

BOYUAN CONSTRUCTION GROUP, INC.

Interim Condensed Consolidated Financial Statements
For the Three Months and Six Months Ended
December 31, 2015
(Expressed in US dollars)
(Unaudited)

**Notice of No Auditor Review of Unaudited Interim Condensed
Consolidated Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these unaudited interim condensed consolidated financial statements in accordance with the standards established by Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

BOYUAN CONSTRUCTION GROUP INC
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 2015
(unaudited)

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BOYUAN CONSTRUCTION GROUP INC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2015
(unaudited)

	<u>NOTES</u>	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
Non-current assets			
Unbilled revenue	5	48,334,710	45,887,492
Accounts receivable	6	2,641,403	8,104,804
Property and equipment	3	10,029,443	12,489,904
Refundable deposit	13(a)	-	583,859
Prepaid lease payments	4	100,011	105,086
Deferred tax assets	15	<u>2,419,361</u>	<u>2,354,964</u>
		<u>63,524,928</u>	<u>69,526,109</u>
Current assets			
Unbilled revenue	5	140,316,965	127,385,149
Accounts receivable	6	27,278,628	27,744,320
Deposits	7	6,787,261	9,582,795
Advances and prepaid expenses	8	514,458	1,512,648
Other receivables		810,563	648,442
Refundable deposit	13(a)	547,707	-
Inventory		2,040,195	831,571
Due from a related party	9	57,570	61,370
Prepaid lease payments	4	2,455	7,111
Restricted cash	10	7,840,418	10,358,730
Cash and cash equivalents		<u>9,724,833</u>	<u>9,810,988</u>
		<u>195,921,053</u>	<u>187,943,124</u>
Current liabilities			
Bank loans	11	67,696,858	73,487,387
Accounts payable and accrued liabilities	12	49,712,831	35,739,578
Bank notes payable	10	13,952,209	16,277,958
Other loans	13	9,288,966	10,281,570
Convertible debentures	14	869,964	3,503,174
Income taxes payable		4,867,762	3,368,445
Deferred revenue	5	517,280	-
Other financial liabilities	22	<u>3,132,257</u>	<u>3,132,257</u>
		<u>150,038,127</u>	<u>145,790,369</u>
Net current assets		<u>45,882,926</u>	<u>42,152,755</u>
Non-current liabilities			
Convertible debentures	14	4,114,344	4,735,260
Other loans	13	-	558,027
		<u>4,114,344</u>	<u>5,293,287</u>
Net assets		<u>105,293,510</u>	<u>106,385,577</u>

BOYUAN CONSTRUCTION GROUP INC

	<u>NOTES</u>	<u>December 31,2015</u> (unaudited) US\$	<u>June 30,2015</u> (audited) US\$
Equity			
Share capital	16	7,156,864	7,156,864
Reserves	17	<u>98,136,646</u>	<u>99,228,713</u>
		<u>105,293,510</u>	<u>106,385,577</u>

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

The interim condensed consolidated financial statements on pages 1 to 28 were approved and authorized for issue by the Board of Directors on February 13, 2016 and are signed on its behalf by:

“Francis Leong”

Francis Leong, Director

“Jack Duffy”

Jack Duffy, Director

BOYUAN CONSTRUCTION GROUP INC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 2015
(unaudited)

	<u>NOTES</u>	<u>For the three months ended December 31</u>		<u>For the six months ended December 31</u>	
		2015	2014	2015	2014
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
		US\$	US\$	US\$	US\$
Construction revenue		63,158,210	73,265,415	124,026,729	139,066,873
Costs of construction		<u>(55,396,335)</u>	<u>(66,337,342)</u>	<u>(110,710,174)</u>	<u>(125,126,602)</u>
Gross profit		7,761,875	6,928,073	13,316,555	13,940,271
Other income		1,218,496	904,882	2,503,522	1,810,207
Foreign exchange gain (loss)		17,375	(36)	6,178	(13,910)
General and administrative expenses		(1,374,245)	(1,572,832)	(2,693,054)	(3,031,513)
Reversal of provision for allowance of doubtful debts		301,351	-	301,351	-
Impairment loss recognised on unbilled revenue		(651,821)	-	(651,821)	-
Interest expense		(2,267,693)	(1,843,198)	(4,076,479)	(3,712,678)
Share-based compensation		<u>(35,004)</u>	<u>(92,352)</u>	<u>(70,008)</u>	<u>(188,852)</u>
Profit before income taxes		4,970,334	4,324,537	8,636,244	8,803,525
Income taxes	15	<u>(972,614)</u>	<u>(1,803,489)</u>	<u>(2,460,713)</u>	<u>(3,447,412)</u>
Profit for the period		<u>3,997,720</u>	<u>2,521,048</u>	<u>6,175,531</u>	<u>5,356,113</u>
Other comprehensive (expense) income					
<i>Items that may be subsequently reclassified to profit or loss:</i>					
Exchange difference on translation of foreign operations		(3,169,512)	561,012	(7,337,606)	<u>2,024,353</u>
Total comprehensive income(expense) for the period		<u>828,208</u>	<u>3,082,060</u>	<u>(1,162,075)</u>	<u>7,380,466</u>
Earnings per share:	18				
Basic		0.16	0.10	0.24	0.21
Diluted		<u>0.16</u>	<u>0.10</u>	<u>0.24</u>	<u>0.20</u>
Weighted average number of common shares outstanding:	18				
Basic		25,420,065	25,420,065	25,420,065	25,420,065
Diluted		<u>25,420,065</u>	<u>31,221,793</u>	<u>25,420,065</u>	<u>31,221,793</u>

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

BOYUAN CONSTRUCTION GROUP INC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015
(unaudited)

	Share capital US\$ (note 16)	Contributed surplus US\$ (note 17)	Statutory reserve US\$ (note 17)	Convertible debentures equity reserve US\$ (note 14)	Foreign currency translation reserve US\$	Retained earnings US\$	Total equity US\$
Balance at June 30, 2014(audited)	<u>7,156,864</u>	<u>5,340,721</u>	<u>7,373,221</u>	<u>2,059,230</u>	<u>7,222,423</u>	<u>57,084,002</u>	<u>86,236,461</u>
Profit for the period	-	-	-	-	-	5,356,113	5,356,113
Exchange difference on Translation of foreign operations	=	=	=	=	<u>2,024,353</u>	=	<u>2,024,353</u>
Total comprehensive income for the period					<u>2,024,353</u>	<u>5,356,113</u>	<u>7,380,466</u>
Recognition of equity-settled share-based compensation (note 16)	-	188,852	-	-	-	-	188,852
Transfer to reserve	=	=	<u>1,855,302</u>	=	=	<u>(1,855,302)</u>	=
Balance, December 31, 2014(unaudited)	<u>7,156,864</u>	<u>5,529,573</u>	<u>9,228,523</u>	<u>2,059,230</u>	<u>9,246,776</u>	<u>60,584,813</u>	<u>93,805,779</u>
Balance at June 30, 2015(audited)	<u>7,156,864</u>	<u>6,926,019</u>	<u>11,070,371</u>	<u>4,603,470</u>	<u>10,813,110</u>	<u>65,815,743</u>	<u>106,385,577</u>
Profit for the period	-	-	-	-	-	6,175,531	6,175,531
Exchange difference on Translation of foreign operations	=	=	=	=	<u>(7,337,606)</u>	=	<u>(7,337,606)</u>
Total comprehensive (expense)income for the period	=	=	=	=	<u>(7,337,606)</u>	<u>6,175,531</u>	<u>(1,162,075)</u>
Recognition of equity-settled share-based compensation (note 16)	-	70,008	-	-	-	-	70,008
Transfer to reserve	=	=	=	=	=	=	=
Balance, December 31, 2015(unaudited)	<u>7,156,864</u>	<u>6,996,027</u>	<u>11,070,371</u>	<u>4,603,470</u>	<u>3,475,504</u>	<u>71,991,274</u>	<u>105,293,510</u>

BOYUAN CONSTRUCTION GROUP INC
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 2015
(unaudited)

	For the three months ended December, 31		For the six months ended December, 31	
	2015	2014	2015	2014
	(unaudited) US\$	(unaudited) US\$	(unaudited) US\$	(unaudited) US\$
Cash flows from operating activities				
Profit before taxes	4,970,334	4,324,537	8,636,244	8,803,525
Items not affecting cash:				
Depreciation and amortization	1,092,019	775,865	2,115,454	1,559,898
Interest expense	2,267,693	1,843,198	4,076,479	3,712,678
Share-based compensation expenses	35,004	92,352	70,008	188,852
Provision for allowance of doubtful debts	651,821	-	651,821	-
Reversal of provision for allowance of doubtful debts	(301,351)	-	(301,351)	-
Unrealized foreign exchange	(643,309)	(229,283)	(280,026)	(50,884)
Changes in non-cash working capital items:				
Accounts receivable	3,209,047	(6,448,962)	4,904,944	(4,954,110)
Unbilled revenue	(10,506,186)	(11,265,195)	(26,426,916)	(15,555,333)
Other receivables	1,188,327	1,793,733	(214,576)	(44,778)
Inventory	(1,879,715)	478,221	(1,293,965)	451,626
Advance to suppliers and prepaid expenses	277,393	7,125,215	928,789	184,057
Deposits	1,882,586	(374,487)	2,261,331	1,426,879
Accounts payable and accrued liabilities	8,428,925	8,024,388	14,496,310	4,901,492
Deferred revenue	<u>(2,735,124)</u>	<u>(303,254)</u>	<u>531,176</u>	<u>1,850,886</u>
Cash generated from operations	7,937,464	5,836,328	10,155,722	2,474,788
Income taxes paid	<u>(36,849)</u>	<u>(1,127,535)</u>	<u>(885,080)</u>	<u>(1,237,948)</u>
	<u>7,900,615</u>	<u>4,708,793</u>	<u>9,270,642</u>	<u>1,236,840</u>
Cash flows from investing activities				
Change in restricted cash	722,002	581,218	1,927,325	1,158,314
Purchase of property and equipment	<u>(251,263)</u>	<u>(30,276)</u>	<u>(383,039)</u>	<u>(103,688)</u>
	<u>470,739</u>	<u>550,942</u>	<u>1,544,286</u>	<u>1,054,626</u>
Cash flows used in financing activities				
Proceeds from bank loans	22,491,997	11,093,296	46,417,440	33,008,856
Repayment of bank loans	(20,913,719)	(15,127,977)	(47,690,993)	(31,130,607)
Proceeds from loan payable	7,747	-	1,898,464	-
Repayment of loan payable	(2,324,595)	(458,969)	(2,810,437)	(903,748)
Change in bank notes payable	1,787,532	(763,640)	(1,353,230)	(573,775)
Interest paid on convertible debentures	(226,209)	(659,582)	(570,351)	(1,348,787)
Redemption of convertible debentures	(3,783,866)	-	(3,783,866)	-
Other interest paid	<u>201,482</u>	<u>(1,285,701)</u>	<u>(2,388,286)</u>	<u>(3,287,182)</u>
	<u>(2,759,631)</u>	<u>(7,202,573)</u>	<u>(10,281,259)</u>	<u>(4,235,243)</u>

BOYUAN CONSTRUCTION GROUP INC

	For the three months ended December, 31		For the six months ended December, 31	
	2015 (unaudited) US\$	2014 (unaudited) US\$	2015 (unaudited) US\$	2014 (unaudited) US\$
Effect of changes in exchange rate changes on cash and cash equivalents	<u>(294,046)</u>	<u>2,237</u>	<u>(619,824)</u>	<u>36,547</u>
Increase (decrease)in cash and cash equivalents	5,317,677	(1,940,601)	(86,155)	(1,907,230)
Cash and cash equivalents, beginning of period	<u>4,407,156</u>	<u>4,493,269</u>	<u>9,810,988</u>	<u>4,459,898</u>
Cash and cash equivalents, end of period represented by bank balances and cash	<u>9,724,833</u>	<u>2,552,668</u>	<u>9,724,833</u>	<u>2,552,668</u>

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

BOYUAN CONSTRUCTION GROUP INC
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

1. NATURE OF OPERATIONS

Boyuan Construction Group, Inc. (the "Company") was incorporated under the Canada Business Corporations Act on May 4, 2007, with its shares listed on the Toronto Stock Exchange on June 16, 2010. The Company's registered office and principal place of business is located at Jing Hui Plaza, No.500, Matang Road, Changshui Street, Economic Development Zone Jiaxing City, Zhejiang Province, the People's Republic of China ("China" or "PRC"). The Company and its subsidiaries (collectively the "Group") are engaged in the construction of residential and commercial buildings, municipal infrastructure and engineering projects in the PRC.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, they do not include all of the information required for full annual financial statements required by IAS 1 *Presentation of Financial Statements of the International Financial Reporting Standards* ("IFRS") as issued by the IASB. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2015, which include information necessary to understand the Company's business and financial statement presentation.

These unaudited interim condensed consolidated financial statements as at and for the three months and six months ended December 31, 2015 were authorized for issuance by the Board of Directors on February 13, 2016.

Except as described below, the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended December 31, 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended June 30, 2015.

In the current interim period, the Group has applied for the first time the following amendments to IFRSs issued by the IASB.

Amendments to IAS 19	Defined Benefit Plans: Employee contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010 - 2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011 - 2013 Cycle

The application of these amendments to IFRSs in the current interim period has had no material effect on amounts reported in these interim condensed consolidated financial statements and/or disclosures set out in these interim condensed consolidated financial statements.

BOYUAN CONSTRUCTION GROUP INC
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES - continued

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 14	Regulatory Deferral Accounts ²
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ³
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁴
Amendments to IAS 1	Disclosure Initiative ⁴
Amendments to IAS 7	Disclosure Initiative ⁶
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁶
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization ⁴
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ⁴
Amendments to IAS 27	Equity Method in Separate Financial Statements ⁴
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception ⁴
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle ³

¹ Effective for annual periods beginning on or after January 1, 2018.

² Effective for first annual IFRS financial statements beginning on or after January 1, 2016.

³ Effective for annual periods beginning on or after January 1, 2019.

⁴ Effective for annual periods beginning on or after January 1, 2016.

⁵ Effective for annual periods beginning on or after a date to be determined.

⁶ Effective for annual periods beginning on or after January 1, 2017.

The Group has reviewed the new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Group:

IFRS 9, Financial instruments ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is intended to reduce the complexity for the classification and measurement of financial instruments. The mandatory effective date is for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact that this standard may have on the interim condensed consolidated financial statements since the expected loss model might affect the impairment assessment on certain financial instruments.

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

2. SIGNIFICANT ACCOUNTING POLICIES - continued

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB on May 28, 2014 and will replace IAS 18 Revenue and IAS 11 Construction Contracts and various other interpretations. IFRS 15 provides a more detailed framework for the timing of revenue recognition and increased requirements for disclosure of revenue. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. The mandatory effective date is for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact that this standard may have on the amounts reported and disclosures made in the Group's interim condensed consolidated financial statements.

3. PROPERTY AND EQUIPMENT

Movements in the carrying value of property and equipment were as follows:

	<u>Building</u> US\$	<u>Machinery, equipment and scaffoldings</u> US\$	<u>Vehicles</u> US\$	<u>Office equipment</u> US\$	<u>Leasehold improvement</u> US\$	<u>Construction in progress</u> US\$	<u>Total</u> US\$
COST							
Balance at June 30, 2015 (audited)	5,943,534	22,351,371	2,004,065	1,806,772	1,678,555	-	33,784,297
Additions	-	411	-	16,759	-	365,869	383,039
Effect of foreign currency exchange differences	<u>(368,020)</u>	<u>(1,383,993)</u>	<u>(124,091)</u>	<u>(112,312)</u>	<u>(103,935)</u>	<u>(9,571)</u>	<u>(2,101,922)</u>
Balance at December 31, 2015 (unaudited)	<u>5,575,514</u>	<u>20,967,789</u>	<u>1,879,974</u>	<u>1,711,219</u>	<u>1,574,620</u>	<u>356,298</u>	<u>32,065,414</u>
ACCUMULATED DEPRECIATION							
Balance at June 30, 2015 (audited)	2,388,563	14,739,689	1,494,128	1,381,211	1,290,802	-	21,294,393
Depreciation expense	77,078	1,689,999	97,559	104,484	146,335	-	2,115,455
Effect of foreign currency exchange differences	<u>(149,915)</u>	<u>(956,883)</u>	<u>(95,068)</u>	<u>(88,257)</u>	<u>(83,754)</u>	<u>-</u>	<u>(1,373,877)</u>
Balance at December 31, 2015 (unaudited)	<u>2,315,726</u>	<u>15,472,805</u>	<u>1,496,619</u>	<u>1,397,438</u>	<u>1,353,383</u>	<u>-</u>	<u>22,035,971</u>
NET BOOK AMOUNT							
At June 30, 2015 (audited)	<u>3,554,971</u>	<u>7,611,682</u>	<u>509,937</u>	<u>425,561</u>	<u>387,753</u>	<u>-</u>	<u>12,489,904</u>
At December 31, 2015 (unaudited)	<u>3,259,788</u>	<u>5,494,984</u>	<u>383,355</u>	<u>313,781</u>	<u>221,237</u>	<u>356,298</u>	<u>10,029,443</u>

Buildings with carrying amount of US\$1,796,155 (June 30, 2015: US\$1,336,600) have been pledged to secure the bank loans as disclosed in note 11.

4. PREPAID LEASE PAYMENTS

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	<u>102,466</u>	<u>112,197</u>

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

4. PREPAID LEASE PAYMENTS - continued

Analysed for reporting purposes as:

Non-current assets	100,011	105,086
Current assets	<u>2,455</u>	<u>7,111</u>
	<u>102,466</u>	<u>112,197</u>

In June 2007, Zhejiang Boyuan acquired a 50 year land use right in Jiaxing, Zhejiang, the PRC for the construction of office building and 2 residential buildings used by the Group as employee quarters. The right will expire on August 23, 2056.

Prepaid lease payments with carrying amount of US\$102,466 (June 30, 2015: US\$112,197) have been pledged to secure the bank loans as disclosed in note 11.

5. UNBILLED REVENUE

Unbilled revenue comprises gross amount due from customers for completed contracts and contracts in progress. Unbilled revenue is the net amount of construction costs incurred plus recognized profit less recognized losses and progress billings.

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
Completed contracts	53,465,387	66,420,043
Contracts in progress	<u>152,630,316</u>	<u>125,142,587</u>
Gross unbilled revenue	206,095,703	191,562,630
Less: Effect of discounting, net	(4,627,226)	(5,303,863)
Impairment loss recognised	<u>(12,816,802)</u>	<u>(12,986,126)</u>
	<u>188,651,675</u>	<u>173,272,641</u>
Analysed for reporting purposes as:		
Non-current assets	48,334,710	45,887,492
Current assets	<u>140,316,965</u>	<u>127,385,149</u>
	<u>188,651,675</u>	<u>173,272,641</u>

The unbilled revenue recognized for contracts in progress included in the unbilled revenue are as follows:

Aggregate costs of construction	477,975,950	394,578,674
Gross profit recognized	<u>74,978,297</u>	<u>64,485,407</u>
	552,954,247	459,064,081
Less: aggregate of progress billings	<u>(400,323,931)</u>	<u>(333,921,494)</u>
Contracts in progress - unbilled revenue portion, end of period/year	152,630,316	125,142,587
Less: deferred revenue related to contract in progress, end of period/year	<u>(517,280)</u>	=
Net position	<u>152,113,036</u>	<u>125,142,587</u>

BOYUAN CONSTRUCTION GROUP INC
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

5. UNBILLED REVENUE - continued

Movement in allowance for impairment loss

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
At beginning of the period/year	12,986,126	12,918,514
Transferred to accounts receivable	-	(175,534)
Impairment losses recognized	651,821	-
Effect of foreign currency exchange differences	<u>(821,145)</u>	<u>243,146</u>
At end of the period/year	<u>12,816,802</u>	<u>12,986,126</u>

Recoverability of unbilled revenue is reviewed periodically on a case-by-case basis. Management takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess the amount of impairment.

6. ACCOUNTS RECEIVABLE

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
Accounts receivable	31,442,681	38,176,988
Less: Effect of discounting, net	(382,628)	(799,755)
Allowance for doubtful debts	<u>(1,140,022)</u>	<u>(1,528,109)</u>
	<u>29,920,031</u>	<u>35,849,124</u>
Analysed for reporting purpose as:		
Non-current assets	2,641,403	8,104,804
Current assets	<u>27,278,628</u>	<u>27,744,320</u>
	<u>29,920,031</u>	<u>35,849,124</u>

Movement in the allowance for doubtful debts

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
At beginning of the period/year	1,528,109	1,327,588
Transferred from unbilled revenue	-	175,534
Reversal of provision for allowance of doubtful debts	(301,351)	-
Effect of foreign currency exchange differences	<u>(86,736)</u>	<u>24,987</u>
At end of the period/year	<u>1,140,022</u>	<u>1,528,109</u>

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

7. DEPOSITS

	<u>December 31,2015</u> (unaudited) US\$	<u>June 30,2015</u> (audited) US\$
Contract performance deposits (Note a)	5,960,203	8,550,879
Project tender deposits (Note b)	496,094	571,531
Others	<u>330,964</u>	<u>460,385</u>
	<u>6,787,261</u>	<u>9,582,795</u>

Notes:

- (a) Contract performance deposits are advanced to customers at the beginning of construction projects. The deposits are repaid to the Group based on the progress of construction and terms of the contract.
- (b) Project tender deposits are advanced to potential customers during the contract tendering period. The deposits are repaid to the Group when the tendering process is complete.

8. ADVANCES AND PREPAID EXPENSES

	<u>December 31,2015</u> (unaudited) US\$	<u>June 30,2015</u> (audited) US\$
Advances to project managers and suppliers (Note)	158,052	1,177,652
Prepaid expenses	28,965	91,059
Other	<u>327,441</u>	<u>243,937</u>
	<u>514,458</u>	<u>1,512,648</u>

Note: The Group advanced monies to suppliers and project managers in order to secure construction materials and services. The advances of US\$142,645(June 30, 2015: US\$1,155,119) to the project managers are held in bank accounts in trust for the Group.

9. RELATED PARTY BALANCES AND TRANSACTIONS

The Group has the following related party balances:

	<u>December 31,2015</u> (unaudited) US\$	<u>June 30,2015</u> (audited) US\$
Amount due from a related party		
Due from a company controlled by Mr. Shou Cailiang (“Mr. Shou”), the ultimate controlling shareholder, CEO and director of the Company	<u>57,570</u>	<u>61,370</u>

The amount is non-interest bearing, unsecured and have no fixed terms of repayment.

BOYUAN CONSTRUCTION GROUP INC

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9. RELATED PARTY BALANCES AND TRANSACTIONS - continued

As at December 31, 2015, the Group has loans from a company totalling US\$924,400 (June 30, 2015: US\$2,627,776) controlled by a family member of Mr. Shou. The amount is included in other loans in note 13 which are unsecured, interest-free and repayable within one year from the end of the reporting period.

Related party transactions

Key management personnel compensation

Key management personnel include all directors, chief executive officer, chief financial officer, corporate secretary and vice president. The remuneration of key management personnel for the year was as follows:

	For the three months <u>ended December 31</u>		For the six months <u>ended December 31</u>	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	US\$	US\$	US\$	US\$
Short-term employee benefits	79,817	76,054	156,083	153,541
Share-based payment	<u>26,128</u>	<u>70,483</u>	<u>52,256</u>	<u>142,031</u>
	<u>105,945</u>	<u>146,537</u>	<u>208,339</u>	<u>295,572</u>

10. RESTRICTED CASH/BANK NOTES PAYABLE

As at December 31, 2015 and June 30 2015, the Group had restricted cash pledged for credit facilities as follows:

	<u>December 31, 2015</u>	<u>June 30, 2015</u>
	(unaudited)	(audited)
	US\$	US\$
Bank notes payable deposits	4,689,756	6,178,924
Bank loans deposits	<u>3,150,662</u>	<u>4,179,806</u>
	<u>7,840,418</u>	<u>10,358,730</u>

A bank note payable is a note issued by a bank for payments in future, which defers the payment until the due date for redeeming the note. According to the bank notes payable agreement with the bank, a certain percentage of the payable amount is required to be deposited at the bank as security for bank notes payable which total US\$13,952,000 as of December 31, 2015 (June 30, 2015: US\$16,278,000). The restrictions on the deposited cash will be released between January 2016 and June 2016, when the bank notes payable mature.

The restricted cash of deposits for bank loans varies based on the bank's credit policy and can only be withdrawn when the loans mature.

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

11. BANK LOANS

As at December 31, 2015, the Group has bank loans outstanding totalling US\$67,696,858 (June 30, 2015: US\$73,487,387) for working capital and capital expenditure purposes.

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
Secured	66,387,293	66,178,886
Unsecured	<u>1,309,565</u>	<u>7,308,501</u>
	<u>67,696,858</u>	<u>73,487,387</u>

As at December 31, 2015 and June 30, 2015, a wholly-owned subsidiary, related parties (includes Mr. Shou and his family member) and some independent third parties have provided guarantees to certain banks over bank loans granted to the Group amounted to US\$12,325,000, US\$4,314,000 and US\$42,268,000 (June 30, 2015: US\$29,127,000, US\$821,000 and US\$31,500,000) respectively. In addition, the Group has pledged its assets to secure bank loans of US\$7,480,000 (June 30, 2015: US\$4,730,000) granted to the Group and the carrying values of the pledged assets are as follows:

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
Restricted cash	3,150,662	4,179,806
Property and equipment	1,796,155	1,336,600
Prepaid lease payments	<u>102,466</u>	<u>112,197</u>
	<u>5,049,283</u>	<u>5,628,603</u>

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowing and their carrying values are as follow:

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
Fixed-rate borrowing		
Denominated in RMB (range from 4.85% to 8.70% as of December 31, 2015 and range from 5.36% to 8.69% as of June 30, 2015)	22,516,832	31,410,130
Variable rate borrowing		
Denominated in RMB (range from 4.13% to 8.70% as of December 31, 2015 and range from 4.85% to 8.70% as of June 30, 2015) (Note)	<u>45,180,026</u>	<u>42,077,257</u>
	<u>67,696,858</u>	<u>73,487,387</u>

Notes: For bank loans in RMB, the variable rate range from 95% of Prime to Prime plus 4.1% as of December 31, 2015 (June 30, 2015: range from 95% of Prime to Prime plus 3.1%). Prime is the benchmark rate of the People's Bank of China.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>December 31,2015</u>	<u>June 30,2015</u>
	(unaudited)	(audited)
	US\$	US\$
Accounts payable (Note)	29,849,320	15,264,031
Salaries and wages payable	186,092	187,783
Business taxes and other taxes payable	10,700,032	10,255,145
Accrued expenses	5,425,595	6,190,185
Others	<u>3,551,792</u>	<u>3,842,434</u>
	<u>49,712,831</u>	<u>35,739,578</u>

Note: The accounts payable are trade in nature and the average credit period on purchase of goods ranges from 30 to 90 days. The Group has financial risk management policies in place to ensure that payables are settled within the credit timeframe

13. OTHER LOANS

As at December 31, 2015, the Group has other loans outstanding totalling US\$9,288,966 (June 30, 2015: US\$10,839,597) for working capital and capital expenditure purposes.

	<u>December 31,2015</u>	<u>June 30,2015</u>
	(unaudited)	(audited)
	US\$	US\$
Obligation under a finance lease (Note a)	1,453,249	2,512,078
Loans from third parties (Note b)	6,855,963	5,578,810
Loan from a related company (Note c)	924,400	2,627,776
Others	<u>55,354</u>	<u>120,933</u>
	<u>9,288,966</u>	<u>10,839,597</u>
Secured	1,453,249	2,512,078
Unsecured	<u>7,835,717</u>	<u>8,327,519</u>
	<u>9,288,966</u>	<u>10,839,597</u>
Carrying amount repayable:		
Within one year	9,288,966	10,281,570
More than one year, but not exceeding two years	=	<u>558,027</u>
	9,288,966	10,839,597
Less: Amounts shown under current liabilities	<u>(9,288,966)</u>	<u>(10,281,570)</u>
	=	<u>558,027</u>

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

13. OTHER LOANS - continued

Notes:

- (a) On September 30, 2013, the Group entered into a finance lease arrangement with an unrelated company, 远東國際租賃有限公司 ("Yuandong"), to lease certain machinery equipment, with a lease period of three years ending on September 30, 2016. Interest rate underlying the obligation under the finance lease is fixed at contract rate of 7.5% per annum. The effective interest rate of the finance lease is 12% per annum. The Group has an option to purchase the equipment for a nominal amount at the end of the lease term. No arrangement has been entered into for contingent rental payments.

	<u>Minimum lease payments</u>		<u>Present value of minimum lease payments</u>	
	<u>December 31,</u>	<u>June 30,</u>	<u>December 31,</u>	<u>June 30,</u>
	<u>2015</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
	US\$	US\$	US\$	US\$
Amounts payable under finance lease:				
Within one year	1,519,190	2,165,170	1,453,249	1,980,963
In more than one year and not more than five years	=	<u>541,428</u>	=	<u>531,115</u>
	1,519,190	2,706,598	1,453,249	2,512,078
Less: future finance charges	<u>(65,941)</u>	<u>(194,520)</u>	<u>N/A</u>	<u>N/A</u>
Present value of lease obligation	<u>1,453,249</u>	<u>2,512,078</u>		
Less: Amount due for settlement within 12 months (shown under current liabilities)			<u>(1,453,249)</u>	<u>(1,980,963)</u>
Amount due for settlement after 12 months			=	<u>531,115</u>

The Group's obligation under the finance lease is guaranteed by a wholly-owned subsidiary, Mr. Shou and his family member and an unrelated party. The Group has paid an upfront service charge of RMB2,340,000 (approximately US\$382,228) to Yuandong related to the above arrangement.

In connection with the finance lease arrangement, the Group paid a security deposit of RMB3,550,000 (approximately US\$580,693) at inception of the lease which will be refunded to the Group in full at the end of the lease period. As at December 31, 2015, the refundable deposit is US\$547,707 (June 30, 2015: US\$583,859).

- (b) During the period ended December 31, 2015, the Group obtained several loans from independent third parties to fund the construction projects of the Group. The loans are unsecured, interest-free and repayable within one year from the end of the reporting period.
- (c) During the period ended December 31, 2015, the Group obtained several loans from a company controlled by a family member of Mr. Shou. The loans are unsecured, interest-free and repayable within one year from the end of the reporting period.

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

14. CONVERTIBLE DEBENTURES

	<u>December 31,2015</u> (unaudited) US\$	<u>June 30,2015</u> (audited) US\$
Balance, beginning of period/year	8,238,434	13,474,515
Interest charged	1,684,384	2,371,192
Interest paid	(570,351)	(1,643,385)
Redemption of convertible debentures	(3,605,163)	-
Extinguishment of convertible debentures	-	(11,702,473)
Fair value of liability component (including fair value of closely related embedded derivatives) of modified convertible debentures	-	7,176,773
Effect of foreign currency exchange differences	<u>(762,996)</u>	<u>(1,438,188)</u>
Balance, end of period/year	<u>4,984,308</u>	<u>8,238,434</u>

Liability component of the convertible debentures is analysed for reporting purpose as:

	<u>December 31,2015</u> (unaudited) US\$	<u>June 30,2015</u> (audited) US\$
Current liability	869,964	3,503,174
Non-current liability	<u>4,114,344</u>	<u>4,735,260</u>
	<u>4,984,308</u>	<u>8,238,434</u>

Convertible debentures - principal amount of CAD\$15,000,000

On November 1, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of CAD\$1,000 (equivalent to US\$987) per debenture for gross proceeds of CAD\$15,000,000 (equivalent to US\$14,799,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and is due on October 31, 2015. Each convertible debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price (subject to adjustment for among other things, subdivision or consolidation of shares, distribution of shares by way of dividend, cash dividend and options, rights or warrants) of CAD\$2.60 per share. The convertible debentures are redeemable by the Company at any time on or 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 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. The Company paid 6% agent's fee of CAD\$900,016 (equivalent to US\$887,940) agent's legal and related expenses of CAD\$410,149 (equivalent to US\$404,646) and other issue costs of CAD\$95,736 (equivalent to US\$94,451), totalling CAD\$1,405,901 (equivalent to US\$1,387,037).

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

14. CONVERTIBLE DEBENTURES- continued

Convertible debentures - principal amount of CAD\$15,000,000 - continued

The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of CAD\$2,694,000 (equivalent to US\$2,657,900) was determined by deducting the fair value of the liability component from the fair value of the entire convertible debentures. The fair value of the liability component of CAD\$11,153,000 (equivalent to US\$11,003,593) was computed as the present value of future principal and interest payments discounted at a rate of 18% per annum. Debenture issue costs of CAD\$252,924 (equivalent to US\$249,530) and deferred income tax expense of CAD\$341,330 (equivalent to US\$336,750) were allocated to the equity component.

The principal amount of original convertible debentures outstanding as at June 30, 2014 was CAD\$15,000,000 (equivalent to US\$14,050,000).

On March 20, 2015, the debenture holders approved a modification to the terms of the convertible debentures. The following modifications have been made and are effective July 1, 2015:

- (i) The interest rate was increased from 10% to 11.5% per annum;
- (ii) A retraction right was added whereby CAD\$5,000,000 is redeemable by the Company, at the holder's option, on October 31, 2015 and CAD\$1,500,000 is redeemable by the Company, at the holder's option, on each of October 31, 2016 and October 31, 2017. The redemption price is equivalent to 100% of the principal amount thereof to be retracted, together with accrued and unpaid interest on the principal amount of the debentures;
- (iii) The maturity date was extended from October 31, 2015 to October 31, 2018;
- (iv) The conversion price was reduced from CAD\$2.60 per share to CAD1.00 per share; and
- (v) The restricted redemption period was extended to October 31, 2016.

The modification was considered an extinguishment of the existing convertible debenture and the recognition of a new convertible debenture, as the modified terms were substantially different from the original terms. The carrying amount of liability and equity components of the existing convertible debentures on the date of approval of modification is CAD\$14,739,265 (equivalent to US\$11,702,473) and CAD\$2,087,236 (equivalent to US\$2,059,230), respectively. The Group engaged an independent value to carry out a fair value assessment on the liability component of the existing convertible debentures on that date, which is CAD\$13,711,246 (equivalent to US\$10,886,261) at a discount rate of 27.4%. The value of the equity component of CAD\$43,969 (equivalent to US\$34,910) was determined by deducting the fair value of the liability component from the fair value of the entire modified convertible debentures. As a result, a gain on extinguishment of the liability component of CAD\$1,028,019 (equivalent to US\$816,212), being the difference between the fair value and carrying amount of the liability component together with any closely related embedded derivatives on extinguishment date, is recognised in the statement of profit or loss. Furthermore, the Company incurred transaction costs of CAD\$717,807 (equivalent to US\$622,394) in relation to the modification, and recorded this against the gain on extinguishment of liability component, resulting in a net gain on extinguishment of CAD\$310,212 (equivalent to US\$193,818) recognised in the statement of profit or loss.

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14. CONVERTIBLE DEBENTURES- continued

Convertible debentures - principal amount of CAD\$15,000,000 - continued

The fair value of the liability component, as well as the early redemption embedded derivatives of the modified convertible debentures on the date of modification are as follow:

- (i) Liability component is initially measured at fair value amounted to approximately CAD\$10,070,966 (equivalent to US\$7,996,003), which represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option component, of 27.43% per annum;
- (ii) In the opinion of the directors of the Company, the economic characteristics and risks of the early redemption options are closely related to the host debt contract of the convertible bonds. The fair value of early redemption options is determined using a Binomial Option Pricing Model. The variables and assumptions used in computing the fair value are based on the management' best estimate. The value varies with different variables of certain subjective assumptions.

Inputs into the binomial model used to determine the fair value of the early redemption options on modification date:

Share price	CAD\$0.62
Exercise price	CAD\$1
Option life	3.62
Volatility	93%
Risk-free interest rate	0.51%
Dividend yield	0%

- (iii) The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability and equity components. Under this method, the value of equity component of CAD\$5,798,071 (equivalent to US\$4,603,470), is determined by deducting the fair value of liability component from the fair value of the entire convertible debentures.

On October 31, 2015, the Company successfully retracted and redeemed CAD\$5,000,000 of the 11.5% convertible debentures due on October 31, 2018.

15. INCOME TAXES

Income tax expenses are as follows:

	For the three months <u>ended December 31,</u>		For the six months <u>ended December 31,</u>	
	2015 (unaudited) US\$	2014 (unaudited) US\$	2015 (unaudited) US\$	2014 (unaudited) US\$
Current tax:				
PRC Enterprise Income Tax	965,354	1,534,097	2,441,244	3,440,794
Deferred tax:				
Current year	<u>7,260</u>	<u>269,392</u>	<u>19,469</u>	<u>6,618</u>
	<u>972,614</u>	<u>1,803,489</u>	<u>2,460,713</u>	<u>3,447,412</u>

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15. INCOME TAXES - continued

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Company is incorporated in Canada, which is the country in which the Company is domiciled, and is governed by the Income Tax Act of Canada. It is not anticipated to incur income taxes as no income is to be generated in Canada.

For the purpose of presentation in the interim condensed consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	Impairment losses on Accounts receivable and unbilled revenue US\$	Unbilled revenue US\$	Plant and equipment US\$	Total US\$
At June 30, 2014 (audited)	3,321,738	(2,160,692)	733,336	1,894,382
(Charged) or credited to profit or loss	-	(168,049)	583,249	415,200
Exchange realignment	<u>62,520</u>	<u>(40,667)</u>	<u>23,529</u>	<u>45,382</u>
At June 30, 2015 (audited)	<u>3,384,258</u>	<u>(2,369,408)</u>	<u>1,340,114</u>	<u>2,354,964</u>
Credited or (charged) to profit or loss	87,617	(405,686)	298,600	(19,469)
Exchange realignment	<u>17,331</u>	<u>157,326</u>	<u>(90,791)</u>	<u>83,866</u>
At December 31, 2015(unaudited)	<u>3,489,206</u>	<u>(2,617,768)</u>	<u>1,547,923</u>	<u>2,419,361</u>

16. SHARE CAPITAL

(a) **Authorized**

Unlimited number of common shares without par value.

Unlimited number of Class A Series 1 preferred shares without par value; each preferred share is convertible to one common share at no additional consideration.

(b) **Issued common shares**

	Number of shares	Amount US\$
Balance at June 30, 2014, June 30, 2015 and December 31, 2015	<u>25,420,065</u>	<u>7,156,864</u>

Stock options

The Company grants incentive stock options as permitted pursuant to the Company's Stock Option Plan (the "Plan") approved by the shareholders which complies with the rules and policies of the TSX. Under the Plan, the aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date including options granted prior to the adoption of the Plan. Options granted may not exceed a term of 5 years, and the term will be reduced to one year following the date of death of the optionee. If the Optionee ceases to be qualified to receive options from the Company those options shall immediately expire. All options vest when granted unless otherwise specified by the Board of Directors.

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16. SHARE CAPITAL - continued

(b) Issued common shares - continued

Stock options- continued

As at December 31, 2015, the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,755,000 (June 30, 2015: 1,755,000) common shares summarized as follows.

	<u>Underlying shares</u>	<u>Weighted average exercised price CAD\$</u>
Stock options outstanding at June 30, 2014	2,125,000	1.40
Issued during the period/year	1,755,000	0.61
Forfeited during the period/year	<u>(2,125,000)</u>	<u>1.40</u>
Stock options outstanding at June 30, 2015 and December 31, 2015	<u>1,755,000</u>	<u>0.61</u>

Details of stock options outstanding:

<u>Expiry date</u>	<u>Exercise price</u>	<u>Stock options outstanding</u>		<u>Stock options exercisable and vested</u>	
		<u>December 31, 2015</u>	<u>June 30, 2015</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u>
June 30, 2019	CAD\$0.61	1,755,000	1,755,000	1,462,500	1,170,000

During the year ended June 30, 2014, there were 1,755,000 options granted by the Company. One-third of the options vest on the grant date, one-third on June 30, 2015 and the remaining one-third on June 30, 2016. The fair value of the share options is determined using the Black-Scholes option pricing model on the date of issue to be US\$0.48 per option. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Company uses the Black-Scholes option pricing model to value stock options which requires management to make estimates that are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. The key assumptions adopted in the valuation was as follows:

	<u>2014</u>
Share price at grant date	US\$0.62
Risk-free interest rate	1.53%
Expected dividend yield	0%
Expected option life	5 years
Expected stock price volatility	119%
Estimated forfeiture rate	0%

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FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

17. RESERVES

Statutory reserve

Pursuant to PRC regulations, the Group is required to make appropriations to reserve funds, based on after tax net income determined in accordance with PRC generally accepted accounting principles. The reserve funds are established for covering corporate obligations in the event of business liquidation. The reserve funds are presented in the consolidated financial statement as statutory reserve but are not available for distribution to shareholders other than in liquidation and may limit repatriation of invested capital. The reserve funds accumulated by the Group as at December 31, 2015 was US\$11,070,371 (June 30, 2015: US\$11,070,371).

Contributed surplus

Contributed surplus comprises a) capital contribution from shareholders, b) share-based payment reserve, and c) the amount transferred from convertible debentures equity reserve attributable to the extinguished convertible debentures, net of the amount of consideration relating to the original equity component of convertible debentures upon their early extinguishment.

18. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	For the three months ended December 31,		For the six months ended December 31,	
	2015 (Unaudited) US\$	2014 (Unaudited) US\$	2015 (Unaudited) US\$	2014 (Unaudited) US\$
<u>Earnings</u>				
Earnings for the purpose of basic earnings per share (represented by profit for the period)	3,997,720	2,521,048	6,175,531	5,356,113
Effect of diluted earnings per share:				
Interest on convertible debentures (net of income tax)	=	<u>362,116</u>	=	<u>741,724</u>
	<u>3,997,720</u>	<u>2,883,164</u>	<u>6,175,531</u>	<u>6,097,837</u>
<u>Number of shares</u>				
Number of common shares for the purpose of basic earnings per share	25,420,065	25,420,065	25,420,065	25,420,065
Effect of dilutive potential common shares:				
Share options issued by the Company	=	32,497	=	32,497
Convertible debentures	=	<u>5,769,231</u>	=	<u>5,769,231</u>
Weighted average number of common shares for the purpose of diluted earnings per share	<u>25,420,065</u>	<u>31,221,793</u>	<u>25,420,065</u>	<u>31,221,793</u>
Basic earnings per common share	<u>0.16</u>	<u>0.10</u>	<u>0.24</u>	<u>0.21</u>
Diluted earnings per common share	<u>0.16</u>	<u>0.10</u>	<u>0.24</u>	<u>0.20</u>

For the three months and six months ended December 31, 2015, the computation of diluted earnings per share does not assume i) the exercise of the Company's outstanding share options because the exercise price of those options was higher than the average market price and ii) the conversion of the Company's convertible debentures since their exercise would result in a decrease in earnings per share.

BOYUAN CONSTRUCTION GROUP INC

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19. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders through expansion correspondingly to the level of risk.

Management of the Company defines capital as shareholders' equity, bank loans, bank notes payable, other loans and convertible debentures.

The Group is required to maintain a certain level of deposits with its banks as compensating balances for bank loans provided by these banks. The Group is no subject to any other externally imposed capital requirements.

20. FINANCIAL INSTRUMENTS

	<u>December 31,2015</u> (unaudited) US\$	<u>June 30,2015</u> (audited) US\$
Financial assets		
Loans and receivables		
Unbilled revenue	188,651,675	173,272,641
Accounts receivables	29,920,031	35,849,124
Restricted cash	7,840,418	10,358,730
Cash and cash equivalents	9,724,833	9,810,988
Deposits	6,787,261	9,582,795
Other receivables	810,563	648,442
Refundable deposits	547,707	583,859
Due from a related party	<u>57,570</u>	<u>61,370</u>
Total financial assets	<u>244,340,058</u>	<u>240,167,949</u>
Financial liabilities		
Other financial liabilities		
Bank loans	67,696,858	73,487,387
Bank notes payable	13,952,209	16,277,958
Accounts and other payables	30,035,412	15,451,814
Other loans	9,288,966	10,839,597
Convertible debentures	4,984,308	8,238,434
Financial guarantee contracts	<u>3,132,257</u>	<u>3,132,257</u>
Total financial liabilities	<u>129,090,010</u>	<u>127,427,447</u>

The Group's financial instruments are exposed to certain financial risks including market risk (currency risk and interest rate risk), credit risk and liquidity risk.

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

20. FINANCIAL INSTRUMENTS- continued

Market risk

Foreign currency risk management

The Group has limited foreign currency exposure as the amounts of foreign currency monetary assets and liabilities held by the Group at the end of the reporting date are minimal. The management conducts periodic review of the exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans (note 11). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and loans (note 11).

The Group does not currently hold any financial instruments that mitigate these risks. Unfavourable changes in the applicable interest rate may result in an increase in interest expense.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate in China arising from the Group's loans disclosed in note 11 to the consolidated financial statements.

Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rate risk for variable-rate bank balances and loans. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant.

Bank balances

If interest rates had been 100 basis points (December 31, 2014: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the period would increase/decrease by approximately US\$131,739 (December 31, 2014: increase/decrease in the Group's post-tax profit of approximately US\$77,066). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

Loans

If interest rates had been 100 basis points (December 31, 2014: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the period would decrease/increase by approximately US\$319,784 (December 31, 2014: decrease/increase in the Group's post-tax profit of approximately US\$278,378). This is mainly attributable to the Group's exposure to the interest rates on its variable-rate loans.

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

20. FINANCIAL INSTRUMENTS - continued

Credit risk management

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial position and financial guarantees provided by the Group as disclosed in note 22.

Credit risk from accounts receivable, unbilled revenue and deposits to customers encompasses the default risk of customers and non-performance by customers in accordance with contractual terms. The Group's customers are for the most part, private companies located in the PRC. Its exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Group's exposure to credit risk associated with its accounts receivable, unbilled revenue and deposits to customers is the risk that a customer will be unable to pay amounts due to the Group. In its determination of valuation of accounts receivable, unbilled revenue and deposits to customers, including the allowance for doubtful accounts, management relies on current customer information and its planned course of action as well as assumptions about business and economic conditions in the future period over which the receivables are collectible. Allowances are provided for potential losses that have been incurred at the end of the reporting period. The amounts disclosed on the statements of financial position are net of these allowances for doubtful debts. Accounts receivables, unbilled revenue and deposits to customers are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default.

Management takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess impairment. Management, on an ongoing basis, monitor the level of accounts receivable, unbilled revenue and deposits to customers attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

Under PRC regulations, a general contractor is entitled to first claim against assets of its customers, which gives a general contractor a "mechanic lien" senior to all other secured debt including bank loans, bank notes and any payables. If a customer defaults on the payment on the contract with the Group, the customer can be liable to surrender the real estate property and the land use rights associated with the real estate property that is under construction.

In this regard, the directors of the Company consider that the Group's credit risk in relation to the accounts receivable and unbilled revenue are significantly reduced.

For the 6 months ended December 31, 2015, revenue from the three largest customers accounted for 32% (December 31, 2014:10%) of total revenue. At December 31, 2015, the outstanding amounts owed by the three largest customers accounted for 49% and 24% (June 30, 2015: 46% and 22%) of the total accounts receivable and unbilled revenue respectively.

The directors of the Company consider that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and unbilled revenue accounts at the end of each reporting period to ensure that adequate impairment losses are made against the irrecoverable amounts.

Based on management's assessment, there are no changes in the credit quality of the remaining customers. They are customers with long trading history with the Group and no default payment, the credit risk from these customers is mitigated.

The Group's bank balances and restricted cash are held in large PRC and Hong Kong banks. These assets have low credit risk due to the financial strength and credibility of the banks.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

20. FINANCIAL INSTRUMENTS – continued

Credit risk management– continued

The Group had concentration of credit risk by geographical locations as all the accounts receivable and unbilled revenue are located in the PRC as at December 31, 2015 and June 30, 2015.

Liquidity risk management

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that sufficient cash and credit facilities are available to meet liabilities when due. The contractual maturities of the Group's other loans and convertible debentures are described in notes 13 and 14, respectively. The remaining financial liabilities, consisting of bank loans, bank notes payable and accounts payable, are expected to be realized within one year. Their carrying value on the consolidated statements of financial positions are stated as undiscounted cash flow based on the earliest date on which the Group can be required to satisfy the liabilities.

The table represents undiscounted cash flow for current and non-current portion of financial liabilities as at December 31, 2015 and June 30, 2015. The undiscounted cash flow includes both interest and principal cash flows. For other financial liabilities, all balances are due within 1 year and the undiscounted cash flows are approximated to the carrying amount. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period:

	Weighted average <u>interest rate</u> %	Less than <u>1 year</u> \$	1 - 2 <u>years</u> \$	2 - 5 <u>years</u> \$	Total undiscounted <u>cash flows</u> \$	Carrying <u>amount</u> \$
At December 31, 2015(unaudited)						
Bank loans	5.71	67,696,858	-	-	67,696,858	67,696,858
Bank notes payable	-	13,952,209	-	-	13,952,209	13,952,209
Accounts and other payables	-	30,035,412	-	-	30,035,412	30,035,412
Other loans	2.8	9,375,333	-	-	9,375,333	9,288,966
Convertible debentures	31.0	2,225,741	1,766,083	5,533,041	9,524,865	4,984,308
Financial guarantee contracts (Note)	-	<u>50,533,841</u>	=	=	<u>50,533,841</u>	<u>3,132,257</u>
		<u>173,819,394</u>	<u>1,766,083</u>	<u>5,533,041</u>	<u>181,185,518</u>	<u>129,090,010</u>
At June 30, 2015 (audited)						
Bank loans	6.2	73,487,387	-	-	73,487,387	73,487,387
Bank notes payable	-	16,277,958	-	-	16,277,958	16,277,958
Accounts and other payables	-	15,451,814	-	-	15,451,814	15,451,814
Other loans	2.8	10,465,777	568,340	-	11,034,117	10,839,597
Convertible debentures	29.0	5,447,407	2,610,491	8,747,208	16,805,106	8,238,434
Financial guarantee contracts (Note)	-	<u>57,154,119</u>	=	=	<u>57,154,119</u>	<u>3,132,257</u>
		<u>178,284,462</u>	<u>3,178,831</u>	<u>8,747,208</u>	<u>190,210,501</u>	<u>127,427,447</u>

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

20. FINANCIAL INSTRUMENTS- continued

Liquidity risk management- continued

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Fair Value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the interim condensed consolidation financial statements approximate their fair value.

21. SEGMENTED INFORMATION

Management has determined the operating segments based on the reports reviewed by the Managing Director of the Company, being the chief operating decision maker, that are used to make strategic decisions. The Group has one operating segment, being the construction of residential and business buildings, municipal infrastructure and engineering projects in PRC. All of the Group's revenue was generated in PRC and substantially all capital assets are located in the PRC.

22. OTHER FINANCIAL LIABILITIES/CONTINGENT LIABILITIES

As at December 31, 2015 and June 30, 2015, the Group has guaranteed the bank loans for other construction companies, in amounts totalling US\$50,533,841 (June 30, 2015: US\$57,154,119). No consideration has been specifically received by the Group for these guarantees.

During the year ended June 30, 2015, the Group engaged an independent qualified professional valuer to assess the fair value of the financial guarantee contracts at initial recognition. The fair value of financial guarantee contracts upon recognition is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of expected loss, as a result of the default.

The carrying amount of the Group's financial guarantee contracts amounted to approximately US\$3,132,000 (June 30, 2015: US\$3,132,000) represented the amount of obligation under these contracts as at December 31, 2015.

BOYUAN CONSTRUCTION GROUP INC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

23. Operating Leases

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>December 31, 2015</u> (unaudited) US\$	<u>June 30, 2015</u> (audited) US\$
Within one year	258,951	201,869
In the second to fifth years inclusive	<u>19,413</u>	<u>2,013</u>
	<u>278,364</u>	<u>203,882</u>

Operating lease payments represent rentals payable for office premise in Hainan, the PRC. Leases are negotiated for an average term of three years.

24. CLASSIFICATION

Certain comparative figures have been reclassified in the interim condensed consolidated financial statements, which have no effect on previous reported profit or equity, to conform to the current period's presentation.
