BOYUAN CONSTRUCTION GROUP, INC

ANNUAL INFORMATION FORM

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

September 28, 2011

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ANNUAL INFORMATION FORM

ITEM 1. EXPLANATORY NOTES AND CAUTIONARY STATEMENTS

1.1 Explanatory Notes

In this Annual Information Form ("**AIF**"), references to the "**Company**" or "**Boyuan**" mean Boyuan Construction Group, Inc. and include its subsidiaries, Hong Kong Wealthy Holdings Limited ("**HKCo**"), Zhejiang Boyuan Trading Co., Limited ("**WFOE**") and the variable equity interest (defined hereinafter in this AIF) relationship it has over Zhejiang Boyuan Construction Co., Ltd. ("**Boyuan China**") and Jiaxing Ziyuan Labour Services Co., Ltd. ("**Ziyuan**"), unless the context otherwise requires. See "Corporate Structure – Intercorporate Relationships".

All information contained in this AIF is as of June 30, 2011 unless otherwise indicated. All currency amounts are in US dollars, unless otherwise indicated.

1.2 About Forward-Looking Information

Certain statements in this AIF and the documents incorporated herein by reference are forward-looking statements. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Often, but not always, forward looking statements can be identified by the use of words such as "plans", "expects", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative and grammatical variations) of such words and phrases or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking information in this AIF includes, but is not limited to:

- statements or information concerning the Company's future operation plans,
- plans to complete existing projects;
- plans to secure and execute new projects;
- plans to expand to new markets;
- financing options and plans.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits we will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of June 30, 2011. These assumptions, which include, management's current expectations, estimates and assumptions about certain projects and the markets the Company operates in, the global economic environment, interest rates, exchange rates and its ability to manage its assets and operating costs, may prove to be incorrect. A number of risks and uncertainties could cause its actual results to differ materially from those expressed or implied by the forward looking statements, including, but not limited to:

- the failure of Boyuan to execute its business plan;
- general economic conditions related to the real estate and construction industry in the People's Republic of China ("**PRC**") as they affect Boyuan and its current and prospective customers;
- risk from economic globalization and competition from the entrance of new competitors;
- failure to obtain additional capital at all or on commercially reasonable terms;
- risk of insufficient marketing to secure new construction projects;

- risk of loss of key management employees;
- risk of loss of key customers;
- risks from the supply of secure raw materials;
- risk related to the need to maintain existing licenses and permits and/or obtain new or amended licences and permits, particularly from the PRC Ministry of Construction;
- risk of financial leverage where construction companies rely primarily on bank loans, accumulated profits and financing activities to make payments for or on behalf of the project owners before receiving payment from the project owners;
- risk of bad debts in accounts receivable;
- risk for Boyuan to manage its growth;
- risks related to macro-economic policy of the PRC government as they affect the construction industry;
- risk related to the policy of use of land and mortgage financing policies;
- risk of insufficient insurance;
- foreign exchange fluctuations;
- risk related to the variable interest entity relationship between the Company and Boyuan China whereby the Company does not hold the registered share capital of Boyuan China;
- political and economic conditions in China;

and those other risk factors described in the section entitled "Description of the Business – Risk Factors" in this AIF.

Undue reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are in many cases beyond the Company's control. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and the Company's actual results of operations, financial condition and liquidity, and the development of the industry in which it operates, may differ materially from statements made in or incorporated by reference in this AIF.

Although the Company has attempted to identify factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. Forward-looking statements are based upon the beliefs, estimates and opinions of the Company's management at the time they are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or circumstances should change. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 2. CORPORATE STRUCTURE

2.1 Name, Address and Incorporation

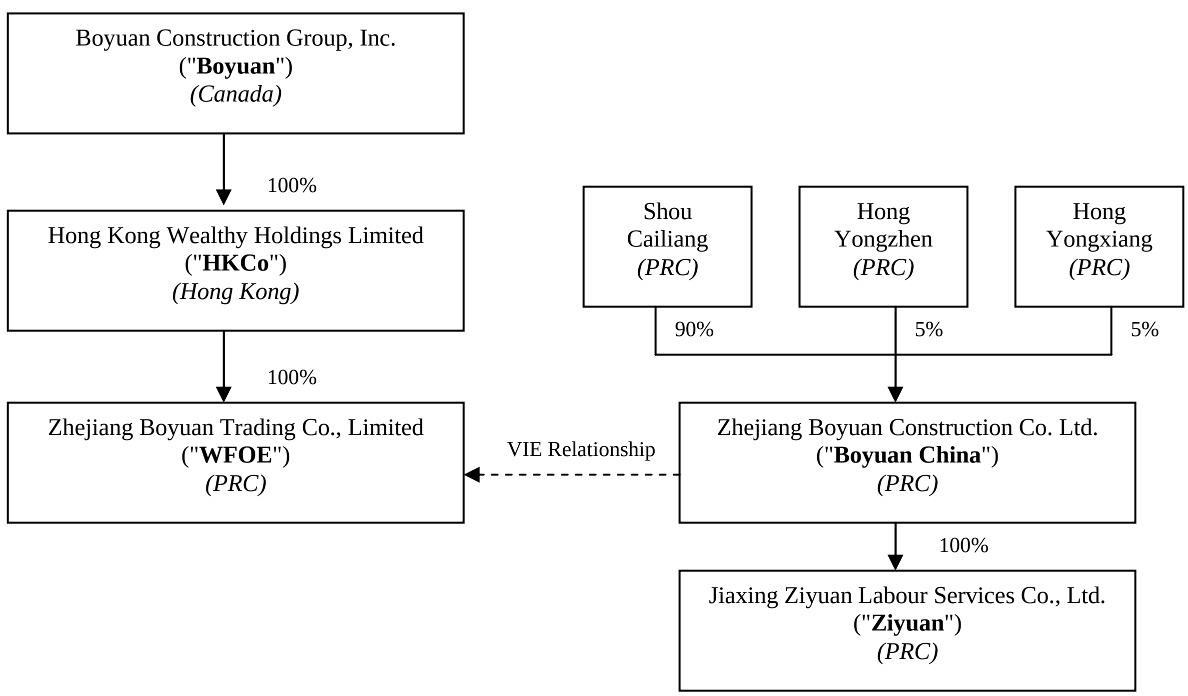
Boyuan Construction Group, Inc. was incorporated under the *Canada Business Corporations Ac*t on May 4, 2007 as "SND Energy Ltd." On February 20th, 2009 the Company changed its name to "Boyuan Construction Inc.", effected a share consolidation on the basis that every 1258.0342 common shares outstanding into one common share after the consolidation and created an unlimited number of Class A preferred shares. On February 24, 2009, the Company changed its name to "Boyuan Construction Group, Inc."

The Company’s common shares are publicly traded on the Toronto Stock Exchange (the "**Exchange**" or the "**TSX**") under the symbol "BOY". The Company's 11.75% secured convertible debentures due February 28, 2013 (the "**Secured Debentures**") are traded on the Exchange under the symbol "BOY.DB" and the Company’s 10% unsecured convertible debentures due October 31, 2015 (the "**Unsecured Debentures**") are traded on the Exchange under the symbol "BOY.DB.A". Boyuan’s registered office is located at Suite 1200 – 95 Wellington Street West, Toronto, Ontario, M5J 2Z9. The Company’s corporate head office is located at Boyuan Building, No. 6, East Road, Jiaxing Port, Zhejiang 314201, China.

2.2 Intercorporate Relationships

The Company has two wholly-owned subsidiaries, its direct subsidiary, HKCo, which was incorporated in Hong Kong, and its indirect subsidiary, WFOE. Both are non-public companies with nominal net non-monetary assets. HKCo’s’ organizational structure was developed to effectively hold and operate businesses in China, while at the same time ensuring compliance with local governmental and regulatory requirements and providing shareholder liability protection. In addition, the Company indirectly, has a variable equity interest over Boyuan China and Ziyuan.

Corporate Chart



Variable Interest Entity ("VIE") Relationship between WFOE and Boyuan China

WFOE entered into a series of agreements dated January 10, 2009 with Boyuan China and each of the shareholders of Boyuan China (the "**VIE Agreements**") whereby Boyuan China entrusts WFOE to manage and operate the business of Boyuan China. This structure is commonly used for foreign investment in a domestic company wholly-owned by PRC citizens and is commonly called a variable interest entity ("**VIE**") structure, which, in Boyuan’s case, enables WFOE to have control over the equity and business of Boyuan China and enable 100% consolidation of Boyuan China’s financial statements into Boyuan under Canadian generally accepted accounting principles and IFRS. A "variable interest entity" (or VIE) is a term used by the U.S. Financial Accounting Standards Board to refer to an entity in which the investor holds a controlling interest which is not based on the majority of voting rights. The importance of identifying a VIE is that companies are able to consolidate the financial statements of such entities if it is the primary beneficiary of the VIE.

The VIE Agreements formalized controlling interest by WFOE over Boyuan China. These VIE Agreements are: (i) an exclusive option agreement, which ensures that WFOE can acquire 100% of the equity interest in Boyuan China at any time in according to the terms of the exclusive option agreement; (ii) an entrusted management agreement whereby Boyuan China entrusts WFOE to manage and operate the business of Boyuan China, and requires the transfer of all of the revenue of Boyuan China to the WFOE; (iii) a share pledge agreement, which ensures that WFOE maintains possession of the share certificates of Boyuan China's shareholders, and limits the transfer and disposition of the equity interest of Boyuan China; and (iv) a Shareholders Voting Proxy Agreement, which grants WFOE the right to exercise all the shareholders' voting rights of the nominee shareholders in respect of Boyuan China. The VIE Agreements, taken as a whole, exert "control" over the equity of Boyuan China for the purpose of consolidating financial statements.

ITEM 3. GENERAL DEVELOPMENT OF THE BUSINESS

3.1 Three Year History

Fiscal Year Ended June 30, 2009

Boyuan Construction Group, Inc. was incorporated under the *Canada Business Corporations Act* on May 4, 2007 as "SND Energy Ltd." Sonomed Inc. ("**Sonomed**") became a wholly-owned subsidiary of the Company, pursuant to a plan of arrangement between Sonomed, StoneBridge Merchant Capital Corp. and the Company on June 29, 2007. Since December 22, 2005, Sonomed limited its operations and expenditures in order to preserve its cash to maximize shareholder value. Effective June 29, 2007 the plan of arrangement previously approved by the shareholders of Sonomed (the "**Sonomed Arrangement**") closed. As part of the Sonomed Arrangement, Sonomed's shareholders received one share of the Company for each share of Sonomed and received an initial cash distribution, in accordance with the terms of the Sonomed Arrangement, of $2,907,273 ($0.102595 per share). The second and final payment of $90,160 was paid during November 2007. As a result of the closing of the Sonomed Arrangement a request for voluntary delisting of Sonomed's common shares on the NEX was filed with the Exchange.

Effective November 30, 2008, Sonomed became an indirect wholly-owned subsidiary of the Company and was wound-up into 4499034 Canada Inc., a wholly-owned subsidiary of the Company. On February 20, 2009 the Company changed its name to "Boyuan Construction, Inc.", effected a share consolidation on the basis that every 1258.0342 common shares outstanding into one common share after the consolidation and created an unlimited number of Class A preferred shares. On February 24, 2009, Corporations Canada effected the name change of the Company to "Boyuan Construction Group, Inc."

WFOE entered into the VIE Agreements on January 10, 2009 with Boyuan China and the shareholders of Boyuan China. The VIE Agreements govern the relationship between WFOE and Boyuan China whereby Boyuan China entrusts WFOE to manage and operate the business of Boyuan China. The structure commonly used for foreign investment in a domestic company wholly-owned by PRC citizens is called the variable interest entity structure, which, in the Company's case, enable's WFOE to have control over the equity and business of Boyuan China and enable 100% consolidation of Boyuan China's financial statements into the Company. See "Item 2. Corporate Structure-Intercorproate Relationships" for more details.

On February 27, 2009, Boyuan Construction Group, Inc. and HKCo, a company incorporated on July 2, 2008 under the Companies Ordinance of Hong Kong, entered into a share exchange agreement ("**Share Exchange Agreement**") with Boyuan, whereby Boyuan acquired HKCo and its wholly owned subsidiary, Zhejiang Boyuan Trading Co., Limited, a wholly foreign owned entity ("**WFOE**"), a limited liability company incorporated pursuant to the laws of the PRC and wholly-owned by foreign (non-PRC resident) investors (the "**Acquisition**"). HKCo consolidates the accounts of Boyuan China (including its subsidiary Ziyuan), a private company incorporated in the PRC which is in the business of residential and business building construction, municipal, infrastructure and engineering projects in the Zhejiang Province of PRC, through its variable equity interest entity relationship (described below) as it is the primary beneficiary of Boyuan China. Boyuan China engages in business activities under its own name or through its wholly owned subsidiary Ziyuan. Boyuan China was incorporated on January 17, 2000, under the laws of the PRC, under registration number 3300002000152. The registration number has been subsequently changed to 3300000042547 upon increase in registration capital of Boyuan China on August 12, 2009. Boyuan China was first incorporated under the laws of the PRC on January 17, 2000 under the name of "Jiaxing Quanlong Merchandising Co., Ltd." as a trading company. Boyuan China's current business began operations in February, 2004, under the name, "Zhejiang Boyuan Construction and Engineering Co., Ltd." Boyuan China's current name, "Zhejiang Boyuan Construction Co., Ltd.", was registered on August 30, 2006. WFOE became a wholly owned subsidiary of HKCo on January 10, 2009.

The acquisition was accomplished through an exchange of shares which resulted in the former HKCo shareholders obtaining a controlling interest in Boyuan and this transaction was recorded as a reverse take over for accounting purposes as HKCo was deemed to be the acquirer and the Company's consolidated financial statements are deemed to be a continuation of the financial statements of HKCo, its subsidiary and VIE (WFOE and Boyuan China), while the capital structure is that of Boyuan. The Company's financial statements are presented on a continuity of interest basis and reflect the financial position, results of operations and cash flows as if the Company has always carried on the business formerly carried on by HKCo, WFOE and Boyuan China. Pursuant to the acquisition, the Company issued 3,104,741 of its post- consolidated common shares and 21,270,259 of its Class A preferred shares (the "**Class A Preferred Shares**") to the nominees of HKCo.

In connection with the reverse take over of the Company completed on February 27, 2009, the Company conducted a financing ("**RTO Financing**") for units (each a "**RTO Unit**"). Each RTO Unit was priced at Cdn$1,000, and consisted of and immediately separated into: one Secured Debenture, 125 common shares, 250 common share purchase warrants ("**Share Purchase Warrants**"), 250 Rights, 250 Additional Rights (each as defined under "Item 6.4- Other Outstanding Securities" below) and a minimum total return right ("**Minimum Total Return Right**").

The Company was listed on the TSX Venture Exchange (the "**TSXV**") on March 11, 2009 by completing the reverse take over of Boyuan (formerly, SND Energy Ltd.) (the "**RTO**"), with the Company's common shares listed under the symbol BOY and its Secured Debentures listed under the symbol BOY.DB.

Fiscal Year Ended June 30, 2010

The Company completed a private placement financing on July 7, 2009 with an effective date of June 30, 2009 (the "**July Financing**") whereby it issued 6,474 units priced at Cdn$1,000 ("**July Units**"). Each July Unit consisted of one Secured Debenture, 125 common shares, 250 Share Purchase Warrants, 250 Rights and 250 Additional Rights.

On October 26, 2009, Boyuan announced its financial results for its fiscal year ended June 30, 2009, reporting adjusted net income exceeding $9.6 million, exceeding the make good escrowed share target of $8.5 million after tax net income. As a result, all Rights were cancelled on or about October 26, 2009.

On June 14, 2010, the Company's listing graduated from the TSXV to the TSX and Company's common shares and Secured Debentures became listed on the TSX under the symbol "BOY" and "BOY.DB", respectively.

Fiscal Year Ended June 30, 2011

On September 23, 2010, Boyuan announced its financial results for its fiscal year ended June 30, 2010, reporting adjusted net income of $13.3 million, exceeding the make good escrowed share target of $12.4 million after tax net income. As a result, all Additional Rights were cancelled as of September 23, 2010.

The Company completed a Cdn$15 million prospectus unsecured convertible debenture financing on November 3, 2010 (the "**Unsecured Debentures**"). The Unsecured Debentures bear interest at 10% per annum with a conversion price of Cdn$2.60 per share and will be due on October 31, 2015.

Since the date of the last AIF dated September 23, 2010, the Company has entered into the following material construction contracts:

- On December 6, 2010, Boyuan announced that it had been awarded a contract with a contract price of $7.5 million to develop a 40,000 square meter clubhouse facility in Hainan Island.

- On December 13, 2010, Boyuan announced that it had been awarded two contracts to build two residential developments of 13,000 square meter and 88,000 square meter in Boao, Hainan Island, with contract prices of $3 million and $24 million respectively.

- On January 4, 2011, Boyuan announced that it had been awarded a contract with a contract price of $10.9 million to develop a 66,000 square meter residential building in Hainan Island.

- On February 24, 2011, Boyuan announced that it had been awarded a contract with a contract price of $21.4 million to develop a 66,000 square meter residential building in Haikou, the capital of Hainan Island.

- On May 2, 2011, Boyuan announced that it had been awarded a contract with a contract price of $43.1 million to build 4 residential buildings each 25 stories high totaling 140,000 square meter. The project is located in the Peninsula district in Sanya, Hainan Island.

- On May 19, 2011, Boyuan announced that it had been awarded a contract with a contract price of $23.1 million to develop a 80,000 square meter mixed use project consisting of 13 residential/commercial buildings. The project is located in Huaian City in the Yangtze River Delta.

- On May 31, 2011, Boyuan announced that it had been awarded a contract with a contract price of $15 million to develop 12 residential buildings totaling 98,000 square meter in Zaozhuang, Shandong Province.

Recent Developments

On September 26, 2011, Boyuan announced that it had been awarded a contract with a contract price of $7.97 million to develop a 27,000 square meters residential project in Sanya, Hainan Island.

On September 28, 2011, Boyuan announced its financial results for its fiscal year ended June 30, 2011, reporting net income of $13.6 million.

ITEM 4. DESCRIPTION OF THE BUSINESS

4.1 General

The first pure-play construction company based in China to become publicly traded in North America, Boyuan is a builder of commercial, residential and municipal infrastructure projects.

From its headquarters in Jiaxing Port in the Zhejiang Province, which is located 85 kilometers east of Shanghai, Boyuan’s operations are focused on the Yangtze River Delta area, Hainan Island, and Shandong Province, regions that are growing fast because of China’s ongoing urbanization and emerging middle class.

Having a National Class I construction qualification, the Company is qualified to participate in construction projects up to 40 storeys with a gross construction area of 200,000 square meters and with a contract value of less than five times Boyuan China’s registered capital. Boyuan has a developed a reputation for building quality projects on time and on budget, from five-star hotels to working on Qingshan Nuclear Plant, China’s first China's first indigenously designed and constructed nuclear power plant. Specific projects completed by the Company include: residential housing, high-rise buildings, business and residential buildings, customized factories, municipal roads, roads in factories, municipal water factory engineering, water supply and drainage engineering and more. In 2007, Boyuan was named one of the Top 100 Outstanding Construction Companies in China.

In the last three fiscal years ended June 30, 2011, the Company completed 70 projects in total, achieving more than $186 million in revenues during its most recent fiscal year. Currently the Company has a significant project backlog including residential, commercial, industrial, hotels and infrastructure. The Company has approximately 14 material projects ranging in size and complexity currently in progress and the project backlog is in excess of $270 million as at September 27, 2011. Most of these projects are on a fixed price basis with cost adjustment clauses for raw material and labour. The duration of these projects ranges from one to three years.

The Company intends to expand into more complex constructional skyscrapers, public construction projects and general construction projects.

Management believes the Company's competitive advantages include its construction classifications, in particular: (i) National Class-I general contracting for building construction; (ii) Class I general contracting for municipal infrastructure engineering; (iii) Class-I specialized contracting for architecture decoration and renovation; (iv) Class-III specialized contracting for anti-corrosion & insulation engineering; (v) Class-II specialized contracting for foundation and infrastructure; and (vi) Class III specialized contracting for electrical installation.

Additionally, Boyuan's Chairman and the senior managerial staff have each accumulated extensive experience in the construction industry. All members of the core management team have college or higher degrees, covering civil engineering and financial management areas. All management members have more than ten years of experience in the construction industry or in management. In total, Boyuan has approximately 430 registered employees in various technical, support and managerial positions, including approximately 305 project managers, construction workers and engineers.

Through its quality control, the Company is able to maintain ISO 9001 standards, ISO 14001 standards and GB/T28001-2001 occupational health and safety standards to ensure engineering quality and safety of operation. In addition, the Company has also obtained GB/T24001-2004 environmental management standards and GB/T19001-2008 quality management standards during the year ended June 30, 2011.

The Business

The Company is in the business of residential and business building construction, municipal infrastructure and engineering projects. Listed below is detail on those two main segments: (i) building construction and engineering, and (ii) municipal infrastructure construction engineering.

Building construction and engineering

The Company's building construction projects consist of 4 types: (i) residential areas, consisting of housing projects for multi-home neighbourhoods and condominium projects; (ii) customized factory construction, set up for the purpose of production, manufacturing and processing; (iii) business and residential building construction, set up for the purpose of tourism, restaurants, entertainment, office and mixed use office/residential buildings; and (iv) public infrastructure projects for urban development such as: bus stations, squares, traffic hubs, nursing homes and government institutions.

Municipal Infrastructure

The Company's municipal infrastructure projects consist of: (i) roads; and (ii) bridges.

Historically, the Company has focused on customized municipal and residential projects equally, but due to its experience and reputation in the high-quality market, it has been able to tender for and win more specialized high-quality complex projects. The Company is now focusing more on building larger high-quality residential and business construction, which have higher production values and higher profit margins.

Customers

The Company's main customers fall into three categories: (i) Engineering Construction Management Companies; (ii) Project Management Companies; and (iii) Real Estate Development Companies.

Engineering Construction Management Companies

Engineering construction management companies are owned by the construction committee of the local governments. The Company's previous customers in this sector include: Jiaxing Zhapu Construction Investment Co., Ltd., Jiaxing Port City Construction Investment Co., Ltd., among others.

Project Management Companies

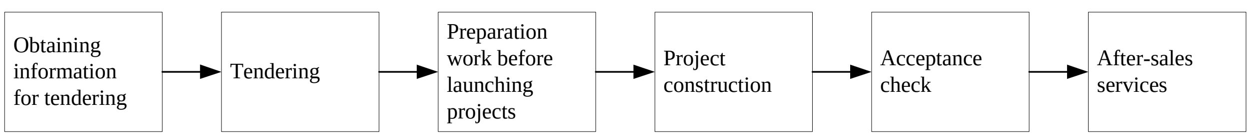
Project management companies are founded for government-approved and business-invested construction projects. The Company's customers in this sector include: Hangzhou City Construction Group Co., Ltd. and Jiaxing Port Gangcheng Real Estate Co., Ltd., among others.

Real Estate Development Companies

Real estate development companies that also win bids for construction projects are among the main customers of the Company. These companies acquire raw land, improved land, and/or redevelop property in order to construct building projects. The Company's customers in this segment include: Jiaxing Power Plant, Qinshan Nuclear Power Plant, Dalian Shide Group, Zhejiang Shihang Zhapu Port Co., Ltd., Duoling Holdings Group Co., Zhejiang Banyu Group Co., Pinghu Xingzhou Real Estate Co. and Sanya Phoenix Water Town Development Company.

Operational Processes

The major procedures involved in the Chinese construction business include: (i) obtaining information for tendering; (ii) tendering; (iii) preparation work before launching projects; (iv) project construction; (v) acceptance check; and (vi) after-sales services.



Projects completed

For the years ended June 30, 2009, 2010 and 2011, the Company finished 35, 19 and 16 projects, respectively, contributing annual revenue of $101 million, $147 million and $186 million respectively. As its customer base has increased steadily over the last few years, the production value of individual projects has increased as well.

Projects in process

As of the date hereof, the Company has approximately 14 material projects in process including school buildings, factories, apartment buildings, office buildings, hotels and maintenance buildings. The Company also has a significant number of projects in its business development sales pipeline.

Strategy for Future Growth

At present, the Company's three main geographic markets are the Yangtze River Delta, Hainan Island, and the Shandong Province. The Company aims to develop into a national-class competitive and progressive company with a principal focus on its construction business, construction survey, design and consultancy business, as well as large-scale construction projects development and management business. The Company's ultimate goal is to enhance its cross-regional and cross-sector operations by integrating its business operations with its capital investment operations, and coordinating its construction business with its survey and design services. The Company believes that the following strategies will help it to leverage its strengths to capture future growth opportunities in China's construction industry, increase geographic expansion of its operations, enhance its core competitiveness and maintain its competitive position in its existing markets.

Solidify existing markets

The Company believes there are still a lot of growth opportunities within our existing markets. The Company is currently covering only a small portion of the Yangtze River Delta. Boyuan has only been operating in Hainan Island for three years and Shandong Province is a relatively new market for the Company. All three markets are fast growing regions in China and the Company is well positioned to take advantage of this growth. The Company plans to continue to build on its already well established infrastructure, sales network, and market reputation in these markets.

Continue aggressive marketing to secure high-end projects by leveraging on our technical capabilities

The Company aims to aggressively increase its overall share of the domestic market by promoting steady growth of its operations in the construction of infrastructure, as well as increasing its market share in the construction of real estate and municipal projects. In addition, the Company expects to expand its operations to cover new, high-growth areas such as port construction and environmental-related and energy-related businesses with a view to increasing its overall share of the domestic market. The Company anticipates that the foregoing plans will be facilitated by fully utilizing its construction techniques, taking advantage of the Company's economies of scale, using its capital effectively and procuring advanced equipment and facilities. The Company believes that its integrated structure also provides it with a competitive advantage in marketing.

Enter into new geographic markets

The Company believes that it has the skills necessary to operate across many regions and therefore plans to expand its bidding process to include the other provinces in China. The Company intends to enter these markets by leveraging its relationships, equipment, raw materials and human resources, and by cooperating or aligning with other companies. The Company intends to use a disciplined approach in entering a new geographic region. The following considerations have to be favourable before the Company decides to enter a new region: robust economic and construction activities, our ability to secure strong government relationships, clear competitive advantages, and our ability to establish an extensive sales and marketing network.

Upgrade construction qualifications to increase our scope of construction activities

In addition to the Class I general contracting qualification for building construction, the Company currently has two Class I qualifications, one Class II qualification and two Class III qualifications: (i) Class I for general contracting qualification for municipal infrastructure engineering; (ii) Class I for specialized contracting qualification for architecture decoration and renovation; (iii) Class III for specialized contracting qualification for anti-corrosion & insulation engineering (iv) Class-II specialized contracting qualification for foundation and infrastructure; and (v) Class III specialized contracting qualification for electrical installation. It is the Company's long term goal to upgrade all of its qualifications to Class-I Qualifications eventually, so as to win specialty construction projects. This will allow the Company to set up satellite subsidiaries to secure more high-profit projects throughout China, such as road, irrigation, hydropower, port and waterway and environment protection engineering projects. During the past twelve months, the Company has upgraded its Specialized Contracting qualification for Architecture Decoration and Renovation from Class II to Class I, and its Specialized Contracting qualification for Foundation and Infrastructure from Class III to Class II.

With the Company's experience building high-end construction projects, the Company also plans to acquire an architectural design qualification in the medium term. The Company believes once it receives this qualification that it can vertically integrate the architectural design qualification to upgrade the Company to be an integrated General Project Contracting and Management Company. This will allow the Company to penetrate further in to this high-margin market integrating the different facets of its businesses to realize a greater overall project return.

Continue to recruit high-level professionals to upgrade its operations

Over the years, the Company has developed an outstanding internal bank of project managers and technicians. Furthermore, the Company expects to focus on hiring professionals in municipal infrastructure, installation and decoration as well as real estate professionals for its cross-industry development.

Reinforce business management and implement a management information system

The Company is developing an internal computer information network and use advanced tools to collect various kinds of information in real-time to ensure smooth and fast information transmission within the Company. The Company is building a specialized management information system to include its quality, safety and environment integrated management system, bidding, contract, credit, personnel and financial management into the information system. The system under development at present includes 5 modules; management information module, human resources module, support management module, fund management module, and project management module. By applying information technology, the Company believes it can make the "long-distance management" of construction companies into "virtual on-site management" so as to integrate and apply their management strength and info tech approaches.

The Company will carry out effective dynamic management and assessment of member companies. The Company will highlight their performance and market practices including their adherences to law, internal management, and market restriction, to encourage member companies to present high-quality projects and maintain a high-level of quality control.

Implement customer relation management strategy

The main concept in implementing a customer relation management ("**CRM**") strategy is to define how the Company collects information about customers and evaluates it. As the economy becomes more privatized and expands, it is quickly becoming a service-based economy. The Company believes it is an important strategy for long-term business development to integrate and reinforce a "customer-first" policy with daily business operations so as to improve customer-centred business management activities. The credibility of construction companies is usually assessed by the customer’s satisfaction level. The CRM strategy will help strengthen the Company’s customer relationships and should result in more productivity.

Implement innovative management strategies, improve management efficiency and reduce costs to maintain cost-effective operations and optimize overall profitability

The Company maintains a sizable staff force. To optimize its management decision-making process and improve its efficiency and productivity, the Company has defined the management roles for its headquarters to promote a flat management structure. The Company also engaged an international consulting company to review its internal control system for financial reporting and to make recommendations on improving the internal control system. The Company’s internal control system has been strengthened considerably as the majority of the recommendations were implemented by the end of calendar 2010. The Company is in the process of implementing the rest of the recommendations. More details can be found in the Company's annual management discussion and analysis for the fiscal year ended June 30, 2011.

The Company expects to continue to rationalize and consolidate its internal management and further integrate its internal resource allocation system to strengthen its management control and increase its resource utilization rates. In addition, the Company expects to continue to enhance the centralized procurement of raw materials and plans to enter into long-term contracts with main suppliers of key raw materials, such as steel, to reduce its exposure to the volatility of raw material prices. The Company believes that centralizing raw material procurement will lower its procurement costs, ensure the consistent quality of raw materials and increase its rate of return.

The Company intends to enhance the efficiency of its supply chain, customer relations, on-site and financial information management systems. The Company is establishing a uniform, computerized accounting and financial information management system to improve its financial risk management and to oversee its overall capital investments, operations and profits, as well as a uniform database that will allow various subsidiaries, if any, to share consolidated research and development, sales and marketing and client information. The Company expects to implement a centralized capital management system which the Company believes will enable it to enhance the efficiency of its fund utilization, increase its sources of funding and reduce its financing costs. The Company believes this system would enable it to integrate its capital investment operations and increase its investment flexibility to seek higher returns.

Further develop outstanding corporate culture, promote the "BOYUAN ™" brand name and strengthen reputation for excellence

The Company values the brand "BOYUAN ™" as its most valuable intangible asset and the representation of its corporate culture. The Company will therefore seek to enhance its integrated brand management and utilization and increase its brand awareness.

Doing Business in China

Overview

PRC's business environment has changed significantly to support its ongoing economic expansion, foreign investment, and positive balance of trade surplus. Admission to the World Trade Organization on December 11, 2001 was one of the major milestones in PRC's alignment to international standards of business practice. This includes: (i) dispute resolution practices for foreign trade as well as increasingly effective enforcement of law; (ii) economic reforms to promote efficiency and innovation and a more market-oriented economy; and (iii) more prudent and stable approaches to domestic and foreign economic policy.

China's top legislature is the National People's Congress which meets annually to confirm government policy. The State Council (or cabinet) enacts and administers rules and regulations and directs the country's various ministries. Current overall policy favours the effective control of the continued expansion of the domestic economy.

Corporate entities that permit foreign companies to conduct business in China (foreign investment entities or "**FIEs**") fall under three major types: wholly foreign owned entities; co-operative joint ventures and equity joint ventures. Wholly foreign owned entities are the preferred vehicle for the Company's activities in China because they allow the Company to fully control the entity subject to applicable laws. In respect of wholly foreign owned entities, of key relevance are the PRC wholly foreign owned entities law (amended in 2000) including its Implementation Rules (amended in 2001) and the PRC Company Law (amended in 2005).

FIEs are subject to enterprise income tax calculated at the rate of 25% since January 1, 2008, levied on the FIEs' net profits. In specific cases where major investments have substantial economic, political or social benefits to the country, exemptions and reductions of enterprise income tax are available.

In addition, to encourage direct foreign investment in certain priority industry sectors while restricting or prohibiting investment in other sectors, China classifies all foreign investment projects into four categories: 'encouraged,' 'permitted,' 'restricted' and 'prohibited'. The 'encouraged,' 'restricted' and 'prohibited' sectors are specified in the Foreign Investment Industry Guidance Catalogue ("**Catalogue**"), and those not specified in the Catalogue belong to 'permitted'. As specified in the Catalogue, which was recently amended and became effective (as amended) as of December 1, 2007, the following business in the real estate sector is classified as 'restricted' to foreign investment. Wholly foreign owned entities conducting business in such 'restricted' activities are subject to more stringent controls such as maintaining investment below specified monetary thresholds:

- Development of large tracts of land (limited to equity and cooperative joint ventures).
- Construction and operation of high-end hotels, high-end office buildings and international conference centres.
- Real property secondary market trading and real property intermediaries or brokerages.

Foreign exchange registration of offshore investment by PRC residents

On October 21, 2005, the State Administration of Foreign Exchange ("**SAFE**") issued SAFE Circular No. 75, pursuant to which (i) a PRC resident must register with the local branch of SAFE before it establishes or controls an overseas special purpose vehicle ("**SPV**"), for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or equity interests in a domestic enterprise to an SPV, or engages in overseas financing after contributing assets or equity interests to an SPV, such PRC resident must undergo procedures for amending the foreign exchange registration for overseas investment with the local branch of SAFE to include information concerning the net assets or equity interests owned by the PRC resident in the SPV and its status of change; and (iii) when the SPV undergoes a material event outside of China, such as increases or decreases in investment amount, transfers or exchanges of shares, mergers or divisions, long-term equity or debt investment, guarantees of offshore obligations, or other material events that do not involve return investment, the PRC resident must, within 30 days after the occurrence of such event, register such change with the local branch of SAFE. See *"Risk Factors - Risk factors relating to China - Repatriation of profit and foreign currency exchange"* for further details.

Other regulatory issues

In addition to foreign exchange controls, macro economic measures relating to the real estate industry, land administration, monitoring of fixed asset investment recently in China and People's Bank of China imposed money control policies discussed above, additional regulations exist which may apply to the Company's real estate business in the PRC. Such additional regulations include, but are not limited to:

- the "Regulations on Administration of Development of Urban Real Estate" promulgated by the State Council in July 1998, establishing a general regulatory system for the development and trading of real estate;

- the "Provision on Administration of Qualification Certificates of Real Estate Developers" implemented by the Ministry of Construction on March 29, 2000, specifying the standards and procedures for application for the qualification of real estate development, which is divided into four classes based on the financial status, business record, human resources and other factors ensuring the development quality and capacity of the applicants;

- the "Regulations on Planning Administration regarding Granting and Transfer of State-owned Land Use Right in Urban Area" promulgated by the Ministry of Construction in December 1992, dealing with the assignment, granting, transfer and mortgage of the state-owned LURs in the PRC;

- the "Provisional Regulations on Acceptance Examination Upon Completion of the Construction Projects of Buildings and Infrastructures for Urban Utilities" promulgated by the Ministry of Construction in June 2000 and the "Regulations on the Administration of the Quality Construction Project" promulgated by the State Council in January 2000, specifying the construction quality standards to be attained before sale and occupancy;

- the "Regulations for the Administration of Sale of Commodity Buildings", or the Sales Regulations promulgated by the Ministry of Construction in April, 2001 and the "Measures for the Administration of Pre-sale of Commodity Buildings in Urban Area" promulgated and amended by the Ministry of Construction in November 1994, August 2001 and July 2004 respectively, establishing the licensing system for the sale or pre-sale of commodity buildings;

- the "PRC Law of Environmental Protection" promulgated by the PRC NPC Standing Committee in December 1989, the "PRC Law on the Prevention and Control of Water Pollution" promulgated and amended by the PRC NPC Standing Committee in May 1996, the "Regulations on Administration of Environmental Protection in Construction Projects" promulgated by the State Council in November 1998 and the "Measures on Administration of the Check and Acceptance of Environmental Protection Facilities in Construction Projects" promulgated by the State Environmental Protection Administration in December 2001, specifying the procedures and requirements of environmental protection with which a company in the PRC shall comply when conducting a construction project as well as in daily business operation; and

- the "PRC Law of Urban-rural Planning" promulgated by the PRC NPC Standing Committee in October 2007 and the "PRC Construction Law" promulgated by the PRC NPC Standing Committee in November 1997 and April 2011, specifying the permits and the application procedures thereof required for the construction in the PRC.

Regulatory environment of the construction industry in PRC

The environment in which the construction industry in China operates is a system that regulates the relations, actions and interactions of all the participants in the industry. The regulatory framework involves government agencies and industrial associations and covers procurement policies and procedures, licensing requirements, codes and standards, taxation, credit systems, import and export policies and rules and legislation such as construction law, contract law, and tendering law and so on.

The administrative framework regulating the construction industry in China is a hierarchical system with roughly four levels: central, provincial, municipal and county.

The Ministry of Housing and Urban-Rural Development in the PRC ("**HURD**") is at the top of the framework and plays a leading role in guiding and administering the industry. The HURD oversees the development of the real estate market and the construction market in China. It also has the responsibility of ensuring construction quality and safety.

The cities at various levels have their own agencies guiding and regulating construction activities within their jurisdictions. They are called "Housing and Urban Development Commission", or "Housing and Urban-Rural Development Bureau" etc. All of them can be called "Construction Commission" for short. A number of central ministries such as the Ministry of Railways have departments performing the same functions.

The HURD, Provincial, City and County Construction Commissions work together to oversee the construction industry throughout the country. They report to the People's Governments through the vertical administrative structure.

Each construction commission has under it a quality monitoring and control office to monitor works for compliance with the codes and standards. There is a system for estimating construction costs and setting standard unit rates and price indices. A municipal or provincial construction commission has an office called "norms unit" to update the norms (unit rates and price indices) regularly, usually quarterly. The construction cost for a project work is calculated according to applicable norms. Even the overheads and profit for construction companies are specified in the norms for various types of construction project and qualification grade of construction companies.

Supervisory agencies of the industry

The government regulation of the industry includes three aspects: supervision of the certificate and qualification of the companies (players in the market); supervision of the whole process of construction building; and supervision of the technical standards of the construction project.

The major regulatory government agencies are:

- Ministry of Housing and Urban-Rural Development of China, in charge of overall supervision.
- Ministry of Transportation of China, supervising the harbour and road building projects.
- Ministry of Railroad of China, supervising the railroad building projects.
- Ministry of Hydro of China, supervising of hydro building projects.
- Development and Reform Committee of China, in charge of the planning of the infrastructure building investment.

- Provincial and municipal government regulation agencies, in charge of local construction building projects.

Industry Overview

The construction building industry includes all the services related to the planning, survey, design, and building of construction (including building material of finished goods and semi-finished goods), engineering, installation, environmental operation, maintenance and related consulting and middle market service.

The participants in the construction building industry has a pyramid shape distribution, meaning, there are relatively few large companies and a few middle-sized companies and a large number of small companies. In 2009, the number of construction building companies in China reached 70,817 according the China Statistical Yearbook 2010.

These companies typically fall under three categories: (i) State-Owned-Enterprises ("**SOE**"), including the SOE by the central government agencies, which have the scale advantage and specialize in the construction of certain industry specific projects, and the SOE by provincial or municipal government agencies, which have a strong presence in their respective local market; (ii) the numerous private companies, such as the Company, that are owned by management (the Company believes these private companies are more flexible to adapt to market conditions than SOE's and as a result are experiencing continued strong growth); and (iii) international conglomerates, which are international enterprises entering the Chinese market. Foreign companies can enter into the construction industry in China only through a wholly foreign-owned construction enterprise, or a Sino-foreign equity construction joint venture or a Sino-foreign cooperative construction enterprise established within the territory of China in accordance with Chinese laws and regulations. However, there are certain restrictions on the types of construction activities that the foreign-owned construction companies can undertake. Wholly foreign-owned construction companies can only undertake the following types of construction projects within the scope of their construction qualification: (i) construction projects funded entirely by foreign investments or grants; (ii)construction projects financed by international organizations and awarded through international tendering process; (iii)Sino-foreign jointly constructed projects where the foreign investment is equal to or greater than 50%; and (iv)when the construction projects can not be undertake by Chinese construction companies due to technical difficulties. These international companies have the advantage of capital, technology, information and equipment. They combine investment and construction together so as to compete in the high-end market; however, due to the restrictions imposed on the types of construction activities these companies can undertake, the presence of these companies only accounts for less than 5% of construction businesses in China according to the China Statistical Yearbook 2010.

The four classes of general contractor qualifications for building construction in China are:

(i) Super Qualification

This is the top level qualification for general contractors. There are no restrictions on the type and size of general contracting work for companies with this qualification. There are minimum requirements on registered capital, net assets, projects history, number of employees and quality of management.

(ii) Class I Qualification

This is the second highest qualification for general contractors. Companies with this qualification can undertake construction projects up to 40 storeys and up to 200,000 square meters and with a contract value of less than five times the contractor's registered capital. There are minimum requirements on registered capital, net assets, projects history, number of employees, and quality of management. In general, these minimum requirements are less stringent than those required for Super Qualification.

(iii) Class II Qualification

Companies with Class II Qualifications can undertake construction projects up to 28 storeys and up to 120,000 square meters. There are minimum requirements on registered capital, net assets, projects history, number of employees, and quality of management. In general, these minimum requirements are less stringent than those required for Class I Qualification.

(iv) Class III Qualification

This is the entry level qualification for general contractors. Companies with Class III Qualifications can undertake construction projects up to 14 storeys and up to 60,000 square meters. There are minimum requirements on registered capital, net assets, projects history, number of employees, and quality of management. In general, these minimum requirements are less stringent than those required for Class II Qualification.

With an increasing number of projects being undertaken by private, as opposed to state-owned, construction companies, China's construction industry has become increasingly market-oriented and competitive. In addition, an increasing number of Chinese construction enterprises have emerged from the labour-intensive construction sector, where they offer construction services on a contract basis and compete against each other on a basis of low labour costs and less advanced technologies. These enterprises have moved beyond providing project management services to providing engineering, procurement and construction services utilizing advances technologies and modern management methods while achieving higher profit margins through their provision of comprehensive services. Current participants in China's construction sector generally possess better technology, stronger management, better equipment and higher levels of expertise than ever before.

The construction industry grew steadily in recent years as a result of increased investment. However, the relatively low entry barrier to the labour-intensive sector of the construction market which does not require advanced equipment and technology, contributed to the rapid increase in the number of market participants. The large number of market participants and insufficient market regulations has resulted in unregulated and fierce competition among the low complexity constructors. As a result, growth in profit has slightly lagged behind growth in revenue in the construction industry as a whole. On the other hand, barriers to entry for that sector of the construction market that requires substantial investment in advanced equipment and technology remain high, which is evidenced by the small number of enterprises possessing super construction qualifications in China.

Construction industry has traditionally been one of the key economic pillars in China. Due to the labour-intensive nature of the business, construction companies have been one of the largest providers of employment in China. As a result, construction companies are generally well-protected by the legal system in China in order to preserve employment. General contractors are entitled to first claim of assets against its customers, which gives general contractors a "mechanic lien" senior to all other secured debt including but not limited to bank loans, notes and any payables in accordance with the contract law in China and interpretations by the Supreme People's Court in China.

Trends in China's construction industry

The following are trends that the Company believes will influence China's construction industry:

- Continued economic growth, backed by industry-friendly government policies, is expected to result in further public spending on infrastructure projects, including transportation, natural resources, municipal infrastructure, electric power, water conservancy and telecommunications.

- While irregularities, such as unfair pricing, local protectionism and irresponsible payment practices, continue to exist in the market and could threaten the development of emerging market participants, the domestic construction market is becoming increasingly regulated as a result of administrative measures that have been progressively promulgated by the PRC Government, such as the PRC Constructive Law and PRC Bidding Law.

- Large-scale construction companies are developing new business models. General contracting, project management, and other aspects of operations have gradually improved to narrow the gap between domestic and international standards, intensifying industry reforms, raising the overall quality of construction management and enhancing investment returns.

- China's construction market will ultimately open up to foreign participants as a result of its accession to the WTO. The PRC Government has issued a number of notices announcing its intention to further encourage selective competition within the railway construction industry in China. Domestic construction companies may be less competitive than their foreign competitors due to fewer financial resources, less sophisticated technologies and heavier administrative burdens.

- Competition in the market is intense and the construction sector is highly fragmented. State-owned and private enterprises are qualified to conduct construction business, with large numbers of market participants creating disorderly competition and forcing large-scale construction companies to change their business models from project management to general contracting. However, the industry is gradually experiencing a trend towards consolidation whereby smaller enterprises are being acquired by larger companies. Given this trend, participation in the large-scale infrastructure construction projects is expected to the limited to only a small number of large construction enterprise groups.

The construction industry has experienced very significant growth over the past decade. According to the China Statistical Yearbook 2010, the compound annual growth rate ("**CAGR**") between 2004 to 2009 has been 21.5%. The total output value for the industry had reached $1,160 billion in 2009. It is believed that the rapid urbanization and the insurgence of the middle class has played a big role in fuelling this growth and will continue to be a catalyst for continue growth for a long time to come. It is anticipated that by 2018, China's already massive construction market will be worth approximately $2.4 trillion and represent 19.1% of global construction output. According to a forecast by Global Construction Perspectives and Oxford Economics, it is anticipated that China will overtake the United States as the world's largest construction market by 2018. The growth of the construction industry has become an important means to providing working opportunities for migrant workers and increasing their income.

In recent years, a large number of super big projects such as west-to-east gas transportation, south-to-north water transportation, Qinghai Tibet Railway, and Olympic Game stadiums have been built or are under construction, indicating the capability of China's construction industry has reached a new level. The pace in constructing residential projects and municipal infrastructure facilities is accelerating, which has greatly improved the image of cities and satisfied needs for good habitation.

Competitive Landscape

Competition in recent years can best be described as free competition. Competition occurs mainly among the low specialization companies and among large enterprises. The following are key factors involved in the competitive landscape of the construction industry:

- *Free competition environment* - The barriers to entry are low. There are numerous construction building companies in the market, which typically operate only in one area. Further, low consolidation levels makes the competition fierce and therefore the profit margin is low. For small projects and common residential building, the number of participants in the market is more than demand for such building construction, so the competition is more severe. For large and medium projects and projects with more advanced technical content, the market competition is less severe and therefore the profit margin is better. In 2009 there were 70,817 construction enterprises in China, with the average number of employees at approximately 518 and average revenue of approximately $16.3 million.

- *Low specialization level* - For these companies competition is focused on similar service, which is almost always general contracting service. The number of specialized enterprises in the construction industry is much lower compared to developed countries.

- Large construction enterprises have obvious advantages in competing, such as technology, equipment and they normally have large market share.

The Company focuses more on the high-end market place where there are fewer players. In this niche market, the Company believes that it is able to excel because of its reputation for high quality and its ability to produce small, mid and large construction projects ranging from $50,000 to over $50 million per project.

Competitive Advantages

The Company's extensive business scope, which includes infrastructure construction, survey, design, and engineering consultancy, enables it to provide comprehensive construction services. The Company has made a number of notable achievements through its ability to offer integrated, multifaceted services to its customers by effectively utilizing the facilities and resources from its various business segments, which has given the Company significant advantages in the undertaking of large-scale and complicated projects.

The Company believes it has significant competitive advantages due to its: (i) Class I General Contractor Qualification; (ii) brand and marketing reputation; (iii) quality control; (iv) management; and (v) sales network.

Class I General Contractor Qualification

The Company was awarded Class I qualification for general building construction contracting works. This allows the Company to undertake all building construction projects in PRC with up to 40 storeys and up to 200,000 square meters, and with a contract value of less than five times Boyuan China's registered capital. In addition, the Company has been awarded the Qianjiang Cup by the Provincial Government, the highest quality award in Zhejiang Province. The Company believes that the operating qualification and the awards received will enable it to generate more business opportunities and enhance its ability to win contract tenders and undertake construction projects.

Brand name awareness and market reputation

The Company's management team's expertise and commitment to high quality have contributed to the successful establishment of its brand name, "BOYUAN ™". The Company believes that, when selecting contractors for construction projects, real estate developers, the Provincial and Municipal Governments, and project commissioners place great importance on the bidders' industry experience and brand name. The Company has also developed an excellent market reputation for its ability to deliver projects on time and on budget. As a result of the widespread recognition of its brand name and market reputation in the regions in which the Company operates, the Company is often among the primary choices of contractors for such projects. As a result, the Company has received invitations to bid on projects on a regular basis.

Stringent quality control

The Company has maintained stringent quality control of the construction projects it undertakes. The Company was awarded ISO9001 certificate for its quality control and ISO 14001 for its environment protection.

Besides the standards and procedures set by State and Provincial agencies the Company also formulated internal procedures such as "Enterprise Standard of Boyuan" and "Methods for Project Management". The Company employs 39 full-time quality control personnel for project quality. Meanwhile, according to the standards and procedures set by the respective agencies, all the material that the Company purchased and used in its projects are subjected to an inspection from a third party.

The Management believes that the Company's monitoring and control system not only enables it to maintain a consistent quality but also facilitates the projects being advanced on schedule.

Experienced management team

The Company's senior management team consists of experts with an average industry experience of over 20 years, with extensive experience in large-scale infrastructure design and construction projects, and other areas related to commercial and residential construction. The Company believes that its management team is equipped with the critical industry knowledge required to take advantage of market opportunities, formulate sound business strategies, assess and manage risks, and implement measures relating to management and production, all of which are expected to increase its overall profit and maximize shareholder value.

The Company believes that its success is partly due to its management team's adherence to the Company's corporate culture. The management team endeavours to maintain the spirit of the Company, including its enthusiasm for discipline and innovation, and is committed to executing its business strategies.

Sales and marketing network

The Company currently employs approximately 48 sales and marketing staff and they are located in the 8 offices located throughout the Yangtze River Delta, Hainan Island, and the Shandong Province. Most of the Company's sales and marketing staff have technical background with extensive business networks in the markets in which they operate.

4.2 Risk Factors

The Company's operations and financial performance are subject to the normal risks of its industry and are subject to various factors which are beyond the control of the Company. Certain of these risk factors are described below. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company, or that it currently considers immaterial, may also adversely impact the Company's business, operations, financial results or prospects, should any such other events occur.

Execution of the business plan

Although management of the Company has developed a comprehensive business plan, there is no assurance that the business plan will succeed in whole or in part. The continued growth of the Company will depend on a number of factors. There can be no assurance that the Company will be able to achieve its planned growth.

Risk of macro-economy cycle

The construction industry is closely related to macroeconomic development. The total demand of construction projects is affected by the total investment in fixed assets, the development of the real estate industry and urbanization progress. If the construction scale of the main market is restrained by economic cycle, the Company business performance will be affected to some degree as a result. The Company will seek to improve its engineering equipment capability, engineering techniques and process ability. The Company will build a more competent team, maintain the strength in quality and service, and improve its core competitive strength so as to take more market shares and lower the negative influence of economic fluctuation on its business.

Risk from economic globalization and competition from new entrance

With the PRC's entry into the WTO and the continued opening up of the PRC, the construction industry faces increasingly severe market competition. More overseas construction companies will enter the PRC market depending on their strengths in capital, technology, equipment and management and compete for foreign-invested projects and key engineering projects. In addition, the PRC government has promised to reduce tariffs gradually, so many high-quality and low-priced materials and equipment will surge into the PRC market and replace China-made similar products. Foreign-invested contractors are more competitive in hi-tech big engineering projects. They will take some of the share of the PRC construction market. Whereas the entry requirements and threshold of building construction business is low, many low-capacity construction companies are becoming involved in the industry thereby increasing market competition.

Future financing requirements

The Company's capital requirements will depend upon many factors, including industry and market conditions, its ability to successfully implement the Company's branding and marketing initiative, and expansion of its production capabilities. The Company anticipates that it may need to raise additional funds in order to grow its business and implement its business strategy. The Company anticipates that any such additional funds would be raised through equity or debt financings. In addition, the Company may enter into a revolving credit facility or a term loan facility with one or more syndicates of lenders. Any equity or debt financing, if available at all, may be on terms that are not favorable to the Company. Even if the Company is able to raise capital through equity or debt financings, as to which there can be no assurance, the interest of existing shareholders in the company may be diluted, and the securities the Company may issue may have rights, preferences, and privileges that are senior to those of the Company's common shares or may otherwise materially and adversely affect the holdings or rights of the Company's existing shareholders. If the Company cannot obtain adequate capital, it may not be able to fully implement its business strategy, and its business, results of operations, and financial condition would be adversely affected. In addition, the Company has and will continue to raise additional capital through public offerings or private placements in which broker-dealers may be engaged. The activities of such broker-dealers are highly regulated, and the Company cannot assure that the activities of such broker-dealers will not violate relevant regulations and generate liabilities despite the Company's expectation otherwise.

Insufficient marketing

The Company's sales and marketing activity primarily relies upon undertaking engineering projects. The monetary value of an engineering project is an important factor in determining if the Company will be able to meet its goals. The success of the Company in any bidding directly influences its income and profit. In addition, the manpower, material and money invested in the bidding process will significantly increase the operating cost and influence its business performance as a result. If the Company's marketing is insufficient, the number of engineering projects will be reduced and success in bidding will decrease, which would lead to a reduction in business performance.

Reliance on key members of management

The Company is heavily dependent upon its senior management for their expertise in the construction industry and their extensive business network within the industry. The departure, or otherwise loss of service, of any of our senior management could have a material adverse effect on the financial performance of the Company. The Company's future success will also depend on the continued ability to attract, retain, and motivate highly qualified technical, sales and marketing, customer support, and other employees. Because of the rapid growth of the economy in the PRC, competition for qualified people is intense. The Company cannot guarantee that it will be able to retain its key people or that it will be able to attract, assimilate, or retain qualified people in the future.

Dependence on key customers

A few large customers account for a significant percentage of our total revenue. For fiscal 2011, the largest customer accounted for 16% of total revenue and for fiscal 2010, the three largest customers accounted for 45% of total revenue. There can be no assurance that the Company will be able to retain these customers or other key customers. There can be no assurance that the Company's continued growth and expansion into new geographic regions will reduce our reliance on a few key customers. Dependence on a limited number of customers exposes us to the risk that a reduction of business volume from any one customer could have a material adverse effect on our business, financial condition and results of operations.

Risks from the supply of raw materials

Construction material cost accounts for approximately 70% of the contracting price of a construction project. Construction materials mainly include steel, cement, wood, sand, stone, etc. Construction projects have a long engineering period so the construction material price fluctuation during the period will result in engineering cost fluctuations that impacts gross profit. In addition, because there are many construction material suppliers, the quality and performance of the construction materials supplied by different suppliers may impact profitability and quality. The Company intends to select suppliers in line with the requirements of ISO9002 Quality Assurance System. The Company has established a material price information system and has formulated, and strictly carries out, material purchase rules. The Company has adopted proper quotation mode and purchase strategies to lower the risk of the fluctuation of construction material prices. The Company chooses its suppliers carefully and will inspect construction materials and does on-site inspections regularly to assure above-standard construction materials. There can be no assurance however that such measures will mitigate the risks associated with the supply of raw materials.

Operational licenses and permits

The Company currently holds various permits, business licenses and approvals authorizing their operations and activities which are subject to periodic review and re-assessment by the Chinese authorities. The Company is particularly relying on its national general contractor Class I Qualification for its business. If renewals, or new permits, business licenses or approvals required in connection with existing or new facilities or activities, are not granted or are delayed, or if existing permits, business licenses or approvals are revoked or substantially modified, the Company may suffer a material adverse effect.

Risk of financial leverage

The construction market is not completely regulated in China. Many construction companies undertake engineering projects under the condition of making payments for or on behalf of the project owner, which brings high hidden risks to the financial safety of construction companies. Construction companies have a high demand for capital because the construction period is relatively long. The Company's working capital is primarily from bank loans and accumulated profits and financing activities from shares and debentures issued in the capital market. The Company's current asset ratios in the fiscal years ended June 30, 2011 and 2010 were 2.05 and 1.88 respectively and total liabilities were $76.6 million and $50.3 million respectively.

Risk from bad debts in account receivables

The Company's main business income is from the construction of residential, commercial, industrial and civil projects and public facilities. As many factors will affect the real estate market, the Company's clients may delay payment for engineering projects due to problems in capital turnover. In the fiscal years ended June 30, 2011 and 2010, the balance of the Company's account receivables including unbilled revenue and deposits was $87.1 million and $61.4 million respectively. With the Company's business scope expanding and the changes in the financial status and credit level of the Company's clients, there is a risk of bad debts. In these instances, the Company assigns specific persons to sort and collect account receivables for accounts aged over six months so as to make capital return quicker; reinforce cooperation with management to reduce the loss caused by disputes on contracts; establish customer information systems, carry out the Company's customer selection system strictly, reinforce investigations on the credit and financial status of the client, and settle the account with the client after the engineering project is finished.

Growth risks

The organic growth of the Company could place a significant strain on its managerial, operational and financial resources. The ability of the Company to manage its future growth will depend on its ability to continue to implement and improve operational, financial and management information systems on a timely basis, and to train, motivate and manage an enlarged workforce. Failure to effectively manage expansion may lead to increased costs, a decline in sales and reduced profitability.

Risk related to macro-eco policy of the government

Both of the upper and lower streams of the construction industry are very sensitive to the macro-eco policy of the government. So the construction industry is closely affected by the government economic policy. Recently the government has adopted some new policies to control the real estate market, which may affect the construction industry and, therefore, the Company.

Risk related to the policy of use of land and the mortgage financing policies

The urban land in the PRC is owned by the Government. So the policy on the use of land will affect the real estate industry and therefore the construction industry is also sensitive to the policies. The same is true for the mortgage financing policy, which will have an impact on the real estate industry and construction industry.

Insurance coverage may be insufficient to cover losses

Although the Company maintains property insurance on certain of its assets and other insurances deemed necessary, there can be no assurance that such insurance policies will be sufficient to cover each and every claim or loss. In addition, not all risks are covered by insurance and no assurance can be given that insurance will be consistently available or will be consistently available on an economically feasible basis.

Variable Interest Entity relationship between the Company and Boyuan China

PRC law imposes certain restrictions on the type of construction activities which non-PRC companies may undertake in the PRC. The Company conducts its business through, and receives substantially all of its revenues from, Boyuan China, a corporation incorporated in the PRC. The securities of Boyuan China are wholly owned and held by individuals who are resident in the PRC. Boyuan China holds the licenses, approvals and land use rights that are essential to the Company's business in the PRC. The Company does not hold any equity interest in Boyuan China. The Company governs and administers the business, operations and affairs of, and receives the gross revenues (after deduction of operating expenses and costs) of, Boyuan China through the VIE Agreements with Boyuan China and its shareholders, which contractual arrangements are governed by PRC law (see "Item 2.2-Corporate Structure-Intercorporate Relationships"). The VIE Agreements provide the Company with less direct control over the business and operations of Boyuan China as the Company would hold if Boyuan China were a wholly-owned subsidiary of the Company. In particular, if Boyuan China or its Shareholders breached a provision of the VIE Agreements, the Company would have to rely on the PRC legal system to enforce its contractual rights. In addition, if Boyuan China goes bankrupt and all or part of its assets become subject to liens or rights of third party creditors, the Company may not be able to continue some or all of its construction business in the PRC, which could materially and adversely affect the Company's business and the interests of the shareholders of the Company. If Boyuan China undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third party creditors may claim rights to some or all of Boyuan China's assets, which may materially and adversely affect the Company's business, financial condition and results of operations, and the interests of the shareholders of the Company.

Controlling shareholder

Mainway Management Limited ("**Mainway**"), a company controlled by Mr. Shou Cailiang, the Chairman, CEO and President of Boyuan, currently owns 17,407,644 common shares representing 67.5% of the total outstanding common shares of the Company. As a result, Mainway has the ability to control substantially all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Mainway has the ability to control all matters requiring the approval of the holders of Class A Preferred Shares. In addition, this concentration of ownership may delay or prevent a change in control of the Company and make some future transactions more difficult or impossible without the support of Mainway. The interests of Mainway may not coincide with the Company's interests or interests of other shareholders. Accordingly, Mainway could cause the Company to enter into transactions or agreements that other shareholders would not approve or make decisions with which other shareholders may disagree.

Shareholders' interest in the Company may be diluted in the future

If the Company raises additional funding by issuing additional equity securities, such financing may substantially dilute the interests of shareholders.

The Company may issue additional common shares in the future to raise capital or on the exercise of outstanding stock options and warrants

Sales of substantial amounts of common shares, or the availability of such common shares for sale, could adversely affect the prevailing market prices for the Company's securities. A decline in the market prices of the Company's securities could impair its ability to raise additional capital through the sale of new common shares should the Company desire to do so.

The Company has never paid dividends and may not do so in the foreseeable future

The Company has never paid cash dividends on its common shares. Currently, the Company intends to retain its future earnings, if any, to fund the development and growth of its business, and does not anticipate paying any cash dividends on its common shares in the near future. As a result, shareholders will have to rely on capital appreciation, if any, to earn a return on investment in any common shares in the foreseeable future.

Risk factors related to China

PRC economic, political and social conditions as well as government policies could adversely affect the Company's business. The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, government control of foreign exchange, allocation of resources and balance of payment position.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Some of these measures will benefit the overall PRC economy, but may have a negative effect on the Company.

The Company's business, financial condition and results of operations may be adversely affected by:

(i) changes in PRC political, economic and social conditions;

(ii) changes in policies of the PRC government, including without limitation, changes in policies affecting private business, foreign investment in the real estate industry, and real estate industry generally;

(iii) changes in laws and regulations or the interpretation of laws and regulations;

(iv) measures which may be introduced to control inflation or deflation;

(v) changes in the rate or method of taxation; and

(vi) imposition of additional restrictions on currency conversion and remittances abroad.

The PRC government has previously taken actions to stabilize the country's economy and any possible social unrest. It has implemented various measures intended to strengthen and improve macro-economic regulation and is slowly pushing forward reform programs to create stable momentum and growth. The Company cannot assure that such growth will be sustained in the future. Nor can the Company assure that any initiatives from the PRC government are necessarily applied or complied with at a local level. Macro-economic initiatives that are beneficial to the region in which the Company operates may not be complied with at a local level. In addition to any adverse effect this could have, the Company may be challenged in deciding whether to follow central or local interpretations of applicable laws and regulations. Following local interpretations of applicable laws and regulations may prove to be necessary in practice but could be inconsistent with PRC government interpretations and applications of the same laws and regulations, exposing the Company to potential future liability.

Economic uncertainty in developing countries

The Company's future operations in the PRC may be adversely affected by economic uncertainty characteristic of developing countries. For example, some countries have experienced high rates of inflation for many years. There can be no assurance that any governmental action to control inflationary or deflationary situations will be effective in ensuring economic stability or that future governmental actions will not trigger inflationary or deflationary cycles. Additionally, changes in inflation rates or deflation and governmental actions taken in response to such changes can also affect currency values in such countries. Any such changes could have a material adverse effect on the Company's results of operations and financial condition.

Operations in the PRC are subject to risks relating to the PRC's relatively recent transition to a market economy administered by a socialist government. While the PRC has permitted private economic activities, the government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the economy through regulation and state ownership. The Company's prospects, results of operations and financial condition may be adversely affected by political, economic and social uncertainties in the PRC, changes in the PRC's leadership, diplomatic developments and changes or lack of certainty in the laws and regulations of the PRC.

<u>The Company's operations are subject to the uncertainty of the PRC legal system</u>

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of published cases and judicial interpretation and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties. In addition, some PRC government policies and internal rules (some of which are not published on a timely basis or at all) may have retroactive effect. As a result, the Company may breach one or more such policies and internal rules without being aware of such breach. Because these laws and regulations may not be comprehensive, and because of the limited volume of published cases and judicial interpretations and the nonbinding nature of prior Court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty. Additionally, the PRC does not have a treaty with Canada for reciprocal enforcement of Court judgments. Such uncertainty may make it difficult for the Company to enforce its rights. The Company cannot provide any assurance that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on its business, financial condition and results of operations.

<u>Repatriation of profit and foreign currency exchange</u>

The Chinese government imposes control over the convertibility of the Renminbi (RMB) into foreign currencies. With effect from 2005, the PRC government has reformed the RMB exchange rate regime into a managed floating exchange rate regime with reference to a portfolio of currencies and based on market supply and demand. Although such regulations have provided for greater liquidity of the RMB, the RMB is still not a freely convertible currency.

Restrictions on foreign currency exchange may limit the Company's ability to obtain foreign currency or to utilize its revenue effectively.

The Company receives most of its revenues in Renminbi. As a result, any restrictions on currency exchange may limit its ability to use revenue generated in Renminbi to:

- fund business activities outside the PRC;
- service and repay its indebtedness; and
- pay out dividends to its shareholders.

Under current regulations, there are no restrictions on foreign exchange conversion on the current account. The Company's subsidiary companies in China do not require a formal approval from the State Administration of Foreign Exchange ("**SAFE**") before undertaking current account foreign exchange transactions. Current account transactions refer to those national or international revenue and expenditure dealings that occur on a current basis, including revenues and expenditures in trade and labour services, registered contract interest payments, and the declaration of and payment of dividends out of retained earnings. The control over such foreign exchange transactions has been delegated to designated PRC banks. Foreign exchange for international current account transactions may be obtained by producing to designated PRC banks, licensed to engage in foreign exchange, commercial documents evidencing the legitimacy of the transactions, including a tax clearing certificate where dividends are concerned.

Foreign exchange transactions under the capital account, however, will be subject to the registration requirements of the SAFE, and under certain circumstances, the approval of the competent authority of the MOC. Capital account transactions refer to international revenues and expenditures that being inflows and outflows of capital, produce increases or reductions in debt and equity, including direct investments, various types of borrowings and investments in securities.

The Company cannot assure that sufficient amounts of foreign currency will always be available to enable the Company to meet its foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi or to remit profits out of the PRC. In addition, the Company's subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay dividends to the Company or to satisfy their other foreign currency requirements. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from the SAFE, and in certain cases the approval of the competent authority of the MOC, this could affect the Company's subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from the Company. The Company also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi including on the current account.

Failure to comply with foreign exchange registration requirements for offshore investment by PRC residents may result in liability

On October 21, 2005, the SAFE issued a regulation, SAFE Circular No. 75, entitled "Circular on Several Issues Concerning Foreign Exchange Regulation of Corporate Finance and Roundtrip Investment by PRC Residents through Special Purpose Companies Incorporated overseas". SAFE Circular No. 75 requires PRC residents to register with the competent local SAFE branches with respect to the offshore SPV's in which they have invested, directly or indirectly, and to file amendments to their registrations in connection with certain material transactions involving capital variations of the SPVs, such as increases or decreases in investment amount, transfers or exchanges of shares, mergers or divisions, long-term equity or debt investment, guarantees of offshore obligations, or other material events that do not involve return investment.

Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may limit the Company's ability to contribute additional capital into or provide loans to its PRC subsidiaries and may also result in penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV and its ability to pay the SPV proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiary. Further, failure to comply with various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

On May 29, 2007, SAFE formulated internal implementation rules and guidelines ("**SAFE Circular No. 106**") for SAFE officials to apply and enforce SAFE Circular No. 75. SAFE Circular No. 106 was aimed at interpreting and clarifying SAFE Circular No. 75, but also provided certain new implementation grounds, such as clarification of the definition of PRC residents. According to SAFE Circular No. 106, foreigners (that is, persons without Chinese citizenship), under certain circumstances, are deemed to be PRC residents and hence required to complete the SAFE registrations and follow-up amendments in accordance with SAFE Circular No. 75.

Following the release of Circular No.77 in 2009 which replaced Circular No.106, SAFE stopped registering certain investments; for instance, conversion into SPV of an offshore company set up by domestic residents that did not fall into Circular 75's definition of an SPV, as well as the retroactive registration for an existing but unregistered SPV for the purpose of round-trip investment.

On May 20, 2011, SAFE issued the "Operating Instructions on Foreign Administration for Domestic Residents Engaging in Financing and Round-Tripping Investment via Overseas Special Purpose Vehicles" (Circular 19), which came into effect on July 1, 2011. As an implementation guidance to further clarify Circular No.75, Circular 19 consists of three major sections detailing registration procedures and requirements in relation to (i) the establishment of SPVs and other offshore entities by domestic resident individuals and round-trip investment by such SPVs and offshore entities, (ii) foreign-invested enterprises, and (iii) outbound investment by domestic entities. Circular 19 overrides Circular 77 to the extent of any inconsistencies, and provides more transparent and practical guidance for foreign exchange registration.

However, as SAFE Circular No. 19 is an internal implementation rule within the SAFE authorities and the enforcement of it by various SAFE braches has not been uniform, it is unclear how the regulation, and any future legislation concerning offshore or cross-border transactions will be interpreted, amended and implemented by the relevant government authorities.

The Company is subject to risks presented by fluctuations in foreign currencies

The Company publishes its financial statements in U.S. dollars, while substantially all of its revenue generated by its major operating subsidiaries is denominated in Renminbi. Since 1994, the conversion of Renminbi into Canadian and U.S. dollars has been based on rates set by the People's Bank of China, which rates are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The PRC government has indicated that it intends to ultimately make the Renminbi freely convertible. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. However, the Company cannot predict when the PRC government will allow free conversion of Renminbi into foreign currencies. Renminbi devaluation and exchange rate fluctuations may adversely affect its results of operations and financial condition and may result in foreign exchange losses. In addition, the Company may not be able to increase the Renminbi prices of its domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors.

Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the Canadian dollar, U.S. dollar or Hong Kong dollar, or in the U.S. dollar against the Renminbi, the Canadian dollar or the Hong Kong dollar, may have an adverse impact on the Company's results of operations and may adversely affect the value, translated or converted into Canadian dollars, U.S. dollars or otherwise, of its revenue and net income and distributions, if any, paid on its outstanding securities.

Intellectual property rights are not generally well protected in the PRC

Intellectual property rights are not generally well protected in the PRC. To the extent the Company intends to build brand recognition in the PRC it may need to spend significant resources on protecting and enforcing its intellectual property including, without limitation, any trademarks or run the risk of having such intellectual property used by competitors or others.

Cost of material and labour

Labour costs in the PRC have traditionally been significantly less than those in other more developed countries. However, such costs have begun to rise and there is no guarantee that they will not continue to rise. The cost of building materials in the PRC is also increasing, due in part to greater demand as a result of the high level of building activity in the PRC. Any such increased cost could have an adverse effect on the Company.

The Company's net profitability is subject to changes in PRC tax treatment

PRC currently has a number of tax laws imposed by both national and regional government authorities. Applicable PRC taxes include, among others, enterprise income tax, value-added tax, and land use tax.

Before January 1, 2008, enterprise income tax was typically payable in PRC at the rate of 33% of net income, but tax exemptions and reduced enterprise income tax rates were granted for a limited period to foreign-invested entities ("**FIEs**") registered in specific economic development zones or in specific industries.

On March 16, 2007, the PRC government passed the new Enterprise Income Tax Law (the "**New Tax Law**") that became effective on January 1, 2008 to replace the then current enterprise tax laws. The New Tax Law is aimed at unifying enterprise income tax rates for both domestic and FIEs at 25%. Notwithstanding the changes to preferential tax treatment, the New Tax Law provides grandfathering provisions for existing FIEs such as wholly foreign-owned entities. For FIEs that are currently enjoying a preferential tax rate, their applicable tax rate increase will gradually be phased into the new 25% rate during a five-year transitional period. FIEs established on or after March 16, 2007 will not be eligible for the preferential tax rate except for FIEs that meet certain criteria in specified industries, including agriculture, utilities, environmental protection, energy and water conservation, and high technology.

Under the current tax regime, foreign investors are subject to a 10% withholding tax on dividends, rental, royalty and other income earned in the PRC. However, there are some tax treaties between the PRC and other jurisdictions providing some preferential withholding tax rate. For example, Hong Kong investors' dividend income is subject to a 5% withholding tax, and interest income from loans to FIEs is subject to a 7% withholding tax. The parent company of the WFOE**,** HKCo, will be entitled to the preferential withholding tax rate.

Under amended land use tax regulations effective January 1, 2007, FIEs are subject to land use taxes at the same rates (ranging from an annual rate of RMB 0.6 to RMB 30 per square meter based on the location of land) as those paid by other land users on the land they use, including those land use rights acquired and paid for before the amended regulations took effect. The land use rights acquired by the Company or its applicable operating subsidiaries are subject to the amended regulations, and the payment of such additional taxes will increase the costs of operation and reduce net profits.

Risk related labour practices in the PRC construction industry

Under applicable PRC Labour Contract Law which became effective January 1, 2008, and certain related regulations, PRC employers are required to execute written labour contracts with their employees. If an employer fails to enter into a written employment contract with an employee more than one month but less than one year after the date on which the employee began employment, the employer shall be obligated to pay twice the applicable wage each month to the employee. PRC employers are also required to make contributions to fund employee benefits such as social insurance contributions. The majority of PRC construction companies, including Boyuan China, have not always followed these requirements. Instead many companies use sub-contractors and middlemen to hire and supervise construction workers with no written labour contracts, and no employee benefit contributions being made. As Boyuan's current labour practices are not in compliance with the relevant PRC laws and regulations, effected construction workers may make related claims against Boyuan, and PRC regulatory bodies may take enforcement actions against Boyuan, which may lead to fines, penalties or additional costs to the Corporation.

ITEM 5. DIVIDENDS

5.1 Dividends

The Company has not paid any dividends since its incorporation. Any determination to pay any future dividends will remain at the discretion of the board of directors (the "**Board**") and will be made based on the Company's financial condition and other factors deemed relevant by the Board. There are no restrictions on the ability of the Company to pay dividends except as set out under its governing statute, articles and bylaws.

ITEM 6. DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of common and Class A Preferred Shares without par value.

6.1 Common Shares

As of the date hereof, 25,796,924 common shares are issued and outstanding.

The common shares have the following rights, privileges, restrictions and conditions, namely:

- the holders of common shares shall be entitled to receive notice of, and to vote at every meeting of the shareholders of the Company and shall have one (1) vote thereat for each such common share so held;
- Subject to the rights, privileges, restrictions and conditions attached to any preferred shares of the Company, the holders of common shares shall be entitled to receive such dividend as the directors may from time to time, by resolution, declare; and

- Subject to the rights, privileges, restrictions and conditions attached to any preferred shares of the Company, in the event of liquidation, dissolution or winding up of the Company or upon any distribution of the assets of the Company among shareholders being made (other than by way of dividend out of monies properly applicable to the payment of dividends) the holders of common shares shall be entitled to share pro rata.

6.2 Preferred Shares

Class A Preferred Shares (Issuable in Series)

The Company's Class A Preferred Shares have the following rights, privileges, restrictions and conditions, namely:

- The directors of the Company may, from time to time, issue the preferred shares in one or more series, each series to consist of such number of shares as may before issuance thereof, be determined by the directors.

- The directors of the Company may, by resolution (subject as hereinafter provided) fix before issuance, the designation, rights, privileges, restrictions and conditions to attach to the preferred shares of each series, including, without limiting the generality of the foregoing, the rate, form, entitlement and payment of preferential dividends, the redemption price, terms, procedures and conditions of redemption, if any, voting rights and conversion rights (if any) and any sinking fund, purchase fund or other provisions attaching to the preferred shares of such series; and provided however, that no shares of any series shall be issued until the directors have filed an amendment to the Articles with the Registrar of Corporations, Canada, or such designated person in any other jurisdiction in which the Company may be continued.

- If any cumulative dividends or amounts payable on return of capital in respect of a series of shares are not paid in full, the shares of all series shall participate ratably in respect of accumulated dividends and return of capital.

- The preferred shares shall be entitled to preference over the common shares of the Company and any other shares of the Company ranking junior to the preferred shares with respect to the payment of dividends, if any, and in the distribution of assets in the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, and may also be given such other preferences over the common shares of the Company and any other shares of the Company ranking junior to the preferred shares as may be fixed by the resolution of the directors of the Company as to the respective series authorized to be issued.

- The preferred shares of each series shall rank on a parity with the preferred shares of every other series with respect to priority in the payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary exclusive of any conversion rights that may affect the aforesaid.

- No dividends shall at any time be declared or paid on or set apart for payment on any shares of the Company ranking junior to the preferred shares unless all dividends, if any, up to and including the dividend payable for the last completed period for which such dividend shall be payable on each series of preferred shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such declaration or payment or setting apart for payment on such shares of the Company ranking junior to the preferred shares nor shall the Company call for redemption or redeem or purchase for cancellation or reduce or otherwise pay off any of the preferred shares (less than the total amount then outstanding) or any shares of the Company ranking junior to the preferred shares unless all dividends up to and including the dividend payable, if any, for the last completed period for which such dividends shall be payable on each series of the preferred shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such call for redemption, purchase, reduction or other payment.

- Preferred shares of any series may be purchased for cancellation or made subject to redemption by the Company out of capital pursuant to the provisions of the Canada Business Corporations Act, if the directors so provide in the resolution of the Board of Directors of the Company relating to the issuance of such preferred shares, and upon such other terms and conditions as may be specified in the designations, rights, privileges, restrictions and conditions attaching to the preferred shares of such series as set forth in the said resolution of the Board of Directors and the amendment to the Articles of the Company relating to the issuance of such series.

- The holders of the preferred shares shall not, as such, be entitled as of right to subscribe for or purchase or receive any part of any issue of shares or bonds, debentures or other securities of the Company now or hereafter authorized.

- No class of shares may be created or rights and privileges increased to rank in parity or priority with the rights and privileges of the preferred shares including, without limiting the generality of the foregoing, the rights of the preferred shares to receive dividends or to return of capital, without the approval of the holders of the preferred shares as required under the *Canada Business Corporations Act*.

Class A Preferred Shares – Series 1

The rights, privileges and restrictions attached to the preferred shares are determined upon issuance by the board of directors of the Company for each series of such shares. To date, no series of preferred shares has been created except for the Class A Preferred Shares Series 1, which are issuable on closing of the Acquisition. The Class A Preferred Shares have the following special rights and restrictions:

- non-redeemable;

- non-retractable;

- the right to vote at any meeting of the holders of common shares on the basis of one vote for each Class A Preferred Share held;

- non-transferable and non-assignable without the prior written consent of the Company, except if to an affiliate of the original holder of the Class A Preferred Shares; and

- convertible at any time in whole or in part, into common shares of the Company, on the basis of one common share for each Class A Preferred Share, at the option of the holder. Any outstanding Class A Preferred Shares will be automatically converted into common shares of the Company on the date which is the earlier of the occurrence of a change of control or that date which is four years and one day from the Closing Date of the Acquisition.

As of the date hereof, no Class A Preferred Shares were issued and outstanding.

6.3 Secured Debentures

Each Secured Debenture of the Company is in the principal amount of Cdn$750 and bears interest at a rate of 11.75% per annum, paid quarterly in arrears and unless previously redeemed, purchased or cancelled, and mature February 27, 2013. Each Secured Debenture shall be convertible into 375 common shares of the Company at the conversion price of Cdn$2.00 per common share at the holder's option plus accrued interest paid in cash. The conversion right may be exercised at the option of the holder until the close of business on the sixth day prior to February 28, 2013. Holders of Secured Debentures will be prevented from converting their Secured Debentures to the extent that any holder of such Secured Debentures would, upon conversion of such debentures, hold 20% or more of the total issued and outstanding common shares of the Company. Each Secured Debenture is redeemable at par by the Company, at the option of the holder, subject to the conversion rights (as disclosed above) as follows:

(a) one-third of the Secured Debentures outstanding on February 27, 2011; and

(b) one-third of the Secured Debentures outstanding on February 27, 2012.

As of the date hereof, there are Cdn$7,899,750 aggregate principal amount of Secured Debenture issued and outstanding.

6.4 Unsecured Debentures

Each Unsecured Debenture of the Company is in the principal amount of Cdn$1,000 and bears interest at a rate of 10% per annum, paid semi-annually in arrears and will be due on October 31, 2015. Each Unsecured Debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price of Cdn$2.60 per share. The Unsecured Debentures are redeemable by the Company at any time from and after November 1, 2013 at a price equal to the principal amount thereof, plus accrued and unpaid interest, if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the Unsecured Debentures for the 20 most recent trading days, with at least 1,000 shares traded in each trading day ending five trading days before the applicable redemption notice.

As of the date hereof, there are Cdn$15,000,000 aggregate principal amount of Unsecured Debenture issued and outstanding.

6.5 Other Outstanding Securities

Share Purchase Warrants

As at the date hereof, the Company has a total of 2,618,500 warrants outstanding. 1,018,750 of these warrants were issued in the RTO Financing, with each warrant exercisable for one Common Share at Cdn$2.00 per share until February 27, 2013. 1,599,750 of these warrants were issued pursuant to July Financing, with each warrant exercisable for one Common Share at Cdn$2.00 per share until June 30, 2013.

Minimum Total Return Rights

The holders of the Company's Secured Debentures pursuant to the RTO Financing were granted a total of 4,100 non-transferable Minimum Total Return Rights attached to their Secured Debenture, providing such holder with a Minimum Total Return Right on the holder's RTO Units of 25% per annum until February 27, 2012. This right will be calculated with reference to the holder's outstanding balance of securities in the Company, on February 27, 2010, February 27, 2011 and February 27, 2012. The Company will deposit cash, into a separate bank account on each of February 27, 2010, February 27, 2011 and February 27, 2012, in an amount sufficient to meet the Minimum Total Return Right for each such year, if necessary. This annual calculation will take into account unrealized capital gains and losses of the securities comprising the RTO Units on such date, based upon the twenty day volume weighted average price of the Company's common shares, less interest paid or payable on February 27, 2012, as well as interest payments received from the Secured Debentures. This calculation does not take into account the time value of money, and the Minimum Total Return Right is not compounded. The Company satisfied the 25% minimum total return requirement on February 27, 2010 and February 27, 2011 and as a result, the Company was not required to make a cash deposit into a separate bank account on February 27, 2010 and February 27, 2011.

Agent's Warrants

On February 27, 2009, 205,000 non-transferrable common share purchase warrants (each, an "**Agent's Warrant**") were issued pursuant to the RTO Financing. The Agent's to the RTO Financing received such number of Agent's Warrants entitling the holders thereof to purchase that number of the Company's common shares that is equal to 10% of the aggregate value of the RTO Units issued divided by the conversion price of Cdn$2.00. The Agent's Warrants expire on February 27, 2013 and have an exercise price of Cdn$2.00. As of the date hereof, 201,200 Agent's Warrants are outstanding.

Finders' Warrants

On June 30, 2009, 323,700 non-transferrable common share purchase warrants (the "**Finders' Warrants**") were issued in consideration of services rendered to the finders of the June 2009 Financing. Each finder received such number of Finders' Warrants entitling the holder thereof to purchase up to that number of common shares of the Company as is equal to 10% of the aggregate value of gross proceeds raised by such finder divided by the conversion price of Cdn$2.00. The Finder's Warrants expire on June 30, 2013 and have an exercise price of Cdn$2.00. As of the date hereof, 310,200 Finder's Warrants are outstanding.

ITEM 7. MARKET FOR SECURITIES

7.1 Trading Price and Volume

Common Shares

The common shares were listed and posted for trading on the TSXV under the trading symbol "BOY" from March 11, 2009 to June 11, 2010. Since June 14, 2010, the common shares have been listed and posted for trading on the TSX under the trading symbol "BOY". The following tables set forth the reported high and low sale prices and the aggregate volume of trading of the common shares on the TSX during the fiscal year ended June 30, 2011.

	High (Cdn$)	Low (Cdn$)	Volume (#)
2010			
July	2.20	1.96	36,972
August	2.20	1.95	32,466
September	2.04	1.66	187,846
October	2.10	1.96	340,980
November	2.03	1.85	320,942
December	2.09	1.87	229,261
2011			
January	2.45	1.81	564,952
February	2.55	2.05	961,541
March	2.40	1.80	600,250
April	2.10	1.85	236,313
May	1.98	1.71	109,354
June	1.95	1.34	143,138

Secured Debentures

The Secured Debentures were listed and posted for trading on the TSXV under the trading symbol "BOY.DB" from March 11, 2009 to June 11, 2010. Since June 14, 2010, the Secured Debentures have been listed and posted for trading on the TSX under the trading symbol "BOY.DB". The following tables set forth the reported high and low sale prices and the aggregate volume of trading of the Secured Debentures on the TSX during the fiscal year ended June 30, 2011.

	High (Cdn$)	Low (Cdn$)	Volume (Cdn$)
2010			
July	120.00	120.00	7,500
August	-	-	-
September	120.00	120.00	54,000
October	-	-	-
November	100.31	100.31	22,500
December	-	-	-
2011			

	High (Cdn$)	Low (Cdn$)	Volume (Cdn$)
January	-	-	-
February	-	-	-
March	120.00	115.00	11,300
April	-	-	-
May	-	-	-
June)	115.00	115.00	18,800

Unsecured Debentures

The Unsecured Debentures have been listed and posted for trading on the TSX under the trading symbol "BOY.DB.A" since November 2010. The following tables set forth the reported high and low sale prices and the aggregate volume of trading of the Unsecured Debentures on the TSX from November 2010 to June 30,2011.

	High (Cdn$)	Low (Cdn$)	Volume (Cdn$)
2010			
November	106.90	100.00	465,000
December	111.00	101.55	174,000
2011			
January	107.50	105.00	147,000
February	110.50	108.50	212,000
March	109.00	95.40	1,138,000
April	103.00	100.75	467,000
May	101.25	100.00	871,000
June	100.00	85.70	53,500

7.2 Prior Sales

In its last fiscal year and to the date of this AIF, the Company has issued the following securities that are not listed on the TSX:

Common Share Stock Options:

Date of Issue	Number of Stock Options	Exercise Price (Cdn$)	Expiry Date
July 8, 2010	1,005,000	$2.10	July 8, 2015

ITEM 8. ESCROW SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

8.1 Escrowed Securities

Designation of Class	Number of Securities Held in Escrow As at June 30, 2011	Percentage of Class
Common Shares	Nil(1)	Nil
Class A Preferred Shares	Nil(1)	Nil

Note:

(1) On February 27, 2009, in connection with the RTO, the Company entered into a value escrow agreement ("**Escrow Agreement**") with Computershare Investor Services Inc. ("**Computershare**") and certain shareholders of the Company. Pursuant to the Share Exchange Agreement, Mainway received at total of 2,050,000 common shares and 16,250,935 Class A

Preferred Shares, of which 14,930,060 Class A Preferred Shares were placed in escrow pursuant to the Escrow Agreement. Additionally, Redwood Capital Inc. ("**Redwood**") received 330,219 common shares and Hao De International Limited ("**Hao De**") received 1,056,700 Class A Preferred Shares all of which were placed in escrow pursuant to the Escrow Agreement. In accordance with the Escrow Agreement, the securities of each of the above listed security holders will be (or have been) released from escrow in accordance with the following original timeline:

% of securities released from escrow	Release date
10%	March 11, 2009
15%	September 11, 2009
15%	March 11, 2010
15%	September 11, 2010
15%	March 11, 2011
15%	September 11, 2011
15%	March 11, 2012

Accordingly, on March 11, 2009, a total of 205,000 common shares were released to Mainway and 33,022 common shares were released to Redwood. On March 11, 2009, 1,493,006 Class A Preferred Shares were released to Mainway and 105,670 Class A Preferred Shares were released to Hao De. On September 11, 2009, 2,239,509 Class A Preferred Shares were released to Mainway and 158,505 Class A Preferred Shares were released to Hao De. On September 11, 2009, 307,500 common shares were released to Mainway and 49,533 common shares were released to Redwood. On March 11, 2010, 2,239,509 Class A Preferred Shares were released to Mainway and 158,505 Class A Preferred Shares were released to Hao De. On March 11, 2010, 307,500 common shares were released to Mainway and 49,533 common shares were released to Redwood. On September 11, 2010, 49,533 common shares were released to Redwood. On April 12, 2010, 307,500 common shares and 2,239,509 Class A Preferred Shares were released to Mainway, and 158,505 Class A Preferred Shares were released to Hao De. After the Company became listed on the TSX, the Company applied to the TSXV and received approval from the TSXV on September 13, 2010 to have all remaining escrowed shares released from the escrow. On December 13, 2010, the last of 4,071,631 common shares and 9,592,059 preferred shares were released from escrow. Currently no shares are held under the Escrow Agreement.

8.2 Make Good Escrowed Securities

Designation of Class	Number of Securities Held in Escrow As at June 30, 2011	Percentage of Class
Common Shares	Nil(1)	Nil

Note:

(1) On February 27, 2009, in connection with the RTO, Mainway entered into a make good escrow agreement, as amended, ("**RTO Make Good Escrow Agreement**") with Computershare. Pursuant to the RTO Make Good Escrow Agreement, Mainway agreed to deposit a minimum of 2,000,000 common shares into escrow, to be transferred to holders of the Rights and Additional Rights issued in the RTO Financing upon the due exercise thereof in accordance with their terms. On June 30, 2009, in connection with the July Financing, Mainway entered into a make good escrow agreement ("**July Make Good Escrow Agreement**") with Computershare. Pursuant to the July Make Good Escrow Agreement, Mainway agreed to deposit a minimum of 2,500,000 common shares into escrow, to be transferred to holders of the Rights and Additional Rights issued in the July Financing upon the due exercise thereof in accordance with their terms. If any Rights or Additional Rights expired, the applicable numbers of the common shares held in the make good escrow would be returned to Mainway by Computershare. Mainway deposited 205,000, 307,500 and 2,839,222 common shares into the make good escrow as of March 11, 2009, September 11, 2009 and October 9, 2009 respectively, making a total of 3,351,722 common shares deposited under the make good escrow. On or about November 4, 2009, all Rights expired according to their terms and accordingly, a total of 708,222 common shares were released from the make good escrow and returned to Mainway. As at June 30, 2010, a total of 2,643,500 common shares remained in escrow under the RTO Make Good Escrow Agreement and the July Make Good Escrow Agreement. On September 23, 2010, all Additional Rights expired according to their terms and accordingly all remaining common shares held in the make good escrow were returned to Mainway.

ITEM 9. DIRECTORS AND OFFICERS

9.1 Name, Occupation and Security Holding

At present, the directors of the Company are elected at each annual general meeting and hold office until the next annual general meeting or until his or her successor is appointed, unless his or her office is earlier vacated in accordance with the Canada Business Corporations Act and the by-laws of the Company.

The following table and the notes thereto state the names of all directors, all other positions or offices with the Company and its subsidiaries now held by them, their principal occupations or employment, the year in which they became directors of the Company, the approximate number of common shares and Class A Preferred Shares beneficially owned, directly or indirectly, by each of them, or over which they exert control or direction as of September 27, 2011, and the number of options to acquire common shares held as of September 27, 2011.

Name Province/State Country of Residence and Position(s) with the Company(1)	Principal Occupation Business or Employment for Last Five Years(1)	Periods Served as a Director or Officer	Number of Common Shares owned, directly or indirectly or controlled or directed(1)	Number of options to acquire Common Shares held
Shou Cailiang Jiaxing Port, Zhejiang, China Chairman, President, CEO and Director	President of the Company and Director of Boyuan China since January 2004.	December 2008	16,086,769 common shares (2)	250,000(7)
Manhong Liu Beijing, PRC Director (3)(4)(5)	Professor of Renmin University of China since October 1997	December 2008	Nil	60,000 (6)
Francis Leong Calgary, Alberta Director (3)(4)(5)	Principal of Sungai River Inc. since October 2003; Chief Financial Officer and Secretary of Blue Diamond Mining Corp. from March 2004 until June 2004, president, chief executive officer and director of Silver Foxx Capital Corp. from March 2005 until June 2008; and director of Grand Power Logistics Group Inc. since April 2004	February 2009	Nil	90,000 (6)
David Horsley Ajax, Ontario Director (3)(4)	Director of Sino-Forest Corporation from September 2004 until February 2006 and Senior Vice President and CFO since October 2005 and CFO of Cygnal Technologies Corporation from September 2003 until September 2005.	February 2009	10,000	90,000(6)

Name Province/State Country of Residence and Position(s) with the Company[(1)]	Principal Occupation Business or Employment for Last Five Years[(1)]	Periods Served as a Director or Officer	Number of Common Shares owned, directly or indirectly or controlled or directed[(1)]	Number of options to acquire Common Shares held
Shu Ren Da Yingpan, Hangzhou, PRC, Secretary and Director	Director and Secretary of the Company; Secretary of Boyuan China since December 2007 and a lawyer since October 2001.	December 2008	Nil	80,000 [(7)]
Dr. Fang Lixin Hangzhou, China Director [(3)(5)]	Professor at Guanghua Law School of Zhejiang University since December 2002.	September 2009	Nil	60,000 [(6)]
Tang Wei Haining, Zhejiang, China Director	Sales manager of Boyuan China since 2004 and Assistant to Mr. Cailiang since 2006.	November 2009	Nil	80,000 [(7)]
Paul Law Hong Kong Chief Financial Officer	Chief Financial Officer of the Company since March, 2009. Director of Brainlink Investments International Ltd since 2000.	March 2009	Nil	125,000 [(7)]

Notes:

(1) Information has been furnished by the directors individually.

(2) 16,086,769 common shares are owned by Mr. Shou Cailiang and his wife through Mainway Management Limited. Mr. Hong Yongxiang, brother of Mrs. Shou, owns 1,320,875 common shares through Mainway Management Limited.

(3) Independent.

(4) Member of the Audit Committee.

(5) Member of the Corporate Governance, Nomination and Compensation Committee.

(6) Options were granted (30,000 each to Ms. Liu and Dr. Fang, 40,000 each to Mr. Horsley and Mr. Leong) on October 28, 2009, expire on October 28, 2014 and have an exercise price of Cdn$2.63. Options were granted (30,000 each to Ms. Liu and Dr. Fang, 50,000 each to Mr. Horsley and Mr. Leong) on July 8, 2010, expire on July 8, 2015 and have an exercise price of Cdn$2.10.

(7) These options were granted on July 8, 2010, expire on July 8, 2015 and have an exercise price of Cdn$2.10.

9.2 Orders, Penalties and Bankruptcies

Other than as described below, to the knowledge of the Corporation, as of the date hereof, no director or executive officer of the Company:

(a) is, or has been, within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Corporation) that:

(i) was subject to an order that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer, or

(ii) was subject to an order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

(b) is, or has been, within 10 years before the date hereof, a director or executive officer of any company (including the Corporation) that, while such director or executive officer was acting in that capacity, or within a year of such director or executive officer ceased to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(c) has, within ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such director or executive officer.

For the purposes of the above section, the term "order" means:

(a) a cease trade order;

(b) an order similar to a cease trade order; or

(c) an order that denied the relevant company access to any exemption under securities legislation,

that was in effect for a period of more than 30 consecutive days.

Other than as set out below, to the knowledge of the Corporation, as of the date hereof, no director or executive officer has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(b) any other penalties or sanctions imposed by a court or regulatory body.

The securities of Sino-Forest Corporation ("**Sino-Forest**") currently are subject to a temporary cease trade order made by the Ontario Securities Commission (the "**OSC**") on August 26, 2011, which temporary cease trade order was extended until January 25, 2012 by the OSC on September 8, 2011. The temporary cease trade order was made based on allegations that, among other things, Sino-Forest and certain of its officers and directors provided information to the public in documents required to be filed or furnished under Ontario securities laws that may have been false or misleading in a material respect. Trading of the Sino-Forest's stock on the TSX has been suspended as a result of the OSC's temporary order. Mr. David Horsley is the Chief Financial Officer of Sino-Forest.

9.3 Audit Committee Disclosure

National Instrument 52-110 of the Canadian Securities Administrators ("**NI 52-110**") requires the Company to disclose annually in its AIF certain information concerning the constitution of its Audit Committee and its relationship with its independent auditor.

The Audit Committee Charter

The Board is responsible for reviewing and approving the unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

The Audit Committee has the general responsibility to review and make recommendations to the Board on the approval of the Company's annual and interim financial statements, the Management Discussion and Analysis and the other financial information or disclosure of the Company. More particularly, it has the mandate to:

(i) Oversee all the aspects pertaining to the process of reporting and divulging financial information, the internal controls and the insurance coverage of the Company;

(ii) Oversee the implementation of the Company's rules and policies pertaining to financial information and internal controls and management of financial risks and to insure that the certifications process of annual and interim financial statements is conformed with the applicable regulations; and

(iii) Evaluate and supervise the risk control program and review all related party transactions.

The Audit Committee makes sure that the external auditors are independent from management. The Audit Committee reviews the work of outside auditors, evaluates their performance, evaluates their remuneration and makes recommendations to the Board. The Audit Committee also authorizes non-related audit work. A copy of the Charter of the Audit Committee is appended hereto as Schedule "A" to this AIF.

Composition of the Audit Committee

The following are the members of the Audit Committee:

Name	**Independent / Not Independent**	**Financial literacy**
Manhong Liu	Independent [1]	Financially literate [1]
Francis Leong	Independent [1]	Financially literate [1]
David Horsley	Independent [1]	Financially literate [1]

Note:

(1) Terms have their respective meanings ascribed in NI 52-110.

Relevant Education and Experience

Manhong Liu holds a PhD in Economics from Cornell University and has served as a director of S 3 Investment Company Inc., an Over the Counter Bulletin Board issuer, since April 2007.

Francis Leong holds a Bachelors in Commerce degree from the National Chengchow University in Taiwan. Mr. Leong is a former City Treasurer of the City of Calgary. Mr. Leong has served as a director for several companies and previously served as the chief financial officer of Blue Diamond Mining Corp. from March 2004 until June 2004.

David Horsley is a Member of Canadian Institute of Chartered Accountants, Institute of Chartered Accountants of Ontario since 1984 and also a member of Institute of Chartered Business Valuators since 1994. Mr. Horsley has been Senior Vice President and Chief Financial Officer of Sino-Forest Corporation, a public company listed on the Toronto Stock Exchange, since October 10, 2005. Mr. Horsley previously served as Senior Vice President and Chief Financial Officer of Cygnal Technologies Corporation. Mr. Horsley has also served on the board of directors and board committees of various private and public companies.

Reliance on Certain Exemptions

At no time since the commencement of the financial year ended June 30, 2010 has the Company relied on the exemptions in Section 2.4 of NI 52-110 *(De Minimise Non-audit Services*), in Section 3.2 of NI 52-110 (*Initial Public Offerings*), in Section 3.4 of NI 52-110 (*Events Outside Control of Members*), in Section 3.5 of NI 52-110 (*Death, Disability or Resignation of Audit Committee Member*) or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110. The Company is relying on the exemption in Section 6.1 of NI 52-110 (*Venture Issuers*).

Reliance on Exemption in Subsection 3.2(2) or Section 3.6

At no time since the commencement of the financial year ended June 30, 2010 has the Company relied on the exemption in Section 3.3(2) of NI 52-110 (*Controlled Companies*), or the exemption in Section 3.6 of NI 52-110 (*Temporary Exemption for Limited and Exceptional Circumstances*).

Reliance on Section 3.8

At no time since the commencement of the financial year ended June 30, 2010 has the Company relied on the exemption in Section 3.8 of NI 52-110 (*Acquisition of Financial Literacy*).

Audit Committee Oversight

At no time since the commencement of the financial year ended June 30, 2010 was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

Pre-Approval Policies and Procedures

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services.

External Auditor Service Fees

Aggregate fees paid to the Auditor during the financial years ended June 30, 2011 and 2010 were as follows:

	Financial Year Ended June 30, 2011 Cdn$	**Financial Year Ended June 30, 2010 Cdn$**
Audit Fees	120,000	160,000
Audit-related Fees (1)	77,000	Nil
Tax Fees (2)	Nil	Nil
All Other Fees (3)	23,100	41,250
Total	220,100	201,250

Notes:

(1) Fees charged for assurance and related services reasonably related to the performance of an audit, and not included under "Audit Fees".

(2) Fees charged for tax compliance, tax advice and tax planning services.

(3) Fees for services other than disclosed in any other row, including fees related to the review of Company’s Management Discussion & Analysis.

9.4 Conflicts of Interest

In the event conflicts arise at a meeting of the Board, a director who has such a conflict will declare the conflict and abstain from voting. In appropriate cases, the Company will establish a special committee of independent non-executive directors (drawn from the majority of its members who must at all times be "independent" within the meaning of NI 52-110) to review a matter in which one or more directors or management may have a conflict.

Except as disclosed in this AIF, to the best of the Company's knowledge there are no known existing or potential conflicts of interest between the Company and any director or officer of the Company, except that certain of the directors of the Company serve as directors and officers of other public companies and it is therefore possible that a conflict may arise between their duties as a director or officer of the Company and their duties as a director or officer of such other companies. Where such conflicts arise, they will be addressed as indicated above.

ITEM 10. LEGAL PROCEEDINGS AND REGULATORY ACTIONS

10.1 Legal Proceedings

To the knowledge of the Company,

(a) during the Company's last financial year, the Company is not and has not been a party to any legal proceedings;

(b) during the Company's last financial year, none of the Company's property is or was the subject of any legal proceedings; and

(c) there are no legal proceedings that the Company knows to be contemplated.

10.2 Regulatory Actions

To the knowledge of the Company, there are no

(a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the June 30, 2011 financial year;

(b) any other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; and

(c) settlement agreements that the Company has entered into before a court relating to securities legislation or with a securities regulatory authority during the June 30, 2011 financial year.

ITEM 11. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

11.1 Interest of Management and Others in Material Transactions

Other than as set out below, no member of management of the Company, or a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of the common shares, Class A Preferred Shares or Secured Debentures, or any associate or affiliate of any the aforementioned persons or companies, has any material interest, direct or indirect, in any transaction which has occurred within the financial years ended June 30, 2009, June 30, 2010, and June 30 2011 or in any proposed transaction that has materially affected or will materially affect the Company or any of its subsidiaries.

- On February 27, 2009, the Company completed the Acquisition pursuant to which it acquired all of the issued and outstanding shares of HKCo and the WFOE. On completion of the Acquisition, the Company issued an aggregate of 3,054,741 common shares and 21,320,259 Class A Preferred Shares to the former shareholders of HKCo. Prior to the close of the Acquisition, Mr. Shou Cailiang, the President and Chairman of the Company, was the Chairman of HKCo. On closing of the Acquisition, Mr. Shou Cailiang received, directly or indirectly, 2,050,000 common shares and 13,609,184 Class A Preferred Shares. Please refer to the Company's filing statement dated as of February 27, 2009, available on SEDER at www.sedar.com, for more information in respect of the Acquisition.

- WFOE consolidates the accounts of Boyuan China through its variable interest entity relationship and is the primary beneficiary of Boyuan China. Mr. Shou Cailiang, the President and Chairman of the Company, owns 90% of the issued shares of Boyuan China.

ITEM 12. TRANSFER AGENTS AND REGISTRARS

12.1 Transfer Agents and Registrars

The transfer agent and registrar for the common shares of the Company is Computershare Trust Company of Canada in Calgary, Alberta for its common shares and in Vancouver, British Columbia for its Secured Debentures.

ITEM 13. MATERIAL CONTRACTS

13.1 Material Contracts

There are no other contracts, other than those disclosed in this AIF and those entered into in the ordinary course of the Company's business, that are material to the Company and which were entered into in the most recently completed fiscal year or which were entered into before the most recently completed fiscal year but are still in effect as of the date of this AIF.

1. Share Exchange Agreement between the Company, HKCo and the shareholders of HKCo dated February 27, 2009;

2. Trust Indenture between the Company and Computershare dated February 27, 2009;

3. Share Pledge Agreement between the Company, Computershare and HKCo dated February 27, 2009;

4. General Security Agreement between the Company and Computershare dated February 27, 2009;

5. Warrant Indenture between the Company and Computershare dated February 27, 2009;

6. TSX Venture Exchange Form 5D Value Escrow Agreement between the Company, Computershare, and certain principal shareholders of the Company dated February 27, 2009;

7. Sponsorship and Agency Agreement between the Company, HKCo, Hunter Wise Securities LLC and Haywood Securities Inc. dated February 27, 2009;

8. Private Placement Subscription Agreement between the Company and subscribers dated as of June 30, 2009;

9. VIE Agreements;

10. Listing Agreement between the Company and the TSX Group, Inc. dated June 3, 2010; and

11. Warrant Indenture between the Company and Computershare dated November 3, 2010.

ITEM 14. ADDITIONAL INFORMATION

14.1 Additional Information

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans will be contained in the management information circular prepared in connection with the Company's annual and special meeting of shareholders to be held on December 15, 2011, expected to be filed on SEDAR on or about November 24, 2011.

Additional financial information is provided in the Company's consolidated financial statements and management discussion and analysis for the financial years ended June 30, 2011 and 2010, and additional information relating to the Company is on SEDAR at www.sedar.com.

Schedule A

AUDIT COMMITTEE CHARTER

BOYUAN CONSTRUCTION GROUP, INC.
AMENDED AUDIT COMMITTEE CHARTER
(Amended as of October 13, 2009)

General

The Audit Committee is a committee of the Board of Directors (the "Board") of Boyuan Construction Group, Inc. (the "Corporation") to which the Board delegates its responsibility for oversight of the financial reporting process.

Responsibilities of the Audit Committee include:

- Review the financial reporting process to ensure the accuracy of the financial statements of the Corporation;
- Assist the Board to properly and fully discharge its responsibilities;
- Strengthen the role of the Board by facilitating in depth discussions between directors, management and external auditors;
- Evaluate the independent auditor's qualifications, performance and independence;
- Facilitate the independence of the independent auditor;
- Assess the processes relating to the determination and mitigation of risks and the maintenance of an effective control environment; and
- Review the processes to monitor compliance with laws and regulations.

The Audit Committee will provide communication among the independent auditor, senior management of the Corporation and the Board. The Audit Committee has the sole authority to approve any non-audit engagement by the Corporation's independent auditors and to approve all audit engagement fees and terms.

Responsibilities of the Audit Committee

1. Financial Reporting

(a) Review of Financial Statements and Financial Disclosure

(i) <u>Annual Financial Statements</u>. Before the release of the Corporation's annual financial statements and related MEDIA, press release and AIR the Committee shall meet with management and the external auditors to review and discuss the contents of those documents. The Committee shall then present a report (including their recommendation) to the Board based on this review.

(ii) <u>Interim Financial Statements</u>. Before the release of the Corporation's interim financial statements and related MEDIA and press release to the public, the Committee shall review and approve those documents.

(iii) <u>Review of Other Disclosure Documents</u>. The Committee shall review all other public disclosure documents containing audited or unaudited financial information before release, including any prospectus and annual report, as well as financial information and earnings guidance (if any) provided to analysts and rating agencies.

(b) The Audit Committee Chair, as a representative of the Committee, shall consult directly with the independent auditor to obtain their comments with respect to interim reports including related "Management's Discussion and Analysis" (as a result of their limited scope review of the interim reports).

(c) Conduct an investigation sufficient to provide reasonable grounds for believing that the financial statements and reports referred to in a) above are complete in all material respects and consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles.

(d) Review with senior management of the Corporation and the independent auditor, management's handling of any proposed audit adjustments identified by the independent auditors, the presentation and impact of signification risks and uncertainties, and key estimates and judgements of management that may be material to financial reporting.

(e) Meet with the independent auditor to review the results of the annual audit, their judgments about the quality and appropriateness of the Corporation's accounting principles, and any audit problems or difficulties and management's response.

(f) Review and resolve any significant disagreement among the Corporation's management and the independent auditors in the financial reporting process.

(g) Review the integrity of the Corporation's internal and external financial reporting process, in consultation with the independent auditors.

(h) Review the evaluation of internal controls by the external auditor, together with management's response.

(i) Review the post-audit or management letter, containing the recommendations of the external auditor, and management's response and subsequent follow up to any identified weakness.

(j) Consider, evaluate and recommend to the Board such changes as are appropriate to the Corporation's auditing and accounting principles and practices as suggested by the independent auditors or the Corporation's senior management.

(k) Review with independent auditors and the Corporation senior management the extent to which changes and improvements in financial and accounting practices, as approved by the Audit Committee, have been implemented.

2. Independent Auditor

(a) External auditors shall report directly to the Committee, and provide to them an annual audit plan for approval.

(b) The Committee shall (i) make recommendations to the Board as to the selection of the firm of independent public accountants to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation; (ii) review and approve the Corporation's independent auditors' annual engagement letter and audit plan, including the proposed fees contained therein, and make recommendations thereon to the Board; and (iii) review the performance of the Corporation's independent auditors and make recommendations to the Board regarding the replacement or termination of the independent auditors when circumstances warrant.

(c) At least annually, obtain and review a report by the independent auditor describing:

(i) the firm's internal quality-control procedures, and

(ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.

(d) Confirm the independence of the independent auditor by discussing and reviewing all significant relationships that the independent auditors have with the Corporation and obtaining their assertion of independence in accordance with professional standards.

(e) Approve in advance of the Corporation's final commitment all consulting arrangements and any other non-audit service with the Corporation's independent auditors other than services related to reviews of interim reports and tax services.

(f) Approve all audit fees and terms.

(g) When there is to be a change in the auditor, review all issues relating to the change including any reportable events.

(h) Review any engagements for non-audit services to be provided by the independent auditor's firm or affiliates, together with estimated fees and consider the independence of the auditor.

3. Risk Assessment and Risk Management

(a) Discuss with Corporation management guidelines and policies governing the risk assessment and risk management processes.

(b) Review with Corporation management, the independent auditors, significant risks and exposures. Review management's plans and processes to minimize such risks, including insurance coverage.

(c) Evaluate whether Corporation management is adequately communicating the importance of internal control to all relevant personnel.

(d) Periodically privately consult with the independent auditor about internal controls and the completeness and accuracy of the Corporation's financial statements.

(e) Review whether the internal control recommendations made by the internal auditors and the independent auditor are being implemented by Corporation management and, if not, why not.

4. Compliance with Relevant laws and regulations

(a) Periodically obtain updates from the Corporation's senior management regarding procedures and processes to ensure compliance with applicable laws and regulations (including but not limited to, securities, tax and environmental matters).

5. Other Responsibilities

(a) Meet at least four times annually (for review of Q1, Q2 and Q3 interim reports as well as pre audit) with senior management and the independent auditors in separate sessions.

(b) Institute special investigations, if necessary, and hire special counsel or experts, at the cost of the Corporation, to assist, if appropriate.

(c) Review and update this Charter at least annually or as otherwise determined by the Committee, and obtain approval of changes from the Board.

(d) Set clear hiring policies for employees or former employees of the independent auditors.

(e) Review the procedures established for the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters.

(f) Review the procedures established allowing the confidential, anonymous submission by Corporation employees of concerns regarding questionable accounting or auditing matters and resolution of such concerns, if any.

(g) Review with the Board, any issues that arise with respect to the quality or accuracy of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements and the performance and independence of the Corporation's independent auditors.

(h) Review all "related party" or non-arm's length transactions of the Corporation and provide a reporting, including any recommendation, to the Board.

(i) Perform other oversight functions as requested by the Board.

(j) Report after each meeting to the Board regarding actions taken and matters discussed by the Committee.

6. Organization of the Audit Committee

(a) The Audit Committee shall be comprised of a minimum of 3 Directors including a Committee Chair. All of the Audit Committee members shall, in the opinion of the Board, be independent directors under NI 52-110.

(b) Each member of the Committee shall have a working knowledge of basic finance and accounting practices, and shall be "financially literate" as defined in NI 52-110.

(c) The Chair of the Committee must have accounting or related financial management experience.

(d) The members of the Committee and its Chair shall be appointed by the Board of Directors. Appointments shall be made in accordance with procedures established by the Corporate Governance, Nomination and Compensation Committee of the Board of Directors from time to time.

(e) The Corporation will adequately fund the budget of the Audit Committee. The budget will include, at a minimum, payments to the independent auditors for audit services and, if necessary, other professionals retained by the Audit Committee from time to time.

7. Procedure Governing Errors or Misstatements in Financial Statements

In the event a director or an officer of the Corporation has reason to believe, after discussion with management, that a material error or misstatement exists in financial statements of the Corporation, that director or officer shall forthwith notify the Audit Committee and the auditor of the error or misstatement of which the director or officer becomes aware in a financial statement that the auditor or a former auditor has reported on.

If the auditor or a former auditor of the Corporation is notified or becomes aware of an error or misstatement in a financial statement on which the auditor or former auditor has reported, and if in the auditor's or former auditor's opinion the error or misstatement is material, the auditor or former auditor shall inform each director accordingly.

When the Audit Committee or the Board is made aware of an error or misstatement in a financial statement the Board shall prepare and issue revised financial statements or otherwise inform the shareholders and file such revised financial statements as required.

8. Independent Advice

As considered necessary in the course of fulfilling Audit Committee duties, the Committee may obtain advice and assistance from outside legal, accounting or other advisors. at the cost of the Corporation.

9. Complaint Procedure

The Committee shall put in place procedures to deal with:

(a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

(b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

(c) The Committee shall support the auditor, when appropriate, when issues arise, and management and the auditor disagree.

10. Hiring Policies

(a) The Committee shall review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and any former external auditors of the Corporation.

(b) The Committee shall ensure that there are sufficient resources and skills to undertake the internal audit.

11. Review and Amendments to Charter:

(a) <u>By the Committee</u>. On an annual basis, the Committee shall report to the Board on the Committee's performance against its charter and the goals established annually by the Committee for itself, and recommend to the Board any amendments to its charter it considers appropriate or desirable.

(b) <u>By the Board</u>. The Board shall review and reassess the adequacy of this Charter annually or whenever necessary and shall consider all recommendations received by it from the Committee.

12. Limitation on Audit Committee Members' Duties

Nothing in this Charter is intended, or may be construed, to impose on any member of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard required by law.