); (2) when they contribute their assets or equity interests in a domestic enterprise to an SPV or engage in overseas financing after contributing assets or equity interests to an SPV; and (3) when their SPV undergoes a material change outside of China, such as a change in share capital or merger or acquisition. Failure to comply with the requirements of Circular 75, as applied by SAFE in accordance with Notice 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV s subsidiaries being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

We have asked our stockholders, who are PRC residents as defined in Circular 75, to register with the relevant branch of SAFE, as currently required, in connection with their equity interests in us and our acquisitions of equity interests in our PRC subsidiaries. Our PRC Residents stockholders, Mr. Han and Mr. He have obtained the SAFE registration on September 29, 2007. However, we cannot provide any assurances that they have made all necessary amendments to their registration to fully comply with, all applicable registrations or approvals required by Circular 75. Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with Circular 75 by our PRC resident beneficial holders.

In addition, such PRC residents may not always be able to complete the necessary registration procedures required by Circular 75. We also have little control over either our present or prospective direct or indirect stockholders or the outcome of such registration procedures. A failure by our PRC resident beneficial holders or future PRC resident stockholders to comply with Circular 75, if SAFE requires it, could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

We may be unable to complete a business combination transaction efficiently or on favorable terms due to complicated merger and acquisition regulations implemented on September 8, 2006.

The recent PRC Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors also governs the approval process by which a PRC company may participate in an acquisition of its assets or its equity interests. Depending on the structure of the transaction, the new regulation will require the Chinese parties to make a series of applications and supplemental applications to the government agencies. In some instances, the application process may require the presentation of economic data concerning a transaction, including appraisals of the target business and evaluations of the acquirer, which are designed to allow the government to assess the transaction. Government approvals will have expiration dates by which a transaction must be completed and reported to the government agencies. Compliance with the new regulations is likely to be more time consuming and expensive than in the past and the government can now exert more control over the combination of two businesses. Accordingly, due to the new regulation, our ability to engage in business combination transactions has become significantly more complicated, time consuming and expensive, and we may not be able to negotiate a transaction that is acceptable to our stockholders or sufficiently protect their interests in a transaction.

The new regulation allows PRC government agencies to assess the economic terms of a business combination transaction. Parties to a business combination transaction may have to submit to MOFCOM and the other government agencies an appraisal report, an evaluation report and the acquisition agreement, all of which form part of the application for approval, depending on the structure of the transaction. The regulations also prohibit a transaction at an acquisition price obviously lower than the appraised value of the Chinese business or assets and in certain transaction structures, require that consideration must be paid within defined periods, generally not in excess of a year. The regulation also limits our ability to negotiate various terms of the acquisition, including aspects of the initial consideration, contingent consideration, holdback provisions, indemnification provisions and provisions relating to the assumption and allocation of assets and liabilities. Transaction structures involving trusts, nominees and similar entities are prohibited. Therefore, such regulation may impede our ability to negotiate and complete a business combination transaction on financial terms that satisfy our investors and protect our stockholders’ economic interests.

Fluctuations in exchange rates could adversely affect our business and the value of our securities.

The value of our common stock will be indirectly affected by the foreign exchange rate between U.S. dollars and RMB and between those currencies and other currencies in which our sales may be denominated. Because substantially all of our earnings and cash assets are denominated in RMB, 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 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.

Since July 2005, the RMB has no longer been pegged to 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. 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.

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.

Currently, some of our raw materials and major equipment are imported. In the event that the U.S. dollars appreciate against RMB, our costs will increase. If we cannot pass the resulting costs on to our customers, our profitability and operating results will suffer.

Under the Current Enterprise Income Tax, or EIT, Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and our non-PRC stockholders.

We are a holding company incorporated under the laws of Delaware. We conduct substantially all of our business through our wholly-owned and other consolidated entities in China, and we derive all of our income from these entities. Prior to January 1, 2008, dividends derived by foreign enterprises from business operations in China were not subject to the Chinese enterprise income tax. However, such tax exemption ceased as of January 1, 2008 and thereafter with the effectiveness of the new Enterprise Income Tax Law, or EIT Law.

Under the EIT Law, if we are not deemed to be a resident enterprise for Chinese tax purposes, a withholding tax at the rate of 10% would be applicable to any dividends paid by our Chinese subsidiaries to us. However, if we are deemed to be a resident enterprise established outside of China whose place of effective management is located in China, we would be classified as a resident enterprise for Chinese tax purposes and thus would be subject to an enterprise income tax rate of 25% on all of our income, including interest income on the proceeds from this offering on a worldwide basis.

The regulations promulgated pursuant to the EIT Law define the term place of effective management as establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise. The State Administration of Taxation issued a SAT Circular 82 on April 22, 2009, which provides that the place of effective management of a Chinese-controlled overseas-incorporated enterprise is located in China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly located in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies located in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders meetings are located or kept in the PRC; and (iv) no less than half of the enterprise s directors or senior management with voting rights reside in the PRC. SAT Circular 82 applies only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals. If the Company s non-PRC incorporated entities are deemed PRC tax residents, such entities would be subject to PRC tax under the EIT Law. The Company has analyzed the applicability of the EIT Law and related regulations, and for each of the applicable periods presented, the Company has not accrued for PRC tax on such basis.. In addition, although under the EIT Law and the related regulations dividends paid to us by our PRC subsidiaries would qualify as tax-exempted income, we cannot assure you that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. As a result of such changes, our historical operating results will not be indicative of our operating results for future periods and the value of our shares of common stock may be adversely affected. We are actively monitoring the possibility of resident enterprise treatment and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

We may be subject to fines and legal sanctions if we or our Chinese employees fail to comply with PRC regulations relating to employee stock options granted by overseas listed companies to PRC citizens.

On December 25, 2006, the People s Bank of China issued the Administration Measures on Individual Foreign Exchange Control, and its Implementation Rules were issued by the State Administration of Foreign Exchange ("SAFE") on January 5, 2007. Both took effect on February 1, 2007. Under these regulations, all foreign exchange matters involved in an employee stock holding plan, stock option plan or similar plan in which PRC citizens' participation requires approval from the SAFE or its authorized branch. On March 28, 2007, the SAFE issued the Application Procedure for Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas Listed Companies, or Notice 78. Under Notice 78, PRC individuals who participate in an employee stock option holding plan or a stock option plan of an overseas listed company are required, through a PRC domestic agent or PRC subsidiary of the overseas listed company, to register with the SAFE and complete certain other procedures. We and our Chinese employees who have been granted shares or stock options pursuant to our share incentive plan are subject to Notice 78. However, in practice, there are significant uncertainties with regard to the interpretation and implementation of Notice 78. We are committed to complying with the requirements of Notice 78. However, we cannot provide any assurance that we or our Chinese employees will be able to qualify for or obtain any registration required by Notice 78. In particular, if we and/or our Chinese employees fail to comply with the provisions of Notice 78, we and/or our Chinese employees may be subject to fines and legal sanctions imposed by the SAFE or other PRC government authorities, as a result of which our business operations and employee option plans could be materially and adversely affected.

The discontinuation, reduction or delay of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

Prior to January 1, 2008, under the old enterprises income tax law, Xin Ao was subject to a 33% income tax rate, which was subject to certain tax holidays and preferential tax rates. Under the new enterprise income tax law effective January 1, 2008, or the EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a unified 25% income tax rate. Under the EIT Law, preferential tax treatments will be granted to enterprises that conduct business in certain encouraged sectors and to enterprises that qualify as “high and new technology enterprises”, a status reassessed every three years. In addition, an enterprise is entitled to a 0% value-added tax rate if it uses recycled raw materials to manufacture its products. Xin Ao was recognized as a high and new technology enterprise June 2009 and is entitled to a 15% preferential income tax rate for the three-year period ending June 2012. In addition, Xin Ao uses recycled raw materials to manufacture its products and was entitled to a 0% value-added tax rate from June 2010 through June 2013. However, we cannot assure you that Xin Ao will be able to maintain its status as “high and new technology enterprises” and/or as an enterprise for value-added tax exemption. If Xin Ao fails to continue to qualify or fails to receive an updated approvals, our income tax and value-added tax expenses would increase, which would have a material adverse effect on our net income and results of operations.

RISKS RELATED TO THE MARKET FOR OUR COMMON STOCK

Our shares of common stock are very thinly traded, and there can be no assurance that there will be an active market for our shares of common stock in the future.

Our shares of common stock are very thinly traded, and the price if traded may not reflect our value. There can be no assurance that there will be an active market for our shares of common stock in the future. The market liquidity will be dependent on the perception of our operating business and any steps that our management might take to bring us to the awareness of investors. There can be no assurance given that there will be any awareness generated. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business. If a more active market should develop, the price may be highly volatile. Because there may be a low price for our shares of common stock, many brokerage firms may not be willing to effect transactions in the securities. Even if an investor finds a broker willing to effect a transaction in the shares of our common stock, the combination of brokerage commissions, transfer fees, taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such shares of common stock as collateral for any loans.

We do not intend to pay dividends on shares of our common stock for the foreseeable future, but if we intend to do so our holding company structure may limit the payment of dividends to our stockholders.

We have no direct business operations, other than our ownership of our subsidiaries. While we have no current intention of paying dividends, should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions as discussed below. If future dividends are paid in RMB, fluctuations in the exchange rate for the conversion of RMB into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars.

Chinese regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. Our subsidiaries in China are also required to set aside a portion of their after tax profits according to Chinese accounting standards and regulations to fund certain reserve funds. Currently, our subsidiaries in China are the only sources of revenues or investment holdings for the payment of dividends. If they do not accumulate sufficient profits under Chinese accounting standards and regulations to first fund certain reserve funds as required by Chinese accounting standards, we will be unable to pay any dividends.

We may be subject to penny stock regulations and restrictions and you may have difficulty selling shares of our common stock.

The SEC has adopted regulations which generally define so-called "penny stocks" to be an equity security that has a market price less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exemptions. If our common stock becomes a "penny stock", we may become subject to Rule 15g-9 under the Exchange Act, or the "Penny Stock Rule". This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and "accredited investors" (generally, individuals with a net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that our common stock will qualify for exemption from the Penny Stock Rule. In any event, even if our common stock were exempt from the Penny Stock Rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

There is no private land ownership in China. Individuals and companies are permitted to acquire land use rights for specific purposes. We lease our 44,041 square meter facility located at Jia 1, SanTaiShan, XiaoHongMen County, ChaoYang District, Beijing, China, from Beijing SanTaiShan Chemical Trading & Logistics Co., who was granted land use rights from the PRC government. The lease provides for a five year term beginning on October 1, 2008, with the option to extend following expiration. Annual rent on the property is approximately $197,000. Further, the Company agreed to lease office space from the Company's shareholder, Mr. He Weili, from July 2010 until the lease was terminated on December 31, 2011, with annual payment of approximately $176,000. The rent is valued at fair value from the main property management. On August 31, 2011, The Company entered a lease agreement to lease office space from a third party, starting from November 1, 2011 to October 31, 2013, with annual payment of approximately $363,000. In addition, On October 14, 2011, The Company entered a lease agreement to lease office space from a third party, from October 19, 2011 to January 18, 2014, with annual payments of approximately $73,000; the lease was terminated on April 30, 2012. On April 30, 2012, The Company entered a lease agreement to lease office space from a third party, from May 1, 2012 to March 28, 2021, with annual payments of approximately

$415,000, the lease agreement is separated into three lease terms, each term has three-year expiration period and will be automatically renewed to next three-year term and so on if the office building would not be acquired or demolished by the city government.

We entered into three different five-year operating lease agreements during the fourth quarter of 2009. We also entered into one four-year operating lease agreement during the second quarter of 2010. The lease payments for the four manufacture plants are with different unrelated parties for a total monthly payment of $213,000. Certain lease payments have been pre-paid by transferring the Company s long-term accounts receivable to the lessors in exchange for agreeing to no increase in the future. One of the lease agreements was terminated early on November 30, 2010.

We have an extensive fleet of 115 transit mounted concrete mixers, 17 pump trucks, and we have access to additional 55 concrete mixer and 3 pump truck vehicles for lease in Beijing and 31 transit mounted concrete mixers and 5 pump trucks at our portable stations depending on specific project requirements. We also anticipate delivery of 40 additional transit mounted concrete mixers and 5 additional pump trucks to our fleet in Beijing by June 30, 2012. More than half of the vehicles are equipped with GPS and tracking devices from the plants central dispatch center in order to optimize capacity utilization, production and delivery schedules.

Item 3. Legal Proceedings

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

Since July 29, 2011, multiple class action complaints (the Stockholder Actions) were filed against the Company and its Board of Directors in the Court of Chancery of the State of Delaware, generally alleging that the Company and all of our directors breached their fiduciary duties in connection with the receipt by the Company of a preliminary, non-binding offer from Xianfu Han, the Company s Chairman and Chief Executive Officer, and Weili He, the Company s Vice Chairman and Chief Operating Officer (together with Xianfu Han and their affiliates, the Buyer Group), to acquire all of the outstanding shares of our common stock not currently owned by them in a going private transaction at a proposed price of $2.65 per share in cash (the Proposed Transaction). The Stockholder Actions were consolidated under the caption *In re China Advanced Construction Materials Group Litigation*, Consolidated C.A. No. 6729-CS.

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

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the NASDAQ Global Market under the symbol CADC . The following table sets forth the quarterly high and low sales prices of a share of our common stock as reported by the NASDAQ Global Market for the periods indicated. The quotations listed below reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

30

Year	Quarter Ending	High	Low
2012	September 30 (through September 25)	$ 1.62	$ 0.37
	June 30	$ 2.43	$ 1.53
	March 31	$ 2.53	$ 2.34
2011	December 31	$ 2.42	$ 1.50
	September	$ 2.57	$ 1.55
	June 30	$ 3.79	$ 1.45
	March 31	$ 5.39	$ 3.25
2010	December 31	$ 5.15	$ 3.43
	September 30	$ 4.15	$ 2.95
	June 30	$ 5.62	$ 3.25
	March 31	$ 7.48	$ 4.45

As of September 25, 2012, there were 70 stockholders of record of our common stock.

Dividends

We have never paid dividends on our common stock. While any future dividends will be determined by our directors after consideration of the earnings, financial condition, and other relevant factors, it is currently expected that available cash resources will be utilized in connection with our ongoing operations.

Section 15(g) of the Securities Exchange Act of 1934 The Penny Stock Rules

Our shares are covered by Section 15(g) of the Securities Exchange Act of 1934 as amended, that imposes additional sales practice requirements on broker/dealers who sell such securities to persons other than established customers and accredited investors (generally institutions with assets in excess of $5,000,000, or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000, or $300,000 jointly with their spouses). For transactions covered by this Section 15(g), the broker/dealer must make a special suitability determination for the purchase and have received the purchaser s written agreement to the transaction prior to the sale. Consequently, Section 15(g) may affect the ability of broker/dealers to sell our securities and also may affect your ability to sell your shares in the secondary market.

Item 6. Selected Financial Data

Not Applicable.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

During the year ended June 30, 2012, we supplied materials and provided services to our high speed railway projects through our network of ready-mixed concrete plants throughout Beijing (four as of June 30, 2012) and our portable plants (fifteen as of June 30, 2012) located in various provinces throughout China. We own one concrete plant and its related equipment, and we lease three additional plants in Beijing. In addition, we have technical and preferred procurement agreements with three independently owned concrete mixture stations, pursuant to which we are paid by percentages of cost savings for technical support provided to clients and of sales price for projects we refer to other stations due to the geographical location of our owned and leased plants. Two of the technically serviced plants are located in Datong, Shaanxi and one in Mianyang, Sichuan.

Our manufacturing services are used primarily for our national high speed railway projects. Typically, the general contractors on the high speed railway projects supply the raw materials required for the project, which results in higher gross margins for us and reduces our upfront capital investments needed to purchase raw materials. We also produce ready-mix concrete at portable plants, which can be dismantled and moved to new sites for new projects. Our management believes that we have the ability to capture a greater share of the Beijing market and further expand our footprint in China via expanding relationships and networking, signing new contracts, and continually developing market-leading innovative and eco-friendly ready-mix concrete products.

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 year ended June 30, 2012, five customers accounted for approximately 11% of the Company's sales and 7% of the Company's account receivables as of June 30, 2012. Should we lose these customers in the future and are unable to obtain additional customers, our revenues will suffer.

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

• *Innovation Efforts*. We strive to produce the most technically and scientifically advanced products for our customers and maintain close relationships with Tsinghua University, Xi'an University of Architecture and Technology and Beijing Dongfang Jianyu Institute of Concrete Science & Technology which assist us with our research and development activities. During our 5 year agreement with the Institute, we have realized an advantage over many of our competitors by gaining access to a wide array of resources and knowledge. One payment of approximately $2.3 million to Dongfang Jianyu Institute of Concrete Science and Technology was paid under the agreement.

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

PRC Taxation

China-ACMH and VIEs are governed by the income tax laws of the PRC and the income tax provision in respect to operations in the PRC is calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. After January 1, 2008, under the new Chinese Enterprise Income Tax ("EIT") law, the statutory corporate income tax rate applicable to most companies is 25%. As granted by the State Administration of Taxation of the PRC, Xin Ao was entitled to an income tax reduction from 25% to 15% from January 1, 2009 to June 12, 2012. The Company is currently applying for the extension of 15% income tax rate for the periods after June 12, 2012.

In accordance with the EIT Law and related regulations, enterprises established under the laws of foreign countries or regions and whose place of effective management is located within the PRC territory are considered PRC resident enterprises and subject to the PRC income tax at the rate of 25% on worldwide income. The regulations define

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

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

Warrants Liability

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

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

Business Segments and Periods Presented

We have provided a discussion of our results of operations on a consolidated basis and have also provided certain detailed segment information for each of our business segments below for the years ended June 30, 2012 and 2011, in order to provide a meaningful discussion of our business segments. We have organized our operations into four principal segments: selling concrete, manufacturing concrete, providing technical support services and others, which include mixer rental, sales of materials and marketing cooperation. We present our segment information along the same lines that our chief executives review our operating results in assessing performance and allocating resources.

For the year ended June 30, 2012:

	Sales of concrete	Manufacturing services	Technical services	Other	Corporate (1)	Total
Net revenue	$ 134,772,498	$ 10,369,387	$ -	$ 889	$ -	$ 145,142,774
Depreciation	(3,725,913)	(286,671)	-	(25)	(374,125)	(4,386,734)
Segment profit (loss) (2)	25,864,750	(2,664,061)	-	877	(36,496,284)	(13,294,718)
Other income (expenses)	8,086,350	632,551	-	-	(611,297)	8,107,604
Interest income	-	-	-	-	448,279	448,279
Interest expenses	-	-	-	-	(1,620,562)	(1,620,562)
Capital expenditure	(369,802)	(28,453)	-	(2)	-	(398,257)
Total assets as of June 30, 2012	$ 155,859,109	$ 8,350,707	$ -	$ 1,006	$ -	$ 164,210,822

For the year ended June 30, 2011:

	Sales of concrete	Manufacturing services	Technical services	Other	Corporate (1)	Total
Net revenue	$ 109,276,550	$ 25,619,062	$ 3,001,866	$ 11,292	$ -	$ 137,908,770
Depreciation	(1,203,339)	(2,499,074)	(5,485)	(9,934)	(180,446)	(3,898,278)
Segment profit (loss) (2)	14,773,183	7,393,954	2,558,120	11,218	(15,695,723)	9,040,752
Other income (expenses)	6,556,593	1,527,170	-	-	1,577,185	9,660,948
Interest income	-	-	-	-	591,376	591,376
Interest expenses	-	-	-	-	(703,837)	(703,837)
Capital expenditure	(1,697,838)	(398,045)	(46,640)	(176)	-	(2,142,699)
Total assets as of June 30, 2011	$ 114,759,372	$ 26,911,329	$ 3,153,809	$ 11,864	$ -	$ 144,836,374

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

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

Concrete Sales Business

Our concrete sales business segment is comprised of the formulation, production and delivery of the Company s line of C10-C100 concrete mixtures primarily through our current fixed plant network of 4 ready mix concrete batching plants in Beijing. For this segment of our business, we procure all of our own raw materials, mix them according to our measured mixing formula, ship the final product in mounted transit mixers to the destination work site, and, for more sophisticated structures, will pump the mixture and set it into structural frame moulds as per structural design parameters.

Manufacturing Services Business

Our manufacturing services business segment is comprised of the formulation, production and delivery of project-specific concrete mixtures primarily through our current portable plant network of 15 rapid assembly and deployment batching plants, located in various provinces throughout China. Our clients will purchase and provide the raw materials in volume on a separate account which we will then proportion and mix according to our formulation for a given project s specifications. At present, our manufacturing services business segment is primarily dedicated to various high speed rail projects in China which demand very high quality standards on a time sensitive work schedule.

Technical Services Business

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

Other Services

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

Consolidated Results of Operations

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

	Years ended June 30, 2012		Years ended June 30, 2011		Increase (Decrease)	Percentage Increase (Decrease)
Total revenue	$	145,142,774	$	137,908,770	$ 7,234,004	5%
Total cost of revenue		116,555,144		112,264,373	4,290,771	4%
Gross profit		28,587,630		25,644,397	2,943,233	11%
Provision for doubtful accounts		22,490,204		7,377,395	15,112,809	205%
Selling, general and administrative expenses		13,064,966		8,617,554	4,447,412	52%
Research and development expenses		2,946,226		608,696	2,337,530	384%
Impairment loss of long-lived assets		3,380,952		-	3,380,952	100%
Other income, net		6,935,321		9,548,487	(2,613,166)	(27)%
Income (Loss) before provision for income taxes		(6,359,397)		18,589,239	(24,948,636)	(134)%
Income taxes provision (benefit)		(129,312)		1,523,995	(1,653,307)	(108)%
Net income (loss) available to Common shareholders	$	(6,230,085)	$	17,065,244	$ (23,295,329)	(137)%

Comparison of the years Ended June 30, 2012 and 2011

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products, manufacturing services and technical consulting services. For the year ended June 30, 2012, we generated total revenue of approximately $145.1 million compared to approximately $137.9 million during the year ended June 30, 2011, an increase of approximately $7.2 million, or 5%. Such increase is due to our sales generated from the concrete division for the year ended June 30, 2012. In addition, on November 15, 2010, we announced a 25% average price increase across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8% . As a result, our concrete sales revenue was approximately $134.8 million for the year ended June 30, 2012, an increase of approximately $25.5 million, or 23%, compared to the year ended June 30, 2011. The increase in revenues attributable to concrete sales was principally due to greater capacity utilization at our Beijing fixed plants coupled with higher prices and organic growth to include a broader client base.

During the year ended June 30, 2012, we continued to supply concrete products to ten railway projects throughout China through our portable plants, specifically our projects located in Shaanxi Province, Jiangsu Province, Hebei Province, Guangxi Province, Zhejiang Province, Liaoning Province, and Anhui Province. These seven projects contributed approximately $10.4 million to our total revenue for the year ended June 30, 2012, a decrease of approximately $15.2 million, or 60%, compared to the year ended June 30, 2011. The decrease in revenues attributable to our manufacturing services was principally due to the suspension of operations of a number of our portable plants for the year ended June 30, 2012, in light of an increase in audit inspections at high speed rail construction sites around China resulting from the recent heightened public scrutiny of railway safety in China. For these railway projects, the general contractors generally supplied their own raw materials while we provided manufacturing and transportation services.

No revenue was generated through our technical consulting services during the year ended June 30, 2012, a decrease of approximately $3 million, compared to the year ended June 30, 2011. The decrease was due to the service term expiration of two technically serviced contract plants in Datong, Shaanxi and one technically serviced contract plant in Mianyang, Sichuan.

No significant revenue was generated from other sources for the years ended June 30, 2012 and 2011.

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 $116.6 million for the year ended June 30, 2012, as compared to approximately $112.3 million for the year ended June 30, 2011, an increase of approximately $4.3 million, or 4%. The increase of cost of revenue was due to the overall increase in production from our fixed concrete plants in the Beijing area and increased production on manufacturing services compared to the year ended June 30, 2011. The increase in cost of revenue was also due to the addition of new portable plants, as well as increases in labor and crude oil prices, which increased the costs of raw materials and transportation during this quarter compared to the prior fiscal year. We are uncertain whether crude oil prices or raw material prices will maintain at the current level in the near future. We intend to raise our concrete prices to keep pace with increases in raw material pricing in particular the price of cement.

The cost of revenue on concrete increased approximately $13.3 million, or 14%, for the year ended June 30, 2012, as compared to the year ended June 30, 2011. Such increase was due to an increase in our concrete production leading to a larger base of raw material purchases supporting a higher overall volume of traditional concrete sales for a resulting broader client base, as well as the increase labor costs and crude oil prices and raw materials as indicated above.

Cost of revenue with respect to our manufacturing services decreased approximately $8.5 million, or 47%, during the year ended June 30, 2012, as compared to the same period during the year ended June 30, 2011. The decrease in our cost of sales was due to decreased revenue from manufacturing services.

Gross Profit. Our gross profit is equal to the difference between our revenue and cost of sales. Total gross profit was approximately $28.6 million for the year ended June 30, 2012, as compared to approximately $25.6 million for the year ended June 30, 2011. Our gross profit for sale of concrete was approximately $27.7 million, or 21% of revenue, for the year ended June 30, 2012, compared to approximately $15.5 million, or 14% of revenue for the year ended June 30, 2011, an increase of approximately $12.2 million. The higher gross profit for concrete sales for the year ended June 30, 2012, compared with the year ended June 30, 2011, reflects higher demand and higher prices for our concrete products in Beijing as compared to the prior fiscal year. The primary reason for the margin increase in concrete sales from 14% in the year ended June 30, 2011, is due to a 25% average price increase in the second fiscal quarter of our 2011 fiscal year across our various concrete grade sales to keep in line with an average raw material cost increase of 19.8% in addition to improving overall operational efficiencies at our Beijing fixed plants. We intend to continue to adjust our concrete sales prices in tandem with price fluctuations in cement.

Our gross profit with respect to our manufacturing services was approximately $0.9 million, or 8%, for the year ended June 30, 2012, a decrease of $6.7 million from $7.6 million during the year ended June 30, 2011. Such decrease was principally due to the suspension of operations of our portable plants for year ended June 30, 2012. The primary reasons for the margin decrease compared to the same period last year were the slowing production rates at plants nearing project completion and extended project delays stemming from delayed municipal government resident relocation efforts, increase in costs of transportation, a larger employee base and suspended operations due to ongoing government quality and audit inspections at high speed rail construction sites around China.

No gross profit or loss was recognized through our technical consulting services during the year ended June 30, 2012, due to the service term expiration of technically serviced contract plants. Gross profit of technical consulting services was approximately $ 2.6 million for the year ended June 30, 2011.

Provision for Doubtful Accounts

. Provision for doubtful accounts was approximately $22.5 million for the year ended June 30, 2012, an increase of approximately $15.1 million, compared to approximately $7.4 million for year ended June 30, 2011. In accordance with our allowance for doubtful accounts policy, at the end of each quarter, we conduct aging analysis of each customer s arrears to determine whether allowance for doubtful accounts is adequate. In establishing allowance for doubtful accounts, we consider the historical experience, economy, the trend in the construction industry, the expected collectability of amount receivable that past due and the expected collectability of overdue receivable. An estimate of doubtful accounts is recorded when collection of the full amount is no longer probable. Known bad debts are written off against allowance for doubtful accounts when identified. The accrual ratio is 5% for accounts receivable past due less than one year, 50% for accounts receivable past due from one to two years and 100% for accounts receivable past due beyond two years. We have experienced delays in payment on our projects from China s Ministry of Railways, or MOR. After the Minster of MOR was arrested for corruption charges, the MOR conducted payment chain audits; in addition, the MOR was under pressure to repay its debts incurred during the years of expansion. As a result, the MOR has delayed payments to construction companies, including us. Furthermore, due to concern over inflation, the Chinese government began to tighten its monetary policy from October of 2010, which affected the real estate and construction industries adversely. Some of our customers appeared to have the problems of declining business and shortage in cash. We expect longer collection period on accounts receivable and higher probability of uncollectable accounts receivable, and therefore changed the estimate of our allowance for doubtful accounts within one year from our historical default rate of 2% to 5% based on peers comparable rate in domestic construction industry during the year ended June 30, 2012. As a result, our accounts receivable increased and the provision for doubtful accounts also increased.

The allowance for doubtful accounts increased to approximately $24.9 million at June 30, 2012, compared to approximately $5.6 million at June 30, 2011. The new estimate of peers comparable rate on allowance for doubtful accounts increased provision for doubtful accounts by approximately $3.1 million compared to the previous estimate of historical default rates. If the new accounting estimate on allowance for doubtful accounts was adopted at June 30, 2011, the provision for doubtful accounts would have been increased approximately $2.5 million for the year ended June 30, 2011.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, professional and legal fees paid to third parties. We incurred selling, general and administrative expenses of approximately $13.1 million for the year ended June 30, 2012, an increase of approximately $4.5 million, or 52%, as compared to approximately $8.6 million for the year ended June 30, 2011. The increase was principally due to a $2 million increase in consulting service, a $1.1 million increase in salary and employment benefit expense, a $1.1 million increase in conference expense and meal & entertainment expense, a $0.5 million increase in audit & professional expenses, a $0.2 increase in depreciation expense, a $0.2 million increase in auto expenses and $0.3 million increase in other business expenses resulting from higher production, offset by a $0.7 million decrease in share-based compensation expense and a $0.2 million decrease in rent expense.

Research and development expenses. Research and development expenses for the year ended June 30, 2012 was $2.9 million, an increase of approximately $2.3 million, or 384%, as compared to approximately $0.6 million for the year ended June 30, 2011, due to the additional costs incurred, primarily due to increased personnel costs, engineering supplies and material purchases.

Impairment loss of long-lived assets. For the year ended June 30, 2012, we incurred $3.4 million impairment loss of long-lived assets due to the carrying values of our portable plants were impaired. During the year ended June 30, 2012, the operations of a number of our portable plants were suspended in light of an increase in audit inspections at high speed rail construction sites around China resulting from the recent heightened public scrutiny of railway safety in China. The sum of the discounted future cash flows expected to result from the portable plants and their disposition is less than the carrying value. Therefore we determined the fair value of those portable plants was $3.4 million less than the carrying value at June 30, 2012.

Income (loss) from Operations. We recognized loss from operations of approximately $13.3 million for the year ended June 30, 2012, as compared to income from operations of approximately $9 million for the year ended June 30, 2011, a decrease of approximately $22.3 million. Such decrease in income from operations was primarily due to an increase of $15.1 million in provision of doubtful accounts, an increase of $6.8 million in selling, general and administrative expenses, a $3.4 million impairment charge related to our portable plants, and a decrease in income from operation of our manufacturing service and technical services business.

Income from operations of our concrete sales business for the year ended June 30, 2012, was approximately $25.9 million, an increase of 75% from income from operations of this segment of $14.8 million for the year ended June 30, 2011. The $11.1 million increase was primarily due to the higher demand in policy housing, higher prices for our concrete products in Beijing as compared to the prior fiscal year, and a 25% average price increase in the second fiscal quarter of our 2011 fiscal year.

Loss from operations of our manufacturing services business for the year ended June 30, 2012, was approximately $2.7 million, compared to income from operations of this segment of approximately $ 7.4 million for the year ended June 30, 2011. The $10.1 million decrease was primarily due to $6.7 million decrease in gross profit and a $3.4 million impairment charge related to our portable plants during the year ended June 30, 2012.

No profit or loss was generated through our technical consulting services during the year ended June 30, 2012, since the service term expiration of two technically serviced contract plants in Datong, Shaanxi and one technically serviced contract plant in Mianyang, Sichuan. Income from operations of this segment was approximately $ 2.6 million for the year ended June 30, 2011.

Corporate recorded depreciation of approximately $0.4 million in the year ended June 30, 2012, an increase of 0.2 million from the depreciation of approximately $0.2 million recorded in the year ended June 30, 2011, primarily due to an increase of fixed assets used in our general corporate operations. Corporate recorded segment loss of approximately $36.5 million in the year ended June 30, 2012, compared to recorded segment loss of approximately

$15.7 million in the year ended June 30, 2011. The $20.8 million increase in segment loss was primarily due to a $15.1 million increase in provision for doubtful accounts and $5.7 million increase in general and administrative expenses during the year ended June 30, 2012.

Other Income (Expense), net. Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), change in fair value of warrants, and other non-operating income (expense). We recorded net other income of approximately $6.9 million for year ended June 30, 2012, as compared to net other income of approximately $9.5 million for the year ended June 30, 2011, a decrease in other income of approximately $2.6 million, or 27%. The decrease in net other income was primarily due to a $0.6 million increase in loss realized from disposal of fixed assets, and a decrease in change in fair value of warrants liability to a positive adjustment of $0.4 million during the year ended June 30, 2012, as compared to a positive adjustment of $1.9 million during the year ended June 30, 2011. We also recognized other subsidy income of approximately $8.7 million for the year ended June 30, 2012, as compared to $8.1 million for the year ended June 30, 2011, an increase of $0.6 million, or 8%. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us VAT tax exemption from August 2005 to August 2009, and thereafter a two year extension on the VAT tax exemption from June 2009 to June 2011. The Company has applied for VAT tax exemption extension and recently received an extension through June 2013. The VAT tax collected during the aforementioned period from our customers is retained by the Company and recorded as other subsidy income. In addition, we had interest expense of $1.6 million for the year ended June 30, 2012, as compared to $0.7 million for the year ended June 30, 2011, an increase of $0.9 million related to short-term loans. The Company also had interest income of $0.4 million for the year ended June 30, 2012, as compared to $0.6 million in the year ended June 30, 2011, a decrease of $0.2 million related to short term investments decreased.

Provision (benefit) for Income Taxes. Benefit for income taxes amounted to approximately $0.1 million for the year ended June 30, 2012 as compared to $1.5 million provision for income taxes for the years ended June 30, 2011. We have used recycled raw materials in our concrete production since our inception, which entitled us to an income tax rate reduction through June 12, 2012, as granted by the State Administration of Taxation, PRC. Since January 1, 2009, we have been subject to a 15% income tax rate. In the past, XinAo has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at present the Company is unable to determine the extent of such liability, if any. The Company is currently applying for the extension of 15% income tax rate for the periods after June 12, 2012.

Net Income (loss) available to Common shareholders. We recognized net loss of approximately $6.2 million for the year ended June 30, 2012, as compared to net income of approximately $17.1 million for the year ended June 30, 2011, a decrease of $23.3 million. Such decrease in net income was primarily due to an increase in provision of doubtful accounts, impairment charge of long-lived assets, research and development expenses, consulting service associated with the going private transaction and selling, general, and administrative expense from an increase in our labor base and scale of operations, offset by higher prices, growth of our client base, and increase in our plant production capacity across our Beijing concrete plant network.

Liquidity and Capital Resources

As of June 30, 2012, we had cash and cash equivalents of approximately $2.4 million and restricted cash of approximately $6.5 million. As of June 30, 2012, subsidiaries outside the U.S. held, in the aggregate, cash and cash equivalents of approximately $2.3 million, restricted cash of approximately $6.5 million, which represented 98.9% of our cash. Our BVI subsidiary holds a negligible amount of cash. We would be required to accrue and pay U.S. taxes if we were to repatriate these funds. Any company which is registered in mainland China must apply to the State Foreign Exchange Administration for approval in order to remit foreign currency to any foreign country. We currently do not intend to repatriate to the U.S. the cash and short-term investments held by your 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 June 30, 2012, we had working capital of approximately $52 million. We believe that our cash and cash equivalents along with our working capital will be sufficient to fund our operations for the year ending June 30, 2013.

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

	For the years ended June 30,			
		2012		**2011**
Net cash used in operating activities	$	(9,840,320)	$	(2,700,701)
Net cash provided by (used in) investing activities		12,996,966		(13,270,477)
Net cash (used in) provided by financing activities		(2,363,183)		14,117,366
Effect of foreign currency translation on cash and cash equivalents		5,752		163,691
Net increase (decrease) in cash and cash equivalents	$	799,215	$	(1,690,121)

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

Operating Activities. Net cash used in operating activities totaled approximately $9.8 million for the year ended June 30, 2012, as compared to net cash used in operating activities of approximately $2.7 million for the year ended June 30, 2011. The increase in net cash used in operating activities was primarily due to a $8.7 million decrease in accounts payable for payment to trade vendor from $23.5 million for the year ended June 30, 2011 to $14.8 million for the year ended June 30, 2012, which were offset by a $7.3 million increase in accounts receivable from collection from customers from $52.8 million for the year ended June 30, 2011, to $45.5 million and a $1.7 million increase in collection of other accounts receivable.

One factor that impacted our net cash used in operating activities was slower collection of accounts receivable and other receivables on account of the tightening of monetary policy from October of 2010 by the Chinese government due to its concern over inflation, which affected the real estate and construction industries adversely. Since some of our customers appeared to have the problems of declining business and shortage in cash, our days sales outstanding lengthened to 245 days in the year ended June 30, 2012, compared to 160 days in the year ended June 30, 2011, and accordingly, our accounts receivable turnover ratio was 1.49 in the year ended June 30, 2012, compared to 2.28 in the year ended June 30, 2011.

Other factors that affected our net cash used in operating activities included: (i) a $1.3 million increase in inventory during the year ended June 30, 2012 due to a lower inventory turnover and (ii) a $4.4 million increase in prepayment, from $2.1 million in the year ended June 30, 2011 to $6.4 million in the year ended June 30, 2012, because the Company prepaid suppliers of crucial raw materials in order to guarantee the supply of these materials, and a $0.3 million increase in long-term prepayment (from $1.9 million in the year ended June 30, 2011, to $1.6 million in the year ended June 30, 2012). In addition, customer deposits increased $0.7 million; accrued liabilities decreased $0.4 million, other payable increased $3.8 million, and taxes payable increased $1.2 million mainly due to deferred tax assets related to allowance of doubtful accounts and impairment loss.

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

Investing Activities. Net cash provided by investing activities was approximately $13 million for the year ended June 30, 2012, as compared to approximately $13 million net cash used in investing activities for the year ended June 30, 2011. The increase in cash provided by investing activities was mainly due to the fact that we received proceeds of approximately $12.4 million from the redemption of an investment in a financial investment guaranty company which was invested by the Company during the fiscal year ended June 30, 2011.

Financing Activities. Net cash used in financing activities totaled approximately $2.4 million for the year ended June 30, 2012, as compared to net cash provided by financing activities of approximately $14.1 million during the year ended June 30, 2011. The $2.4 million net cash used in financing activities for the year ended June 30, 2012, was due to a loan repayment of $28.1 million and a $5.5 million increase in restricted cash which was offset by $31.2 million of proceeds from a short-term loan. The $14.1 million net cash provided by financing activities for the year ended June 30, 2011, was due to the proceeds from a short-term loan of $15 million and which was offset by a $0.8 million increase in restricted cash and $0.1 million in loan repayments and rent payment to shareholders.

Cash. As of June 30, 2012, we had cash of approximately $2.4 million as compared to approximately $1.6 million as of June 30, 2011. We believe that our cash and revenues from ongoing operations, in addition to closely managing our accounts payable and accounts receivable, is sufficient to meet our liquidity and capital requirements for all of our ongoing operations. However, we may need to raise additional capital in order to undertake our plans for expansion.

Loan Facilities

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

	June 30, 2012	June 30, 2011
Loan from Huaxia Bank, interest rate of 6.94% per annum, repaid in full on February 9, 2012.	$ -	$ 2,320,500
Loan from Shanghai Pudong Development Bank, interest rate of 8.53% per annum, $2,376,000 due October 27,2012 and $2,376,000 due November 29, 2012, guaranteed by Beijing Xinhang Construction Group.	4,752,000	9,282,000
Loan from Construction bank, interest rate of 6.89% per annum, due October 20, 2012, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Han XianFu and Mr. He Weili.	5,544,000	-
Loan from Citibank, interest rate of 8.81% per annum, $1,188,000 due September 25, 2012 and interest rate of 8.12%, $1,188,000 due December 11, 2012, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili.	2,376,000	2,320,500
Loan from Merchant Bank, interest rate of 7.54% per annum, due October 24, 2012, guaranteed by Mr. Han Xian Fu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Group.	1,584,000	1,547,000
Loan from ANZ bank, interest rate of 7.61% per annum, $1,584,000 due September 12, 2012, $1,584,000 due September 20, 2012, guaranteed by Beijing Xinhang Construction Group.	3,168,000	-
Loan from HSBC, interest rate of 7.61% per annum, due October 6, 2012, guaranteed by Mr. Han XianFu and Mr. He Weili.	1,584,000	-
	$ 19,008,000	$ 15,470,000

The Company paid off the loan from ANZ bank in full when due.

Total interest expense on short-term loans for the years ended June 30, 2012 and 2011 amounted to $1,307,354 and $703,837, respectively.

Obligations Under Material Contracts

Below is a table setting forth our contractual obligations as of June 30, 2012:

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Loan obligations	$ 19,008,000	$ 19,008,000	$ -	$ -	$ -
Operating lease obligations	4,732,939	1,010,717	1,327,168	834,271	1,560,783
Total	$ 23,740,939	$ 20,018,717	$ 1,327,168	$ 834,271	$ 1,560,783

Seasonality

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

Critical Accounting Policies and Estimates

The accompanying consolidated financial statements include the financial statements of China ACM and its wholly owned subsidiaries, BVI-ACM, China-ACMH, and its variable interest entity Xin Ao. All significant inter-company transactions and balances have been eliminated in consolidation. China ACM, its subsidiaries and Xin Ao, together are referred to as the Company. 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 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.

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

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

- Persuasive evidence of an arrangement exists (the Company considers its sales contracts and technical service agreements to be pervasive evidence of an arrangement);
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability of payment is reasonably assured.

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

The Company does not sell products to customers on a consignment basis. There is no right of return after the product has been delivered into the location specified by the contract and accepted by the customer. The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer or services are provided by the Company.

Sales revenue represents the invoiced value of goods, net of a value added tax (“VAT”). All of the Company’s concrete products that are sold in the PRC are subject to a Chinese VAT at the rate of 6% of the gross sales price.

Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT tax exemption from August 2005 to August 2009 and a two year extension on the VAT tax exemption from June 2009 to June 2011. The Company has applied for VAT tax exemption extension and expects to receive an additional 2-year extension. The VAT tax collected during the aforementioned period from the Company’s customers is retained by the Company and recorded as other subsidy income.

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

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

Impairment review for long-lived assets. We classify our long-lived assets into: (i) plant and machinery; (ii) transportation equipment, (iii) office and equipment; and (iv) buildings and improvements. The classification is based on the Company s accounting policy which is set by management. For example, Machinery and equipment is broken down into categories such as plant and machinery, transportation equipment, and office and equipment.

We conduct our review of the long-lived assets held and used by us in accordance with ASC 36-10-35. Whenever events or changes in circumstances (such as technological or other industry changes) indicate that the carrying value of the assets groups may not be recoverable, we will perform a two-step approach to estimate the fair value of our assets groups by first preparing the undiscounted cash flow analyses to obtain such value. If the undiscounted cash value is greater than the carrying value of the assets groups, no impairment is recognized. If the undiscounted cash flows value is less than our carrying costs of our assets groups, then we will perform step 2 by obtaining the fair value by using the discounted cash flows. Impairment is recognized to the extent that the carrying value of the assets groups exceeds its fair value which was determined through the discounted cash flows method.

We must 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 estimate the fair value of our asset groups. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for the underlying assets at such time. Any such resulting impairment charges could be material to our results of operations.

We recognized impairment charges of $3,380,952 and $0 for the year ended June 30, 2012 and 2011, respectively. These charges were related to the impairment of the portable plants used in the manufacturing segment. The loss was determined using Level 3 inputs.

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

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

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

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

United States federal, state and local income tax returns prior to 2009 are not subject to examination by tax authority.

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 VAT. The standard VAT rate is 6% of gross sales for the Company's industry. A credit is available whereby VAT paid on the purchases of raw materials used in the production of the Company's finished products can be used to offset the VAT due on sales of finished products. Since the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT Tax Exemption through June 2013.

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

The three levels of inputs are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The fair value of the warrants liability was determined using the Cox-Ross-Rubinstein (CRR) Binomial Model, as Level 2 inputs, and recorded the unrealized gains and loss in earnings at each reporting period.

Stock-based compensation. The Company records stock-based compensation expense at fair value on the grant date and recognize the expense over the employee s requisite service period. The Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is based on the Company's current & expected dividend policy.

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 1 of Notes to Consolidated Financial Statements for a discussion of recent accounting standards and pronouncements.

43

Interest Rate Risk

At times when we have short-term loans outstanding, we are exposed to interest rate risk due primarily to our short-term bank loans. Although the interest rates for our short-term loans are typically fixed for the terms of the loans, the terms are typically twelve months and interest rates are subject to change upon renewal. The new interest rates are approximately 6.0% for Renminbi bank loans with a term of 12 months or less. The change in interest rates has minimum impact on our bank loans. Our total borrowings were approximately $19 million as of June 30, 2012.

Credit Risk

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

Foreign Exchange Risk

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

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

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

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

Inflation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 8. Financial Statements and Supplementary Data

The full text of our audited consolidated financial statements as of June 30, 2012 and 2011 begins on page F-1 of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2012. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2012, our disclosure controls and procedures were not effective to satisfy the objectives for which they are intended due to the material weakness in our internal control over financial reporting discussed below.

(b) Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Exchange Act defines internal control over financial reporting as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and;
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2012. In making this assessment, management used the framework set forth in the report entitled Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring. Our management has implemented and tested our internal control over financial reporting based on these criteria and did not identify any significant deficiencies and material weaknesses as of June 30, 2012. However, based on the fact that we do not have any full-time accounting personnel who have U.S. GAAP experience, our management has considered this as a material weakness and determined that as of June 30, 2012, the internal control over financial reporting was not effective.

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

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

Despite the material weakness reported above, our management believes that our consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

(c) Changes in internal control over financial reporting

During year ended June 30, 2012, there were no changes in our internal control over financial reporting identified in connection with the evaluation performed during the fiscal year covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

On September 24, 2012, Mr. Yanwei He resigned as our Interim Chief Financial Officer for personal reasons; however, he will remain the Finance Controller with the Company. Also on September 24, 2012, the Company appointed Mr. Weile He, the Company s Chief Operating Officer, as Interim Chief Financial Officer, effective immediately upon the effectiveness of Mr. Yanwei He s resignation.

Mr. Weile He became our Vice-Chairman and Chief Operating Officer on April 29, 2008, and became our Interim Chief Financial Officer on September 21, 2012. From August 2007 to present, Mr. He has worked as vice chairman of the board of directors of Xin Ao. His primary responsibility is large client development. From January 2003 to August 2007, Mr. He worked as chairman of the board of directors of Beijing Xinhang Construction Materials Co., Ltd. His primary responsibilities included strategic planning. Since 2007, Mr. He has served as a vice chairman of the Beijing Concrete Associations. His primary functions include market research. Mr. He has extensive construction and concrete engineering experience in China and Japan on numerous high profile projects. His primary expertise is plant management and operations. Mr. He received a bachelor s degree in law from Party School of the Central Committee of C.P.C. Mr. He has not held any other public company directorships during the past five years.

At present, Mr. Weile He has not entered into an amendment to his current employment agreement with the Company or come to any arrangement regarding his service as Interim Chief Financial Officer.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following individuals serve as the directors and executive officers of our company as of the date of this annual report. All directors of our company hold office until the next annual meeting of our shareholders or until their successors have been elected and qualified. The executive officers of our company are appointed by our board of directors and hold office until their death, resignation or removal from office.

Name	Age	Position with the Company
Xianfu Han	52	Chairman, Chief Executive Officer and Director
Weili He	54	Chief Operating Officer, Interim Chief Financial Officer, Vice Chairman and Director
Tao Jin	44	Director
Xinyong Gao	39	Director
Ken Ren	36	Director

Name	Position with the Company and Principal Occupations
Xianfu Han	Mr. Han became our Chairman and Chief Executive Officer on April 29, 2008. From January 2003 to the present, Mr. Han has served as chairman of the board of directors of the Company s subsidiary Beijing Xin Ao Concrete Group, or Xin Ao. His main responsibilities include daily board leadership and strategy initiatives. Since November 2002, Mr. Han has been chairman at Beijing Tsinghua University Management School s Weilun Club. His responsibilities involve daily management work. From January 2001 to March 2007, Mr. Han acted as executive vice chairman of the Beijing Concrete Association. His primary functions involved public relations and communication with various governmental agencies. Mr. Han is a senior engineer with over 25 years of management experience in the building material industry. He contributed to the draft of the "Local Standard of Mineral Admixtures" regulations and was responsible for the "Research and Application of Green High Performance Concrete" published by the Ministry of Construction. Mr. Han has not held any other public company directorships during the past five years. Mr. Han graduated in 1995 from the Tsinghua University executive MBA program. Mr. Han received his Bachelor degree in engineering management in 1992 from Northern China University of Technology.
Weili He	Mr. He became our Vice-Chairman and Chief Operating Officer on April 29, 2008, and became our Interim Chief Financial Officer on September 21, 2012. From August 2007 to present, Mr. He has worked as vice chairman of the board of directors of Xin Ao. His primary responsibility is large client development. From January 2003 to August 2007, Mr. He worked as chairman of the board of directors of Beijing Xinhang Construction Materials Co., Ltd. His primary responsibilities included strategic planning. Since 2007, Mr. He has served as a vice chairman of the Beijing Concrete Associations. His primary functions include market research. Mr. He has extensive construction and concrete engineering experience in China and Japan on numerous high profile projects. His primary expertise is plant management and operations. Mr. He received a bachelor s degree in law from Party School of the Central Committee of C.P.C. Mr. He has not held any other public company directorships during the past five years.
Tao Jin	

Mr. Jin became a member of our Board of Directors on May 4, 2011. Mr. Jin is Senior Partner with the Chinese law firm of Jincheng TongDa & Neal, based in Beijing, where he specializes in M&A, foreign investments in China and capital market transactions. Mr. Jin started his legal practice in 1996 at the New York office of Cleary, Gottlieb, Steen & Hamilton where he represented numerous investment banks and corporations in a variety of M&A and capital markets transactions. Mr. Jin joined Sullivan & Cromwell s Hong Kong office in 1999 where he continued to focus on M&A transactions. His clients included major multinational corporations, investment banks, PRC corporations and private equity funds. Mr. Jin joined JP Morgan s legal department in 2002 as head legal counsel for M&A and capital market transactions in China. Immediately prior to joining Jincheng TongDa, Mr. Jin was a partner with Jun He Law Offices from 2005 through 2010. Mr. Jin has not held any other public company directorships during the past five years. Mr. Jin received his B.S. from Beijing University and his J.D. from Columbia University, and is fluent in English and Mandarin. Mr. Jin is admitted to the New York bar.

Mr. Jin serves as Chairman of our Compensation Committee and as a member of our Audit Committee and Nominating and Governance Committee.

Xinyong Gao Mr. Gao is currently the Operations Director of Capital Holding (International) Limited, Beijing Capital Development Holding Group Co., Ltd., a real estate development company based in China, a position he has held since September 2011. From July 1994 to September 2011, Mr. Gao served in various capacities, most recently the Deputy General Manager, International Engineering Contracting Dept., with Beijing Urban Construction Group Co. Ltd., a China-based construction company which built 41 structures for the 2008 Beijing Olympics. Mr. Gao received his B.A. from Shandong Normal University and his M.B.A. from the Open University of Hong Kong.

Mr. Gao serves as Chairman of the Company s Nominating and Governance Committee and as a member of our Audit Committee and Compensation Committee.

Ken Ren Mr. Ren is currently the chief financial officer of China Green Agriculture Inc., a position he has held since 2010. Previously, Mr. Ren served as a capital market analyst for the Federal Home Loan Bank of Des Moines, where he analyzed, priced, and assisted in trading investments and issuing debt, conducted hedges and performed analytical work for the bank s $20 billion investment portfolio of mortgage whole loan and mortgage backed securities. Before this, Mr. Ren served as a senior investment associate at an asset management subsidiary of Wells Fargo, which provides money management services to institutional clients. Earlier, Mr. Ren worked at Residential Capital LLC, a subsidiary of Ally Financial, where he was responsible for risk analytics and reporting in managing its credit residual portfolio. Mr. Ren received Ph.D. in operations research in 2006, and M.S. in computational finance in 2004, both from Purdue University, West Lafayette.

Mr. Ren serves as Chairman of the Company s Audit Committee and as a member of our Compensation Committee and Nominating and Governance Committee.

CORPORATE GOVERNANCE

Our current corporate governance practices and policies are designed to promote stockholder value and we are committed to the highest standards of corporate ethics and diligent compliance with financial accounting and reporting rules. Our Board provides independent leadership in the exercise of its responsibilities. Our management oversees a system of internal controls and compliance with corporate policies and applicable laws and regulations, and our employees operate in a climate of responsibility, candor and integrity.

Corporate Governance Guidelines

We and our Board are committed to high standards of corporate governance as an important component in building and maintaining stockholder value. To this end, we regularly review our corporate governance policies and practices to ensure that they are consistent with the high standards of other companies. We also closely monitor guidance issued or proposed by the SEC and the provisions of the Sarbanes-Oxley Act, as well as the emerging best practices of other companies. The current corporate governance guidelines are available on the Company s website www.China-ACM.com. Printed copies of our corporate governance guidelines may be obtained, without charge, by contacting the Corporate Secretary, China Advanced Construction Materials Group, Inc., Yingu Plaza, 9 Beisihuanxi Road, Suite 1708, Haidian District, Beijing 100080 PRC.

The Board and Committees of the Board

The Company is governed by the Board that currently consists of five members as identified above. We established three committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. Each of these committees are comprised entirely of independent directors. From time to time, the Board may establish other committees. The Board has adopted a written charter for each of the committees which may be obtained, without charge, by contacting the Corporate Secretary, China Advanced Construction Materials Group, Inc., Yingu Plaza, 9 Beisihuanxi Road, Suite 1708, Haidian District, Beijing 100080 PRC or through our website at www.China-ACM.com.

Governance Structure

Currently, our Chief Executive Officer is also our Chairman. The Board of Directors believes that, at this time, having a combined Chief Executive Officer and Chairman is the appropriate leadership structure for the Company. In making this determination, the Board of Directors considered, among other matters, the size of the company as well as Mr. Han's experience and tenure of having been Chairman and Chief Executive Officer since 2008, and felt that his experience, knowledge, and personality allowed him to serve ably as both Chairman and Chief Executive Officer. Among the benefits of a combined Chief Executive Officer/Chairman considered by the Board of Directors is that such structure promotes clearer leadership and direction for our Company and allows for a single, focused chain of command to execute our strategic initiatives and business plans. We have not appointed a lead independent director to our Board of Directors.

The Board's Role in Risk Oversight

The Board oversees that the assets of the Company are properly safeguarded, that the appropriate financial and other controls are maintained, and that the Company's business is conducted wisely and in compliance with applicable laws and regulations and proper governance. Included in these responsibilities is the Board of Directors' oversight of the various risks facing the Company. In this regard, the Board seeks to understand and oversee critical business risks. The Board does not view risk in isolation. Risks are considered in virtually every business decision and as part of the Company's business strategy. The Board recognizes that it is neither possible nor prudent to eliminate all risk. Indeed, purposeful and appropriate risk-taking is essential for the Company to be competitive on a global basis and to achieve its objectives.

While the Board oversees risk management, Company management is charged with managing risk. The Company has robust internal processes and a strong internal control environment to identify and manage risks and to communicate with the Board. The Board and the Audit Committee monitor and evaluate the effectiveness of the internal controls and the risk management program at least annually. The Board implements its risk oversight function both as a whole and through Committees. Much of the work is delegated to various Committees, which meet regularly and report back to the full Board. All Committees play significant roles in carrying out the risk oversight function. In particular:

- The Audit Committee oversees risks related to the Company's financial statements, the financial reporting process, accounting and legal matters. The Audit Committee oversees the internal audit function and the Company's ethics programs, including the Codes of Business Conduct. The Audit Committee members meet separately with representatives of the independent auditing firm; and
- The Compensation Committee evaluates the risks and rewards associated with the Company's compensation philosophy and programs. The Compensation Committee reviews and approves compensation programs with features that mitigate risk without diminishing the incentive nature of the compensation. Management discusses with the Compensation Committee the procedures that have been put in place to identify and mitigate potential risks in compensation.

Independent Directors

Our Board has determined that the majority of the Board is comprised of "independent directors" within the meaning of applicable Nasdaq listing standards relating to Board composition and Section 301 of the Sarbanes-Oxley Act of 2002. Our independent directors are Mr. Jin, Mr. Ren and Mr. Gao.

Audit Committee

Our audit committee consists of Mr. Ren, Mr. Jin and Mr. Gao, each of whom is “independent” as that term is defined under the Nasdaq listing standards. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. Mr. Ren serves as our audit committee financial expert as that term is defined by the applicable SEC rules. The audit committee is responsible for, among other things:

- selecting our independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by our independent auditors;
- reviewing with our independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act of 1933, as amended;
- discussing the annual audited financial statements and quarterly reviewed financial statements with management and our independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant internal control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and our internal and independent auditors; and
- reporting to the full board of directors; and
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time.

Compensation Committee

Our compensation committee consists of Mr. Ren, Mr. Jin and Mr. Gao, each of whom is “independent” as that term is defined under the Nasdaq listing standards. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- approving and overseeing the compensation package for our executive officers;
- reviewing and making recommendations to the board with respect to the compensation of our directors;
- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation level of our chief executive officer based on this evaluation; and
- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

The compensation committee has sole authority to retain and terminate outside counsel, compensation consultants retained to assist the compensation committee in determining the compensation of the Chief Executive Officer or senior executive officers, or other experts or consultants, as it deems appropriate, including sole authority to approve the firms fees and other retention terms. The compensation committee may also form and delegate authority to subcommittees and may delegate authority to one or more designated members of the compensation committee. The compensation committee may from time to time seek recommendations from the executive officers of the Company regarding matters under the purview of the compensation committee, though the authority to act on such recommendations rests solely with the compensation committee.

Governance and Nominating Committee

Our governance and nominating committee consists of Mr. Ren, Mr. Jin and Mr. Gao, each of whom is "independent" as that term is defined under the Nasdaq listing standards. The governance and nominating committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The governance and nominating committee is responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to the board the directors to serve as members of the board's committees; and
- monitoring compliance with our code of business conduct and ethics.

Code of Ethics

The Board has adopted a Code of Conduct and Ethics that applies to the Company's directors, officers and employees. A copy of this policy is available via our website at www.China-ACM.com. Printed copies of our Code of Ethics may be obtained, without charge, by contacting the Corporate Secretary, China Advanced Construction Materials Group, Inc., Yingu Plaza, 9 Beisihuanxi Road, Suite 1708, Haidian District, Beijing 100080 PRC. During the fiscal year ended June 30, 2011, there were no waivers of our Code of Ethics.

Director Qualifications

Directors are responsible for overseeing the Company's business consistent with their fiduciary duty to shareowners. This significant responsibility requires highly-skilled individuals with various qualities, attributes and professional experience. The Board believes that there are general requirements for service on the Company's Board of Directors that are applicable to all directors and that there are other skills and experience that should be represented on the Board as a whole but not necessarily by each director. The Board and the Governance and Nominating Committee of the Board consider the qualifications of directors and director candidates individually and in the broader context of the Board's overall composition and the Company's current and future needs.

Qualifications for All Directors. In its assessment of each potential candidate, including those recommended by shareowners, the Governance and Nominating Committee considers the nominee's judgment, integrity, experience, independence, understanding of the Company's business or other related industries and such other factors the Governance and Nominating Committee determines are pertinent in light of the current needs of the Board. The Governance and Nominating Committee also takes into account the ability of a director to devote the time and effort necessary to fulfill his or her responsibilities to the Company.

The Board and the Governance and Nominating Committee require that each director be a recognized person of high integrity with a proven record of success in his or her field. Each director must demonstrate innovative thinking, familiarity with and respect for corporate governance requirements and practices, an appreciation of multiple cultures and a commitment to sustainability and to dealing responsibly with social issues. In addition to the qualifications required of all directors, the Board assesses intangible qualities including the individual's ability to ask difficult questions and, simultaneously, to work collegially.

The Board does not have a specific diversity policy, but considers diversity of race, ethnicity, gender, age, cultural background and professional experiences in evaluating candidates for Board membership. Diversity is important because a variety of points of view contribute to a more effective decision-making process.

Qualifications, Attributes, Skills and Experience to be Represented on the Board as a Whole. The Board has identified particular qualifications, attributes, skills and experience that are important to be represented on the Board as a whole, in light of the Company's current needs and business priorities. The Company's services are performed in areas of future growth located outside of the United States. Accordingly, the Board believes that international experience or specific knowledge of key geographic growth areas and diversity of professional experiences should be represented on the Board. In addition, the Company's business is multifaceted and involves complex financial transactions. Therefore, the Board believes that the Board should include some directors with a high level of financial literacy and some directors who possess relevant business experience as a Chief Executive Officer. Our business involves complex technologies in a highly specialized industry. Therefore, the Board believes that extensive knowledge of the Company's business and industry should be represented on the Board. The Company's business also requires compliance with a variety of regulatory requirements and relationships with various governmental entities. Therefore, the Board believes that governmental, political or diplomatic expertise should be represented on the Board.

Summary of Qualifications of Current Directors

Set forth below is a summary of some of the specific qualifications, attributes, skills and experiences of our directors which we believe qualify them to serve on our Board. For more detailed information, please refer to the biographical information for each director set forth above.

Xianfu Han. Mr. Han has extensive senior management experience in the industry in which we operate, having served as our Chief Executive Officer and Chairman since September 2008 and as the Chairman of Xin Ao since 2003. Mr Han has over 25 years of management experience in the building material industry, and has worked extensively with various governmental agencies on behalf of our industry in Beijing.

Weili He. Mr. He has extensive experience in the concrete and construction industry, and has specific expertise in strategic planning and plant management and operation.

Tao Jin. Mr. Jin brings to the Board extensive legal and transactional capital markets experience and has worked extensively with both U.S. and PRC based companies, and has a high level of both legal and financial literacy and sophistication.

Xinyong Gao. Mr. Gao brings to the Board extensive experience in the construction industry, both within China and internationally, and years of service in various senior management positions.

Ken Ren. Mr. Ren brings to the Board extensive experience in finance and banking and has a high level of financial literacy and sophistication.

Family Relationships

There is no family relationship among any of our officers or directors.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers has been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or has been a party to any judicial or administrative proceeding during the past ten years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws, except for matters that were dismissed without sanction or settlement. Except as set forth in our discussion below in “Certain Relationships and Related Transactions,” none of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

Item 11. Executive Compensation

Summary Compensation Table— Fiscal Years Ended June 30, 2012 and 2011

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to the named persons for services rendered in all capacities during the noted periods. No other executive officers received total annual salary and bonus compensation in excess of $100,000 during the fiscal years ended June 30, 2012 and 2011.

Name and Principal Position	Year Ended June 30	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation Earnings ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Tota ($)
Xianfu Han Chairman and CEO	2012	140,000	-	- -	-	-	-	-	140.0
	2011	140,000	-	- -	-	-	-	-	140,0
Weili He, Vice Chairman and COO	2012	109,169	-	- -	-	-	-	-	109,1
	2011	109,169	-	- -	-	-	-	-	109,1
Jeremy Goodwin Former President & CFO	2012	112,000	-	- 2,088	-	-	-	-	114,0
	2011	180,000	-	- 123,912	-	-	-	-	303,9

Employment Agreements

In connection with the reverse acquisition of BVI-ACM on April 29, 2008, Mr. Han was elected as our Chairman and Chief Executive Officer effective immediately. On May 1, 2008, we entered into a three year Employment Agreement with Mr. Han pursuant to which he will receive an annual salary of $140,000 for service as our Chief Executive Officer.

Upon termination of Mr. Han s employment because of death, disability or for cause, the Company will pay or provide to Mr. Han or his estate, as the case may be (i) any unpaid base salary and any accrued vacation through the date of termination; (ii) any unpaid annual bonus accrued with respect to the fiscal year ending on or preceding the date of termination; (iii) reimbursement for any unreimbursed expenses properly incurred through the date of termination; and (iv) all other payments or benefits to which Mr. Han may be entitled under the terms of any applicable employee benefit plan, program or arrangement.

Upon the termination of Mr. Han s employment by the Company without cause, the Company will pay or provide to Mr. Han (i) all amounts due as if Mr. Han s employment were terminated because of death, disability or for cause, and (ii) subject to Mr. Han s execution (and non-revocation) of a general release of claims against the Company and its affiliates in a form reasonably requested by the Company, (a) continued payment of his base salary for two months after termination, payable in accordance with the regular payroll practices of the Company, but off the payroll; and (b) payment of his cost of continued medical coverage for two (2) months after termination (subject to his co-payment of the costs in the same proportion as such costs were shared immediately prior to the date of termination). Payments provided under this Section 6(d) shall be in lieu of any termination or severance payments or benefits for which Mr. Han may be eligible under any of the plans, policies or programs of the Company.

Outstanding Equity Awards at Fiscal Year End

None.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Total ($)
Jeremy Goodwin(1)	$ 112,000	$ 2,088	-	$ 114,088
Jing Liu(2)	$ 75,612	$ 37,254	-	$ 112,866
Tao Jin	$ 136,613	$ 28,719	-	$ 165,332
Yang Wang(3)	$ 75,612	$ 21,770	-	$ 97,382
Xinyong Gao	$ 4,486	$ 907	-	$ 5,393
Ken Ren	$ 4,486	$ 907	-	$ 5,393

(1) Mr. Goodwin resigned as a director of the Company on August 29, 2011.
(2) Miss Liu resigned as a director of the Company on June 9, 2012.
(3) Ms. Wang resigned as a director of the Company on June 9, 2012.

On October 3, 2008, we entered into a one year director agreement with Mr. Goodwin in connection with his service as a member of our board of directors. The agreement provides for a monthly fee of $3,500 and stock options to purchase an aggregate of 50,000 shares of our common stock at an exercise price of $2.90 per share. The options vest in equal quarterly installments over the first twelve months of the agreement.

On February 7, 2010, we entered into a director agreement with Jing Liu pursuant to which she will receive, annually, a fee of $25,000 in cash and 10,000 restricted shares of the Company s common stock, which shall vest in four equal quarterly installments.

On May 4, 2011, we entered into a director agreement with Tao Jin pursuant to which he will receive, annually, a fee of $25,000 in cash and 10,000 restricted shares of the Company s common stock, which shall vest in four equal quarterly installments.

On May 25, 2011, we entered into a director agreement with Yang Wang pursuant to which she will receive, annually, a fee of $25,000 in cash and 10,000 restricted shares of the Company s common stock, which shall vest in four equal quarterly installments.

On June 12, 2012, we entered into a director agreement with Xinyong Gao pursuant to which he will receive, annually, a fee of $25,000 in cash and 10,000 restricted shares of the Company s common stock, which shall vest in four equal quarterly installments.

On June 12, 2012, we entered into a director agreement with Ken Ren pursuant to which he will receive, annually, a fee of $25,000 in cash and 10,000 restricted shares of the Company s common stock, which shall vest in four equal quarterly installments.

Compensation Committee Interlocks and Insider Participation

All current members of the Compensation Committee are independent directors, and all past members were independent directors at all times during their service on such Committee. None of the past or present members of our Compensation Committee are present or past employees or officers of ours or any of our subsidiaries. No member of the Compensation Committee has had any relationship with us requiring disclosure under Item 404 of Regulation S-K under the Securities Exchange Act of 1934, as amended. None of our executive officers serves on the board of directors or compensation committee of a company that has an executive officer that serves on our Board or Compensation Committee.

Indemnification of Directors and Executive Officers and Limitation of Liability

The General Corporation Law of Delaware, Section 102(b)(7) provides that directors, officers, employees or agents of Delaware corporations are entitled, under certain circumstances, to be indemnified against expenses (including attorneys fees) and other liabilities actually and reasonably incurred by them in connection with any suit brought against them in their capacity as a director, officer, employee or agent, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, if they had no reasonable cause to believe their conduct was unlawful. This statute provides that directors, officers, employees and agents may also be indemnified against expenses (including attorneys fees) actually and reasonably incurred by them in connection with a derivative suit brought against them in their capacity as a director, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made without court approval if such person was adjudged liable to the corporation.

Changes in Control

There are currently no arrangements which may result in a change in control of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires directors, executive officers and stockholders who own more than ten percent of the outstanding Common Stock of the Company to file with the SEC and NASDAQ reports of ownership and changes in ownership of voting securities of the Company and to furnish copies of such reports to us.

Based solely on a review of the copies of such forms received by the Company, we believe that with respect to the year ended June 30, 2012, each of the Company s directors, officers and more than ten-percent stockholders timely filed all such required forms.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of September 25, 2012, certain information with respect to the beneficial ownership of our common shares by each shareholder known by us to be the beneficial owner of more than 5% of our common shares, as well as by each of our current directors and executive officers as a group. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 and does not necessarily bear on the economic incidents of ownership or the rights to transfer the shares described below. Unless otherwise indicated, (a) each stockholder has sole voting power and dispositive power with respect to the indicated shares and (b) the address of each stockholder who is a director or executive officer is c/o Yingu Plaza, #1708, 9 Beisihuanxi Road, Haidian District, Beijing 100080, China.

Name & Address of Beneficial Owner	Office, If Any Officers and Directors	Amount and Nature of Beneficial Ownership	Percent of Class (1) (2)
Xianfu Han (3)	Chairman and CEO	5,785,750	32.43%
Weile He (4)	Vice Chairman, COO and Interim CFO	3,023,833	16.95%
Sean Wang	Director	10,000	*
Ken Ren	Director	-	*
Tao Jin	Director	2,500	*
Xinyong Gao	Director	-	*
All officers and directors as a group (7 persons named above)		8,822,333	49.45%
5% Security Holders			
Xianfu Han (3)	Chairman and CEO	5,785,750	32.43%
Weile He (4)	Vice Chairman and COO	3,023,833	16.95%

*Less than 1%

(1) As of the close of business on September 25, 2012, there were 17,839,464 shares of our common stock outstanding.

(2) In determining beneficial ownership of the common stock, the number of shares shown includes shares which the beneficial owner may acquire within 60 days upon exercise or conversion of convertible securities, warrants or options. In accordance with Rule 13d-3 in determining the percentage of common stock owned by a person

on September 25, 2012 (a) the numerator is the number of shares of the class beneficially owned by such person, including shares which the beneficial owner may acquire within 60 days upon conversion or exercise of the warrants and other convertible securities, and (b) the denominator is the sum of (i) the total shares of that class outstanding on September 25, 2012, and (ii) the total number of shares that the beneficial owner may acquire upon conversion or exercise of other securities. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of the shares.

(3) On June 11, 2008, Mr. Han entered into a Securities Escrow Agreement by and among the investors to the private placement that closed on June 11, 2008, and American Stock Transfer & Trust Company, or AST, whereby 3,500,000 shares of the Company's common stock owned by Mr. Han were placed into escrow, with AST appointed as the escrow agent. The 3,500,000 shares were thereafter transferred into the name of AST and are to be held in escrow and released to Mr. Han if the Company does, or to the investors if the Company does not, meet certain performance milestones described in the Securities Escrow Agreement. Mr. Han maintains voting power over all 3,500,000 shares until such time as any such shares are transferred to the investors, at which time, such transferred shares will be beneficially owned by such investors.

(4) On June 11, 2008, Mr. He entered into a Securities Escrow Agreement by and among the investors to the private placement that closed on June 11, 2008, and American Stock Transfer & Trust Company, or AST, whereby 2,000,000 shares of the Company's common stock owned by Mr. He were placed into escrow, with AST appointed as the escrow agent. The 2,000,000 shares were thereafter transferred into the name of AST and are to be held in escrow and released to Mr. He if the Company does, or to the investors if the Company does not, meet certain performance milestones described in the Securities Escrow Agreement. Mr. He maintains voting power over all 2,000,000 shares until such time as any such shares are transferred to the investors, at which time, such transferred shares will be beneficially owned by such investors.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Transactions with Related Persons

Except as discussed below, since the beginning of the last fiscal year, there have not been any transaction, nor is there any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds $120,000, and in which any related person had or will have a direct or indirect material interest (other than compensation described under "Executive Compensation").

Mr. He Weili, the Company's Chief Operating Officer, leased office space to the Company at approximately the current fair market value from July 2009 until the lease was terminated on December 31, 2011, with annual payments of approximately $176,000. For years ended June 30, 2012 and 2011, the Company recorded rent expense to the shareholder in the amount of approximately $93,000 for fiscal 2012 and $176,000 for fiscal 2011. As of June 30, 2012 and 2011, approximately $53,000 and $40,000, respectively, remained unpaid.

Policies and Procedures for Review, Approval or Ratification of Transactions with Related Persons

We are in the process of finalizing a written related-person transactions policy that sets forth our policies and procedures regarding identification, review, consideration and approval or ratification of "related-persons transactions." For purposes of our policy only, a "related-person transaction" will be a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we and any "related person" are participants involving an amount that exceeds $50,000. Transactions involving compensation for services provided to us as an employee, director, consultant or similar capacity by a related person will not be covered by this policy. A related person will be any executive officer, director or a holder of more than five percent of our common stock, including any of their immediate family members and any entity owned or controlled by such persons.

Under the policy, we expect that where a transaction has been identified as a related-person transaction, management must present information regarding the proposed related-person transaction to our audit committee (or, where approval by our audit committee would be inappropriate, to another independent body of our board of directors) for consideration and approval or ratification. The presentation will be expected to include a description of, among other things, the material facts, and the direct and indirect interests the related persons, the benefits of the transaction to us and whether any alternative transactions are available. To identify related-person transactions in advance, we will rely on information supplied by our executive officers, directors and certain significant stockholders. In considering related-person transactions, our audit committee will take into account the relevant available facts and circumstances including, but not limited to:

- the risks, costs and benefits to us;
- the impact on a director's independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated;

- the terms of the transaction;
- the availability of other sources for comparable services or products; and
- the terms available to or from, as the case may be, unrelated third parties or to or from our employees generally.

In the event a director has an interest in the proposed transaction, the director must excuse himself or herself form the deliberations and approval. Our policy will require that, in determining whether to approve, ratify or reject a related-person transaction, our audit committee must consider, in light of known circumstances, whether the transaction is in, or is not inconsistent with, the best interests of our company and our stockholders, as our audit committee determines in the good faith exercise of its discretion. We did not previously have a formal policy concerning transactions with related persons.

Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years.

Except as set forth in our discussion above, none of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

Item 14. Principal Accounting Fees and Services

The aggregate fees billed for the most recently completed fiscal year ended June 30, 2012 and for fiscal year ended June 30, 2011 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

	Years Ended			
	June 30, 2012		June 30, 2011	
Audit Fees	$	209,750	$	182,000
Audit related fees		-		-
Tax fees		-		13,000
All Other Fees		-		-
Total	$	209,750	$	195,000

Our board of directors pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by the board of directors either before or after the respective services were rendered.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements

(1) Financial statements for our company are listed in the index under Item 8 of this document

(2) All financial statement schedules are omitted because they are not applicable, not material or the required information is shown in the financial statements or notes thereto.

(b) Exhibits

Exhibit Index	Description of Document	Filed Herewith	Incorporated by Reference To:
2.1	Agreement and Plan of Merger, dated as of October 24, 2011, by and among the Company, Novel Gain Holdings Limited, CACMG Acquisition, Inc., Mr. Xianfu Han and Mr. Weili He.		Exhibit 2.1 of the Company s Current Report on Form 8-K filed on October 24, 2011).
3.1	Articles of Incorporation of the Registrant as filed with the Secretary of State of Delaware on February 13, 2007, as amended to date.		Exhibits 3.1 and 3.1a to the Registrant s Registration Statement on Form SB-2 filed on March 26, 2007.
3.2	Amended and Restated Bylaws of the registrant.		Exhibit 3.2 to the Registrant s Registration Statement on Form SB-2 filed on March 26, 2007.
4.1	Certificate of Designation for Series A Convertible Preferred Stock		Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed on June 13, 2008.
4.2	Lock-Up Agreement amongst Registrant, Xianfu Han and Weili He dated June 11, 2008		Exhibit 4.2 to the Registrant s Current Report on Form 8-K filed on June 13, 2008.
10.1	Employment Agreement with Xiangsheng Xu		Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on May 5, 2008.
10.2	Employment Agreement with Weili He		Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on May 5, 2008.
10.3	Employment Agreement with Xianfu Han		Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed on May 5, 2008.
10.4	Employment Agreement with Alex Yao		Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on May 7, 2008.
10.5	Subscription Escrow Agreement between the Registrant, Maxim Group, LLC and American Stock Transfer & Trust Company as Escrow Agent dated June 11, 2008.		Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on June 13, 2008.
10.6	Make Good Escrow Agreement by and among the Registrant, the Investors, the Investor Representative, Xianfu Han and Weili He, and American Stock Transfer & Trust Company as Escrow Agent, dated June 11, 2008		Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on June 13, 2008.

58

10.7	Form of Common Stock Purchase Warrant		Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed on June 13, 2008.
10.8	Form of Placement Agent Stock Purchase Warrant		Exhibit 10.4 to the Registrant s Current Report on Form 8-K filed on June 13, 2008.
10.9	Escrow Agreement for IR and Dividends by and among the Registrant, the Investor Representative, Maxim Group, LLC and Anslow + Jaclin, LLP as Escrow Agent		Exhibit 10.5 to the Registrant s Current Report on Form 8-K filed on June 13, 2008.
10.10	2009 Equity Incentive Plan		Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on June 25, 2009.
10.11	Form of Subscription Agreement with Chinese Investors		Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on August 3, 2009.
10.12	Director Agreement, dated August 15, 2009, between the Company and Denis Slavich.		Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on August 17, 2009.
10.13	Director Agreement, dated August 15, 2009, between the Company and Sean Wang.		Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on August 17, 2009.
10.14	Director Agreement, dated August 15, 2009, between the Company and Larry Goldman.		Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed on August 17, 2009.
10.15	Employment Termination Agreement between the Company and Jeremy Goodwin, dated November 14, 2011.		Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q filed on November 14, 2011.
10.16	Termination of Agreement and Plan of Merger dated July 9, 2012		Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on July 11, 2012.
31.1	Rule 13a-14(a)/15d-14(a) Certification Principal Executive Officer	[X]	
31.2	Rule 13a-14(a)/15d-14(a) Certification Principal Financial Officer	[X]	
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	[X]	
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	[X]	
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		

AUDITED FINANCIAL STATEMENTS

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.

JUNE 30, 2012 AND 2011

TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
China Advanced Construction Materials Group, Inc.

We have audited the accompanying consolidated balance sheets of China Advanced Construction Materials Group, Inc. and Subsidiaries as of June 30, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), shareholders equity and cash flows for the years then ended. China Advanced Construction Materials Group, Inc. s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Advanced Construction Materials Group, Inc. and Subsidiaries as of June 30, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

New York, New York
September 26, 2012

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash	$ 2,409,914	$ 1,610,699
Restricted cash	6,536,082	928,200
Accounts and notes receivable, net of allowance for doubtful accounts of $24,913,151 and $5,627,049, respectively	109,977,143	84,793,355
Inventories	2,042,156	1,474,728
Investments	-	12,221,300
Other receivables	1,298,942	2,226,803
Prepayments	11,694,758	5,089,935
Deferred tax assets	3,293,051	-
Total current assets	137,252,046	108,345,020
PROPERTY, PLANT AND EQUIPMENT, net	20,622,505	29,279,440
OTHER ASSETS:		
Advances on equipment purchases	4,617,360	4,509,505
Prepayments	1,140,498	2,702,409
Deferred tax assets	578,413	-
Total other assets	6,336,271	7,211,914
Total assets	$ 164,210,822	$ 144,836,374
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short term loans, banks	$ 19,008,000	$ 15,470,000
Accounts payable	57,171,917	41,320,769
Customer deposits	798,096	391,550
Other payables	4,514,828	488,022
Other payables - shareholders	804,001	790,592
Accrued liabilities	1,712,414	1,921,582
Warrants liability	132,427	-
Taxes payable	1,064,953	747,165
Total current liabilities	85,206,636	61,129,680
OTHER LIABILITIES		
Warrants liability	-	618,657
Total liabilities	85,206,636	61,748,337
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, 17,829,464 and 17,794,387 shares issued and outstanding as of June 30, 2012 and June 30, 2011, respectively	17,829	17,795
Additional paid-in capital	35,154,257	34,981,023
Retained earnings	29,010,766	35,240,851
Statutory reserves	6,248,357	6,248,357
Accumulated other comprehensive income	8,572,977	6,600,011

Total shareholders equity	79,004,186	83,088,037
Total liabilities and shareholders equity	$ 164,210,822	$ 144,836,374

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUE		
Sales of concrete	$ 134,772,498	$ 109,276,550
Manufacturing services	10,369,387	25,619,062
Technical services	-	3,001,866
Other	889	11,292
Total revenue	145,142,774	137,908,770
COST OF REVENUE		
Concrete	107,045,899	93,783,945
Manufacturing services	9,509,245	18,056,445
Technical services	-	423,983
Total cost of revenue	116,555,144	112,264,373
GROSS PROFIT	28,587,630	25,644,397
PROVISION FOR DOUBTFUL ACCOUNTS	22,490,204	7,377,395
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	13,064,966	8,617,554
RESEARCH AND DEVELOPMENT EXPENSES	2,946,226	608,696
IMPAIRMENT LOSS OF LONG-LIVED ASSETS	3,380,952	-
INCOME (LOSS) FROM OPERATIONS	(13,294,718)	9,040,752
OTHER INCOME (EXPENSE), NET		
Other subsidy income	8,718,901	8,083,763
Non-operating expense, net	(1,056,900)	(349,763)
Change in fair value of warrants liability	445,603	1,926,948
Interest income	448,279	591,376
Interest expense	(1,620,562)	(703,837)
TOTAL OTHER INCOME, NET	6,935,321	9,548,487
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(6,359,397)	18,589,239
PROVISION (BENEFIT) FOR INCOME TAXES	(129,312)	1,523,995
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ (6,230,085)	$ 17,065,244
COMPREHENSIVE INCOME (LOSS):		
Net Income (Loss)	(6,230,085)	17,065,244
Foreign currency translation adjustment	1,972,966	3,580,028
COMPREHENSIVE INCOME (LOSS)	$ (4,257,119)	$ 20,645,272
EARNINGS (LOSS) PER COMMON SHARE ALLOCATED TO COMMON SHAREHOLDERS		
Weighted average number of shares:		
Basic	17,818,474	17,671,648
Diluted	17,818,474	18,142,630

Earnings (Loss) per share:				
Basic	$	(0.35)	$	0.97
Diluted	$	(0.35)	$	0.94

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common stock Number of shares	Common stock Par amount	Additional Paid-in capital	Retained earnings Unrestricted	Retained earnings Statutory reserves	Accumulated other comprehensive income	Total
BALANCE, July 1, 2010	17,467,104	$ 17,467	$ 33,720,762	$ 19,912,444	$ 4,511,520	$ 3,019,983	$ 61,182,176
Restricted stock issued for compensation and services	262,500	263	885,411			-	885,674
Cashless conversion of warrants into common stock	64,783	65	374,850				374,915
Net income				17,065,244		-	17,065,244
Adjustment to statutory reserve				(1,736,837)	1,736,837	-	-
Foreign currency translation gain	-	-	-	-	-	3,580,028	3,580,028
BALANCE, June 30, 2011	17,794,387	$ 17,795	$ 34,981,023	$ 35,240,851	$ 6,248,357	$ 6,600,011	$ 83,088,037
Restricted stock issued for compensation and services	34,167	34	132,607			-	132,641
Cashless conversion of warrants into common stock	910	-	40,627				40,627
Net loss				(6,230,085)		-	(6,230,085)
Foreign currency translation gain	-	-	-	-	-	1,972,966	1,972,966
BALANCE, June 30, 2012	17,829,464	$ 17,829	$ 35,154,257	$ 29,010,766	$ 6,248,357	$ 8,572,977	$ 79,004,186

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (6,230,085)	$ 17,065,244
Adjustments to reconcile net (loss) income to cash used in operating activities:		
Depreciation	4,386,734	3,898,278
Stock-based compensation expense	132,641	885,674
Deferred tax provision (benefit)	(3,871,464)	131,053
Provision for doubtful accounts	22,490,204	7,377,395
Change in fair value of warrants liability	(445,603)	(1,926,948)
Loss realized from disposal of property, plant, and equipment	968,093	271,529
Impairment loss of long-lived assets	3,380,952	-
Changes in operating assets and liabilities		
Accounts and notes receivable	(45,499,782)	(52,826,499)
Inventories	(528,797)	780,312
Other receivables	974,926	(734,177)
Prepayments	(6,442,157)	(2,077,737)
Long term prepayment	1,616,277	1,889,000
Accounts payable	14,769,037	23,464,257
Customer deposits	394,674	(347,174)
Other payables	3,991,849	142,306
Accrued liabilities	(250,285)	187,540
Taxes payable	322,466	(880,754)
Net cash used in operating activities	(9,840,320)	(2,700,701)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property, plant, and equipment	960,623	753,022
Purchases of property, plant and equipment	(398,257)	(2,142,699)
Investments	12,434,600	(11,880,800)
Net cash provided by (used in) investing activities	12,996,966	(13,270,477)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term loan	31,247,070	15,025,600
Payments for short term loan	(28,071,740)	(75,560)
Rent payable to shareholder	11,906	16,466
Restricted cash	(5,550,419)	(849,140)
Net cash (used in) provided by financing activities	(2,363,183)	14,117,366
EFFECT OF EXCHANGE RATE CHANGE ON CASH	5,752	163,691
NET INCREASE (DECREASE) IN CASH	799,215	(1,690,121)
CASH, beginning of year	1,610,699	3,300,820
CASH, end of year	$ 2,409,914	$ 1,610,699
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Cashless conversion of warrants into common stocks	$ 40,627	$ -

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Organization and description of business

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

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

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

Note 2 Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and have been consistently applied.

Principles of consolidation

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

Subsidiaries and VIEs	Place incorporated	Ownership percentage
BVI-ACM	British Virgin Island	100%
China-ACMH	Beijing, China	100%
Xin Ao	Beijing, China	VIE
Heng Yuan Zheng Ke	Beijing, China	VIE
Hong Sheng An	Beijing, China	VIE
Heng Tai	Beijing, China	VIE
Da Tong	Datong, China	VIE
Heng Xin	Luanxian, China	VIE

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

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	June 30, 2012	June 30, 2011
Current assets	$ 137,562,780	$ 107,996,610
Property, plant and equipment	20,614,498	28,576,830
Other noncurrent assets	3,358,098	4,868,209
Total assets	161,535,376	141,441,649
Liabilities	(83,829,907)	(60,206,978)
Intercompany payables*	(8,266,799)	(9,808,542)
Total liabilities	(92,096,706)	(70,015,520)
Net assets	$ 69,438,670	$ 71,426,129

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

Use of estimates and assumptions

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

Foreign currency translation

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

Asset and liability accounts at June 30, 2012 and 2011 were translated at RMB 6.31 and RMB 6.46 to $1.00, respectively. The average translation rates applied to the consolidated statements of income and cash flows for the years ended June 30, 2012 and 2011 were RMB 6.35 and RMB 6.62 to $1.00, respectively.

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

Revenue recognition

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

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

- Delivery has occurred or services have been rendered;

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- The seller's price to the buyer is fixed or determinable; and
- Collectability of payment is reasonably assured.

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

The Company does not sell products to customers on a consignment basis. There is no right of return after the product has been delivered into the location specified by the contract and accepted by the customer. The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer or services are provided by the Company.

Sales revenue represents the invoiced value of goods, net of a value added tax ("VAT"). All of the Company's concrete products that are sold in the PRC are subject to a Chinese VAT at the rate of 6% of the gross sales price.

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

Financial instruments

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

The three levels of inputs are defined as follows:

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

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

Level 3 inputs to the valuation methodology are unobservable.

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

The fair value of the warrants liability was determined using the Cox-Ross-Rubinstein (CRR) Binomial Model, as Level 2 inputs (See Note 8). In addition to financial assets and liabilities that are recorded at fair value on a recurring basis, the Company records certain assets at fair value on a nonrecurring basis when necessary as required by accounting principles generally accepted in the United States. The Company s Long-lived assets were recorded at fair value on a nonrecurring basis as a result of impairment charges determined using Level 3 inputs. The Level 3 inputs used were management s projected cash flows.

The Company recognized impairment charges of $3,380,952 and $0 for the years ended June 30, 2012 and 2011, respectively. These charges were related to the impairment in the portable plants used in the manufacturing segment (See Note 2 Accounting for long-lived assets).

Stock-based compensation

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

Cash and cash equivalents

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company considers all highly liquid investments with maturity of three months or less at the date of purchase to be cash equivalents. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions within PRC and US. As of June 30, 2012 and 2011, the Company had deposits in excess of federally insured limits totaling $1,844,308 and $767,963, respectively.

Restricted cash

Restricted cash represents collateral of $6,346,002 in the form of cash deposits for short term loans and $190,080 in the form of cash deposits relating to sales agreements.

Other receivables

Other receivables primarily include advances to employees, an unrelated entity, and receivables from an insurance company, VAT tax refund and other deposits. Management regularly reviews aging of receivables and changes in payment trends and records a reserve when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off after exhaustive efforts at collection. Write offs for the years ended June 30, 2012 and 2011 approximated $0.8 million and $0.4 million, respectively.

Accounts receivable

During the normal course of business, the Company extends unsecured credit to its customers. Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers the historical experience, economy, trend in the construction industry, the expected collectability of amount receivable that past due and the expected collectability of overdue receivable. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Accounts balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote. Write offs for the years ended June 30, 2012 and 2011 approximated $2.7 million and $2.3 million, respectively.

Expecting longer collection periods on accounts receivable and higher probability of uncollectable accounts receivable, the Company changed its estimate of its allowance for doubtful accounts within one year from historical default rate 2% to 5% based on peers' comparable rate in domestic construction industry during the year ended June 30, 2012. The allowance for doubtful accounts was approximately $24.9 million at June 30, 2012, and approximately $5.6 million at June 30, 2011.

Inventories

Inventories consist of raw materials and are stated at the lower of cost or market, as determined using the weighted average cost method. Management compare the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. As of June 30, 2012 and June 30, 2011, the Company determined no reserves for obsolescence were necessary.

Investments

During October, 2010, the Company entered into a one-year investment agreement with a financial investment company, whereby the Company could invest up to approximately RMB 100,000,000 ($12,221,300 at June 30, 2011). The financial investment company would then invest the Company's funds in certain financial instruments including bonds, mortgage trust or mutual funds. The rate of return on this investment was guaranteed at 7% per annum. The Company's investment was not subject to market fluctuation; therefore, the Company did not experience gain or loss on its investment. However, the Company's funds deposited with the financial investment company were not insured. The investment contract with the financial investment company was terminated at expiration in October, 2011. The Company received approximately $12.4 million cash proceeds from the financial investment company during the year ended June 30, 2012.

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Prepayments and advances

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

Property, plant and equipment

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

The estimated useful lives of assets are as follows:

	Useful Life
Transportation equipment	10 years
Plant and machinery	10 years
Office equipment	5 years
Buildings and improvements	3-20 years

Accounting for long-lived assets

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

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

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

If such an asset is determined to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less disposition costs. The sum of the discounted future cash flows expected to result from the long-lived assets and their disposition is less than the carrying value by approximately $3.4 million for the year ended June 30, 2012. The Company recognized approximately $3.4 million and $0 impairment charges relating to the portable plants for the years ended June 30, 2012 and 2011, respectively.

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

Income taxes

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. United States federal, state and local income tax returns prior to 2009 are not subject to examination by any applicable tax authorities.

Value Added Tax

Enterprises or individuals, who sell commodities, engage in repair and maintenance, or import and export goods in the PRC are subject to a value added tax. The standard VAT rate is 6% of gross sales for the Company’s industry. A credit is available whereby VAT paid on the purchases of raw materials used in the production of the Company’s finished products can be used to offset the VAT due on sales of finished products. Since the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT exemption through June 2013.

Research and development, advertising and repair and maintenance

Research and development, advertising and repair and maintenance costs are expensed as incurred. The cost of materials and equipment that are acquired or constructed for research and development activities, and have alternative future uses, either in research and development, marketing, or sales, are classified as property and equipment, and depreciated over their estimated useful lives. Research and development costs for the years ended June 30, 2012 and 2011 were $2,946,226 and $608,696, respectively. Advertising costs for the years ended June 30, 2012 and 2011 were $226,477 and $252,422, respectively. Repair and maintenance costs for the years ended June 30, 2012 and 2011 were $1,165,893 and $1,455,788, respectively.

Earnings (loss) per share

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

Comprehensive income

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

Reclassifications

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently issued accounting pronouncements

There have been no new accounting pronouncements during the year ended June 30, 2012, as compared to recently issued accounting pronouncements described in the Company s Annual Report on Form 10-K for the year ended June 30, 2011, that are of significance, or potential significance, to the Company.

Note 3 Supplemental disclosure of cash flow information

For the years ended June 30, 2012 and 2011, the Company paid interest in the amount of $1,228,657 and $636,156 respectively. Cash payments for income tax for the years ended June 30, 2012 and 2011 were $3,407,067 and $2,284,063, respectively.

Note 4 Accounts and notes receivable

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

Expecting longer collection periods on accounts receivable and higher probability of uncollectable accounts receivable, the Company increased its estimate of its allowance for doubtful accounts within one year from historical default rate 2% to 5% based on peers comparable rate in domestic construction industry during the year ended June 30, 2012. The allowance for doubtful accounts was approximately $24.9 million at June 30, 2012, and approximately $5.6 million at June 30, 2011.

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

	June 30, 2012	June 30, 2011
Accounts receivable, current	$ 132,355,894	$ 90,420,404
Notes receivable, current	2,534,400	-
	134,890,294	90,420,404
Less: allowance for doubtful accounts, current	(24,913,151)	(5,627,049)
Total accounts and notes receivable, net	$ 109,977,143	$ 84,793,355

Note 5 Property, plant and equipment

Property, plant and equipment consist of the following:

	June 30, 2012	June 30, 2011
Plant and machinery	$ 16,802,708	$ 21,687,400
Transportation equipment	20,920,148	20,354,203
Office equipment	1,316,273	1,269,255
Buildings and improvements	224,101	344,852

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Total	39,263,230	43,655,710
Less: accumulated depreciation	(18,640,725)	(14,376,270)
Plant and equipment, net	$ 20,622,505	$ 29,279,440

Depreciation expense for the years ended June 30, 2012 and 2011 amounted to $4,386,734 and $3,898,278, respectively.

Note 6 Prepayments

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

	June 30, 2012	June 30, 2011
Advances on inventory purchases	$ 9,858,320	$ 3,156,185
Rent prepayments	2,976,936	4,636,159
Total prepayments	$ 12,835,256	$ 7,792,344
Minus: Current portion of prepayments	(11,694,758)	(5,089,935)
Total long-term prepayments	$ 1,140,498	$ 2,702,409

Note 7 Short term loans, banks

Short term loans represent amounts due to banks and the Company s employees that are due within one year or on demand. As of June 30, 2012 and 2011, the outstanding balances on these loans consisted of the following:

	June 30, 2012	June 30, 2011
Loan from Huaxia Bank, interest rate of 6.94% per annum, repaid in full on February 9, 2012.	$ -	$ 2,320,500
Loan from Shanghai Pudong Development Bank, interest rate of 8.53% per annum, $2,376,000 due October 27,2012 and $2,376,000 due November 29, 2012, guaranteed by Beijing Xinhang Construction Group.	4,752,000	9,282,000
Loan from Construction bank, interest rate of 6.89% per annum, due October 20, 2012, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Han XianFu and Mr. He Weili.	5,544,000	-
Loan from Citibank, interest rate of 8.81% per annum, $1,188,000 due September 25, 2012 and interest rate of 8.12%, $1,188,000 due December 11, 2012, guaranteed by Beijing Xinhang Construction Group, Mr. Han XianFu and Mr. He Weili.	2,376,000	2,320,500

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loan from Merchant Bank, interest rate of 7.54% per annum, due October 24, 2012, guaranteed by Mr. Han Xian Fu, Beijing Jinshengding Mineral Products Co., LTD and Beijing Xinhang Construction Group.	
Loan from ANZ bank, interest rate of 7.61% per annum, $1,584,000 due September 12, 2012, $1,584,000 due September 20, 2012, guaranteed by Beijing Xinhang Construction Group.	
Loan from HSBC, interest rate of 7.61% per annum, due October 6, 2012, guaranteed by Mr. Han XianFu and Mr. He Weili.	
	$ 1

The above guarantors are various suppliers to the Company.

The Company paid off the loan from ANZ bank in full when due.

Interest expense on short-term loans for the years ended June 30, 2012 and 2011 amounted to $1,307,354 and $661,168, respectively.

Note 8 Warrants liability

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

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

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

	June 30, 2012	June 30, 2011
Annual dividend yield	-	-
Expected life (years)	0.95	1.98
Risk-free interest rate	0.20%	0.44%
Expected volatility	49%	75%

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

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	2012	2011
Beginning of year	$ 618,657	$ 2,920,520
Warrants exercised for the year	(40,627)	(374,915)
Change in fair value for the year	(445,603)	(1,926,948)
End of year	$ 132,427	$ 618,657

Note 9 Related party transactions

Other payables shareholders

Mr. He Weili, a major shareholder, leased office space to the Company at approximately the current fair market value from July 2009 until the lease was terminated on December 31, 2011, with annual payments of approximately $176,000. For the years ended June 30, 2012 and 2011, the Company recorded rent expense to the shareholder approximately $93,000 and $176,000, respectively. As of June 30, 2012 and 2011, approximately $53,000 and $40,000, respectively, remained unpaid, and were included in other payables - shareholders.

The Company s 32.4% and 17.0% shareholders, Mr. Han Xianfu and Mr. He Weili, respectively, together loaned $750,900 to BVI-ACM on March 12, 2008 for working capital purposes. The loan is non-interest bearing, unsecured, and is payable in cash on demand. Total other payables - shareholders consisted of the following:

	June 30, 2012	June 30, 2011
Han Xianfu, shareholder	$ 450,540	$ 450,540
He Weili, shareholder	353,461	340,052
	$ 804,001	$ 790,592

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10– Income taxes

(a) Corporate income tax

China ACM and AIH were organized in the United States. China ACM has incurred a tax loss of $65,113 for income tax purposes for the year ended June 30, 2012, which excludes $132,640 stock based compensation expenses and gain in fair value of warrant liabilities of $445,603. As of June 30, 2012, net operating loss carry forward for United States income taxes was approximately $1,714,000. The net operating loss carry forwards is available to reduce future years' taxable income through year 2031. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's limited operating history and continued losses in United States companies. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset to reduce the asset to zero. The net changes in the valuation allowance for the years ended June 30, 2012 and 2011 were a decrease of approximately $19,000 and $226,000, respectively. Management reviews this valuation allowance periodically and makes adjustments accordingly. AIH had no operations since it was incorporated and no income tax incurred; it was dissolved on August 30, 2011.

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

China-ACMH and VIEs-Chinese operations

All of the Company's income is generated in the PRC, through VIEs. The Company's VIE entities have cumulative undistributed earnings of approximately $40.9 million and $44.5 million as of June 30, 2012 and 2011, respectively, included in consolidated retained earnings and will continue to be indefinitely reinvested in the PRC. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings.

China-ACMH and VIEs are governed by the income tax laws of the PRC and the income tax provision in respect to operations in the PRC is calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the Chinese Enterprise Income Tax ("EIT") law, the statutory corporate income tax rate applicable to most companies is 25% instead of the former tax rate of 33%. During the fourth quarter of 2009, Xin Ao has applied and received the Enterprise High-Tech Certificate. The certificate was awarded based on Xin Ao's involvement in producing high-tech products, its research and development, as well as its technical services. As granted by the State Administration of Taxation of the PRC, Xin Ao was entitled to an income tax reduction from 25% to 15% from January 1, 2009 to June 12, 2012. The Company is currently applying for the extension of 15% income tax rate for the periods after June 12, 2012.

In accordance with the EIT Law and related regulations, enterprises established under the laws of foreign countries or regions and whose place of effective management is located within the PRC territory are considered PRC resident enterprises and subject to the PRC income tax at the rate of 25% on worldwide income.

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

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

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	For the years ended June 30, 2012		2011
USA	$ (2,118,777)	$	(160,085)
China	(3,830,620)		18,749,324
	$ (5,949,397)	$	18,589,239

Provision (Benefit) for income taxes consisted of:

	For the years ended June 30, 2012	2011
Current provision:		
USA	$ -	$ -
China	3,742,152	1,392,942
Total current provision	3,742,152	1,392,942
Deferred provision (benefit):		
USA	-	-
China	(3,871,464)	131,053
Total deferred provision (benefit)	(3,871,464)	131,053
Total provision (benefit) for income taxes	$ (129,312)	$ 1,523,995

Significant components of deferred tax assets were as follows:

	June 30, 2012	June 30, 2011
Deferred tax assets - current		
Provision for doubtful accounts	3,293,051	-
Total deferred tax assets - current	$ 3,293,051	$ -
Deferred tax assets - non-current		
Net operating loss carryforward in the U.S.	$ 541,813	$ 560,660
Impairment loss of long-lived assets	578,413	-
	1,120,226	560,660
Valuation allowance	(541,813)	(560,660)
Total deferred tax assets - non-current	$ 578,413	$ -

The change in valuation allowance for the year ended June 30, 2012 was a decrease of $18,847 which was resulted from a decrease in the net operating losses generated in USA. The change in valuation allowance for the year ended June 30, 2011 was an increase of $225,660 which was resulted from an increase in the net operating losses generated in USA.

Taxes payable consisted of the following:

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	June 30, 2012	June 30, 2011
Income taxes payable	$ 1,030,952	$ 701,556
Other taxes payable	34,001	45,609
Total taxes payable	$ 1,064,953	$ 747,165

The following table reconciles the U.S. statutory rates to the Company s effective tax rate for the years ended June 30, 2012 and 2011:

	2012	2011
U.S. statutory rates	34%	34%
Foreign income not recognized in the U.S.	(34%)	(34%)
PRC statutory rates	25%	25%
Preferential tax treatment	(10%)	(10%)
Change in valuation allowance	(10%)	-
Other	(7%)	(7%)
Effective income tax rates	(2%)	8%

(b) Uncertain tax positions

There were no unrecognized tax benefits for the years ended June 30, 2012 and 2011. Management does not anticipate any potential future adjustments in the next twelve months which would result in a material change to its tax positions. For the years ended June 30, 2012 and 2011, the Company did not incur any interest and penalties.

Note 11 Shareholders equity

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

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

	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)

Outstanding as of July 1, 2010	678,875	
Granted		-
Forfeited		

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	-			
Exercised	(62,500)		2.40	
Outstanding as of June 30, 2011	616,375	$	2.40	1.94
Granted	-			
Forfeited	-			
Exercised	(31,250)		2.40	
Outstanding as of June 30, 2012	585,125	$	2.40	0.95

Stock Option Plan

Under the employee stock option plan, the Company s stock options expire ten years from the date of grant. On October 3, 2008, the Company entered into a one-year agreement with one of the Company s board of directors. In connection with his services, the Company issued an aggregate of 50,000 options of the Company s common stock at an exercise price of $2.90 per share. The options vested in equal quarterly installments over the first year of the agreement. As of June 30, 2012, all of the 50,000 options have been fully vested.

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

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

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

The following is a summary of the stock option activity:

Stock options	Shares		Weighted Average Exercise Price		Aggregate Intrinsic Value
Outstanding as of July 1, 2010	97,500	$	4.01	$	-
Granted	-				
Forfeited	-				
Exercised	-				
Outstanding as of June 30, 2011	97,500	$	4.01	$	-

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Granted	-		-		
Forfeited	(97,500)		4.01		
Exercised	-		-		-
Outstanding as of June 30, 2012	-	$	-	$	-
Exercisable as of June 30, 2012	-	$	-	$	-

For the years ended June 30, 2012 and 2011, the Company recognized $0 as compensation expense under its stock option plan.

Restricted Stock Grants

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

For the years ended June 30, 2012, the Company granted 50,000 restricted shares to five former and current directors for one year of service vesting quarterly from the respective grant date.

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

For the years ended June 30, 2012 and 2011, the Company recognized $132,640 and $885,674 of compensation expenses related to restricted stock grants, respectively. The total unrecognized share-based compensation expense as of June 30, 2012 was approximately $63,000, which is expected to be recognized over a weighted average period of approximately 0.9 years.

Following is a summary of the restricted stock grants:

Restricted stock grants	Shares		Weighted Average Grant Date Fair Value Per Share		Aggregate Intrinsic Value
Nonvested as of July 1, 2010	62,500	$	3.68	$	221,250
Granted	250,000		3.71		
Vested	(230,000)		3.86		
Nonvested as of June 30, 2011	82,500	$	3.95	$	138,600
Granted	54,167		1.86		
Forfeited	(31,639)		4.48		
Vested	(65,028)		3.32		127,042
Nonvested as of June 30, 2012	40,000	$	1.72	$	65,600

Note 12 Reserves and dividends

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company s registered capital. The remaining reserve to fulfill the 50% registered capital requirement amounted to approximately $2 million and 2.1 million as of June 30, 2012 and June 30, 2011, respectively.

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

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

Note 13 Earnings (loss) per share

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

		2012		2011
Basic earnings (loss) per share				
Net income (loss) available to common shareholders	$	(6,230,085)	$	17,065,244
Weighted average shares outstanding-Basic		17,818,474		17,671,648
Earnings (loss) per share-Basic	$	(0.35)	$	0.97
Diluted earnings (loss) per share				
Net income (loss) available to common shareholders	$	(6,230,085)	$	17,065,244
Weighted average shares outstanding-Basic		17,818,474		17,671,648
Restricted stock		-		15,791
Warrants and options		-		455,191
Weighted shares outstanding-Diluted		17,818,474		18,142,630
Earnings (loss) per share-Diluted	$	(0.35)	$	0.94

For the year ended June 30, 2012, 585,125 warrants outstanding were excluded in the diluted EPS calculation because their effect was anti-dilutive.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 Employee pension

The Company offers a discretionary pension fund, a defined contribution plan, to qualified employees. The pension includes two parts: the first to be paid by the Company is 20% of the employee s actual salary from the prior year. The other part, paid by the employee, is 8% of the actual salary. The Company s contributions of employment benefits, including pension were approximately $605,000 and $421,000 for the years ended June 30, 2012 and 2011, respectively.

Note 15 Operating leases

The Company entered into a lease agreement for a manufacturing plant with an unrelated party which expires on September 30, 2013 with annual payments of approximately $197,000. Further, the Company agreed to lease office space from the Company s shareholder and chief operating officer, Mr. He Weili, from July 2010 until the lease was terminated on December 31, 2011, with annual payment of approximately $176,000. The rent is valued at fair value from the main property management. On August 31, 2010, The Company entered a lease agreement to lease office space from a third party, starting from November 1, 2010 to October 31, 2013 with annual payment of approximately $363,000. In addition, On October 14, 2011, The Company entered a lease agreement to lease office space from a third party, from October 19, 2011 to January 18, 2014 with annual payments of approximately $73,000, the lease was terminated on April 30, 2012. On April 30, 2012, The Company entered a lease agreement to lease new office space from a third party, from May 1, 2012 to March 28, 2021 with annual payments of approximately $415,000, the lease agreement is separated into three lease terms, each term has three-year expiration period and will be automatically renewed to next three-year term and so on if the office building would not be acquired or demolished by the city government.

The Company entered into three five-year and one four-year operating lease agreements during the fourth quarter of 2009. The lease payments are for four manufacturing plants with various unrelated parties for a total monthly payment of $213,000. Certain lease payments have been pre-paid by transferring the Company s long-term accounts receivable to the lessors in exchange for agreeing to no increase in the future. One of the lease agreements was terminated early on November 30, 2010.

Total operating lease expenses for the years ended June 30, 2012 and 2011 were $2,758,559 and $2,722,591, respectively. Operating lease expense is included in cost of revenue, selling, general, and administrative expenses. Future annual lease payments, net of rent prepayment made as of June 30, 2012, under non-cancelable operating leases with a term of one year or more consist of the following:

Years ending June 30,	Amount
2013	$ 1,011,000
2014	910,000
2015	417,000
2016	417,000
Thereafter,	1,978,000

Note 16-- Business Segments

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2012:

	Sales of concrete	Manufacturing services	Technical services	Other	Corporate	Total
Net revenue	$ 134,772,498	$ 10,369,387	$ -	$ 889	$ -	$ 145,142,774
Depreciation	(3,725,913)	(286,671)	-	(25)	(374,125)	(4,386,734)
Segment profit (loss) (1)	25,864,750	(2,664,061)	-	877	(36,496,284)	(13,294,718)
Other income (expenses)	8,086,350	632,551	-	-	(611,297)	8,107,604
Interest income	-	-	-	-	448,279	448,279
Interest expenses	-	-	-	-	(1,620,562)	(1,620,562)
Capital expenditure	(369,802)	(28,453)	-	(2)	-	(398,257)
Total assets as of June 30, 2012	$ 155,859,109	$ 8,350,707	$ -	$ 1,006	$ -	$ 164,210,822

For the year ended June 30, 2011:

	Sales of concrete	Manufacturing services	Technical services	Other	Corporate	Total
Net revenue	$ 109,276,550	$ 25,619,062	$ 3,001,866	$ 11,292	$ -	$ 137,908,770
Depreciation	(1,203,339)	(2,499,074)	(5,485)	(9,934)	(180,446)	(3,898,278)
Segment profit (loss) (1)	14,773,183	7,393,954	2,558,120	11,218	(15,695,723)	9,040,752
Other income (expenses)	6,556,593	1,527,170	-	-	1,577,185	9,660,948
Interest income	-	-	-	-	591,376	591,376
Interest expenses	-	-	-	-	(703,837)	(703,837)
Capital expenditure	(1,697,838)	(398,045)	(46,640)	(176)	-	(2,142,699)
Total assets as of June 30, 2011	$ 114,759,372	$ 26,911,329	$ 3,153,809	$ 11,864	$ -	$ 144,836,374

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

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

Note 17 Commitments and contingencies

Legal Contingencies

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

Following is the summary of the current litigation:

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

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Merger Agreement and Termination Agreement

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

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

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

Termination of employment

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

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on September 26, 2012.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.

By: /s/ Xianfu Han
Xianfu Han
Prinicipal Executive Officer

By: /s/ Weili He
Weili He
Interim Principal Financial and
Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Xianfu Han **Xianfu Han**	**Chief Executive Officer and Chairman of the Board**	**September 26, 2012**
/s/Weili He **Weili He**	**Vice Chairman, Chief Operating Officer and Interim Chief Financial Officer**	**September 26, 2012**
/s/Tao Jin **Tao Jin**	**Director**	**September 26, 2012**
/s/Xinyong Gao **Xinyong Gao**	**Director**	**September 26, 2012**
/s/Ken Ren **Ken Ren**	**Director**	**September 26, 2012**