China Advanced Construction Materials Group, Inc
Form 10-Q
February 09, 2010

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

FORM 10–Q

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

For the quarterly period ended: December 31, 2009

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

For the transition period from ____________ to _____________

Commission File Number: 333-141568

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

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

1515 Broadway, 11th Floor
New York, NY 10036
(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 o No o

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 o No o

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

Large Accelerated Filer o	Accelerated Filer o
	Smaller reporting company x

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

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

The number of shares outstanding of each of the issuer's classes of common equity, as of February 8, 2010 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	13,186,420

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND JUNE 30, 2009

	December 31, 2009 (Unaudited)	June 30, 2009
ASSETS		
CURRENT ASSETS:		
Cash	$ 1,696,339	$ 3,634,805
Restricted cash	260,863	453,192
Marketable securities	-	71,880
Notes receivable	14,275	10,799
Accounts receivable, net of allowance for doubtful accounts of $95,866 and $120,986, respectively	23,231,389	11,815,402
Inventories	1,878,710	1,216,014
Other receivables	1,825,418	3,845,186
Prepayments	5,524,792	4,255,326
Total current assets	34,431,786	25,302,604
PLANT AND EQUIPMENT, net	20,923,012	22,089,717
OTHER ASSETS:		
Accounts receivable (non-current), net of allowance for doubtful accounts of $223,685 and $328,563 respectively	8,404,203	4,132,706
Long term prepayments	9,447,976	4,794,746
Total other assets	17,852,179	8,927,452
Total assets	$ 73,206,977	$ 56,319,773
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term loans	$ 146,259	$ 4,512,200
Accounts payable	22,081,971	10,722,741
Customer deposits	463,047	-
Other payables	306,266	352,880
Other payables - shareholders	751,826	806,946
Accrued liabilities	1,443,512	593,057
Taxes payable	2,727,478	3,048,179
Total current liabilities	27,920,359	20,036,003
OTHER LIABILITIES		
Warrants liabilities	5,546,523	-
Total liabilities	33,466,882	20,036,003
COMMITMENTS AND CONTINGENCIES (Note 20)		
	4,231,149	6,241,419

REDEEMABLE CONVERTIBLE PREFERRED STOCK ($0.001 par value, 549,875 shares issued and outstanding as of December 31, 2009 and 851,125 shares issued and outstanding as of June 30, 2009), net of discount for the amount of $167,851 and $567,581 as of December 31 and June 30, 2009, respectively		
SHAREHOLDERS' EQUITY:		
Preferred stock $0.001 par value, 1,000,000 shares authorized, 549,875 issued and outstanding as of December 31, 2009 and 851,125 issued and outstanding as of June 30, 2009, and classified outside shareholders' equity (see above), liquidation preference of $8.00 per share and accrued dividends as of December 31, 2009 and June 30, 2009	-	-
Common stock, $0.001 par value, 74,000,000 shares authorized, 12,751,971 and 10,595,500 shares issued and outstanding, as of December 31, 2009 and June 30, 2009, respectively	12,752	10,596
Paid-in-capital	17,735,448	12,987,417
Contribution receivable	-	(1,210,000)
Retained earnings	11,590,535	12,783,892
Statutory reserves	3,545,038	2,765,179
Accumulated other comprehensive income	2,625,173	2,705,267
Total shareholders' equity	35,508,946	30,042,351
Total liabilities, redeemable preferred stock and shareholders' equity	$ 73,206,977	$ 56,319,773

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

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE				
Sales of concrete	$ 20,316,502	$ 7,969,878	$ 35,203,259	$ 9,837,565
Manufacturing services	3,663,114	2,070,996	6,468,728	3,996,539
Technical services	1,234,760	423,330	2,479,655	1,040,127
Mixer rental	416,770	339,767	960,640	996,581
Marketing cooperation	247,796	24,230	247,796	94,135
Sales of materials	285,370	-	285,370	-
Total revenue	26,164,312	10,828,201	45,645,448	15,964,947
COST OF REVENUE				
Concrete	18,453,296	5,993,897	32,790,012	7,554,204
Manufacturing services	2,063,646	795,880	3,820,813	1,293,088
Technical services	81,516	29,781	135,999	97,683
Mixer rental	45,124	44,998	90,858	337,043
Marketing cooperation	47,061	7,837	47,061	38,707
Sales of materials	239,043	-	239,043	-
Total cost of revenue	20,929,686	6,872,393	37,123,786	9,320,725
GROSS PROFIT	5,234,626	3,955,808	8,521,662	6,644,222
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,157,250	612,371	2,052,281	1,269,480
INCOME FROM OPERATIONS	4,077,376	3,343,437	6,469,381	5,374,742
OTHER (EXPENSE) INCOME, NET				
Other subsidy income	1,323,515	602,427	2,290,287	830,021
Realized gain from sales of marketable securities	27,008	-	27,008	-
Non-operating (expense) income, net	(29,325)	(85,295)	(78,528)	(83,188)
Change in fair value of warrants	3,356,796	-	(3,916,645)	-
Interest income	1,524	2,406	3,021	3,840
Interest expense	-	(217,570)	(23,753)	(446,344)
TOTAL OTHER (EXPENSE) INCOME, NET	4,679,518	301,968	(1,698,610)	304,329
INCOME BEFORE PROVISION FOR INCOME TAXES	8,756,894	3,645,405	4,770,771	5,679,071
PROVISION FOR INCOME TAXES	811,813	1,000,403	1,348,627	1,575,230
NET INCOME	7,945,081	2,645,002	3,422,144	4,103,841

DIVIDENDS AND ACCRETION ON REDEEMABLE CONVERTIBLE PREFERRED STOCK	318,835	309,036	659,699	618,132
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	7,626,246	2,335,966	2,762,445	3,485,709
RECONCILIATION OF COMPREHENSIVE INCOME:				
Net Income	7,945,081	2,645,002	3,422,144	4,103,841
Unrealized loss from marketable securities	-	(5,876)	-	(19,217)
Foreign currency translation adjustment	(17,663)	74,755	(80,094)	138,179
COMPREHENSIVE INCOME	$ 7,927,418	$ 2,713,881	$ 3,342,050	$ 4,222,803
EARNING PER COMMON SHARE ALLOCATED TO COMMON SHAREHOLDERS				
Weighted average number of shares:				
Basic	12,377,182	10,525,000	11,681,294	10,525,000
Diluted	15,955,516	14,220,410	15,624,782	14,220,410
Earnings per share:				
Basic	$ 0.62	$ 0.22	$ 0.24	$ 0.33
Diluted	$ 0.50	$ 0.19	$ 0.22	$ 0.29

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

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

	Common stock		Additional			Retained earnings		Accumulated	
	Number of shares	Par amount	Paid-in capital	Contribution receivable	Deferred Compensation	Unrestricted	Statutory reserves	other comprehensive income	Total
ALANCE, une 30, 2008	10,525,000	$ 10,525	$ 12,722,260	$ (1,210,000)	$ (27,708)	$ 3,257,276	$ 1,452,779	$ 2,598,466	$ 18,803,598
ividends on edeemable referred stock						(317,650)			(317,650
ccretion of iscount on edeemable referred stock						(300,481)			(300,481
tock based ompensation			26,210		2,771				28,981
orfeited stock ompensation			(24,937)		24,937				-
et income						4,103,841			4,103,841
djustment to tatutory eserve						(459,217)	459,217		-
nrealized loss n marketable ecurities								(19,217)	(19,217
oreign urrency anslation gain								138,179	138,179
ALANCE, ecember 31, 008	10,525,000	$ 10,525	$ 12,723,533	$ (1,210,000)	$ -	$ 6,283,769	$ 1,911,996	$ 2,717,428	$ 22,437,251
ividends on edeemable referred stock						(310,855)			(310,855
ccretion of iscount on edeemable referred stock						(300,487)			(300,487
tock based ompensation			81,267						81,267
orfeited stock ompensation	(25,000)	(25)	(8,288)						(8,313
edeemable onvertible referred stock onverted to ommon stock	95,500	96	190,905						191,001
et income						7,964,648			7,964,648

djustment to tatutory eserve						(853,183)	853,183		-
Jnrealized loss n marketable ecurities								39,822	39,822
oreign urrency anslation gain								(51,983)	(51,983
ALANCE, une 30, 2009, s previously eported	10,595,500	$ 10,596	$ 12,987,417	$ (1,210,000)	$ -	$ 12,783,892	$ 2,765,179	$ 2,705,267	$ 30,042,351
umulative ffect of eclassification f warrants			(1,371,280)			(1,965,945)			(3,337,225
ALANCE, une 30, 2009, s adjusted, Unaudited)	10,595,500	$ 10,596	$ 11,616,137	$ (1,210,000)	$ -	$ 10,817,947	$ 2,765,179	$ 2,705,267	$ 26,705,126
ividends on edeemable referred stock						(259,969)			(259,969
ccretion of iscount on edeemable referred stock						(399,728)			(399,728
tock based ompensation			120,778						120,778
ssuance of ommon Stock or cash at $2.3	650,988	651	1,496,591						1,497,242
onversion of edeemable referred stock nto common tock	1,205,000	1,205	2,408,795						2,410,000
onversion of varrants into ommon stock	300,483	300	741,626						741,926
erivative alue of varrants xercised			1,351,521						1,351,521
ividends paid o shareholders nd contributed s share capital				1,210,000		(1,210,000)			-
et income						3,422,144			3,422,144
						(779,859)	779,859		-

djustment to tatutory eserve									
nrealized loss n marketable ecurities								(20,698)	(20,698
oreign urrency anslation loss								(59,396)	(59,396
ALANCE, ecember 31, 009	12,751,971	$ 12,752	$ 17,735,448	$ -	$ -	$ 11,590,535	$ 3,545,038	$ 2,625,173	$ 35,508,946

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

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CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008

	December 31, 2009 (UNAUDITED)	December 31, 2008 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,422,144	$ 4,103,841
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation	1,387,883	1,071,362
Amortization of long term deferred expense	-	2,771
Bad debt expense	(129,354)	142,485
Amortization of deferred compensation expense	120,778	26,210
Change in fair value of warrants	3,916,645	-
Realized gain on sale of marketable securities	(27,007)	-
Changes in operating assets and liabilities		
Accounts receivable	(19,737,550)	(8,111,508)
Note receivable	(3,502)	-
Inventories	(664,483)	(861,184)
Other receivables	2,011,537	(208,733)
Prepayments	(1,276,446)	155,626
Long term deferred expense	(424,307)	-
Accounts payable	11,375,636	2,931,338
Customer deposits	462,849	(2,232)
Other payables	39,898	55,886
Accrued liabilities	896,045	166,881
Taxes payable	(314,895)	1,590,669
Net cash provided by operating activities	1,055,871	1,063,412
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	78,207	-
Advanced for equipment purchase	(80,462)	-
Purchase of property, plant and equipment	(258,580)	(31,666)
Net cash used in investing activities	(260,835)	(31,666)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short term loan	146,284	7,354,278
Payments of short term loan	(4,502,287)	(6,749,544)
Payment to shareholder for rent	(141,060)	(43,282)
Restricted cash	192,330	31,608
Proceeds from exercise of warrants	386,100	-
Proceeds from issuance of common stock	1,497,242	-
Preferred dividends paid	(304,781)	(317,648)
Net cash (used in) provided by financing activities	(2,726,172)	275,412
EFFECTS OF EXCHANGE RATE CHANGE IN CASH	(7,330)	7,525

NET (DECREASE) INCREASE IN CASH		(1,938,466)		1,314,683
CASH, beginning of year		3,634,805		1,910,495
CASH, end of period	$	1,696,339	$	3,225,178

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

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

Note 1 – Organization and description of business

China Advanced Construction Materials Group, Inc. ("China ACM" or the "Company") was founded on September 1, 2005, under the name TJS Wood Flooring, Inc. ("TJSW"), and incorporated in the State of Delaware on February 15, 2007. On April 29, 2008, TJSW changed its name to China Advanced Construction Materials Group, Inc. in connection with a share exchange transaction as described below.

On April 29, 2008, the Company executed a share exchange agreement with Xin Ao Construction Materials, Inc. ("BVI-ACM") whereby the Company issued to the stockholders of BVI-ACM 8,809,583 shares of the Company's common stock in exchange for all of the issued and outstanding capital stock of BVI-ACM (the "Share Exchange"). Prior to the Share Exchange, and after the cancellation of 9,990,000 shares, China ACM had 1,166,667 shares of common stock issued and outstanding. After the Share Exchange, China ACM had 10,500,000 shares of common stock outstanding and the former shareholders of BVI-ACM owned 83.9% of the issued and outstanding shares. The directors and executive officers of BVI-ACM became the directors and officers of China ACM. This transaction has been accounted for as a reverse acquisition and recapitalization of the Company whereby BVI-ACM is deemed to be the accounting acquirer (legal acquiree) and the Company the accounting acquiree (legal acquirer). The historical financial statements for periods prior to April 29, 2008, are those of BVI-ACM except that the equity section and earnings per share have been retroactively restated to reflect the reverse acquisition.

BVI-ACM was established on October 9, 2007, under the laws of the British Virgin Islands. The majority shareholders of BVI-ACM are Chinese citizens who own 100% of Beijing Xin Ao Concrete Co., Ltd. ("Xin Ao"), a limited liability company formed under the laws of the People's Republic of China ("PRC"). BVI-ACM was established as a "special purpose vehicle" for foreign fund raising for Xin Ao. China State Administration of Foreign Exchange ("SAFE") requires the owners of any Chinese companies to obtain SAFE's approval before establishing any offshore holding company structure for foreign financing as well as subsequent acquisition matters under Circular 106 in the PRC. On September 29, 2007, BVI-ACM was approved by the local Chinese SAFE as a "special purpose vehicle" offshore company.

On November 23, 2007, BVI-ACM established a subsidiary, Beijing Ao Hang Construction Material Technology Co., Ltd. ("China-ACMH"), in the PRC as a wholly-owned foreign limited liability company ("WOFE") with registered capital of $5 million.

BVI-ACM, through its 100% owned China-ACMH and its variable interest entity ("VIE") Xin Ao (see Note 2), is engaged in producing general ready-mix concrete, customized mechanical refining concrete, and other concrete-related products that are mainly sold in the PRC. Xin Ao, licensed by the Beijing Administration of Industry & Commerce, PRC, was established on June 28, 2002, with an initial capital contribution of approximately $3,630,000 (RMB30 million). On July 8, 2005, the Board of Directors of Xin Ao increased its registered capital to $12,100,000 (RMB100 million) through the use of Xin Ao's undistributed profits.

On November 28, 2007, China-ACMH entered a series of contractual arrangements (the "Contractual Arrangements") with Xin Ao and its shareholders in which China-ACMH effectively took over management of the business activities of Xin Ao. The term of these agreements is for ten (10) years and terminates automatically upon expiration, and may be extended only if China-ACMH gives its written consent of the extension before the expiration. The parties, through negotiations, determine the extension term. During the term, Xin Ao may not terminate the agreements except in the case of gross negligence, fraud or other illegal acts or bankruptcy of China-ACMH. Notwithstanding the foregoing, China-ACMH may terminate the agreement at any time with a written notice to Xin Ao thirty (30) days before such termination. Additionally, without China-ACMH's prior written consent, Xin Ao cannot assign or otherwise transfer its rights and obligations under the agreements. Subject to compliance with the laws of China, China-ACMH may assign the agreements to any affiliate or any other designated entity without the prior consent of Xin Ao.

Through China-ACMH, BVI-ACM operates and controls Xin Ao through the Contractual Arrangements. BVI-ACM utilized the Contractual Arrangements to gain control of the operations of Xin Ao, instead of acquiring Xin Ao, due to: (i) new PRC laws governing share exchange transactions with foreign entities, effective since September 8, 2006, make the consequences of such acquisitions uncertain and (ii) other than by share exchange transactions, PRC laws require Xin Ao to be acquired for cash and BVI-ACM was not able to raise sufficient funds to pay the full appraised value for Xin Ao's assets or shares as required under PRC laws.

CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC. AND SUBSIDIARIES
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Through this series of Contractual Arrangements, China-ACMH provides exclusive technical consulting services to Xin Ao for an annual fee equal to Xin Ao's yearly net income. China-ACMH effectively took over management of daily business activities of Xin Ao and has the right to appoint all executives, senior management and members of the board of directors of Xin Ao. China-ACMH guarantees all of Xin Ao's business activities with any third parties and in return is guaranteed all of Xin Ao's assets. In addition, shareholders of Xin Ao pledged their shares in Xin Ao as collateral for the annual fees due to the Company and granted China-ACMH the exclusive right and option to acquire all of their equity interests in Xin Ao.

Note 2 – Summary of significant accounting policies

Basis of presentation

The Company's accounting policies used in the preparation of the accompanying consolidated financial statements conform to accounting principles generally accepted in the United States of America ("US GAAP") and have been consistently applied.

Management has included all normal recurring adjustments considered necessary to give a fair presentation of operating results for the periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the 2009 annual report filed on Form 10-K.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of China ACM, BVI-ACM, including its wholly-owned subsidiary China-ACMH, and its variable interest entity Xin Ao. All significant inter-company transactions and balances have been eliminated in consolidation.

In accordance with FASB guidance on variable interest entities ("VIE"), all VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks for financial reporting purposes. Based upon a series of Contractual Arrangements, The Company determined that Xin Ao is a variable interest entity subject to consolidation and that the Company is the primary beneficiary. Accordingly, the financial statements of Xin Ao are consolidated into the financial statements of the Company.

Use of estimates

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 period. The significant estimates made in the preparation of the Company's consolidated financial statements relate to the assessment of the fair value of share-based payments and the collectability of accounts receivable. Actual results could be materially different from those estimates, upon which the carrying values were based.

Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The functional currency of China ACM and BVI-ACM is the U.S. dollar. China-ACMH and Xin Ao use their local currency Chinese Renminbi ("RMB") as their functional currency. In accordance with the FASB's 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 the historical exchange rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Accumulated other comprehensive income in the consolidated statements of shareholders' equity amounted to \$2,625,173 and \$2,705,267 as of December 31 and June 30, 2009, respectively. Asset and liability accounts at December 31, 2009 and June 30, 2009 were translated at RMB 6.84 and RMB 6.83 to \$1.00, respectively. The average translation rates applied to the consolidated statements of income and cash flows for the six months ended December 31, 2009 and 2008 were RMB 6.84 and RMB 6.83 to \$1.00, respectively.

Translation gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Gains and losses from foreign currency transactions are included in the results of operations. There were no material transaction gains or losses for the three and six months ended December 31, 2009 and 2008.

Revenue recognition

The Company recognizes revenue in accordance with FASB issued accounting standards regarding revenue recognition which specifies that revenue is realized or realizable and earned when four criteria are met:

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

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

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

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

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

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

The Company also provides manufacturing services, technical consulting services and strategic cooperation including market sharing and equipment rental with other independently owned concrete companies. The Company signs a Technical Service Agreement or Strategic Cooperation Agreement with each concrete company, which specifies all terms and conditions including prices to be charged. Once concrete products are produced by the concrete company and supplied to builders referred by the Company or cost savings are realized by the use of technical solutions provided by the Company, the Company has in effect rendered its service pursuant to the agreements. The Company recognizes revenue and invoices the concrete companies monthly for technical service and marketing cooperation on a per-cubic-meter basis and for equipment rental on a per-mixer truck basis.

The Company also earns income from the renting of certain of its vehicles to other non-related concrete companies. The rental amounts are based on pre-determined rental rates on a per cubic meter basis.

Shipping and handling

Shipping and handling costs related to costs of the raw materials purchased is included in cost of revenues. Further, transportation costs incurred in the delivery of the Company's concrete products are also included in cost of revenues.

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

Financial instruments

The accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement, and enhance disclosure requirements for fair value measures.

The three levels are defined as follows:

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

Ÿ 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, substantially the full term of the financial instrument.

Ÿ Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Marketable securities, warrant liabilities, receivables and current liabilities qualify as financial instruments. Marketable securities were determined using Level 1, which are carried on the consolidated balance sheets at fair value, with fair values determined by the financial institution who sold the securities. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities are reasonable estimates of fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

As required by a FASB accounting standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value of the warrants was determined using the CRR Binomial Model, as level 2 inputs, and recorded the change in earnings. As a result, the derivative liability is carried on the balance sheet at its fair value.

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 (unaudited).

	Carrying Value at December 31, 2009	Fair Value Measurement at December 31, 2009		
		Level 1	Level 2	Level 3
Marketable securities	$ -	$ -	$ -	$ -
Derivative liability - warrants	$ 5,546,523	$ -	$ 5,546,523	$ -

Other than the marketable securities and derivative liability - warrants carried at fair value, the Company did not identify any other assets and liabilities that are required to be presented on the consolidated balance sheet at fair value in accordance with the FASB accounting standard.

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Stock-based compensation

The Company records stock-based compensation expense pursuant to FASB's accounting standard regarding stock compensation which requires companies to measure compensation cost for stock-based employee compensation plans at fair value at the grant date and recognize the expense over the employee's requisite service period. Under ASC Topic 718, the Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock-based compensation expense is recognized based on awards expected to vest, and there were no estimated forfeitures as the Company has a short history of issuing options. This accounting standard requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The Company estimates the fair value of the awards using the CRR binomial model. Option pricing models, such as the CRR binomial model, require the input of highly complex and subjective variables including the expected life of options granted and the Company's expected stock price volatility over a period equal to or greater than the expected life of the options. Because changes in the subjective assumptions can materially affect the estimated value of the Company's employee stock options, it is management's opinion that the CRR binomial model may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with the accounting standard aforementioned using an option-pricing model, the value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Concentration of risk

Cash - Cash includes cash on hand and demand deposits in accounts maintained with state owned banks within the PRC. The Company considers all highly liquid instruments purchased with original maturities of three months or less, and money market accounts, to be cash equivalents. Total cash in these banks at December 31 and June 30, 2009 amounted to $827,589 and $3,634,805, respectively, of which no deposits were covered by insurance. Also, as of December 31 and June 30, 2009, the Company held $260,863 and $453,192 in restricted cash in a corporate legal counsel's trust account respectively , in accordance with an agreement with investors for the restricted use of preferred stock dividend and investor relation related expenses. Nonperformance by these institutions could expose the Company to losses not covered by insurance. Management reviews the financial condition of these institutions on a periodic basis. The Company has not incurred any losses on these accounts from nonperformance by the aforementioned institutions.

Major customers – For the three months and six months ended December 31, 2009, the Company does not have customer over 10% of sales. For the three months ended December 31, 2008, two customers accounted for approximately 24.7% of the Company's sales and 25.6% of the Company's account receivables as of December 31, 2008. For the six months ended December 31, 2008, three customers accounted for approximately 21% of the Company's sales and 39% of the Company's account receivable as of December 31, 2008.

Major suppliers – For the three months and six months ended December 31, 2009, the Company does not have supplier over 10% of purchases. For the three months ended December 31, 2008, one supplier accounted for approximately

14.4% of the Company purchase and approximately 1.48% of the Company's accounts payable as of December 31, 2008. For the six months ended December 31, 2008, two suppliers accounted for approximately 19% of the Company purchase and approximately 45% of the Company's accounts payable as of December 31, 2008.

Political and economic risks - The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic, and legal environments, and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among others.

Restricted Cash

Restricted cash represents portion of the proceeds received from the June 11, 2008, Private Placement that was deposited in a trust account held by the Company's legal counsel for payment of dividends, investor relations fees, and other professional fees. The restricted cash balance was $260,863 and $453,192 as of December 31 and June 30, 2009, respectively.

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Accounts receivable

During the normal course of business, the Company extends unsecured credit to its customers. 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. Known bad debts are written off against allowance for doubtful accounts when identified. The Company's reserves are consistent with its historical experience and considered adequate by management.

The ultimate collection of the Company's accounts receivable may take more than one year, and any portion of accounts receivable expected to be collected in more than one year is reflected as noncurrent, net of allowance for doubtful accounts relating to that portion of the receivables. The bifurcation between current and noncurrent portions of accounts receivable is based on management's estimate and predicated on historical collection experience.

Inventories

Inventories consist of raw materials and are stated at the lower of cost or market, using the weighted average cost method. The Company reviews its inventory periodically for possible obsolescence or if a write down is necessary because the carrying value exceeds net realizable value. As of December 31 and June 30, 2009, the Company determined no reserves for obsolescence were necessary.

Prepayments

The Company advances monies to certain suppliers for raw materials and short term prepaid rent. These advances are interest free and unsecured. In addition, the prepayments also include amounts prepaid for rent.

Plant, machinery and equipment

Plant, machinery and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred while additions, renewals and betterments are capitalized. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method with 5% residual value.

The estimated useful lives of assets are as follows:

	Useful Life
Transportation equipment	10 years
Plant and machinery	10 years
Office equipment	5 years

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the consolidated statements of income. Construction-in-progress represents labor costs, materials, and capitalized interest incurred in connection with the construction of a new mixer station inside the current plant facility in and outside of Beijing. Interest incurred during construction is capitalized into construction in progress. All other interest is expensed as incurred. No depreciation is provided for construction in progress until it is completed and placed into service. Maintenance, repairs and minor renewals are charged to expense as incurred. Major additions and betterment to property and equipment are capitalized.

Long-lived assets of the Company are reviewed at least annually, more often if circumstances dictate, for possible impairment. Whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, the Company records an impairment charge to reduce the related assets to their net realizable value. The Company believes no impairment exists at December 31, 2009.

Redeemable convertible preferred stock

On June 11, 2008, the Company completed the sale to certain accredited investors of 875,000 investment units for gross proceeds of $7,000,000, each unit consisting of one share of the Company's Series A Convertible Preferred Stock and one warrant to purchase two shares of the Company's common stock. The preferred stock pays annual dividends of 9% regardless of the Company's profitability. Each preferred share is convertible into four shares of common stock. The Company received net proceeds of approximately $5.3 million after offering expenses and net of $930,000 restricted cash which was required to be placed in escrow. Upon the two year anniversary of the closing date, the Company is required to redeem for cash the outstanding preferred stock, if not previously converted by the holders, for $8.00 per share plus accrued but unpaid dividends. Because the Company is required to redeem the preferred stock on June 11, 2010, if it has not been previously converted by the holders, in accordance with a FASB accounting standard, the preferred stock is classified outside of shareholders' equity.

In accordance with an accounting standard issued by the FASB regarding debt with conversion and other options, the Company allocated the proceeds received between the preferred stock and the warrants. The resulting discount from the face amount of the preferred stock is being amortized using the effective interest method over the period to the required redemption date. After allocating a portion of the proceeds to the warrants, the effective conversion price of the preferred stock was higher than the market price at the date of issuance, and therefore, no beneficial conversion feature was recorded. The dividends on the preferred stock, together with the periodic accretion of the preferred stock to its redemption value, are charged to retained earnings.

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Income taxes

The Company's subsidiaries Xin Ao and WOFE are governed by the income tax laws of the PRC. The Company accounts for income taxes in accordance with a FASB accounting standard, 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. 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. Since the Company's operations are outside of the U.S., the Company did not have any provision for U.S. income taxes including any deferred income taxes, for the six months ended December 31, 2009 and 2008, respectively.

Under the accounting standard defines uncertainty in income taxes, the evaluation of a tax position is a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. The adoption had no effect on the Company's consolidated financial statements. There were no material deferred tax amounts as of December 31 and June 30, 2009, respectively.

The Company has cumulative undistributed earnings of China ACMH of approximately $21.6 million as of December 31, 2009, is included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings.

Chinese Income Taxes

The Company and its subsidiaries are governed by the income tax laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws").

Xin Ao's use of recycled raw materials in its production since its inception entitled the Company to an income tax exemption from January 1, 2003, through to December 31, 2007 and an income tax reduction from 25% to 15% from January 1, 2009 to December 31, 2012 as granted by the State Administration of Taxation of the PRC. The income tax exemption granted to the Company was eliminated after December 31, 2007. Beginning January 1, 2008, the new Chinese Enterprise Income Tax ("EIT") law replaced the existing laws for Domestic Enterprises ("DES") and Foreign Invested Enterprises ("FIEs"). Effective January 1, 2009, the new reduced EIT rate of 15% replaced the existing rates of 25% currently applicable to both DES and FIEs.

PRC laws require that before a FIE can legally distribute profits to its shareholders, it must satisfy all tax liabilities, provide for losses in previous years, and make allocations in proportions made at the discretion of the board of directors, after the statutory reserve. The statutory reserve includes the surplus reserve fund, the common welfare fund, and represents restricted retained earnings.

The Company adopted accounting policies in accordance to U.S. GAAP with regard to provisions, reserves, inventory valuation method, and depreciation that are consistent with requirements under Chinese income tax laws. Therefore, there were no significant deferred tax assets or liabilities during the six months ended December 31, 2009 and 2008, respectively.

The Company classifies interest and penalties assessed due to underpayment of income taxes as interest expense and other expenses, respectively. The Company incurred no such expenses for the six months ended December 31, 2009 and 2008, respectively.

Value added tax

Enterprises or individuals, who sell commodities, engage in repair and maintenance, or import and export goods in the PRC are subject to a value added tax. The standard VAT rate is 6% of gross sales for the Company’s industry. A credit is available whereby VAT paid on the purchases of raw materials used in the production of the Company’s finished products can be used to offset the VAT due on sales of finished products. Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT exemption from August 2005 through to August 2009 and a two year tax (VAT) credit extension from August 2009 through August 2011.

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Research and development costs

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. Research and development expenses for the three and six months ended December 31, 2009 were $2,898 and $40,479, respectively. The Company did not incur any research and development expense for the six months ended December 31, 2008.

Earnings per share

The Company reports earnings per share in accordance with a FASB accounting standard, requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts, such as warrants, options and convertible preferred stock, to issue common stock were exercised and converted into common stock. Dilutive securities having an anti-dilutive effect on diluted earnings per share are excluded from the calculation.

Comprehensive income

The FASB accounting standard for reporting and display of comprehensive income and its components in financial statement, requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same providence as other financial statements. The accompanying consolidated financial statements include the provision of this accounting standard, and therefore, comprehensive income consists of net income, unrealized gains and losses from marketable securities, and foreign currency translation adjustments.

Recently issued accounting pronouncements

In January 2009, the FASB issued an accounting standard which amended the impairment model by removing its exclusive reliance on “market participant” estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the “market participant” view to a holder’s estimate of whether there has been a “probable” adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The adoption of this accounting standard did not have a material impact on the Company’s consolidated financial statements because all of the investments in debt securities are classified as trading securities.

In April 2009, the FASB issued authoritative guidance related to the determination of fair value when the volume and level of activity for an asset or liability has significantly decreased, the identification of transactions that are not orderly, the recognition and presentation of other-than-temporary impairments, and the disclosure of the fair value of financial instruments on an interim basis. The adoption of the guidance did not have a material impact on the Company’s consolidated financial statements.

In April 2009, the FASB issued an accounting standard to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This standard will replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. This standard provides increased disclosure about the credit and noncredit components of impaired debt securities that are not expected to be sold and also requires increased and more frequent disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. Although this standard does not result in a change in the carrying amount of debt securities, it does require that the portion of an other-than-temporary impairment not related to a credit loss for a held-to-maturity security be recognized in a new category of other comprehensive income and be amortized over the remaining life of the debt security as an increase in the carrying value of the security. This standard became effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued an accounting standard that requires disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this accounting standard, fair values for these assets and liabilities were only disclosed annually. This standard applies to all financial instruments within its scope and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This standard does not require disclosures for earlier periods presented for comparative purposes at initial adoption, but in periods after the initial adoption, this standard requires comparative disclosures only for periods ending after initial adoption. The adoption of this standard did not have a material impact on the disclosures related to its consolidated financial statements.

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In May 2009, the FASB an accounting standard which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. The standard is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted this Standard during the second quarter of 2009. The standard requires that public entities evaluate subsequent events through the date that the financial statements are issued.

In June 2009, the FASB issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This accounting standard requires greater transparency and additional disclosures for transfers of financial assets and the entity’s continuing involvement with them and changes the requirements for derecognizing financial assets. In addition, it eliminates the concept of a qualifying special-purpose entity (“QSPE”). This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company has not completed the assessment of the impact this new standard will have on the Company’s financial condition, results of operations or cash flows.

In June 2009, the FASB also issued an accounting standard amending the accounting and disclosure requirements for the consolidation of variable interest entities (“VIEs”). The elimination of the concept of a QSPE, as discussed above, removes the exception from applying the consolidation guidance within this accounting standard. Further, this accounting standard requires a company to perform a qualitative analysis when determining whether or not it must consolidate a VIE. It also requires a company to continuously reassess whether it must consolidate a VIE. Additionally, it requires enhanced disclosures about a company’s involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the company’s financial statements. Finally, a company will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company has not completed their assessment of the impact that this pronouncement will have on the Company’s financial condition, results of operations or cash flows.

In June 2009, the FASB issued an accounting standard which establishes the FASB Accounting Standards Codification™ (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and as of the effective date, all existing accounting standard documents will be superseded. The Codification is effective for the Company in the third quarter of 2009, and accordingly, the Company’s Quarterly Report on Form 10-Q for the quarter ending September 30, 2009 and all current and subsequent public filings will reference the Codification as the sole source of authoritative literature.

In August 2009, the FASB issued an Accounting Standards Update (“ASU”) regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. This ASU is effective for the first reporting period, including interim periods, beginning after the issuance of this ASU. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In October 2009, the FASB issued an ASU regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In October 2009, the FASB issued new standards that revised the guidance for revenue recognition with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. Additionally, these new standards modify the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. The guidance is effective for revenue arrangements entered into for fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption will have a material impact on its consolidated financial statements.

Decreases in Ownership of a Subsidiary – a Scope Clarification

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In January 2010, the FASB issued an accounting standard update to address the accounting and reporting for Decreases in ownership of a subsidiary. This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS 160. The Company does not expect the provisions of ASU 2010-02 to have a material effect on the financial position, results of operations, or cash flows of the Company.

Distributions to Shareholders with Components of Stock and Cash
In January 2010, the FASB issued an accounting standard update to address the accounting for distributions to shareholders with components of stock and cash (A Consensus of the FASB Emerging Issues Task Force). This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260 for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company does not expect the provisions of ASU 2010-01 to have a material effect on the financial position, results of operations, or cash flows of the Company.

Note 3 – Supplemental disclosure of cash flow information

During the six months ended December 31, 2009 and 2008, the Company paid interest in the amount of $328,543 and $443,786, respectively.

Cash payments for income taxes for the six months ended December 31, 2009 and 2008 were $1,682,537 and $0, respectively. The Company was subject to corporate income tax exemption for calendar 2008.

For the six months ended December 31, 2009, 230,687 shares of common stock underlying warrants were converted into 139,608 shares of common stock by the exercise of such warrants on a cashless basis.

For the six months ended December 31, 2009, 301,250 shares of redeemable convertible preferred stock were converted into 1,205,000 shares of common stock on a cashless basis.

For the six months ended December 31, 2009, $4.2 million was assigned as prepayment for purchase of equipment.

Non-cash transactions in the six months ended December 31, 2008

For the six months ended December 31, 2008, the Company assigned accounts receivables totaling approximately $3,600,000 as payment to suppliers whose balances were included in accounts payable. Balances of accounts receivable and payable reported on the balance sheets are net of the assignments.

For the six months ended December 31, 2008, the accretion of the discount on redeemable preferred stock amounted to approximately $300,000, and has been included in the consolidated statements of shareholders' equity.

Note 4 – Marketable securities

Marketable securities are the mutual fund that XinAo purchased from CYJA Allianz Fund, all securities are available for sale and therefore are carried at fair value with unrealized gains and losses reported as accumulated other comprehensive income in shareholders' equity. Realized gains and losses on marketable securities are included in other income or expense in the period they incurred, and when applicable, are reported as a reclassification adjustment in other comprehensive income. Gains and losses on the sale of marketable securities are determined using the specific-identification method.

Note 5 – Accounts receivable

Accounts receivable are generated from concrete products sold, vehicle rental services provided to other unrelated concrete companies, and technological consulting services provided to the Company's customers and other concrete companies with which the Company conducts business. The payment terms are defined in the respective contracts. Over 73% of the Company's receivables are due within a year by contract and are classified as current assets on the consolidated balance sheets. For certain large construction projects that can take several years to complete, the Company provides extended payment terms to the general contractors. These contractors are usually large state-owned builders with good credit ratings. At the end of each period, the Company evaluates the structure and collectability of accounts receivable and for these receivables that are past due or not being paid according to payment terms, the Company takes appropriate actions including seeking legal resolution in a court of law, for its collection efforts.

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As of December 31 and June 30, 2009, accounts receivable and allowance for doubtful accounts consisted of the following:

	December 31, 2009 (Unaudited)	June 30, 2009
Accounts receivable, current	$ 23,327,255	$ 11,936,388
Less: allowance for doubtful accounts, current	(95,866)	(120,986)
Net accounts receivable, current	23,231,389	11,815,402
Accounts receivable, non-current	8,627,888	4,461,269
Less: allowance for doubtful accounts, non-current	(223,685)	(328,563)
Net accounts receivable, non-current	8,404,203	4,132,706
Total accounts receivable, net	$ 31,635,592	$ 15,948,108

Note 6 – Plant and equipment

Plant and equipment consist of the following as of December 31 and June 30, 2009:

	December 31, 2009 (Unaudited)	June 30, 2009
Transportation equipment	$ 20,358,047	$ 20,375,873
Plant and machinery	9,833,606	6,246,380
Office equipment	103,919	95,556
Construction-in-progress	-	3,369,500
Total	30,295,572	30,087,309
Less: accumulated depreciation	(9,372,560)	(7,997,592)
Plant and equipment, net	$ 20,923,012	$ 22,089,717

Construction-in-progress represents labor costs, materials, and capitalized interest incurred in connection with the construction of a new mixer station inside and outside of the current plant facility in Beijing. No depreciation is provided for construction-in-progress until it is completed and placed into service. Most construction-in-progress is related to assembling of portable machinery we purchased with cash and in general the assembling process can be done in less than three weeks. Therefore, no interest expense was capitalized as the capitalized interest was not significant.

Construction of some of the new portable mixing stations was completed and $3,391,598 was transferred to fixed assets during the six months ended December 31, 2009.

Depreciation expense for the three months ended December 31, 2009 and 2008 amounted to $719,863 and $536,237, respectively. Depreciation expense for the six months ended December 31, 2009 and 2008 amounted to $1,387,883 and $1,071,362, respectively. For the six months ended December 31, 2009 and 2008, no material interest amounts were capitalized.

Note 7 – Prepayments

Prepayments are comprised of short-term and long-term factory rental prepayments the Company made and also prepayments for inventory purchases. Short-term prepayments as of December 31 and June 30, 2009 consisted of the following:

	December 31, 2009 (Unaudited)	June 30, 2009
Prepayments for inventories	$ 2,950,265	$ 2,431,401
Short term prepayments-rent	2,559,527	1,823,925
Others	15,000	-
Total prepayments	$ 5,524,792	$ 4,255,326

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Long term prepayments represented prepayment for purchase of equipment and the non-current portion of the factory rental prepayments the Company made. Prepayment for purchase of equipment amounted to $4,236,977 and $0 as of December 31 and June 30, 2009, respectively. Long term rental prepayments amounted to $5,210,999 and $4,794,746 as of December 31 and June 30, 2009, respectively. Rent prepayments for the next five years ended June 30 amounted to $7,770,526 and consists of the following:

Years ending December 31,		Amount
2010	$	2,559,527
2011		1,864,798
2012		1,828,234
2013		1,196,198
2014		321,769

Note 8 – Short term loans

Short term loans represent amounts due to one of the Company's employee that are due on demand or within one year. As of December 31 and June 30, 2009, the outstanding balances on these loans were $146,259 and $4,512,200, respectively, and these loans consisted of the following:

		December 31, 2009 (Unaudited)		June 30, 2009
Loan from Beijing International Trust Co, Ltd. interest rate of 15% per annum, due July 15, 2009, guaranteed by Rayland Credit Guarantee Co. Ltd., paid off in July 2009	$	-	$	4,395,000
Loan from an employee(s), effective interest rate of 0% per annum, due upon demand, unsecured.		146,259		117,200
Total short term loans	$	146,259	$	4,512,200

Interest expense on short-term loans for the three months ended December 31, 2009 and 2008 amounted to $0 and $215,975, respectively. Interest expense on short-term loans for the six months ended December 31, 2009 and 2008 amounted to $23,753 and $443,786, respectively.

Note 9 – Derivative liability

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

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

As such, effective July 1, 2009, the Company reclassified the fair value of these warrants from equity to liability, as if these warrants were treated as a derivative liability since their issuance in June 2008. On July 1, 2009, the Company reclassified from additional paid-in capital, as a cumulative effect adjustment, $1,965,945 to beginning retained earnings and $3,337,225 to warrant liabilities to recognize the fair value of such warrants. The fair value of the warrants was $5,546,523 on December 31, 2009. Therefore, the Company recognized a $3,356,796 gain and $3,916,645 loss from the change in fair value for the three and six months ended December 31, 2009, respectively.

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These common stock purchase warrants do not trade in an active securities market, and as such, we estimate the fair value of these warrants using the Cox-Ross-Rubinstein ("CRR") Binomial Model using the following assumptions:

	December 31, 2009 (Unaudited)	July 1, 2009
Annual dividend yield	-	-
Expected life (years)	3.50	4.00
Risk-free interest rate	1.92%	2.07%
Expected volatility	75%	75%

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

The conversion option does not need to be separated from the redeemable convertible preferred stock and accounted for as derivative liability because it has the risks and rewards of an equity instrument and clearly and closely related to the risks and rewards of the redeemable convertible preferred stock, which has been accounted for as an equity instrument.

The redeemable convertible preferred stock contains residual equity interest, which on dissolution and liquidation of the Company, entitle the preferred stockholders to liquidation value and accumulated dividends, and rank equal with the common shareholders on an as if converted basis. A host contract is considered an equity instrument if it encompasses a residual interest in an entity.

Note 10 – Related party transactions

Other payables – shareholders

Beginning in July 2007, Mr. He Weili, a 38.10% shareholder, leased an office space to the Company at approximately the current fair market value from July 2009 to June 2010 with annual payment of $172,950. For the three months ended December 31, 2009 and 2008, the Company recorded rent expenses from the shareholder in the amount of approximately $43,000 and $43,000, respectively. For the six months ended December 31, 2009 and 2008, the Company recorded rent expense from the shareholder in the amount of approximately $86,000 and $87,000, respectively. As of December 31 and June 30, 2009, approximately $926 and $56,046, respectively, remained unpaid, and is included as other payables - shareholders.

The Company's shareholders Mr. Han Xianfu and Mr. He Weili, who have 57.15% and 38.10% indirect ownership interests in BVI-ACM, respectively, together loaned $750,900 to BVI-ACM on March 12, 2008, for the entity's cash flow purposes. The loan is non-interest bearing, unsecured, and is payable in cash on demand.

Total other payables - shareholders as of December 31 and June 30, 2009 is as follows:

	December 31,	June 30,

		2009 (Unaudited)		2009
Han Xianfu, shareholder	$	450,550	$	450,550
He Weili, shareholder		301,276		356,396
Total other payable – shareholder	$	751,826	$	806,946

Note 11 – Other receivables

As of December 31, 2009, other receivables mainly include advances to employees, monies to another entity, receivables from an insurance company and other deposits paid.

Monies advanced to an entity that was in part formerly owned by Mr. He Weili. Prior to the reverse acquisition (Note 1), the Company and this related entity were engaged in joint contracts, business licenses, and other partnership agreements. Pursuant to the reverse acquisition, the Company and this related entity began separate operations and the process of obtaining separate contracts, business licenses, and other partnership agreements were initiated. To date, the Company and this related entity are finalizing the aforementioned process of obtaining separate contracts, business licenses, and agreements.

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Due to the relationship of the two companies, certain monies were exchanged as part of their joint contracts. For the six months ended December 31, 2009, the Company advanced approximately $5,343,299 to this entity, and approximately $4,586,991 was repaid. As of December 31, 2009 and June 30, 2009, the balance of other receivable for related party transaction was approximately $756,000 and $0, respectively.

As of June 30, 2009, other receivables consisted of accounts receivables that were factored to a trust company, employee advances, station advances, and bidding deposits. For the fiscal year ended June 30, 2009, the Company had a factoring agreement with a third party unrelated trust company wherein it transferred its receivables for cash during the fourth quarter of 2009. As of June 30, 2009, the Company had not collected $3.6 million from the trust company and recorded the uncollected balances as other receivable. The Company received its remaining balances in July 2009.

Note 12 – Income taxes

Corporate income taxes

Companies established before March 16, 2007, will continue to enjoy tax holiday treatment approved by the local government for a grace period of either for the next five years or until the tax holiday term is completed, whichever is sooner. These companies will pay the standard tax rate when the grace period expires. The Company had received its tax holiday treatment until December 2007. During the fourth quarter of the year, the Company has applied and received the Enterprise High-Tech Certificate. The certificate was awarded based on the Company's involvement in producing high-tech products, its research and development, as well as its technical services. As a result of this certification, the Company's effective income tax rate has been reduced to 15% from 25%. The new tax rate will be retroactive to January 1, 2009 and will be effective for three years, through December 31, 2011.

The Company was granted income tax exemption from January 1, 2003 to December 31, 2007. Beginning on January 1, 2008, the Company and its subsidiaries were subject to an EIT rate of 25%. The Company was granted a 10% tax deduction on 90% of the total sales revenue by the local authority due to the Company’s utilization of recycled raw materials. Beginning on January 1, 2009, the Company and its subsidiaries were subject to an EIT rate of 15%. For the six months ended December 31, 2009 and 2008, the provision for income taxes amounted to $1,348,627 and $1,575,230, respectively.

The following table reconciles the U.S. statutory rates to the Company’s effective tax rate for the three months ended December 31, 2009 and 2008:

	December 31, 2009 (Unaudited)	December 31, 2008 (Unaudited)
U.S. statutory rates	34%	34%
Foreign income not recognized in the U.S.	(34)%	(34)%
China income taxes	25%	25%
China income tax exemption	(10)%	-
Other	(6)% (a)	2% (a)
Effective income tax rates	9%	27%

(a)The – (6%) represents expenses (such as change in fair value of warrants in the amount of $3,356,796 and certain expenses in the amount of $239,217 incurred in the U.S. entity) incurred by the Company that are not deductible for PRC income tax for the three months ended December 31, 2009. The 2% represents the expenses incurred in the U.S entity that were not subjected to PRC income tax for the three months ended December 31, 2008.

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The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the six months ended December 31, 2009 and 2008:

	December 31, 2009 (Unaudited)		December 31, 2008 (Unaudited)	
U.S. statutory rates	34%		34%	
Foreign income not recognized in the U.S.	(34)%		(34)%	
China income taxes	25%		25%	
China income tax exemption	(10)%		-	
Other	13%	(a)	3%	(a)
Effective income tax rates	28%		28%	

(a) The - 13% represents the expenses (such as change in fair value of warrants in the amount of $3,916,645 and certain expenses in the amount of $379,400 incurred in the U.S. entity) incurred by the Company that are not deductible for PRC income tax for the six months ended December 31, 2009. The 3% represents the expenses incurred in the U.S entity that were not subjected to PRC income tax for the six months ended December 31, 2008.

Taxes payable consisted of the following:

	December 31, 2009 (Unaudited)	June 30, 2009
Income taxes payable	$ 2,700,196	$ 3,039,905
Other taxes payables	27,282	8,274
Total taxes payable	$ 2,727,478	$ 3,048,179

Note 13 – Shareholders' equity

On June 11, 2008, the Company completed an offering (the "Offering") on the sale of 875,000 of investment units for a total of $7,000,000, each unit consisting of one share of the Company's Series A Convertible Preferred Stock, $0.001 par value per share, and one (1) five year warrant to purchase two shares of Common Stock (the "Warrants"). Each preferred share is convertible into four shares of common stock. Additionally, each holder is entitled to cumulative dividends equal to 9% annually, payable in cash, irrespective of the profitability of the Company.

The Company received net proceeds of approximately $5,223,291 with $930,000 in an escrow and after payment of certain fees and expenses. $497,500 was paid to Maxim Group LLC ("Maxim") who served as the placement agent for the transaction, $9,500 was paid to American Stock Transfer & Trust Company as a transfer agent fee, $60,000 was paid to the attorney, and $45,000 was paid for a finance fee for the purchasers in connection with the transaction. These offering costs approximating $602,500 were charged to additional paid-in capital. The allocation of the proceeds from the investment to a relative fair value basis which resulted in the allocation of $5,798,000 to the Series A Preferred and $1,202,000 to the warrants.

The following is a summary of our current Redeemable Convertible Preferred Stock issued and outstanding net of discount:

	As of December 31, 2009 (Unaudited)	As of June 30, 2009
Numbers of Redeemable Convertible Preferred shares outstanding in the beginning of the fiscal year	851,125	875,000
Redeemable Convertible Preferred shares converted to Common share during the fiscal year	(301,250)	(23,875)
Current Redeemable Convertible Preferred shares outstanding	549,875	851,125
Per share conversion price from Redeemable Convertible Preferred shares to Common share	$ 8	$ 8
Current Redeemable Convertible Preferred outstanding before discount	$ 4,399,000	$ 6,809,000
Discount on Redeemable Convertible Preferred shares outstanding	$ (167,851)	$ (567,581)
Total Current Redeemable Convertible Preferred stocks net of discount	$ 4,231,149	$ 6,241,419

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The Company also issued to the placement agent a warrant to purchase an aggregate of 245,000 shares of common stock with an exercise price of $2.40 per share with a term of five years. The warrants are exercisable on a cashless basis, in whole or in part, at an exercise price equal to $2.40 per share. The Company may call the warrants for redemption at any time after the warrants become exercisable (i) at a price of $.01 per warrant; (ii) upon not less than 30 days' prior written notice of redemption to each warrant holder; and (iii) if, and only if, the last sale price of the common stock equals or exceeds $5.00 per share, for any twenty (20) trading days within a thirty (30) consecutive trading day period ending on the third business day prior to the notice of redemption to warrant holders.

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

Following is a summary of the status of warrants outstanding:

Outstanding Common Stocks Underlying Warrants

		Number	Average Remaining Contractual Life
US$	2.40	1,551,250	3.45 years
US$	2.40	52,188	3.50 years
Total		1,603,438	

Following is a summary of the warrant activity:

	Number of Common stock underlying Warrants
Outstanding as of June 30, 2008	1,995,000
Granted	-
Forfeited	-
Exercised	-
Outstanding as of June 30, 2009	1,995,000
Granted	-
Forfeited	-
Exercised	(391,562)
Outstanding as of December 31, 2009 (unaudited)	1,603,438

In connection with the private placement, the Company agreed to file a registration statement to register the warrants and common stock issuable upon conversion of the preferred stock and exercise of the warrants, as defined. The registration statement was declared effective in January 2009. The Company incurred $140,000 penalties for late registration and was paid based on the contract in connection with the private placement.

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Employee Stock Options

On May 1, 2008, the Company issued 25,000 common shares to a Company executive, par value $0.001 for services the executive renders to the Company. The shares become fully vested after one year from the date of grant. On July 31 2008, the executive's employment with the Company terminated, and the 25,000 shares were forfeited upon resignation.

On October 3, 2008, the Company entered into a one-year agreement with one of the Company's board of directors. In connection with his services, the Company issued an aggregate of 50,000 options of the Company's common stock at an exercise price of $2.90 per share. The options vest in equal quarterly installments over the first year of the agreement.

On December 1, 2008, the Company entered into a three-year agreement with the Company's Chief Financial Officer. In connection with his services, the Company issued a total of 200,000 options of the Company's common stock from the option bonus pool. The option bonus pool consists of four equal tranches of 50,000 options, with the first tranche of 50,000 options carrying an exercise price of $3.00, the second tranche of 50,000 options carrying an exercise price of $3.50, the third tranche of 50,000 options carrying an exercise price of $4.00, and the fourth tranche of 50,000 options carrying an exercise price of $4.50. A quarter (25%) of each tranche of options will vest at the end of each twelve-month period of the agreement.

The Company valued the stock options by the Cox-Ross-Rubinstein ("CRR") binomial model with the following assumptions:

	Expected Term	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Grant Date Fair Value
Chief Financial Officer	6.25	75%	0%	1.16%	$ 3.00
Director	5.31	75%	0%	1.41%	$ 2.90

The following is a summary of the option activity:

	Number of options	Intrinsic Value
Outstanding as of June 30, 2008		
Granted	250,000	
Forfeited	-	
Exercised	-	
Outstanding as of June 30, 2009	250,000	
Granted	-	
Forfeited	-	
Exercised	-	
Outstanding as of December 31, 2009 (Unaudited)	250,000	$ 350,000

Following is a summary of the status of options outstanding at December 31, 2009:

Outstanding options			Exercisable options	
Number	Average	Average	Number	Average

Average Exercise price		of options	remaining contractual life (years)	Exercise price		of options	remaining contractual life (years)
$	2.90	50,000	8.76	$	2.90	50,000	8.76
$	3.00	50,000	8.92	$	3.00	50,000	8.92
$	3.50	50,000	8.92			-	
$	4.00	50,000	8.92			-	
$	4.50	50,000	8.92			-	
$	3.58	250,000		$	2.95	100,000	

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As of December 31, 2009, there was approximately $248,439 of total unrecognized compensation expense related to un-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of three years.

For the three months ended December 31, 2009 and 2008, the Company recognized approximately $22,089 and $26,210, respectively, as compensation expenses for its stock option plan. For the six months ended December 31, 2009 and 2008, the Company recognized approximately $63,396 and $26,210, respectively, as compensation expenses for its stock option plan.

Restricted Stock Awards

On August 15, 2009, the Company issued 10,000 shares of restricted stock to each of its three board of directors for one year of service. The restricted stocks vest in equal quarterly installments over the first year of the agreement. For the three months ended December 31, 2009, the Company recognized $38,534 of the restricted stock as compensation expense. For the six months ended December 31, 2009, the Company recognized approximately $57,382 of the restricted stock as compensation expense. As of December 31, 2009, $95,498 of total unrecognized compensation expense was related to the unvested restricted stock based compensation arrangements.

Note 14 – Contribution receivable

On July 8, 2005, Xin Ao's board of directors passed a resolution to increase the registered capital from $3,630,000 (RMB30 million) to $12,100,000 (RMB100 million). The increase in registered capital of $8,470,000 (RMB70 million) was funded by the undistributed profits as of June 30, 2005. Based on the PRC government's regulations, all companies are required to record its capital in accordance with the business license, and since Xin Ao did not have sufficient undistributed profits as of June 30, 2005, the unfunded amount has been recorded as contribution receivable. Since the capital should be contributed by the shareholders of the Company, the contribution receivable was recorded as part of the equity transaction.

Further, pursuant to BVI-ACM's establishment of China-ACMH in November 2007, BVI-ACM was required to pay 15% of $5,000,000 by February 22, 2008, and the remaining balance by November 22, 2009, in accordance with the laws of the PRC.

On March 30, 2008, Xin Ao's board of directors approved to transfer $7,260,000 from undistributed retained earnings into registered capital of the Company. Contemporaneously, China-ACMH made a payment of $5,000,000 and BVI-ACM made a payment of $100 to the Company. On October 9, 2009, the Company has transferred $1,210,000 (RMB10,000,000) from unrestricted retained earnings to registered capital. As of December 31, 2009, the Company has zero contribution receivable.

Note 15 – Reserves and dividends

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

The Company is required to transfer 10% of its net income, as determined in accordance with the PRC accounting rules and regulations, to a statutory surplus reserve fund until such reserve balance reaches 50% of the Company's registered capital. As of December 31, 2009, the Company still needs to reserve $3.5 million to statutory reserve.

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

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

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Note 16 – Earnings per share

The following is a reconciliation of the basic and diluted earnings per share computation for the three months and six months ended December, 2009 and 2008:

	Three months ended December 31,		Six months ended December 31,	
	2009 (Unaudited)	2008 (Unaudited)	2009 (Unaudited)	2008 (Unaudited)
Basic earnings per share				
Net income available to common shareholders	$ 7,626,246	$ 2,335,966	$ 2,762,445	$ 3,485,709
Weighted average shares outstanding-Basic	12,377,182	10,525,000	11,681,294	10,525,000
Earnings per share-Basic	$ 0.62	$ 0.22	$ 0.24	$ 0.33
Diluted earnings per share				
Net income available to common shareholders	$ 7,626,246	$ 2,335,966	$ 2,762,445	$ 3,485,709
Add: Dividends on preferred stock	110,843	158,795	259,969	317,650
Add: Accretion on preferred stock	207,990	150,241	399,728	300,482
Net income for diluted EPS	$ 7,945,079	$ 2,645,002	$ 3,422,142	$ 4,103,841
Weighted average shares outstanding-Basic	12,377,182	10,525,000	11,681,294	10,525,000
Restricted stock	7,500	-	7,500	-
Warrants and options	1,093,508	195,410	1,052,507	195,410
Preferred stock	2,477,326	3,500,000	2,883,481	3,500,000
Weighted shares outstanding-Diluted	15,955,516	14,220,410	15,624,782	14,220,410
Earnings per share-Diluted	$ 0.50	$ 0.19	$ 0.22	$ 0.29

On June 11, 2008, the Company issued 875,000 shares of preferred stock, each of which can be converted into four shares of common stock. The convertible preferred stock is mandatorily redeemable for cash at the end of two years if not yet converted. As of December 31, 2009, 325,125 of the preferred stock had been converted into 1,300,500 of common stock. Dividends on the preferred stock and accretion of the initial discount from the redemption value of the preferred stock, both of which are charged to retained earnings, are subtracted from net income to determine net income available to common shareholders for the purposes of computing basic earnings per share. In calculating diluted earnings per share, the convertible preferred stock is treated as common stock equivalents on an as-converted basis. The dividends and accretion on the preferred stock are added back to the net income available to common shareholders for calculating diluted earnings per share, as if the preferred stock were converted at the beginning of the period. For the six months ended December 31, 2009 and 2008, total dividend and accretion were $659,699 and $618,132, respectively. For six months ended December 31, 2009, 292,182 warrants were converted into 300,483 shares of common stock. For the six months ended December 31, 2009, 1,603,438 warrants at an exercise price of

$2.40 per share were included in the diluted EPS calculation, which under treasury stock method resulted in an additional 1,008,063 shares of common stocks.

Note 17 – Employee pension

The Company offers a discretionary pension fund, a defined contribution plan, to qualified employees. The pension includes two parts: the first to be paid by the Company is 20% of the employee's actual salary in the prior year. The other part, paid by the employee, is 8% of the actual salary. The Company's contributions of employment benefits, including pension were approximately $39,142 and $16,284 for the three months ended December 30, 2009 and 2008, respectively. The Company's contributions of employment benefits, including pension were approximately $56,822 and $33,734 for the six months ended December 30, 2009 and 2008, respectively.

Note 18 – Operating leases

The Company entered into a lease agreement for a manufacturing plant with an unrelated party from October 1, 2008 to September 30, 2013 with annual payment of $197,000. Further, the Company agreed to lease office space from the Company's shareholder, Mr. He Weili, from July 2009 to June 2010 with annual payment of $172,950, the rent is valued at fair value from the main property management.

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The Company has four different five-year operating lease agreements as of December 31, 2009. The lease payments are for four manufacturing plants with various unrelated parties for a total monthly payment of approximately $214,000. Certain lease payments have been pre-paid by transferring the Company's long-term accounts receivable to the lessors as the Company believes that a lump-sum pre-payments from an aging receivable in exchange for agreeing to no increase in the future lease will benefit its future operation.

Total operating lease expense for the three months ended December 31, 2009 and 2008 was $796,343 and $92,589, respectively. Total operating lease expense for the six months ended December 31, 2009 and 2008 was $1,391,370 and $185,179, respectively, and is included in selling, general, and administrative expenses. Future minimum annual lease expense under non-cancelable operating leases with a term of one year or more consist of the following:

Years ending June 30,	Amount
Six months remaining in 2010	$ 1,563,313
2011	2,756,596
2012	2,756,596
2013	2,639,596
2014	633,187

Note 19 — Business Segments

The Company's operations are classified into four principal reportable segments that provide different products or services. The Company is engaged in the business of sales of concrete, manufacturing concrete, technical support services and others, which include mixer rental, sales of materials and marketing cooperation. Separate segment is required because each business unit is subject to different production and technology strategies. Corporate represents the expenses that are not directly interrelated to the business units.

For the three months ended December 31, 2009 (Unaudited):

	Sales of concrete	Manufacturing services	Technical services	Others	Corporate	Total
Net sales	$ 20,316,502	$ 3,663,114	$ 1,234,760	$ 949,936	$ -	$ 26,164,312
Depreciation	(241,139)	(421,619)	(1,273)	(45,124)	(10,709)	(719,863)
Operating income	1,764,973	1,581,756	1,147,274	614,115	(1,030,742)	4,077,376
Other income (expenses)	1,077,857	216,333	-	-	27,008	1,321,198
Interest income	-	-	-	-	1,524	1,524
Interest expenses	-	-	-	-	-	-
Capital expenditure	(114,282)	(48,467)	-	-	(527)	(163,276)

For the six months ended December 31, 2009 (Unaudited):

	Sales of concrete	Manufacturing services	Technical services	Others	Corporate	Total
Net sales	$ 35,203,259	$ 6,468,728	$ 2,479,655	$ 1,493,806	$ -	$ 45,645,448
Depreciation	(531,393)	(745,240)	(2,544)	(90,858)	(17,848)	(1,387,883)
Operating income	2,193,685	2,607,338	2,327,540	1,107,819	(1,767,001)	6,469,381

Other income (expenses)	1,854,061	379,163	-	-	5,543	2,238,767
Interest income	-	-	-	-	3,021	3,021
Interest expenses	-	-	-	-	(23,753)	(23,753)
Capital expenditure	(150,431)	(3,463,262)	-	-	(6,131)	(3,619,824)
Total assets	60,152,105	11,053,259	-	1,641,629	359,984	73,206,977

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For the three months ended December 31, 2008 (Unaudited):

	Sales of concrete	Manufacturing services	Technical services	Others	Corporate	Total
Net sales	$ 7,969,878	$ 2,070,996	$ 423,330	$ 363,997	$ -	$ 10,828,201
Depreciation	(407,068)	(82,263)	(1,269)	(45,637)	-	(536,237)
Operating income	1,882,823	1,250,909	388,601	306,907	(485,803)	3,343,437
Other income (expenses)	392,872	124,260	-	-	-	517,132
Interest income	-	-	-	-	2,406	2,406
Interest expenses	-	-	-	-	(217,570)	(217,570)
Capital expenditure	-	-	-	-	(12,599)	(12,599)

For the six months ended December 31, 2008 (Unaudited):

	Sales of concrete	Manufacturing services	Technical services	Others	Corporate	Total
Net sales	$ 9,837,565	$ 3,996,539	$ 1,040,127	$ 1,090,716	$ -	$ 15,964,947
Depreciation	(824,362)	(137,509)	(2,547)	(106,944)	-	(1,071,362)
Operating income	2,152,189	2,640,052	924,942	695,920	(1,038,361)	5,374,742
Other income (expenses)	507,041	239,792	-	-	-	746,833
Interest income	-	-	-	-	3,840	3,840
Interest expenses	-	-	-	-	(446,344)	(446,344)
Capital expenditure	-	-	-	-	(31,666)	(31,666)
Total assets	18,205,559	18,769,519	-	6,402,393	55,808	43,433,279

Note 20 – Commitments and contingencies

Litigation

From time to time, the Company is a party to various legal actions arising in the ordinary course of business. The Company's management does not expect the legal matters involving the Company would have a material impact on the Company's consolidated financial position or results of operations.

Following is the summary of the current litigation:

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

In August 2006, Xin Ao filed a lawsuit against Beijing Boda Guosheng Investment Co., Ltd ("Boda") seeking specific performance of Boda's obligations under the sales contract to pay approximately $275,380 (RMB 2,000,000) for the cement supplied by Xin Ao between March 2005 and June 2005 and compensatory damages of approximately $23,500 (RMB 171,000) to cover the interest incurred on the unpaid balance. The Court ruled against Boda and ordered Boda to pay the amounts requested by Xin Ao; however, Boda appealed the court's rulings. In November 2007, the Appeals Court upheld the original verdict and again ordered Boda to pay all the damages. Management does not believe that the ultimate outcome of this case will have a material adverse effect on the Company's consolidated financial position or results of operations. As of December 31, 2009, the Company has factored this amount to an unrelated third party trust company and the trust company has received the payment from Boda.

Yunwei Zhang vs. Beijing Xin'Ao Concrete Co., Ltd. (Beijing District Court, PRC)

In May 2006, an action against Xin Ao and Beijing Shangdi Xinda Company was filed by Yunwei Zhang ("Shangdi") in Beijing District Court seeking payment of approximately $112,000 (RMB 814,000) for damages caused by Qingbao Zhang, a contracted driver of Xin Ao and an employee of Zhangbei County Labor Service Co., Ltd. The vehicle involved in the accident is owned by Beijing Shangdi Xingda Company who leased to Xin Ao who subsequently leased the vehicle to Zhangbei County Labor Service Company. On June 16, 2008, the Court ruled against Xin Ao and Shangdi to pay the damages incurred to Yunwei Zhang in the accident. Xin Ao is responsible for approximately $39,000 (approximately RMB 273,000) for the damages, and as of December 31, 2009, the Company has paid the final payment approximately $35,000. The remaining $4,000 will be paid by Beijing Shangdi Xingda Company.

Note 21 – Subsequent Events

The Company evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q on February 9, 2010, no significant events occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our Consolidated Financial Statements.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The words "believe," "expect," "anticipate," "project," "target," "optimistic," "intend," "a similar expressions are intended to identify forward-looking statements. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. These statements are based on the beliefs of our management as well as assumptions made by and information currently available to us and reflect our current view concerning future events. As such, they are subject to risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, among many others: our significant operating losses; our limited operating history; uncertainty of capital resources; the speculative nature of our business; our ability to successfully implement new strategies; present and possible future governmental regulations; operating hazards; competition; the loss of key personnel; any of the factors in the "Risk Factors" section of the Company's Annual Report on Form 10-K; other risks identified in this Report; and any statements of assumptions underlying any of the foregoing. You should also carefully review other reports that we file with the SEC. The Company assumes no obligation and does not intend to update these forward-looking statements, except as required by law.

All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The Company assumes no obligation and does not intend to update these forward-looking statements, except as required by law. When used in this report, the terms "China ACM", "Company", "we", "our", and "us" refer to Ch Advanced Construction Materials Group, Inc. (a Delaware corporation) and its wholly-owned subsidiaries Xin Ao Construction Materials, Inc. and Beijing Ao Hang Construction Materials Technology Co., Ltd., as well as Beijing Xin Ao Concrete Co., Ltd., the Company's variable interest entity.

Use of Non-GAAP Financial Measures

The Company makes reference to Non-GAAP financial measures in portions of "Management's Discussion of Financial Condition and Results of Operations". Management believes that investors may find it useful to review our financial results that exclude the non-cash expense of 3,916,645 for the six month ended December 31, 2009 and the non-cash income of $3,356,796 for the three month ended December 31, 2009 on change in fair value of warrant, shown in the below chart, due to the adoption of a Financial Accounting Standards Board's ("FASB") ASC 815 (EITF 07-05) accounting standard as discussed in the section "Derivative Liability" below.

Management believes that these Non-GAAP financial measures are useful to investors in that they provide supplemental information to possibly better understand the underlying business trends and operating performance of the Company. The Company uses these Non-GAAP financial measures to evaluate operating performance. However, Non-GAAP financial measures should not be considered as an alternative to net income or any other performance measures derived in accordance with GAAP.

	Three Months Ended December 31			Six Months Ended December 31		
	2009	2008	Increase (Decrease)	2009	2008	Increase (Decrease)
Net Income (Loss) –GAAP	$ 7,945,081	$ 2,645,002	$ 5,300,079	$ 3,422,144	$ 4,103,841	$ (681,697)
Substract:						
Dividends and accretion on redeemable convertible preferred stock	$ 318,835	$ 309,036	$ 9,799	$ 659,699	$ 618,132	$ 41,567
Net Income available to Common shareholders -GAAP	$ 7,626,246	$ 2,335,966	$ 5,290,280	$ 2,762,445	$ 3,485,709	$ (723,264)
Add Back (Substract):						
Change in fair value of warrants	$ (3,356,796)(a)	$ -	$ (3,356,796)	$ 3,916,645(a)	$ -	$ 3,916,645
Adjusted Net Income available to Common shareholders -non-GAAP	$ 4,269,450	$ 2,335,966	$ 1,933,484	$ 6,679,090	$ 3,485,709	$ 3,193,381
Basic earning per share - GAAP	$ 0.62	$ 0.22	$ 0.40	$ 0.24	$ 0.33	$ (0.09)
Add back (Substract):						
Change in fair value of warrant	$ (0.27)	$ -	$ (0.27)	$ 0.34	$ -	$ 0.34
Adjusted basic earning per share non-GAAP	$ 0.35	$ 0.22	$ 0.13	$ 0.58	$ 0.33	$ 0.25
Diluted earning per share-GAAP	$ 0.50	$ 0.19	$ 0.31	$ 0.22	$ 0.29	$ (0.07)
Add back (Substract):						
Change in fair value of	$ (0.21)	$ -	$ (0.21)	$ 0.25	$ -	$ 0.25

warrant												
Adjusted diluted earning per share non-GAAP	$	0.29	$	0.19	$	0.10	$	0.47	$	0.29	$	0.18
Weighted average number of shares - GAAP												
Basic		12,377,182		10,525,000		-		11,681,294		10,525,000		-
Diluted		15,955,516		14,220,410		-		15,624,782		14,220,410		-
Weighted average number of shares - non GAAP												
Basic		12,377,182		10,525,000		-		11,681,294		10,525,000		-
Diluted		15,955,516		14,220,410		-		15,624,782		14,220,410		-

(a) The Company adopted the provisions of a FASB accounting standard, ASC 815 (EITF 07-05), which provides standards with respect to determining whether an instrument (or embedded feature) is indexed to an entity's own stock. As a result of adopting this accounting standard, warrants previously treated as equity pursuant to the derivative treatment exemption are no longer afforded equity treatment because the warrants have a downward ratchet provision on the exercise price. As a result, the warrants are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expired. Effective July 1, 2009, the Company reclassified the fair value of these warrants from equity to liability, as if these warrants were treated as a derivative liability since their issuance in June 2008. The Company recognized a $3,916,645 loss from the change in fair value for the six months ended December 31, 2009 and a $3,356,796 income from the change in fair value for the three months ended December 31, 2009.

Overview

China Advanced Construction Materials Group, Inc. (“China ACM”) is a holding company whose primary business operations are conducted through our wholly-owned subsidiaries BVI-ACM and China-ACMH. BVI-ACM engages in the production of advanced construction materials for large scale commercial, residential, and infrastructure developments. The Company is 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. BVI-ACM owns 100% of the issued and outstanding capital stock of China-ACMH, a company incorporated under the laws of China. On November 28, 2007, China-ACMH entered into a series of contractual agreements with Beijing Xin Ao Concrete Co. Ltd. (“Xin Ao”), a company incorporated under the laws of China, and its two shareholders pursuant to which China-ACMH effectively takes over management of the business activities of Xin Ao and has the right to appoint all executives and senior management and the members of the board of directors of Xin Ao. The contractual arrangements are comprised of a series of agreements, including an Exclusive Technical Consulting and Services Agreement and an Operating Agreement, through which China-ACMH has the right to advise, consult, manage and operate Xin Ao for an annual fee in the amount of Xin Ao’s yearly net profits after tax. In addition, Xin Ao’s Shareholders have pledged their rights, titles and equity interest in Xin Ao as security for China-ACMH to collect technical consulting and services fees provided to China-ACMH through an Equity Pledge Agreement. In order to further reinforce China-ACMH’s rights to control and operate Xin Ao, Xin Ao’s shareholders have granted China-ACMH the exclusive right and option to acquire all of their equity interests in Xin Ao through an Option Agreement. As all of the companies are under common control, this has been accounted for as a reorganization of entities and the financial statements have been prepared as if the reorganization had occurred retroactively. The Company has consolidated Xin Ao’s operating results, assets and liabilities within its financial statements.

BVI-ACM, through China-ACMH, operates and controls Xin Ao through the contractual arrangements mentioned above. BVI-ACM used the contractual arrangements to acquire control of Xin Ao, instead of using a complete acquisition of Xin Ao’s assets or equity to make Xin Ao a wholly-owned subsidiary of BVI-ACM because (i) new PRC laws governing share exchanges with foreign entities, which became effective on September 8, 2006, make the consequences of such acquisitions uncertain and (ii) other than by share exchange transactions, PRC law requires Xin Ao to be acquired for cash and BVI-ACM was not able to raise sufficient funds to pay the full appraised value for Xin Ao’s assets or shares as required under PRC law.

During the six months ended December 31, 2009, we, together with our subsidiaries, supported materials, services and our high speed railway projects through our network of eight ready-mixed concrete plants throughout Beijing and thirteen portable concrete plants located in various provinces throughout China. We own one concrete plant and its related equipment, and we lease four additional plants. In addition, we have technical and preferred procurement agreements with three independently owned concrete mixture stations, pursuant to which we are paid by percentages of cost savings for technical support provided to clients and of sales price for projects we refer to other stations due to the geographical location of our owned and leased plants. Our manufacturing services are used primarily for our national high speed railway projects; almost all of our general contract contractors on the high speed railway projects supply the needed raw materials, which results in higher gross margins for us and reduces our upfront capital investments needed to purchase raw materials. We also produce ready-mix concrete at portable plants, which can be dismantled and moved to new sites for new projects. Our management believes that we have the ability to capture a greater share of the Beijing market and further expand our footprint in China via expanding relationships and networking, signing new contracts, and continually developing market-leading innovative and eco-friendly ready-mix concrete products. Based on reports from the National Development and Reform Commission, or NDRC, we anticipate that our market share will further expand due to the announced $586 billion infrastructure stimulus packages by the Chinese government in 2008, which will focus primary on transportation related projects such as railway, highway, and transportation related infrastructure.

Principal Factors Affecting Our Financial Performance

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

Large Scale Contractor Relationships. We have contracts with major construction contractors which are constructing key infrastructure, commercial and residential projects. Our sales efforts focus on large-scale projects and large customers which place large recurring orders and present less credit risks to us. For the three months and six months ended December 31, 2009, the Company does not have customer over 10% of sales. For the three months ended December 31, 2008, two customers accounted for approximately 24.7% of the Company's sales and 25.6% of the Company's account receivables as of December 31, 2008. For the six months ended December 31, 2008, three customers accounted for approximately 21% of the Company's sales and 39% of the Company's account receivable as of December 31, 2008.

Experienced Management. Management's technical knowledge and business relationships gives us the ability to secure major infrastructure projects, which provides us with leverage to acquire less sophisticated operators, increase production volumes, and implement quality standards and environmentally sensitive policies.

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 Dongfangjianyu Institute of Concrete Science & Technology which assist us with our research and development activities. During our 5 year agreement with the parties, we have realized an advantage over many of our competitors by gaining access to a wide array of resources and knowledge. At present, no payments have been made by us under the agreement.

PRC Taxation

Our subsidiary, China-ACMH and its VIE, Xin Ao are governed by the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises, or FIEs, and Foreign Enterprises and various local income tax laws (the Income Tax Laws).

Xin Ao has been using recycled raw materials in its production since its inception which entitled us to an income tax exemption from January 1, 2003 through December 31, 2007 and an income tax reduction from 25% to 15% from January 1, 2009 through December 31, 2011 as granted by the State Administration of Taxation, PRC. The renewal certificate was awarded based on the company's involvement in producing high-tech products, its research and development, as well as its technical services.

On March 16, 2007, the National People's Congress of the PRC passed the new enterprise income tax law, or EIT Law, which took effect as of January 1, 2008. Under the new EIT Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a resident enterprise and will normally be subject to the enterprise income tax at the rate of 25% on its global income. The new EIT Law, however, does not define the term "de facto management bodies." If the PRC tax authorities subsequently determine that we should be classified as a resident enterprise, then our global income will be subject to PRC income tax at a tax rate of 25.0%. In addition, under the new EIT Law, dividends from our PRC subsidiaries to us will be subject to a withholding tax. The rate of the withholding tax has not yet been finalized, pending promulgation of implementing regulations. Furthermore, the ultimate tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiary. The new EIT Law imposes a unified income tax rate of 25% on all domestic-invested enterprises and FIEs, such as our PRC operating subsidiaries, unless they qualify under certain limited exceptions, but the EIT Law permits companies to continue to enjoy their existing preferential tax treatments until such treatments expire in accordance with their current terms. Because the Company's operating subsidiary, Xin Ao's use of recycled raw materials in its production since its inception entitled the Company to an income tax exemption from January 1, 2003, through to December 31, 2007 and an income tax reduction from 25% to 15% from January 1, 2009 to December 31, 2011 as granted by the State Administration of Taxation of the PRC. The income tax exemption granted to the Company was eliminated after December 31, 2007. Beginning January 1, 2008, the new Chinese EIT law replaced the existing laws for Domestic Enterprises, or DES, and FIEs. Effective January 1, 2009, the China-ACM new reduced EIT rate of 15% replaced the existing rates of 25% currently applicable to both DES and FIEs.

Derivative Liability

Effective July 1, 2009, the Company became subject to a FASB accounting standard, ASC 815 (EITF 07-05), which determines whether an instrument (or embedded feature) is indexed to an entity's own stock. This accounting standard specifies that a contract which would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified as stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. This accounting standard provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the scope exception.

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

The conversion option does not need to be separated from the redeemable convertible preferred stock and accounted for as derivative liability because it contains a residual equity interest, which on dissolution and liquidation of the

Company, entitle the preferred stockholders to liquidation value and accumulated dividends, and rank equal with the common shareholders on an as if converted basis. A FASB accounting standard provides that if the instrument has a residual equity interest, it “should” be considered to be an equity instrument and if the preferred stock is considered to be an equity instrument, then the embedded conversion option would not be separated because its risks and rewards are clearly and closely related to that of redeemable convertible preferred stock.

Results of Operations

Comparison of the three months Ended December 31, 2009 and 2008

The following table sets forth key components of our results of operations for the three months ended December 31, 2009 and 2008, in US dollars:

	Three Months Ended December 31, 2009	2008		
	(Unaudited)	(Unaudited)	Increase (decrease)	Percentage Increase (decrease)
Total revenue	$ 26,164,312	$ 10,828,201	$ 15,336,111	141.6%
Total cost of revenue	20,929,686	6,872,393	14,057,293	204.5%
Gross profit	5,234,626	3,955,808	1,278,818	32.3%
Selling, general and administrative (expenses) Credit	(1,157,250)	(612,371)	(544,879)	89.0%
Other (expense) income, net	4,679,518	301,968	4,377,550	1449.7%
Income (Loss) before provision for income taxes	8,756,894	3,645,405	5,111,489	140.2%
Income taxes (expense) credit	(811,813)	(1,000,403)	188,590	(18.9)%
Net income (Loss)	7,945,081	2,645,002	5,300,079	200.4%
Dividends and accretion on redeemable preferred	318,835	309,036	9,799	3.2%
Net income (Loss) available to Common shareholders	$ 7,626,246	$ 2,335,966	$ 5,290,280	226.5%

Revenue. Our revenue is generated from sales of our advanced ready-mix concrete products, manufacturing services, technical consulting services, mixer rental, marketing cooperation, and sales of raw material. For the three months ended December 31, 2009, we generated revenue of $26,164,312 compared to $10,828,201 during the same period of 2008, an increase of $15,336,111 or 141.6%. We increased our production volumes in and outside of Beijing in the second quarter this fiscal year compared to the same period last year. As a result, our concrete sales revenue increased by $12,346,624, despite a decrease in unit sale price, compared to the same period last year. During the quarter ended December 31, 2009, we continued to supply concrete products to thirteen railway projects throughout China through our portable plants, specifically the projects located in Jiangsu Province, Hebei Province, Guangxi Province, Zhejiang Province, Guangdong Province, Henan Province, Liaoning Province, and Beijing. These thirteen projects contributed $3,663,114 to our total revenue for the quarter ended December 31, 2009, compared to $2,070,996 in revenue from three projects we worked on during the same quarter in 2008. The increase in revenues attributable to our manufacture services was principally due to additional portable plants we began operating during the fiscal quarter compared to the same quarter in 2008. For these railway projects, the general contractors generally supplied their own raw materials while we provided manufacturing and transportation services. In addition, revenue generated through our technical consulting services was $1,234,760 during the three months ended December 31, 2009, an increase of $811,430 or 191.7% compared to the same fiscal quarter in 2008. During the three month period ended December 31, 2009, we also rented our mixer trucks to mixture stations which generated mixer rental revenues of $416,770, an increase of $77,003 or 22.7%, generated marketing cooperation revenue of $247,796 and sold raw materials for $285,370 to an independent third party. We did not engage in the selling of raw materials during the same fiscal quarter last year. We anticipate our overall sales revenue will continue to grow due to the Chinese government’s announcement of a 4 trillion Yuan (USD$586 billion) stimulus package in November 2008 as well as the Chinese government’s railroad project plans, which are expected to cost a total of $730 billion through 2020. We anticipate that we will be a direct beneficiary of transportation and infrastructure build-out from China’s stimulus package. In addition, we plan to continue expanding our business into new geographical markets by leveraging our strong relationships with major contractors throughout China.

Cost of Sales. Cost of Sales, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was $20,929,686 for the quarter ended December 31, 2009, as compared to $6,872,393 for the quarter ended December 31, 2008, an increase of $14,057,293, or 204.5%. The increase of cost of revenue was due to overall increase in production from our five fixed concrete plants in the Beijing area and increased production on manufacturing and technical services as well as other services compared to the same period in 2008. The increase in cost of sales was also due to increases in crude oil prices which increased the costs of raw materials and transportation during this quarter compared to the same quarter last year. The cost of sales on concrete increased $12,459,399 this fiscal quarter compared to the same quarter last year. Such increase was due to an increase in our concrete production as a result of additional plants we added during this fiscal quarter, as well as the increase in crude oil prices as indicated above as compared to the same period last year. Cost of sales with respect to our manufacturing services increased $1,267,766 during the fiscal quarter ended December 31, 2009, as compared to the same quarter last year. Such increase was due to the increase in total operational capacity and a decrease in the utilization rate for the two new portable plants we added to our operations, as well as an increase in transportation costs. Our production and utilization rate started picking up during the quarter as the celebration of National Day of PRC came to an end in the beginning of October. However, we are uncertain whether the crude oil prices will maintain at the current level in the near future.

Gross Profit. Our gross profit is equal to the difference between our revenue and cost of sales. Gross profit was $5,234,626 for the fiscal quarter ended December 31, 2009, as compared to $3,955,808 for the quarter ended December 31, 2008. Our gross profit for sales of concrete was $1,863,206, or 9.2%, for the quarter ended December 31, 2009, compared to $1,975,981, or 24.8%, for the same period last year, a decrease of $112,775. The decrease in gross margin with respect to sales of concrete was primarily due to the increase in costs of raw materials and transportation as a result of the increase in the price of crude oil, as well as the low utilization rate from newly leased plants and traffic restrictions during the National Day of the PRC. Our gross margin with respect to our sales of concrete improved during the quarter compared to the prior quarter of this fiscal year as our traditional concrete production continues to increase and our utilization rate improves, which favorably impacts our gross margins. Our gross profit with respect to our manufacturing services was $1,599,468, or 43.7%, for the quarter ended December 31, 2009, an increase of $324,352 from the same period in 2008. Such increase was principally due to increased production resulting from the addition of portable plants, which was offset by an increase of fixed costs incurred as a result of the addition of such portable plants before they commenced production as well as the increase in costs of transportation this quarter compared to the same period last year. Our gross margin with respect to technical services was $1,153,244, or 93.4%, for the quarter ended December 31, 2009, compared to $393,549, or 93%, for the same quarter last year, an increase of $759,695. Our gross margins with respect to mixer rentals, marketing cooperation and sales of materials were $371,646, $200,735, and $46,327, respectively; and their margin rates were 89.2%, 81.0%, and 16.2%, respectively during the quarter ended December 31, 2009. We plan to continue expanding our manufacturing and technical services, which produce the highest gross profits among our revenue sectors.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional and legal fees paid to third parties. We incurred selling, general and administrative expenses of $1,157,250 for the quarter ended December 31, 2009, an increase of $544,879, or 89.0%, as compared to $612,371 for the quarter ended December 31, 2008. The increase was principally due to an increase in salary and benefit expenses, and professional and consulting expenses resulting from our overall production expansion during the quarter, offset by bad debt allowance adjustments compared to the same quarter last year.

Other Income (Expense), net. Our other income (expense) consists of valued added tax exemption from the PRC government, interest income (expense), change in fair value of warrants, and other non-operating income (expense). We incurred net other income of $4,679,518 for the quarter ended December 31, 2009, as compared to net other income of $301,968 for the quarter ended December 31, 2008, an increase of $4,377,550. The increase in net other income was primarily due to a decrease in other non-operating expenses and a non-cash gain due to changes in the fair value of our outstanding warrant of $3,356,796, which was a result of the adoption of the accounting standard aforementioned in July 1, 2009, which requires us to record financial instruments such as warrants as derivative liabilities and a non-cash charge to income statement at fair market value (See Note 2, under Financial Instruments). We also experienced an increase in other subsidy income of $721,088 during the three months ended December 31, 2009, as compared to the same period of 2008. Due to the fact that we use recycled raw materials to manufacture our products, the State Administration of Taxation granted us VAT tax exemption from August 2005 to August 2009, and thereafter a two year extension on the VAT tax exemption from August 2009 to August 2011. The VAT tax collected during the aforementioned period from our customers is retained by the Company and recorded as other subsidy income. In addition, we had no interest expenses for the quarter ended December 31, 2009, as compared to $217,570 for the quarter ended December 31, 2008, a decrease of $217,570.

Provision for Income Taxes. Provision for income taxes amounted to $811,813 and $1,000,403 for the quarters ended December 31, 2009 and 2008, respectively. We have used recycled raw materials in our concrete production since our inception, which entitled us to an income tax exemption from January 1, 2003 through December 31, 2007, and an income tax rate reduction from January 1, 2009 to December 31, 2011, as granted by the State Administration of Taxation, PRC. From January 1, 2008 through December 31, 2008, we were subject to a 25% income tax rate. Since January 1, 2009, we have been subject to a 15% income tax rate. Accordingly, our total income taxes incurred for the fiscal quarter ended December 31, 2009 comprised of a 15% income tax rate compared to a 25% income tax rate for the same quarter last year. The new tax rate was granted to the Company in June 2009, and the provision for income taxes provision was retro-actively applied to the beginning of the calendar year 2009 in the fourth quarter ended June 30, 2009. In the past, XinAo has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at present the Company is unable to determine the extent of any such liability, if any.

Net (Loss) Income. We recognized net income of $7,945,081 for the quarter ended December 31, 2009, as compared to net income of $2,645,002 for the same quarter in 2008, an increase of $5,300,079. Such increase in net income was attributable to an increase in our plant production in the Beijing area, higher gross profits on our thirteen railway projects, technical services, and rental income from mixing trucks, all of which was offset by an increase in selling, general, and administrative expense as well as a non-cash gain of $3,356,796 related to changes in the fair value of our outstanding warrant. As discussed above, we adopted an accounting standard in July 1, 2009, and the warrants issued in connection with our June 11, 2008 private placement were re-classed from equity to derivative warrant liabilities and marked to fair market value. Our management believes that our profits should increase during the next 12 months as we continue to expand into service sectors that generate higher gross margins and because we are a direct beneficiary of Chinese government's stimulus package on infrastructure projects. We also plan to lease or build new plants in order to increase our accessibility to construction sites located in Beijing, expand into other geographical areas, as well as vertically integrate our operations across the supply chain, which we believe will lower our costs and provide greater profitability.

Excluding the affect from non-cash gain related to changes in fair market of warrants, our net income would be $4,588,285 for the three months ended December 31, 2009, as compared to net income of $2,645,002 for the same period in 2008, during which we did not incur the same non-cash gain. See the section "Use of Non-GAAP Financial Measures" above for a discussion regarding the presentation of net income excluding non-cash gain (loss).

Dividends and accretion on redeemable preferred stock. The increase in dividends and accretion on redeemable convertible preferred stock of $9,799, compared to the quarter ended December 31, 2008, was due to our redeemable preferred stock offering in June 2008. It included preferred dividend expense of $110,843 and $158,795 for the quarter ended December 31, 2009 and 2008, respectively; and accretion of a discount on the preferred stock of $207,992 and $150,241 for the quarter ended December 31, 2009 and 2008, respectively.

Comparison of the six months Ended December 31, 2009 and 2008

The following table sets forth key components of our results of operations for the six months ended December 31, 2009 and 2008, in US dollars:

	Six Months Ended December 31,			
	2009	2008		
	(Unaudited)	(Unaudited)	Increase (decrease)	Percentage Increase (decrease)
Total revenue	$ 45,645,448	$ 15,964,947	$ 29,680,501	185.9%
Total cost of revenue	37,123,786	9,320,725	27,803,061	298.3%
Gross profit	8,521,662	6,644,222	1,877,440	28.3%
Selling, general and administrative (expenses) Credit	(2,052,281)	(1,269,480)	(782,801)	61.7%
Other (expense) income, net	(1,698,610)	304,329	(2,002,939)	(658.1)%
Income (Loss) before provision for income taxes	4,770,771	5,679,071	(908,300)	(16.0)%
Income taxes (expense) credit	(1,348,627)	(1,575,230)	226,603	(14.4)%
Net income (Loss)	3,422,144	4,103,841	(681,697)	(16.6)%
Dividends and accretion on redeemable preferred	659,699	618,132	41,567	6.7%
Net income (Loss) available to Common shareholders	$ 2,762,445	$ 3,485,709	$ (723,264)	(20.7)%

Revenue. Our revenue is generated from sales of our advanced ready-mix concrete products, manufacturing services, technical consulting services, mixer rental, marketing cooperation, and sales of raw material. For the six months ended December 31, 2009, we generated revenue of $45,645,448 compared to $15,964,947 during the same period of 2008, an increase of $29,680,501, or 185.9%. We increased our production volumes by adding five additional fixed concrete plants in the Beijing area during this fiscal year compared to the same period last year. As a result, our revenue from sales of concrete increased by $25,365,694, despite a decrease in unit sale price, compared to the same period last year. During the six months ended in December 31, 2009, we continued to supply concrete products to thirteen railway projects throughout China through our portable plants, specifically the projects located in Jiangsu Province, Hebei Province, Guangxi Province, Zhejiang Province, Guangdong Province, Henan Province, Liaoning Province, and Beijing. These thirteen projects contributed $6,468,728 to our total revenue for the six months ended December 31, 2009, compared to $3,996,539 in revenue from the three projects we worked on during the same period in 2008. The revenue increase with respect to our manufacturing services was principally due to the addition of four portable plants during this fiscal year as compared to the same period last year. For our railway projects, the general contractors generally supplied their own raw materials while we provided manufacturing and transportation services. In addition, revenues generated from our technical consulting services was $2,479,655 during the six months ended in December 31, 2009, an increase of $1,439,528, or 138.4%, compared to the same period in 2008. During the six month period ended December 31, 2009, we also generated $247,796 in revenue from marketing cooperation, an increase of $153,661, or 163.2%, rented our mixer trucks to mixture stations which generated mixer rental revenues of $960,640, a decrease of $35,941, or 3.6%, and sold raw materials for $285,370 to an independent third party which we did not have such activities for the same period last year. We anticipate our overall sales revenue will continue to grow due to the Chinese government’s announcement of a 4 trillion Yuan (USD$586 billion) stimulus package in November 2008 as well as the Chinese government’s railroad project plans which are expected to cost a total of $730 billion through 2020. We anticipate that we will be a direct beneficiary of transportation and infrastructure build-out from China’s stimulus package. In addition, we plan to continue expanding our business into new geographical markets by leveraging our strong relationships with major contractors throughout China.

Cost of Sales. Cost of Sales, which consists of direct labor, rentals, depreciation, other overhead and raw materials, including inbound freight charges, was $37,123,786 for the six months ended December 31, 2009, as compared to $9,320,725 for the six months ended December 31, 2008, an increase of $27,803,061, or 298.3%. During the fiscal quarter prior to the celebration of National Day of the People's Republic of China in Beijing, our primary area of operation, all construction surrounding the city was halted and delayed due to severe restrictions on traffic controls. The increase on our cost of revenue was due to overall increase in production from five fixed concrete plants in the Beijing area, and increased production due to our manufacturing and technical services, as well as other services compared to the same period in 2008. The increase in our cost of sales was also due to increases in crude oil prices, which increased the costs of raw materials and transportation during the six months ended in December 31, 2009. The cost of sales with respect to concrete sales increased $27,803,061 during the first six months of this fiscal year as compared to the same period last year. Such increase was due to an increase in our concrete production in the Beijing area as a result of the addition of five new plants during the first six months of this fiscal year, as well as the increase in crude oil prices as indicated above. Although our production volume increased during the six months ended December 31, 2009, our overall plant utilization rate was down, primarily due to severe traffic and construction restrictions in Beijing in anticipation of the National Day of the PRC and the increase in the price of crude oil. Cost of sales with respect to our manufacturing service increased $2,527,725 during the six months ended December 31, 2009, as compared to the same period last year. Such increase was due to an increase in total operational capacity and a decrease in utilization rate for our new portable plants, as well as an increase in transportation costs.

Gross Profit. Our gross profit is equal to the difference between our revenue and cost of sales. Gross profit was $8,521,662 for the six months ended December 31, 2009, as compared to $6,644,222 for the six months ended December 31, 2008. The gross profit for sale of concrete was $2,413,247, or 6.9%, for the six months ended December 31, 2009, compared to $2,283,361, or 23.2%, for the same period last year, an increase of $129,886. The decrease in gross margin percentage with respect to our sales of concrete this fiscal quarter compared to the same period last year was primarily due to the increase in costs of raw materials and transportation as a result of the increase in the price of crude oil, as well as the low utilization rate from our newly leased plants and traffic restrictions due to the National Day of the PRC as discussed above. Gross profit with respect to our manufacturing services was $2,647,915, or 40.9%, for the fiscal year ended December 31, 2009, a decrease of $55,536. Such decrease was principally due to fixed costs incurred on our new portable plants before they commenced production during the period, as well as the increase in costs of transportation. Gross margin with respect to our technical services was $2,343,656, or 94.5%, for the six months ended December 31, 2009, compared to $942,444, or 90.6%, for the same period last year, an increase of $1,401,212. Gross margins with respect to our mixer rentals, marketing cooperation and sales of materials were 90.5%, 81.0%, and 16.2% respectively during the six months ended December 31, 2009. We plan to continue expanding our manufacturing and technical services, which produce the highest gross profits among our revenue sectors.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of sales commissions, advertising and marketing costs, office rent and expenses, costs associated with staff and support personnel who manage our business activities, and professional and legal fees paid to third parties. We incurred selling, general and administrative expenses of $2,052,281 for the six months ended December 31, 2009, an increase of $782,801, or 61.7%, as compared to $1,269,480 for the six months ended December 31, 2008. The increase was principally due to an increase in salary and benefit expenses, lease expenses, and professional and consulting expenses resulting from our overall production expansion this quarter, offset by bad debt allowance adjustments compared to the same period last year.

Other Income (Expense), net. Our other income (expenses) consists of a valued added tax exemption from the PRC government, interest income (expense), changes in fair value of warrants, and other non-operating income (expense). We incurred net other expenses of $1,698,610 for the six months ended December 31, 2009, as compared to net other income of $304,329 for the six months ended December 31, 2008, a decrease of $2,002,939. The decrease in net other income was primarily due to a non-cash loss due to changes in the fair value of our outstanding warrants of $3,916,645, which was a result of the adoption of the aforementioned accounting standard in July 1, 2009, which requires us to record financial instruments such as warrants as derivative liabilities and a non-cash charge to income statement at fair market value (See Note 2, Financial Instruments). We also experienced an increase in other subsidy income of $1,420,266 during the six months ended December 31, 2009, as compared to the same period of 2008. In addition, we had interest expenses of $23,753 for the six months ended December 31, 2009, as compared to $446,344 for the six months ended December 31, 2008, a decrease of $422,591. The decrease of interest expense was primarily due to the repayment of a short-term loan in July 2009.

Provision for Income Taxes. Provision for income taxes amounted to $1,348,627 and $1,575,230 for the six months ended December 31, 2009 and 2008, respectively. We have used recycled raw materials in our concrete production since our inception, which entitled us to an income tax exemption from January 1, 2003 through December 31, 2007 and an income tax rate reduction from January 1, 2009 to December 31, 2011 as granted by the State Administration of Taxation, PRC. From January 1, 2008 through December 31, 2008, we were subject to a 25% income tax rate. Since and as of January 1, 2009, we have been subject to a 15% income tax rate. Accordingly, our total income taxes incurred during the fiscal quarter ended December 31, 2009, comprised of a 15% income tax rate compared to a 25% income tax rate for the same quarter last year. The new tax rate was granted to the Company in June 2009 and the provision for income taxes provision was retro-actively applied to the beginning of calendar year 2009 during the fourth quarter ended June 30, 2009. We paid $1,682,537 in corporate income taxes during the six months ended December 31, 2009. In the past, XinAo has paid the corporate income tax on behalf of China-ACMH, and there could be a potential liability for additional taxes for China-ACMH, though at present the Company is unable to determine the extent of any such liability, if any

Net (Loss) Income. We recognized net income of $3,422,144 for the six months ended December 31, 2009, as compared to net income of $4,103,841 for the same period in 2008, a decrease of $681,697. Such decrease in net income was attributable to an increase in subsidy income, a decrease in interest expense, an increase in our plant production in the Beijing area, higher gross profits on our thirteen railway projects, technical services, marketing cooperation, sales of raw material and rental income from mixing trucks, all of which was offset by an increase in selling, general, and administrative expenses as well as a non-cash loss of $3,916,645 related to changes in the fair value of our outstanding warrants. As discussed above, we adopted an accounting standard on July 1, 2009, and the warrants issued in connection with our June 11, 2008 private placement were re-classed from equity to derivative warrant liabilities and marked to fair market value. Our management believes that our profits should increase during the next 12 months as we continue to expand into service sectors that generate higher gross margins and because we are a direct beneficiary of Chinese government's stimulus package on infrastructure projects. We also plan to lease or build new plants in order to increase our accessibility to construction sites located in Beijing, expand into other geographical areas, as well as vertically integrate our operations across the supply chain, which should lower our costs and provide greater profitability

Excluding the affect from the non-cash loss related to changes in the fair market value of warrants, our net income would be $7,338,789 for the six months ended December 31, 2009, as compared to net income of $4,103,841 for the same period in 2008, during which we did not incur the same non-cash loss. See the section "Use of Non-GAAP Financial Measures" above for a discussion regarding the presentation of net income excluding non-cash expense.

Dividends and accretion on redeemable preferred stock. The increase in dividends and accretion on redeemable convertible preferred stock of $41,567 compared to the six months ended December 31, 2008, was due to our redeemable preferred stock offering in June 2008. It included preferred dividend expense of $259,969 and $317,650 for the six months ended December 31, 2009 and 2008, respectively and accretion of discount on the preferred stock of $399,728 and $300,482 for the period ended December 31, 2009 and 2008, respectively.

Liquidity and Capital Resources

As of December 31, 2009, we had cash and cash equivalents of $1,696,339, and restricted cash of $260,863. The following table provides detailed information about our net cash flow for financial statement periods presented in this Form 10-Q:

Summary of Cash Flow Statements

	For the Six Months Ended December 31,	
	(Unaudited) 2009	(Unaudited) 2008
Net cash (used in) provided by operating activities	$ 1,055,871	$ 1,063,412
Net cash provided by (used in) investing activities	(260,835)	(31,666)
Net cash provided by (used in) financing activities	(2,726,172)	275,412
Effect of foreign currency translation	(7,330)	7,525

on cash and cash equivalents		
Net (decrease) increase in cash and cash equivalent	$ (1,938,466)	$ 1,314,683

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

Comparison of the Six Months Ended December 31, 2009 and 2008

Net Cash Provided by Operating Activities. Net cash provided by operating activities totaled $1,055,871 for the six months ended December 31, 2009, as compared to net cash provided in operating activities of $1,063,412 for the six months ended December 31, 2008. The decrease in net cash provided by operating activities was primarily due to an increase of accounts receivable and prepayment, which were partially offset by an increase of accounts payable and payment of income tax during the six month ended December 31, 2009. We expect our cash flow from operating activities to improve as the construction industry in Beijing increases its activity following the PRC National Day holiday, and we strengthen our efforts to negotiate more favorable terms with our suppliers and customers.

Net Cash Used In Investing Activities. Net cash used in investing activities was $260,835 for the six month ended December 31, 2009, as compared to $31,666 for the six month ended December 31, 2008. The cash was principally used to purchase new production equipment and office equipment during the six months ended December 31, 2009.

Net Cash Provided by/used in Financing Activities. Net cash used in financing activities totaled $2,726,172 for the six months ended December 31, 2009, as compared to net cash provided by financing activities of $275,412 for the six months ended December 31, 2008. The decrease in cash used by financing activities was due to a short-term loan payoff of $4,502,287 (RMB 30 million) to Beijing International Trust & Investment Co., offset by proceeds of our July 2009 common stock offering and warrant exercised of $1,883,342, compared to proceeds of short term loans of $7,354,278 and payments of short term loans of $6,749,544 in the same quarter last year. The net proceeds from the common stock offering will be used for purchasing plant equipment, concrete mixers and pump trucks, working capital and general corporate purposes.

Cash. As of December 31, 2009, we had cash of $1,696,339 as compared to $3,225,178 as of December 31, 2008. This decrease is due primarily to a decrease in accounts receivable and a short-term loan payoff of $4,502,287 (RMB 30 million) to Beijing International Trust & Investment Co., which was partially offset by cash received from common stock offering and warrant exercised.

We believe that we can meet our liquidity and capital requirements for our ongoing operations from a variety of sources. However, we will need to raise additional capital in order to undertake out current plans for expansion.

Loan Facilities

We had a total of $146,259 and $4,512,200 outstanding on loans and credit facilities as of December 31, 2009 and June 30, 2009, respectively. During the six months ended December 31, 2009, we paid $4,502,287 towards our June 30, 2009 outstanding loans.

Interest expense on short-term loans for the three months ended December 31, 2009 and 2008 amounted to $0 and $217,570, respectively. Interest expense on short-term loans for the six months ended December 31, 2009 and 2008 amounted to $23,753 and $446,344, respectively.

Seasonality

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

Critical Accounting Policies and Estimates

The accompanying consolidated financial statements include the financial statements of China ACM and its wholly owned subsidiaries, BVI-ACM, China-ACMH and its variable interest entity Xin Ao. All significant inter-company transactions and balances have been eliminated in consolidation. China ACM, its subsidiaries and Xin Ao, together are referred to as the Company. In accordance with an accounting standard regarding the consolidation of 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 accounting standard the Company concludes that Xin Ao is a VIE and China ACM is the primary beneficiary. Under the transition rules, the financial statements of Xin Ao are then consolidated into the Company's consolidated financial statements.

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

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

Revenue Recognition

The Company recognizes revenue in accordance with accounting standards issued by the FASB, which specifies that revenue is realized or realizable and earned when four criteria are met:

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

The Company sells its concrete products and provides concrete manufacturing services mainly to major 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 breaches the contract terms specified in the agreement. The Company does not sell products to customers on a consignment basis. There is no right of return after the product has been injected into the location specified by the contract and accepted by the customer. The Company recognizes revenue when the goods are accepted by the customer and title has passed.

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

Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT tax exemption from August 2005 through to August 2011. The VAT tax collected from the Company's customers is kept by the Company and recorded as Other Subsidy Income.

The Company also provides technical consulting services to and enters strategic cooperation including market sharing and equipment rental with other independently owned concrete companies. The Company signs a Technical Service Agreement or Strategic Cooperation Agreement with each client, which specifies all terms and conditions including prices to be charged. Once concrete products are produced by clients and supplied to builders referred by the Company or cost savings are realized by use of technical solutions provided by the Company, the agreements consider the Company has rendered its service. The Company recognizes revenue and invoices client monthly for technical service and marketing cooperation on a per-cubic-meter basis and for equipment rental on a per-mixer truck basis.

Financial instruments

The accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement, and enhance disclosure requirements for fair value measures.

The three levels are defined as follows:

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

- Ÿ 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, substantially the full term of the financial instrument.

Ÿ Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Marketable securities, warrant liabilities, receivables and current liabilities qualify as financial instruments. Marketable securities were determined using Level 1, which are carried on the consolidated balance sheets at fair value, with fair values determined by the financial institution who sold the securities. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities are reasonable estimates of fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

As required by a FASB accounting standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The fair value of the warrants was determined using the CRR Binomial Model, as level 2 inputs, and recorded the change in earnings. As a result, the derivative liability is carried on the balance sheet at its fair value.

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 (unaudited).

	Carrying Value at December 31, 2009 (Unaudited)	Fair Value Measurement at December 31, 2009 Level 1	Level 2	Level 3
Marketable securities	$ -	$ -	$ -	$ -
Derivative liability - warrants	$ 5,546,523	$ -	$ 5,546,523	$ -

Other than the marketable securities and derivative liability - warrants carried at fair value, the Company did not identify any other assets and liabilities that are required to be presented on the consolidated balance sheet at fair value in accordance with the FASB accounting standard.

Accounts receivable

During the normal course of business, the Company extends unsecured credit to its customers. 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. The Company's reserves are consistent with its historical experience and considered adequate by management.

The ultimate collection of the Company's accounts receivable may take more than one year, and any portion of accounts receivable expected to be collected in more than one year is reflected as non-current, net of allowance for doubtful accounts relating to that portion of receivables. The bifurcation between current and non-current portions of accounts receivable is based on management's estimate and predicated on historical collection experience.

Chinese Income Taxes

The Company and its subsidiaries are governed by the income tax laws of the PRC concerning Foreign Investment Enterprises, or FIEs, and Foreign Enterprises and various local income tax laws, or the Income Tax Laws.

Xin Ao's use of recycled raw materials in its production since its inception entitled the Company to an income tax exemption from January 1, 2003, through to December 31, 2007 and an income tax reduction from 25% to 15% from January 1, 2009 to December 31, 2012 as granted by the State Administration of Taxation of the PRC. The income tax exemption granted to the Company was eliminated after December 31, 2007. Beginning January 1, 2008, the new Chinese Enterprise Income Tax, or EIT, law replaced the existing laws for Domestic Enterprises, or DES, and FIEs. Effective January 1, 2009, the new reduced EIT rate of 15% replaced the existing rates of 25% currently applicable to both DES and FIEs.

PRC laws require that before a FIE can legally distribute profits to its shareholders, it must satisfy all tax liabilities, provide for losses in previous years, and make allocations in proportions made at the discretion of the board of directors, after the statutory reserve. The statutory reserve includes the surplus reserve fund, the common welfare fund, and represents restricted retained earnings.

The Company adopted accounting policies in accordance to U.S. GAAP with regard to provisions, reserves, inventory valuation method, and depreciation that are consistent with requirements under Chinese income tax laws. Therefore, there were no significant deferred tax assets or liabilities during the six months ended December 31, 2009 and 2008.

The Company classifies interest and penalties assessed due to underpayment of income taxes as interest expense and other expenses, respectively. The Company incurred no such expenses for the six months ended December 31, 2009 and 2008.

Value added tax

Enterprises or individuals, who sell commodities, engage in repair and maintenance, or import and export goods in the PRC are subject to a value added tax. The standard VAT rate is 6% of gross sales for the Company's industry. A credit is available whereby VAT paid on the purchases of raw materials used in the production of the Company's finished products can be used to offset the VAT due on sales of finished products. Due to the fact that the Company uses recycled raw materials to manufacture its products, the State Administration of Taxation has granted the Company VAT exemption from August 2005 through to August 2009 and a two year tax (VAT) credit extension from August 2009 through August 2011.

Recently Issued Accounting Pronouncements

In January 2009, the FASB issued an accounting standard which amended the impairment model by removing its exclusive reliance on "market participant" estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the "market participant" view to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The adoption of this accounting standard did not have a material impact on the Company's consolidated financial statements because all of the investments in debt securities are classified as trading securities.

In April 2009, the FASB issued authoritative guidance related to the determination of fair value when the volume and level of activity for an asset or liability has significantly decreased, the identification of transactions that are not orderly, the recognition and presentation of other-than-temporary impairments, and the disclosure of the fair value of financial instruments on an interim basis. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued an accounting standard to make the other-than-temporary impairments guidance more operational and to improve the presentation of other-than-temporary impairments in the financial statements. This standard will replace the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired debt security until recovery with a requirement that management assert it does not have the intent to sell the security, and it is more likely than not it will not have to sell the security before recovery of its cost basis. This standard provides increased disclosure about the credit and noncredit components of impaired debt securities that are not expected to be sold and also requires increased and more frequent disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. Although this standard does not result in a change in the carrying amount of debt securities, it does require that the portion of an other-than-temporary impairment not related to a credit loss for a held-to-maturity security be recognized in a new category of other comprehensive income and be amortized over the remaining life of the debt security as an increase in the carrying value of the security. This standard became effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued an accounting standard that requires disclosures about fair value of financial instruments not measured on the balance sheet at fair value in interim financial statements as well as in annual financial statements. Prior to this accounting standard, fair values for these assets and liabilities were only disclosed annually. This standard applies to all financial instruments within its scope and requires all entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments. This standard does not require disclosures for earlier periods presented for comparative purposes at initial adoption, but in periods after the initial adoption, this standard requires comparative disclosures only for periods ending after initial adoption. The adoption of this standard did not have a material impact on the disclosures related to its consolidated financial statements.

In May 2009, the FASB an accounting standard which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. The standard is effective for interim and annual periods ending after June 15, 2009, and accordingly, the Company adopted this Standard during the second quarter of 2009. The standard requires that public entities evaluate subsequent events through the date that the financial statements are issued.

In June 2009, the FASB issued an accounting standard amending the accounting and disclosure requirements for transfers of financial assets. This accounting standard requires greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with them and changes the requirements for derecognizing financial assets. In addition, it eliminates the concept of a qualifying special-purpose entity, or QSPE. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company has not completed the assessment of the impact this new standard will have on the Company's financial condition, results of operations or cash flows.

In June 2009, the FASB also issued an accounting standard amending the accounting and disclosure requirements for the consolidation of variable interest entities, or VIEs. The elimination of the concept of a QSPE, as discussed above, removes the exception from applying the consolidation guidance within this accounting standard. Further, this accounting standard requires a company to perform a qualitative analysis when determining whether or not it must consolidate a VIE. It also requires a company to continuously reassess whether it must consolidate a VIE. Additionally, it requires enhanced disclosures about a company's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the company's financial statements. Finally, a company will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2009. The Company has not completed their assessment of the impact that this pronouncement will have on the Company's financial condition, results of operations or cash flows.

In June 2009, the FASB issued an accounting standard which establishes the FASB Accounting Standards Codification™, or Codification, as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and as of the effective date, all existing accounting standard documents will be superseded. The Codification is effective for the Company in the third quarter of 2009, and accordingly, the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2009 and all current and subsequent public filings will reference the Codification as the sole source of authoritative literature.

In August 2009, the FASB issued an Accounting Standards Update, or ASU, regarding measuring liabilities at fair value. This ASU provides additional guidance clarifying the measurement of liabilities at fair value in circumstances in which a quoted price in an active market for the identical liability is not available; under those circumstances, a reporting entity is required to measure fair value using one or more of valuation techniques, as defined. This ASU is effective for the first reporting period, including interim periods, beginning after the issuance of this ASU. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In October 2009, the FASB issued an ASU regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In October 2009, the FASB issued new standards that revised the guidance for revenue recognition with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. Additionally, these new standards modify the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. The guidance is effective for revenue arrangements entered into for fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption will have a material impact on its consolidated financial statements.

Decreases in Ownership of a Subsidiary – a Scope Clarification

In January 2010, the FASB issued an accounting standard update to address the accounting and reporting for Decreases in ownership of a subsidiary. This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS 160. The Company does not expect the provisions of ASU 2010-02 to have a material effect on the financial position, results of operations, or cash flows of the Company.

Distributions to Shareholders with Components of Stock and Cash

In January 2010, the FASB issued an accounting standard update to address the accounting for distributions to shareholders with components of stock and cash (A Consensus of the FASB Emerging Issues Task Force). This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260 for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The Company does not expect the provisions of ASU 2010-01 to have a material effect on the financial position, results of operations, or cash flows of the Company.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4(T). CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 , as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer (our president) and our principal accounting and financial officer (our chief financial officer) to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management does not expect that our disclosure controls or our internal controls over financial reporting will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but no absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. These limitations also include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of a control. A design of a control system is also based upon certain assumptions about potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

As of December 31, 2009, the quarterly period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and our principal accounting and financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president and our chief financial officer concluded that our disclosure controls and procedures were not effective as of December 31, 2009 or during the entire period covered by this report.

Changes in Internal Control over Financial Reporting.

During the fiscal quarter ended December 31, 2009, there were no changes in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse affect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

There were no unregistered sales of equity securities during the fiscal quarter ended December 31, 2009.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the fiscal quarter ended December 31, 2009.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fiscal quarter ended December 31, 2009.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
14.1	Code of Ethics (incorporated by reference to the Company's Current Report on Form 8-K filed on October 9, 2009)
31.1	

	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Date: February 9, 2010	CHINA ADVANCED CONSTRUCTION MATERIALS GROUP, INC.	
	By:	/s/ Xianfu Han Xianfu Han, Chief Executive Officer (Principal Executive Officer)
	By:	/s/ Chin Hsiao Chin Hsiao, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)