China Advanced Construction Materials Group, Inc
Form 10-Q
November 15, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **September 30, 2017**

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

For the transition period from ____________ to _____________

Commission File Number: **001-34515**

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Nevada	**20-8468508**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [_]

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

Large Accelerated Filer [_]	Accelerated Filer [_]
Non-Accelerated Filer [_]	Smaller reporting company [X]
(Do not check if a smaller reporting company)	Emerging growth company [_]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [_]

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

The number of shares outstanding of each of the issuer s classes of common equity, as of November 13, 2017 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	2,387,658

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	September 30, 2017	June 30, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 923,882	$ 224,679
Restricted cash	1,810,216	4,208,765
Accounts receivable, net	48,718,090	47,543,077
Inventories	427,931	626,738
Other receivables, net	190,080	240,123
Prepayments and advances, net	14,789,521	16,894,781
Prepayments - related party	6,384,631	6,996,400
Total current assets	73,244,351	76,734,563
PROPERTY PLANT AND EQUIPMENT, net	3,425,059	3,644,203
Total assets	$ 76,669,410	$ 80,378,766
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short term loans, banks and bank guarantees	$ 22,889,929	$ 17,700,720
Notes payable	6,011,800	14,013,070
Accounts payable	31,834,527	29,081,789
Customer deposits	588,401	614,558
Other payables	343,451	4,098,772
Other payables - shareholders	2,448,342	2,261,766
Accrued liabilities	1,415,740	1,352,750
Taxes payable	272,463	103,419
Total current liabilities	65,804,653	69,226,844
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY:		

Preferred stock $0.001 par value, 1,000,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $0.001 par value, 74,000,000 shares authorized, 2,387,658 shares issued and outstanding as of September 30, 2017 and June 30, 2017	2,388	2,388
Additional paid-in-capital	38,662,377	38,662,377
Accumulated deficit	(41,521,249)	(40,975,658)
Statutory reserves	6,248,092	6,248,092
Accumulated other comprehensive income	7,473,149	7,214,723
Total shareholders equity	10,864,757	11,151,922
Total liabilities and shareholders equity	$ 76,669,410	$ 80,378,766

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

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

	For the three months ended September 30, 2017		For the three months ended September 30, 2016	
	2017		2016	
REVENUE	$	13,768,459	$	7,456,862
COST OF REVENUE		12,322,055		8,409,274
GROSS PROFIT (LOSS)		1,446,404		(952,412)
PROVISION FOR DOUBTFUL ACCOUNTS		(159,740)		(2,085,337)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		(1,412,145)		(1,862,928)
RESEARCH AND DEVELOPMENT EXPENSES		(90,658)		(79,165)
LOSS FROM OPERATIONS		(216,139)		(4,979,842)
OTHER INCOME (EXPENSE), NET				
Other (expense) income, net		(2,001)		86,201
Interest income		2,443		8,401
Interest expense		(328,054)		(197,217)
Finance expense		(1,839)		(238,315)
TOTAL OTHER EXPENSE, NET		(329,451)		(340,930)
LOSS BEFORE PROVISION FOR INCOME TAXES		(545,590)		(5,320,772)
PROVISION FOR INCOME TAXES		-		-
NET LOSS	$	(545,590)	$	(5,320,772)
COMPREHENSIVE INCOME (LOSS)				
Net loss	$	(545,590)	$	(5,320,772)
Other comprehensive income (loss) - foreign currency translation income (loss)		258,426		(86,262)
COMPREHENSIVE LOSS	$	(287,164)	$	(5,407,034)
LOSS PER COMMON SHARE				
Weighted average number of shares:				
Basic		2,280,799		2,272,986
Diluted		2,280,799		2,272,986
Loss per share:				
Basic	$	(0.24)	$	(2.34)
Diluted	$	(0.24)	$	(2.34)

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

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

	For the three months ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (545,590)	$ (5,320,772)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	301,756	305,121
Gain on disposal of equipment	(2,250)	-
Stock-based compensation expense	-	289,000
Provision for doubtful accounts	159,740	2,085,337
Changes in operating assets and liabilities		
Accounts receivable	(1,904,882)	(1,568,623)
Inventories	210,261	328,810
Other receivables	(739,511)	6,332,111
Prepayments and advances	3,214,703	3,544,889
Prepayments - related party	742,649	(361,336)
Accounts payable	3,667,697	1,441,577
Customer deposits	(37,705)	(3,113,460)
Other payables	(3,824,320)	(158,050)
Other payables - shareholders	186,110	156,109
Accrued liabilities	42,771	(361,577)
Taxes payable	166,773	(4,527)
Net cash provided by operating activities	1,638,202	3,594,609
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in short-term investments	-	(29,999)
Purchases of property, plant and equipment	(12,001)	(37,778)
Net cash used in investing activities	(12,001)	(67,777)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term loans, banks and bank guarantees	9,645,707	4,499,820
Repayments of short term loans, banks and bank guarantees	(4,800,352)	(2,999,880)
Proceeds from notes payable	-	11,549,538
Repayments of notes payable	(8,250,605)	(8,999,640)
Payable to shareholders	-	146,586
Change in restricted cash	2,473,444	(488,301)
Net cash (used in) provided by financing activities	(931,806)	3,708,123
EFFECTS OF EXCHANGE RATE CHANGE IN CASH AND CASH EQUIVALENTS	4,808	(7,416)
NET CHANGE IN CASH AND CASH EQUIVALENTS	699,203	7,227,539
CASH AND CASH EQUIVALENTS, beginning of period	224,679	1,006,970
CASH AND CASH EQUIVALENTS, end of period	$ 923,882	$ 8,234,509
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest expense	$ 328,054	$ 150,783

Cash paid for income tax	$	-	$	-
OTHER NON-CASH TRANSACTIONS:				
Accounts receivable offset with accounts payable upon execution of tri-party agreements	$	1,468,990	$	-

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Organization and description of business

China Advanced Construction Materials Group, Inc. (CADC Delaware) was incorporated in the State of Delaware on February 15, 2007. CADC Delaware, through its 100% owned subsidiaries and its variable interest entities (VIEs), 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 (the PRC). CADC Delaware has a wholly-owned subsidiary in the British Virgin Islands, Xin Ao Construction Materials, Inc. (BVI-ACM), which is a holding company with no operations. BVI-ACM has a wholly-owned foreign subsidiary, Beijing Ao Hang Construction Material Technology Co., Ltd. (China-ACMH), and China-ACMH has contractual agreements with Beijing XinAo Concrete Group (Xin Ao) and therefore Xin Ao is considered to be a VIE of China- ACM.

Xin Ao is engaged in the business of consulting, concrete mixing and equipment rental services. Xin Ao had five wholly owned subsidiaries in the PRC: (1) Beijing Heng Yuan Zheng Ke Technical Consulting Co., Ltd, (2) Beijing Hong Sheng An Construction Materials Co., Ltd, (3) Beijing Heng Tai Hong Sheng Construction Materials Co., Ltd, (4) Da Tong Ao Hang Wei Ye Machinery, Equipment Rental Co., Ltd, and (5) Luan Xian Heng Xin Technology Co., Ltd. Since their establishment, none of these five entities had any operations and the Company did not plan to pursue operations for these entities. As of June 30, 2017, all five subsidiaries were dissolved.

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

China ACM, BVI-ACM, China-ACMH and Xin Ao are collectively referred to as the Company.

Note 2 Summary of significant accounting policies

Liquidity

In assessing the Company s liquidity, the Company monitors and analyzes its cash on-hand and its operating and capital expenditure commitments. The Company s liquidity needs are to meet its working capital requirements, operating expenses and capital expenditure obligations.

The Company engages in the production of advanced construction materials for large-scale infrastructure, commercial and residential developments. The Company s business is capital intensive and the Company is highly leveraged. Debt financing in the form of short term bank loans, loans from related parties and bank acceptance notes have been utilized to finance the working capital requirements and the capital expenditures of the Company. Due to recurring losses, the Company s working capital was approximately $7.4 million as of September 30, 2017, as compared to $7.5 million as of June 30, 2017. As of September 30, 2017, the Company had cash on-hand of approximately $0.9 million and restricted cash balances of approximately $1.8 million, with remaining current assets mainly composed of accounts receivables and prepayments and advances.

Although the Company believes that it can realize its current assets in the normal course of business, the Company s ability to repay its current obligations will depend on the future realization of its current assets. Management has considered its historical experience, the economic environment, trends in the construction industry, the expected collectability of its accounts receivable and other receivables and the realization of the prepayments on inventory, and provided for an allowance for doubtful accounts as of September 30, 2017. The Company expects to realize the balance of its current assets net of the allowance for doubtful accounts within the normal operating cycle of a twelve month period. If the Company is unable to realize its current assets within the normal operating cycle of a twelve month period, the Company may have to consider supplementing its available sources of funds through the following:

Financial support and credit guarantee commitments from the Company s majority shareholders (See Note 7 - Related party transactions).

Other available sources of financing from PRC banks and other financial institutions, given the Company s credit history.

Based on the above considerations, the Company s management is of the opinion that it has sufficient funds to meet the Company s working capital requirements and debt obligations as they become due. However, there is no assurance that management will be successful in their plans. There are a number of factors that could potentially arise that could undermine the Company s plans, such as changes in the demand for the Company s products, economic conditions, competitive pricing in the concrete-mix industry, the Company s operating results continuing to deteriorate, or the inability of the Company s bank and shareholders to provide continued financial support.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These financial statements include the accounts of all the directly and indirectly owned subsidiaries and VIEs listed below. All material intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary to give a fair presentation have been included. Interim results are not necessarily indicative of results of a full year. The information in this Form 10-Q should be read in conjunction with information included in the annual report for the fiscal year ended June 30, 2017 on Form 10-K filed with the SEC on September 28, 2017.

Principles of consolidation

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

Subsidiaries and VIEs	Place incorporated	percentage
BVI-ACM	British Virgin Island	100%
China-ACMH	Beijing, China	100%
Xin Ao	Beijing, China	VIE
Heng Yuan Zheng Ke[3]	Beijing, China	VIE
Hong Sheng An[2]	Beijing, China	VIE
Heng Tai[4]	Beijing, China	VIE
Da Tong[1]	Datong, China	VIE
Heng Xin[2]	Luanxian, China	VIE

[1] Dissolved in August 2016
[2] Dissolved in December 2016
[3] Dissolved in January 2017
[4] Dissolved in February 2017

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

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

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

	September 30,	June 30,

	2017	2017
Current assets	$ 73,117,304	$ 76,607,089
Property, plants and equipment	3,425,059	3,644,203
Total assets	76,542,363	80,251,292
Liabilities	(62,988,602)	(66,612,148)
Intercompany payables*	(7,107,101)	(7,088,094)
Total liabilities	(70,095,703)	(73,700,242)
Net assets	$ 6,446,660	$ 6,551,050

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

Use of estimates and assumptions

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

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 Xin Ao use their local currency Chinese Renminbi (RMB) as their functional currency. In accordance with the U.S. 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 unaudited condensed consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the unaudited condensed consolidated balance sheets.

Asset and liability accounts at September 30, 2017 and June 30, 2017 were translated at RMB 6.65 and RMB 6.78 to $1.00, respectively. The average translation rates applied to the unaudited condensed consolidated statements of operations and comprehensive loss and cash flows for the three months ended September 30, 2017 and 2016 were RMB 6.67 and RMB 6.67 to $1.00, respectively.

Translation gains (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. There were no foreign currency transaction gains or losses for each of the three months ended September 30, 2017 and 2016. The effects of foreign currency translation adjustments are included in shareholders 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 to be pervasive evidence of an arrangement);

- Delivery has occurred;

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

- Collectability of payment is reasonably assured.

The Company sells its concrete products 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.

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The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer by the Company and collectability of payment is reasonably assured.

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

Financial instruments

US GAAP, 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.

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

Cash and cash equivalents

The Company considers all highly liquid investments with the original maturity of three months or less at the date of purchase to be cash equivalents. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions within the PRC and the United States. As of September 30 and June 30, 2017, the Company had deposits in excess of federally insured limits totaling approximately $0.8 million and $0.2 million, respectively, outside the United States.

Restricted cash

As of September 30 and June 30, 2017, restricted cash consisted of collateral representing cash deposits for bank guarantees and notes payable.

Accounts receivable

The Company extends unsecured credit to its customers in the normal course of business. Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers historical experience, the economic environment, trends in the construction industry and the expected collectability of the 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. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote. The Company provides a provision of 15% of the allowance for doubtful accounts for accounts receivable balance that are past due more than 180 days but less than one year, 40% of the allowance for doubtful accounts for accounts receivable past due from one to two years, 75% of the allowance for doubtful accounts for accounts receivable past due beyond two years, 100% of the allowance for doubtful accounts for accounts receivable past due beyond three years, plus additional amounts as necessary when the Company s collection department determines the collection of the full amount is remote and the Company s management approves 100% of the allowance for doubtful accounts. The Company s management has continued to evaluate the reasonableness of the valuation allowance policy and will update it if necessary.

Inventories

Inventories consist of raw materials and are stated at the lower of cost or market, as determined using the weighted average cost method. Management compares the cost of inventories with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. As of September 30 and June 30, 2017, the Company determined that no reserves for obsolescence were necessary.

Other receivables

Other receivables primarily include prepayments to be refunded by our suppliers if the supplies do not meet the Company s specification needs, advances to employees, amounts due from unrelated entities, VAT tax refunds and other deposits. Management regularly reviews the aging of receivables and changes in payment trends and records allowances when management believes collection of amounts due are at risk. Accounts considered uncollectible are written off against allowances after exhaustive efforts at collection are made. The Company provides a provision of 5% of the allowance for doubtful accounts for other receivables balance that are aged within one year, 50% of the allowance for doubtful accounts for other receivables aged from one to two years, and 100% of the allowance for doubtful accounts for other receivables aged beyond two years.

Prepayments and advances

Prepayments are funds deposited or advanced to outside vendors for future inventory purchases. As is standard practice in the PRC, many of the Company s vendors require a certain amount to be deposited with them as a guarantee that the Company will complete its purchases on a timely basis. This amount is refundable and bears no interest. The Company has legally binding contracts with its vendors, which require any outstanding prepayments to be returned to the Company when such contracts end.

The Company wrote off $0 and approximately $0.1 million on unrealizable prepayments for the three months ended September 30, 2017 and 2016, respectively. As of September 30, 2017 and June 30, 2017, the Company provided approximately $0.8 million and $0, respectively, bad debt allowance for prepayments and advances. Provision for doubtful accounts for the three months ended September 30, 2017 and 2016 amounted to $794,584 and $0, respectively.

Property, plant and equipment

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

The estimated useful lives of assets are as follows:

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

Accounting for long-lived assets

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

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

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

There were no impairment charges for the three months ended September 30, 2017 and 2016.

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

Stock-based compensation

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

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 forwards. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

ASC 740-10, Accounting for Uncertainty in Income Taxes, defines uncertainty in income taxes and the evaluation of a tax position as a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. United States federal, state and local income tax returns prior to 2014 are not subject to examination by any applicable tax authorities. PRC tax returns filed in 2016 and prior years are 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 for the Company s industry is 3% of gross sales, and revenues are presented net of VAT.

Research and development

Research and development 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.

Earnings (loss) per share

The Company reports earnings (losses) per share in accordance with the U.S. GAAP, which requires presentation of basic and diluted earnings (losses) per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings (losses) 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.

Stock dividends or stock splits are to be accounted for retroactively if the stock dividends or stock splits occur during the period, or retroactively if the stock dividends or stock splits occur after the end of the period but before the release of the financial statements, by considering it outstanding of the entirety of each period presented.

Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update (ASU) No., 2016-09, Compensation-Stock Options (Topic 718): Improvements to Employee Share-Based Payment Accounting. The areas for simplification in this amendment include the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Management plans to adopt this ASU during the quarter ending December 2017. Management does not believe the adoption of this ASU would have a material effect on the Company s unaudited condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following eight specific cash flow issues: (1) Debt Prepayment or Debt Extinguishment Costs; (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing; (3) Contingent Consideration Payments Made after a Business Combination; (4) Proceeds from the Settlement of Insurance Claims; (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned; (6) Life Insurance Policies; (7) Distributions Received from Equity Method Investees; (8) Beneficial Interests in Securitization Transactions; and Separately Identifiable Cash Flows and Application of the Predominance Principle. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. Management plans to adopt this ASU during the quarter ending December 2018. Management does not believe the adoption of this ASU would have a material effect on the Company s unaudited condensed consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interests held through related parties that are under common control. The amendments in this ASU require that the reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties, including related parties that are under common control with the reporting entity. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. Management plans to adopt this ASU during the quarter ending December 2017. Management does not believe the adoption of this ASU would have a material effect on the Company s unaudited condensed consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash . The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows.

The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management plans to adopt this ASU during the quarter ending December 2018. Management believes that the adoption of this ASU on the Company s statement of cash flows will increase cash and cash equivalents by the amount of the restricted cash on the Company s unaudited condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the definition of a business. The amendments in this ASU is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management plans to adopt this ASU early after the quarter ending December 2017. The Company does not believe the adoption of this ASU would have a material effect on the Company s unaudited condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For all entities, this ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. Management plans to adopt this ASU during the quarter ending December 2018. The adoption of this ASU would not have a material effect on the Company s unaudited condensed consolidated financial statements.

In July 2017, the FASB Issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815). The amendments in Part I of the Update change the reclassification analysis of certain equity-lined financial instruments (or embedded features) with down round features. The amendments in Part II of this Update re-characterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. Management plans to adopt this ASU during the quarter ending December 2019. The Company does not believe the adoption of this ASU would have a material effect on the Company s unaudited condensed consolidated financial statements

The Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the Company s unaudited condensed consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications have no effect on the accompanying unaudited condensed consolidated financial statements.

Note 3 Accounts receivable, net

Accounts receivable, net consisted of the following:

	September 30, 2017	June 30, 2017
Accounts receivable	$ 65,004,147	$ 63,370,426
Less: Allowance for doubtful accounts	(16,286,057)	(15,827,349)
Total accounts receivable, net	$ 48,718,090	$ 47,543,077

Movement of allowance for doubtful accounts is as follows:

		Three months ended September 30, 2017		Year ended June 30, 2017
Beginning balance	$	15,827,349	$	11,524,131
Provision for doubtful accounts		159,148		3,987,890
Less: write-off		-		-
Exchange rate effect		299,560		315,328
Ending balance	$	16,286,057	$	15,827,349

During the three months ended September 30, 2017 and 2016, the Company offset approximately $1.5 million and $0 of accounts receivable and accounts payable pursuant to certain three-party settlement agreements, respectively.

Note 4 Other receivables, net

Other receivables

Other receivables consisted of the following:

		September 30, 2017		June 30, 2017
Other receivables	$	853,757	$	1,653,351
Other receivable from sale of Asset Group		-		18,867
Less: Allowance for doubtful accounts		(663,677)		(1,432,095)
Total other receivables, net	$	190,080	$	240,123

Movement of allowance for doubtful accounts is as follows:

		Three months ended September 30, 2017		Year ended June 30, 2017
Beginning balance	$	1,432,095	$	2,334,672
Recovery of doubtful accounts		(793,992)		(852,275)
Less: write-off		-		-
Exchange rate effect		25,574		(50,302)
Ending balance	$	663,677	$	1,432,095

In accordance with ASC 205, the Company did not report the sale of the Asset Group as discontinued operations as the sale of the Asset Group did not represent a strategic shift that had a major effect on the Company s operations and financial results.

Note 5 Property, plant and equipment, net

Property, plants and equipment consist of the following:

		September 30, 2017		June 30, 2017
Machinery and equipment	$	908,765	$	896,326
Transportation equipment		4,329,959		4,249,609
Office equipment		1,190,946		1,168,846
Buildings and improvements		314,472		308,636
Total		6,744,142		6,623,417
Less: Accumulated depreciation and amortization		(3,319,083)		(2,979,214)
Plants and equipment, net	$	3,425,059	$	3,644,203

Depreciation and amortization expense amounted to approximately $0.3 million for each of the three months ended September 30, 2017 and 2016.

Note 6 Credit Facilities

Short term loans - banks:

Outstanding balances on short-term bank loans consisted of the following:

	September 30, 2017	June 30, 2017
Loans from China Construction Bank, each with an interest rate of 4.35% per annum, due between October 2017 and March 2018, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Xianfu Han, Ms. Chunying Wang, Mr. Weili He and Ms. Junkun Chen.	13,526,550	17,700,720
Loans from China Construction Bank, each with an interest rate of 5.66% per annum, due between January 2018 and August 2018, guaranteed by Beijing Jinshengding Mineral Products Co., LTD, Mr. Xianfu Han, Ms. Chunying Wang, Mr. Weili He, and Ms. Junkun Chen.	9,363,379	-
	$ 22,889,929	$ 17,700,720

Beijing Jinshengding Mineral Products Co., LTD is a supplier to the Company. Mr. Xianfu Han is the Company s Chief Executive Officer. Chunying Wang is the spouse of Mr. Xianfu Han. Mr. Weili He is the Company s Interim Chief Financial Officer. Ms. Junkun Chen is the spouse of Mr. Weili He. Also see Note 7 Related party transactions.

Interest expense for the three months ended September 30, 2017 and 2016 amounted to approximately $0.3 million and $0.2 million, respectively.

In October 2017, the Company repaid one short-term bank loan totaling $4,508,850 (RMB 30,000,000) and obtained one short term bank loan totaling $4,057,965 (RMB 27,000,000), which matures on September 19, 2018.

Notes payable:

The Company has an approximately $31 million (RMB210, 000,000) credit facility from China Construction Bank (the CCB Credit Facility), which was extended in August 2017 through August 2018. Bank notes are issued under the CCB Credit Facility for inventory purchases. The notes payable are guaranteed by Beijing Jinshengding Mineral Products Co., LTD., Xianfu Han and his spouse, Chunying Wang, and Weili He and his spouse, Junkun Chen, and amounted to approximately $6.0 million and $14.0 million as of September 30 and June 30, 2017, respectively, and were non-interest bearing with expiration dates between November 2017 and December 2017. The notes are generally charged with a transaction fee of 0.1% of the notes amount. The restricted cash for the notes was approximately $1.8 million and $4.2 million as of September 30 and June 30, 2017, respectively. The Company s availability under the CCB Credit Facility was $2.7 million as of September 30, 2017.

Note 7 Related party transactions

Prepayments - related party

Mr. Xianfu Han, and Mr. Weili He, the Company s shareholders and officers, are holding positions as president and director of Ningbo Lianlv Investment Ltd., respectively. This company owns 99% shares of Beijing Lianlv Technical Group Ltd. (Beijing Lianlv), the Company s supplier. As of September 30 and June 30, 2017, the Company prepaid $6,384,631 and $6,996,400 to Beijing Lianlv for inventory purchases, respectively.

Other payables shareholders

Two shareholders have advanced funds to BVI-ACM for working capital purposes. The advances are non-interest bearing, unsecured, and are payable in cash on demand. These two shareholders are also officers of the Company. They and their spouses have also guaranteed certain short-term loans payable and notes payable of the Company (see Note 6). The other payables-shareholders balance also includes the Company s salary payables to the two shareholders.

Other payables - shareholders consisted of the following:

	September 30, 2017	June 30, 2017
Xianfu Han	$ 1,160,535	$ 1,070,535
Weili He	1,287,807	1,191,231
	$ 2,448,342	$ 2,261,766

As of September 30, 2017, the balance of other payables-shareholders includes $1,980,000 salary payable-shareholders and $468,342 loans payable-shareholders. As of June 30, 2017, the balance of other payables-shareholders incudes $1,800,000 salary payable-shareholders and $461,766 loans payable-shareholders.

Note 8 Income taxes

(a) Corporate income tax

China ACM is organized in the United States. China ACM had no taxable income for United States income tax purposes for the three months ended September 30, 2017 and 2016, respectively. China ACM s net operating loss for the three months ended September 30, 2017, amounted to approximately $67,000. As of September 30, 2017, China ACM s net operating loss carry forward for United States income taxes was approximately $0.5 million. The net operating loss carry forward are available to reduce future years taxable income through year 2037. Management believes that the realization of the benefits from these losses appears uncertain due to the Company s operating history and continued losses in the United States. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset to reduce the asset to zero. Management reviews this valuation allowance periodically and makes changes accordingly.

BVI-ACM is incorporated in the British Virgin Islands (BVI), where its income tax rate is 0% under current BVI law.

China-ACMH and VIE-Chinese operations

China-ACMH and Xin Ao are governed by the income tax laws of the PRC. Income tax provisions with respect to operations in the PRC are calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the Chinese Enterprise Income Tax (EIT) law, the statutory corporate income tax rate applicable to most companies is 25%. In 2009, Xin Ao applied and received an Enterprise High-Tech Certificate. The High-Tech Certificate was required to be renewed every 3 years. The certificate was awarded based on Xin Ao s involvement in producing high-tech products, its research and development, as well as its technical services. As granted by the State Administration of Taxation of the PRC, Xin Ao is entitled to a reduction in its income tax rate from 25% to 15% until 2018.

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

Loss before provision for income taxes consisted of:

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	Three months ended September 30,			
		2017		2016
USA and BVI	$	(309,083)	$	(643,524)
PRC		(236,507)		(4,677,248)
	$	(545,590)	$	(5,320,772)

Significant components of deferred tax assets were as follows:

		September 30, 2017		June 30, 2017
Deferred tax assets				
Allowance for doubtful accounts	$	5,642,475	$	5,618,514
Impairment loss of long-lived assets		393,673		393,673
Net operating loss carryforward in China		170,595		159,080
Net operating loss carryforward in the U.S.		165,480		238,650
Valuation allowance		(6,372,223)		(6,409,917)
Total deferred tax assets	$	-	$	-

As of September 30 and June 30, 2017, the Company believes it is more likely than not that its PRC operations will be unable to fully utilize its deferred tax assets related to its allowance for doubtful accounts, impairment loss of long-lived assets and the net operating loss carryforward in the PRC. If the Company continues to incur losses in its PRC operations, it is more likely than not that it will not have sufficient income to utilize its deferred tax assets. As of September 30, 2017, the Company has a net operating loss carry forward in the PRC that expires in 2021. As a result, the Company provided a 100% allowance on all deferred tax assets of approximately $6.2 million and $6.2 million related to its operations in the PRC as of September 30 and June 30, 2017, respectively.

The Company has incurred losses from its United States operations during all periods presented. Accordingly, management provided approximately $0.2 million and $0.2 million of valuation allowance against the deferred tax assets related to the Company s United States operations as of September 30 and June 30, 2017, respectively, because the deferred tax benefits of the net operating loss carry forward in the United States might not be utilized.

As of September 30 and June 30, 2017, the Company had $272,463 and $103,419 of other business tax payables, respectively.

(b) Uncertain tax positions

There were no uncertain tax positions as of September 30, 2017 and June 30, 2017. Management does not anticipate any potential future adjustments which would result in a material change to its tax positions. For the three months ended September 30, 2017 and 2016, the Company did not incur any tax related interest or penalties.

Note 9 Shareholders equity

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 members of the board of directors (the Board), senior management and consultants.

Effective August 20, 2016, the Board granted an aggregate of 106,859 shares of restricted common stock, which were issued with a fair value of $308,823 to a consultant under the 2009 Plan. These shares shall vest in two tranches upon achieving certain performance-based milestones. As of September 30, 2017, these shares have not vested and the performance-based milestones have not been determined by the Board.

Effective August 20, 2016, the Board granted an aggregate of 100,000 shares of restricted common stock, which were issued with a fair value of $289,000 to two employees under the 2009 Plan. These shares vested immediately upon grant.

For the three months ended September 30, 2017 and 2016, the Company recognized approximately $0 and $0.3 million, respectively, of compensation expense related to restricted stock grants.

Following is a summary of the restricted stock grants:

Restricted stock grants	Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Unvested as of June 30, 2016	-	$ -	$ -
Granted	206,859	$ 2.89	$ 597,823
Vested	(100,000)	$ 2.89	$ (289,000)
Unvested as of June 30, 2017	106,859	$ 2.89	$ 308,823
Granted	-	$ -	$ -
Vested	-	$ -	$ -
Unvested as of September 30, 2017	106,859	$ 2.89	$ 308,823

Note 10 Reserves and dividends

The laws and regulations of the PRC require that before a foreign invested enterprise can legally distribute profits, it must first satisfy all its tax liabilities, provide for losses in previous years, and make allocations, in proportions determined at the discretion of the board of directors, after setting aside statutory reserves. 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. As of September 30 and June 30, 2017, the remaining reserve to fulfill the 50% registered capital requirement amounted to approximately $0.8 million and $0.8 million, respectively.

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

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

Note 11 Employee post-retirement benefits

The Company offers a defined contribution plan to eligible employees which consists of two parts: (i) the first part, paid by the Company, is 20% of the employee s compensation from the prior year and (ii) the second part, paid by the employee, is 8% of the employee s compensation. The Company s contributions of employment benefits were approximately $0.1 million and $0.2 million for the three months ended September 30, 2017 and 2016.

Note 12 Commitments and contingencies

Lease Commitments

The Company has a lease agreement for a concrete service plant with an unrelated party which will expire on September 30, 2022, with annual payments of approximately $422,000. The Company has a lease agreement for roadway access to the west side entry of the concrete service plant with an unrelated party, which will expire on June 30, 2019, with annual payment of approximately $15,000. The Company has a lease agreement for office space from Mr. Weili He, the Company s Interim Chief Financial Officer, through October 31, 2018, with annual payments of approximately $24,000.

Operating lease expenses are allocated between the cost of revenue and selling, general, and administrative expenses. Total operating lease expenses were approximately $60,000 for each of the three months ended September 30, 2017 and 2016. Future annual lease payments under non-cancelable operating leases with a term of one year or more consist of the following:

Twelve months ending September 30,		Amount
2018	$	462,000
2019		435,000
2020		422,000
2021		422,000
2022		422,000
Total	$	2,163,000

Legal Contingencies

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

Note 13 - Concentrations of risk

Credit risk

The Company is exposed to credit risk from its cash in bank and fixed deposits, and accounts receivable, other receivables and advances on equipment purchases.

As of September 30, 2017 and June 30, 2017, approximately $2.6 million and $4.4 million were deposited with banks located outside the United States, respectively. These balances are not covered by insurance. While management believes that the credit risk on cash in bank and fixed deposits is limited because the counterparties are recognized financial institutions.

Accounts receivable, other receivables and advances on inventory purchases are subjected to credit evaluations. An allowance has been made for estimated unrecoverable amounts which have been determined by reference to past default experience and the current economic environment.

Customer concentration risk

For the three months ended September 30, 2017, the Company had two customers accounted for approximately 14.6% and 11.2% of total revenue, respectively. For the three months ended September 30, 2016, two customers accounted for 16.8% and 16.5% of total revenue. As of September 30, 2017 and June 30, 2017, no customer accounted for more than 10% of the total balance of accounts receivable.

For the three months ended September 30, 2017, no vendor accounted for more than 10% of total purchases. For the three months ended September 30, 2016, the Company had two vendors representing approximately 10.7% and 10.2% of total purchases. As of September 30, 2017 and June 30, 2017, no vendor accounted for more than 10% of the total balance of accounts payable.

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

Overview

We are a holding company whose primary business operations are conducted through our wholly-owned subsidiaries Xin Ao Construction Materials, Inc. (BVI-ACM), Beijing Ao Hang Construction Material Technology Co., Ltd. (China-ACMH), and our variable interest entity, Beijing XinAo Concrete Group (Xin Ao). We engage in the production and supply of advanced construction materials for large-scale commercial, residential, and infrastructure developments, and are primarily focused on producing and supplying a wide range of advanced ready-mix concrete materials for highly technical, large-scale, and environmentally-friendly construction projects that are mainly sold in the People s Republic of China (PRC).

During the three months ended September 30, 2017, we supplied materials and provided services to our projects through one ready-mixed concrete plant in Beijing.

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

Principal Factors Affecting Our Financial Performance

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

- Large-scale Contractor Relationships. We have contracts with major construction contractors that are constructing key infrastructure, commercial and residential projects. Our sales efforts focus on large-scale projects and large customers which place large recurring orders and present less credit risk to us. For the three months ended September 30, 2017, two customers accounted for approximately 14.6% and 11.2% of our sales. Should we lose any large-scale customers in the future and are unable to obtain additional customers, our revenues will suffer.

- Experienced Management. Management s technical knowledge and business relationships give us the ability to secure major infrastructure projects, which provides us with leverage to acquire less sophisticated operators, increase production volumes, and implement quality standards and environmentally sensitive policies. If there were to be any significant turnover in our senior management, it could deplete the institutional knowledge held by our existing senior management team.

- Innovation Efforts. We strive to produce the most technically and scientifically advanced products for our customers and maintain close relationships with Tsinghua University, Xi an University of Architecture and Technology and Beijing Dongfang Jianyu Institute of Concrete Science & Technology. We entered technical service contracts with these research institutes to further improve our production and products. If our research and development efforts are not sufficient to adapt to the change in technology in the industry, our products may not compete effectively.

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

Consolidated Results of Operations

Comparison of the three months ended September 30, 2017 and 2016

The following table sets forth key components of our results of operations for the three months ended September 30, 2017, and 2016, in U.S. dollars:

	Three months ended September 30,			
	2017	**2016**	Change	Percentage Change
Total revenue	$ 13,768,459	$ 7,456,862	$ 6,311,597	85%
Total cost of revenue	12,322,055	8,409,274	3,912,781	47%
Gross profit (loss)	1,446,404	(952,412)	2,398,816	(252)%
Provision for doubtful accounts	(159,740)	(2,085,337)	1,925,597	(92)%
Selling, general and administrative expenses	(1,412,145)	(1,862,928)	450,783	(24)%
Research and development expenses	(90,658)	(79,165)	(11,493)	15%
Loss from operations	(216,139)	(4,979,842)	4,763,703	(96)%
Other expense, net	(329,451)	(340,930)	11,479	(3)%
Loss before provision for income taxes	(545,590)	(5,320,772)	4,775,182	(90)%
Provision for income taxes	-	-	-	-%
Net loss	$ (545,590)	$ (5,320,772)	$ 4,775,182	(90)%

Revenue. Our revenue is primarily generated from sales of our advanced ready-mix concrete products. For the three months ended September 30, 2017, we generated total revenue of approximately $13.8 million, as compared to approximately $7.5 million during the three months ended September 30, 2016, an increase of approximately $6.3 million, or 85%. The increase in revenue was principally due to increased sales volume by 56% because certain customers expedited their construction progress before the severe winter haze weather comes. The increase in revenue was also attributable to the increase in our selling price of concrete by 19% during the three months ended September 30, 2017, as compared to the same period in 2016.

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 $12.3 million for the three months ended September 30, 2017, as compared to approximately $8.4 million for the three months ended September 30, 2016, an increase of approximately $3.9 million, or 47%. The increase in cost of revenue was primarily associated with the increase of production volume by 56% and was offset by the decrease of unit production costs of 19%, which was mainly caused by the increased quality of cement and we used a smaller quantity to make one unit of concrete product during the three months ended September 30, 2017, as compared to the same period in 2016.

Gross Profit (Loss). Total gross profit was approximately $1.4 million for the three months ended September 30, 2017, as compared to approximately $1.0 million in gross loss for the three months ended September 30, 2016, an increase of approximately $2.4 million, which was primarily a result of increases in sales volume and unit selling prices and decreases in unit production costs during the three months ended September 30, 2017, as compared to the same period in 2016.

Provision for Doubtful Accounts. We had provision for doubtful accounts charges of approximately $0.2 million for the three months ended September 30, 2017, as compared to provision for doubtful accounts charges of approximately $2.1 million during the three months ended September 30, 2016, a change of approximately $1.9 million, or 92%. The change was attributable to the fact that more accounts receivable and prepayments became over 180 days past due and less other receivables became over one year past due during the three months ended September 30, 2017, as compared to the same period in 2016, and we have correspondingly adjusted our allowance for doubtful accounts in accordance with our allowance policy.

At the end of each quarter, we conduct an aging analysis of each customer s arrears to determine whether the allowance for doubtful accounts is adequate. In establishing the allowance for doubtful accounts, we consider historical experience, the economic environment, trends in the construction industry, expected collectability of amounts receivable that are past due, and the expected collectability of overdue receivables. An estimate of doubtful accounts is recorded when collection of the full amount is no longer probable. Known bad debts are written off against the allowance for doubtful accounts when identified. After reviewing individual balances, we provide a provision of 15% for accounts receivable past due more than 180 days but less than one year, 40% for accounts receivable past due from one to two years, 75% for accounts receivable past due beyond two years, 100% for accounts receivable past due beyond three years, plus additional amounts as necessary.

As of September 30, 2017, our accounts receivable aging are as follows:

	Balance	1-90 days	91-180 days	181-360 days	361-720 days	over 720 days	Over 1,080 days
Accounts receivable	$ 65,004,147	$ 12,395,903	$ 5,836,227	$ 20,311,622	$ 21,336,840	$ 3,703,195	$ 1,420,360
Allowance for doubtful accounts	(16,286,057)	-	-	(3,046,743)	(8,535,701)	(3,283,253)	(1,420,360)
Accounts receivable, net	$ 48,718,090	$ 12,395,903	$ 5,836,227	$ 17,264,879	$ 12,801,139	$ 419,942	$ -

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional fees paid. We incurred selling, general and administrative expenses of approximately $1.4 million for the three months ended September 30, 2017, as compared to approximately $1.9 million for the three months ended September 30, 2016, a decrease of approximately $0.5 million. The decrease was primarily due to a $0.6 million decrease in restricted stock compensation, social security and benefits and other various G&A expenses, which was partially offset by a $0.1 million increase in salaries and other various G&A expenses as compared to the three months ended September 30, 2016.

Research and Development (R&D) Expenses. Research and development expenses were approximately $91,000 for the three months ended September 30, 2017, as compared to $79,000 for the same period in 2016.

Loss from Operations. We incurred loss from operations of approximately $0.2 million and approximately $5.0 million for the three months ended September 30, 2017 and 2016, respectively. This change of approximately $4.8 million from loss to income was primarily due to a $2.4 million increase in gross profit, a $1.9 million decrease in provision for doubtful accounts expenses, a $0.5 million decrease in selling, general and administration expenses, and was offset by an $12,000 increase in research and development expenses.

Other Expense, Net. Our other expense consists of interest income (expense), finance expense and other non-operating income (expense). We had other expense of approximately $0.3 million during each of the three months ended September 30, 2017 and 2016. We earned interest income of approximately $2,000 and $8,000 for the three months ended September 30, 2017, and 2016, respectively. We incurred interest expense of approximately $0.3 million and $0.2 million for the three months ended September 30, 2017, and 2016, respectively. We incurred finance expense of approximately $2,000 and $0.2 million for the three months ended September 30, 2017, and 2016, respectively.

Provision for Income Taxes. We did not incur provision for income taxes for the three months ended September 30, 2017, because we had net operating losses on deferred tax assets for which we previously provided 100% allowance to be utilized during the period. We did not incur provision for income for the three months ended September 30, 2016 as we did not generate any income for tax provision and provided 100% allowance from net operating losses on deferred tax assets.

Net Loss. We had net loss of approximately $0.5 million for the three months ended September 30, 2017, as compared to a net loss of approximately $5.3 million for the three months ended September 30, 2016, a positive change in the amount of approximately $4.8 million. Such change was the result of the combination of the changes as discussed above.

Liquidity and Capital Resources

As of September 30, 2017, we had cash and cash equivalents of approximately $0.9 million and restricted cash of approximately $1.8 million, which was held by subsidiaries located outside the U.S. We would be required to accrue and pay U.S. taxes if we were to repatriate these funds. Any company which is registered in mainland PRC must apply to the State Foreign Exchange Administration for approval in order to remit foreign currency to any foreign country. We currently do not intend to repatriate to the U.S. the cash and short-term investments held by our foreign subsidiaries. However, if we were to repatriate funds to the U.S., we would assess the feasibility and plan any transfer in accordance with foreign exchange regulations, taking into account tax consequences. As we conduct all of our operations in the PRC, the restriction on the conversion of cash and short-term investments held in RMB to other currencies should not affect our liquidity.

In assessing our liquidity, we monitor and analyze our cash on-hand and our operating and capital expenditure commitments. Our liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations.

We engage in the production of advanced construction materials for large-scale infrastructure, commercial and residential developments. Our business is capital intensive and we are highly leveraged. Debt financing in the form of short-term bank loans, loans from related parties and bank acceptance notes, have been utilized to finance our working capital requirements and capital expenditures. Working capital was approximately $7.4 million as of September 30, 2017, as compared to $7.5 million as of June 30, 2017. As of September 30, 2017, in addition to cash on-hand and restricted cash, we also have other current assets mainly composed of accounts receivable and prepayments and advances to suppliers.

Although we believe that we can realize our current assets, our ability to repay our current obligations will depend on the future realization of our current assets. Management has considered historical experience, the economic environment, trends in the construction industry, the expected collectability of accounts receivable and the realization of the prepayments on inventory, and provided for an allowance for doubtful accounts as of September 30, 2017. We expect to realize balances net of allowance within the normal operating cycle of a twelve-month period. If we are unable to realize our current assets within the normal twelve-month operating cycle, we may have to consider supplementing our available sources of funds through the following:

Financial support and credit guarantee commitments from our shareholders.

Other available sources of financing from PRC banks and other financial institutions, given our credit history.

Based on the above considerations, management is of the opinion that we have sufficient funds to meet our working capital requirements and debt obligations as they become due. However, there is no assurance that management will be successful in their plans. There are a number of factors that could potentially arise that could undermine the Company s plans, such as changes in the demand for our products, economic conditions, competitive pricing in the concrete-mix industry, our operating results not continuing to deteriorate and our bank and shareholders being able to provide continued financial support.

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

	For the three months ended September 30,	
	2017	2016
Net cash provided by operating activities	$ 1,638,202	$ 3,594,609
Net cash used in investing activities	(12,001)	(67,777)
Net cash (used in) provided by financing activities	(931,806)	3,708,123
Effect of foreign currency translation in cash and cash equivalents	4,808	(7,416)
Net change in cash and cash equivalents	$ 699,203	$ 7,227,539

Principal demands for liquidity are for working capital and general corporate purposes.

Operating Activities. Net cash provided by operating activities totaled approximately $1.6 million for the three months ended September 30, 2017, which was attributable to a net loss of $0.5 million and net cash provided by operating activities of $2.1 million, including adjustments for $0.3 million of depreciation, $0.2 million of provision for doubtful accounts as well as $1.7 million cash inflow from a change in operating assets and liabilities. Net cash from changes in operating assets and liabilities resulted in a net cash inflow, which mainly included cash inflow for reduction in inventories of $0.2 million, reduction of prepayments and advances of $3.2 million as we have already secured enough materials for production, reduction of prepayments related party of $0.7 million, additional accounts payable of $3.7 million, excluding non-cash offset of $1.5 million, as we were in waiting for our accounts receivable collection to repay our vendors, addition of $0.2 million in accrued liabilities and taxes payable, and addition of $0.2 million other payables-shareholders, and was primarily offset by additional accounts receivable of $1.9 million, excluding a non-cash offset of $1.5 million, and payments of other payables of $3.8 million.

Investing Activities. Net cash used in investing activities was approximately $12,000 for the three months ended September 30, 2017, which was primarily attributable to the purchase of equipment.

Financing Activities. Net cash used in financing activities totaled approximately $0.9 million for the three months ended September 30, 2017, which was primarily attributable to $4.8 million for the repayments of bank loans and bank guarantees, $8.3 million for the repayments of notes payable, and was offset by $9.6 million new bank loans and bank guarantees, and releases of $2.5 million of restricted cash.

Cash and cash equivalents. As of September 30, 2017, we had cash and cash equivalents of approximately $0.9 million as compared to approximately $0.2 million as of June 30, 2017. We believe that our cash and revenues from ongoing operations, in addition to the close management of our accounts payable and accounts receivable and our ability to obtain loan financing, will be sufficient to meet our liquidity and capital requirements for all of our ongoing operations. However, we may need to raise additional capital if we undertake any plans for expansion.

Loan Facilities. We had a total of approximately $28.9 million and $31.7 million outstanding on loans and credit facilities as of September 30 and June 30, 2017, respectively. See Note 6 to our unaudited condensed consolidated financial statements included elsewhere in this report.

Critical Accounting Policies and Estimates

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

Principles of consolidation

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

Use of estimates and assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates and assumptions made in the preparation of the Company s unaudited condensed consolidated financial statements include allowance for doubtful accounts, deferred taxes, and prepayments and advances, stock-based compensation, and fair value and useful lives of property, plant and equipment. Actual results could be materially different from those estimates.

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 to be pervasive evidence of an arrangement);
- Delivery has occurred;
- The seller s price to the buyer is fixed or determinable; and
- Collectability of payment is reasonably assured.

The Company sells its concrete products 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. Each agreement includes a cancellation clause if the Company or the customers breach the contract terms specified in the agreement.

The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer by the Company and collectability of payment is reasonably assured.

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

Financial instruments

US GAAP 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.

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

Accounts receivable

We extend unsecured credit to our customers in the normal course of business, Accounts are considered past due after 30 days. In establishing the required allowance for doubtful accounts, management considers historical experience, the economic environment, trends in the construction industry, and the expected collectability of the overdue receivable. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. An estimate for doubtful accounts is recorded when collection of the full amount is no longer probable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovering is considered remote. We provide a provision of 15% of the allowance for doubtful accounts for accounts receivable balance that are past due more than 180 days but less than one year, 40% of the allowance for doubtful accounts for accounts receivable past due from one to two years, 75% of the allowance for doubtful accounts for accounts receivable past due beyond two years, 100% of the allowance for doubtful accounts for accounts receivable past due beyond three years, plus additional amount as necessary, which our collection department had determined the collection of the full amount is remote with the approval from our management to provide a 100% provision allowance for doubtful accounts. Our management have continued to evaluate the reasonableness of the valuation allowance policy and update it if necessary.

Accounting for long-lived assets

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

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

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

There was no impairment charge for the three months ended September 30, 2017, and 2016.

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

Income taxes

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

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

United States federal, state and local income tax returns prior to 2014 are not subject to examination by any applicable tax authorities. PRC tax returns filed in 2016 and prior year are subject to examination by any applicable tax authorities.

Off-Balance Sheet Arrangements

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

Recently issued accounting pronouncements

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

Interest Rate Risk

We are exposed to interest rate risk while we have short-term bank loans outstanding. Although 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. Interest rates are approximately 4.35% or 5.66% for RMB bank loans with a term of twelve months or less.

Credit Risk

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

Foreign Exchange Risk

The value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in the PRC s political and economic conditions. The RMB does not fluctuate with the U.S. dollar. Although the People s Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. In August 2015, the PRC s currency dropped by a cumulative 4.4% against the U.S. dollar on hopes of boosting the domestic economy, making PRC exports cheaper and imports into the PRC more expensive by that amount. The effect on trade can be substantial. The RMB started to appreciate in the year 2017 and the trend of appreciation continued during the three months ended September 30, 2017. Compared with the lowest point from RMB versus U.S. dollars in 2016, the RMB has appreciated by 0.5% compared to the exchange rate as of September 30, 2017. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

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

Very limited hedging transactions are available in the PRC 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 gains or losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currencies.

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

Inflation

Inflationary factors, such as increases in the cost of raw materials and overhead costs, could impair our operating results. Inflation has had a material impact on our financial position or results of operations for the three months ended September 30, 2017, a high rate of inflation in the future may have a continued adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of sales revenue if the selling prices of our products do not increase with these increased costs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities of Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions to be made regarding required disclosures. Each of our Chief Executive Officer and our Interim Chief Financial Officer has evaluated the design and operating effectiveness of our disclosure controls and procedures as of September 30, 2017. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures were not effective as of September 30, 2017, due to ineffective internal controls over financial reporting that stemmed from the fact that we do not have any full-time accounting personnel who have U.S. GAAP experience and because we issued restricted shares before the performance.

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

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2017, there were no changes in our internal controls over financial reporting identified in connection with the evaluation performed during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II

OTHER INFORMATION

ITEM 6. EXHIBITS

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 15, 2017	**CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.**	
	By:	/s/ Xianfu Han Xianfu Han, Chief Executive Officer *(Principal Executive Officer)*
	By:	/s/ Weili He Weili He, Interim Chief Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Interim Chief Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer and Interim Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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