

BOYUAN CONSTRUCTION GROUP, INC.

Interim Condensed Consolidated Financial Statements
For the Three Months and Nine Months Ended
March 31, 2018
(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 NINE MONTHS ENDED MARCH 31, 2018
(unaudited)

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BOYUAN CONSTRUCTION GROUP, INC.**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT MARCH 31, 2018

(unaudited)

	<u>NOTES</u>	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Non-current assets			
Unbilled revenue	5	43,711,925	32,076,872
Accounts receivable	6	14,836,811	15,488,246
Property and equipment	3	6,607,199	6,380,373
Prepaid lease payments	4	88,317	85,509
Deferred tax assets	15	<u>9,113,733</u>	<u>5,009,091</u>
		<u>74,357,985</u>	<u>59,040,091</u>
Current assets			
Unbilled revenue	5	101,602,764	84,356,234
Accounts receivable	6	36,009,307	48,426,440
Deposits	7	14,946,813	10,300,761
Advances and prepaid expenses	8	17,425,663	1,758,478
Other receivables		1,832,036	1,146,929
Inventory		648,115	740,742
Due from a related party	9	59,410	55,139
Prepaid lease payments	4	5,427	5,037
Restricted cash	10	9,068,805	6,825,097
Cash and cash equivalents		<u>5,774,959</u>	<u>3,996,016</u>
		<u>187,373,299</u>	<u>157,610,873</u>
Current liabilities			
Bank loans	11	66,186,060	66,776,845
Accounts and other payable and accrued liabilities	12	32,057,561	21,995,357
Bank notes payable	10	25,371,668	10,882,557
Other loans	13	4,041,022	3,769,693
Convertible debentures	14	4,965,846	1,065,754
Income taxes payable		8,392,072	1,897,404
Other financial liabilities	22	<u>1,776,642</u>	<u>1,736,706</u>
		<u>142,790,871</u>	<u>108,124,316</u>
Net current assets		<u>44,582,428</u>	<u>49,486,557</u>
Non-current liabilities			
Convertible debentures	14	-	4,137,058
Other loan	13	-	8,420
		-	<u>4,145,478</u>
Net assets		<u>118,940,413</u>	<u>104,381,170</u>

BOYUAN CONSTRUCTION GROUP, INC.

	<u>NOTES</u>	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Equity			
Share capital	16	7,159,175	7,159,175
Reserves	17	<u>111,781,238</u>	<u>97,221,995</u>
		<u>118,940,413</u>	<u>104,381,170</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 25 were approved and authorized for issue by the Board of Directors on May 14, 2018 and are signed on its behalf by:

OTHER FINANCIAL LIABILITIES/CONTINGENT LIABILITIES (Note 22)

"Shou Cailiang"
Shou Cailiang, 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 NINE MONTHS ENDED MARCH 31, 2018***(unaudited)*

	NOTES	For the three months ended March 31		For the nine months ended March 31	
		2018	2017	2018	2017
		(unaudited) US\$	(unaudited) US\$	(unaudited) US\$	(unaudited) US\$
Construction revenue		113,634,762	62,085,042	242,081,377	152,555,950
Costs of construction		<u>(104,995,709)</u>	<u>(54,644,142)</u>	<u>(224,225,369)</u>	<u>(138,162,282)</u>
Gross profit		8,639,053	7,440,900	17,856,008	14,393,668
Other income		1,214,577	1,514,859	3,598,012	4,477,768
Foreign exchange (loss) gain, net		(41,202)	(1,131)	(45,234)	2,014
General and administrative expenses		(1,830,759)	(1,622,775)	(4,266,814)	(4,546,589)
Impairment losses reversed (recognised) on unbilled revenue, net		1,148,004	394,530	3,029,632	(146,137)
Impairment losses recognised on accounts receivable, net		(3,276,728)	(2,628,170)	(6,834,883)	(2,766,598)
(Losses) gains on fair value changes of financial guarantee contracts	22	(27,359)	(640,358)	(39,936)	(467,940)
Interest expense		<u>(1,472,645)</u>	<u>(1,433,158)</u>	<u>(5,108,363)</u>	<u>(4,644,630)</u>
Profit before income taxes		4,352,941	3,024,697	8,188,422	6,301,556
Income taxes	15	<u>(1,452,708)</u>	<u>(618,826)</u>	<u>(2,685,201)</u>	<u>(1,999,666)</u>
Profit for the period		<u>2,900,233</u>	<u>2,405,871</u>	<u>5,503,221</u>	<u>4,301,890</u>
Other comprehensive income (expense)					
Items that may be subsequently reclassified to profit or loss:					
Exchange difference on translation of foreign operations		<u>4,542,145</u>	<u>682,632</u>	<u>9,056,022</u>	<u>(4,499,351)</u>
Total comprehensive income (expense) for the period		<u>7,442,378</u>	<u>3,088,503</u>	<u>14,559,243</u>	<u>(197,461)</u>
Earnings per share:	18				
Basic		0.11	0.09	0.22	0.17
Diluted		<u>0.10</u>	<u>0.08</u>	<u>0.19</u>	<u>0.16</u>
Weighted average number of common shares outstanding:	18				
Basic		25,423,065	25,420,065	25,423,065	25,420,065
Diluted		<u>32,420,065</u>	<u>32,420,065</u>	<u>33,093,423</u>	<u>32,420,065</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 NINE MONTHS ENDED MARCH 31, 2018***(unaudited)*

	Share capital US\$	Contributed surplus US\$	Statutory reserve US\$	Convertible debentures equity reserve US\$	Foreign currency translation reserve US\$	Retained earnings US\$	Total equity US\$
Balance at June 30, 2016 (audited)	<u>7,156,864</u>	<u>7,066,035</u>	<u>11,510,851</u>	<u>4,603,470</u>	<u>1,305,197</u>	<u>70,612,858</u>	<u>102,255,275</u>
Transfer to reserves	-	-	73,865	-	-	(73,865)	-
Profit for the period	-	-	-	-	-	4,301,890	4,301,890
Exchange difference on translation of foreign operations	-	-	-	-	(4,499,351)	-	(4,499,351)
Total comprehensive (expense) income for the period	-	-	-	-	(4,499,351)	4,301,890	(197,461)
Balance at March 31, 2017(unaudited)	<u>7,156,864</u>	<u>7,066,035</u>	<u>11,584,716</u>	<u>4,603,470</u>	<u>(3,194,154)</u>	<u>74,840,883</u>	<u>102,057,814</u>
Balance at June 30, 2017 (audited)	<u>7,159,175</u>	<u>7,066,035</u>	<u>12,323,657</u>	<u>4,602,549</u>	<u>(1,198,320)</u>	<u>74,428,074</u>	<u>104,381,170</u>
Transfer to reserves	-	-	2,113,730	-	-	(2,113,730)	-
Profit for the period	-	-	-	-	-	5,503,221	5,503,221
Exchange difference on translation of foreign operations	-	-	-	-	9,056,022	-	9,056,022
Total comprehensive income for the period	-	-	-	-	9,056,022	5,503,221	14,559,243
Balance at March 31, 2018 (unaudited)	<u>7,159,175</u>	<u>7,066,035</u>	<u>14,437,387</u>	<u>4,602,549</u>	<u>7,857,702</u>	<u>77,817,565</u>	<u>118,940,413</u>

BOYUAN CONSTRUCTION GROUP, INC.**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 2018***(unaudited)*

	For the three months ended March 31		For the nine months ended March 31	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	US\$	US\$	US\$	US\$
Cash flows from operating activities				
Profit before taxes	4,352,941	3,024,697	8,188,422	6,301,556
Items not affecting cash:				
Depreciation and amortization	331,353	313,209	975,180	1,560,559
Interest expense	1,472,645	1,433,158	5,108,363	4,644,630
Provision for allowance of doubtful debts	2,128,724	(3,591,830)	3,805,251	(2,912,735)
Loss (gain) on fair value change of financial guarantee contracts	27,359	640,358	39,936	467,940
Loss on disposal of equipment	-	-	1,985	54,694
Unrealized foreign exchange	202,171	2,127,623	117,748	946,412
Changes in non-cash working capital				
Accounts receivable	7,580,791	(7,837,009)	14,106,671	(29,781,530)
Unbilled revenue	(16,610,528)	18,881,421	(26,248,088)	50,004,850
Other receivables	2,335,454	800,632	(160,586)	(1,174,839)
Inventory	(361,287)	(2,813,119)	144,046	(2,211,703)
Advance and prepaid expenses	(3,502,098)	(1,647,564)	(14,939,050)	(1,678,872)
Deposits	(3,017,269)	(57,115)	(3,695,264)	(3,352,925)
Accounts payable and accrued liabilities	6,150,446	(9,622,389)	13,584,336	(15,915,060)
Deferred revenue	-	(184,907)	-	(154,535)
Cash generated from operations	1,090,702	1,467,165	1,028,950	6,798,442
Income taxes paid	(94,846)	(261,663)	(225,594)	(270,555)
	<u>995,856</u>	<u>1,205,502</u>	<u>803,356</u>	<u>6,527,887</u>
Cash flows from (used in) investing activities				
Change in restricted cash	272,079	1,888,974	(1,188,872)	5,753,105
Proceeds on disposal of equipment	-	-	-	56,095
Purchase of property and equipment	(155,414)	(58,735)	(695,437)	(419,564)
	<u>116,665</u>	<u>1,830,239</u>	<u>(1,884,309)</u>	<u>5,389,636</u>
Cash flows (used in) from financing activities				
Proceeds from bank loans	15,420,928	16,464,780	55,205,381	78,194,547
Repayment of bank loans	(17,719,505)	(19,496,046)	(60,739,812)	(73,801,347)
Proceeds from other loans	14,351,783	(1,771,588)	27,623,301	4,007,936
Repayment of other loans	(14,093,960)	1,521,112	(27,389,269)	(4,270,950)
Change in bank notes payable	3,905,150	(1,220,471)	13,104,007	(10,171,325)
Interest paid on convertible debentures	-	-	(279,260)	(416,334)
Redemption of convertible debentures	-	-	(1,188,589)	(1,136,967)
Other interest paid	(1,090,043)	(1,046,428)	(3,842,435)	(3,348,979)
	<u>774,353</u>	<u>(5,548,641)</u>	<u>2,493,324</u>	<u>(10,943,419)</u>

BOYUAN CONSTRUCTION GROUP, INC.

	For the three months ended March 31		For the nine months ended March 31	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	US\$	US\$	US\$	US\$
Effect of changes in exchange rate changes on cash and cash equivalents	<u>212,675</u>	<u>103,700</u>	<u>366,572</u>	<u>(69,414)</u>
Increase (decrease) in cash and cash equivalents	2,099,549	(2,409,200)	1,778,943	904,690
Cash and cash equivalents, beginning of period	<u>3,675,410</u>	<u>4,938,137</u>	<u>3,996,016</u>	<u>1,624,247</u>
Cash and cash equivalents, end of period represented by bank balances and cash	<u>5,774,959</u>	<u>2,528,937</u>	<u>5,774,959</u>	<u>2,528,937</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 NINE MONTHS ENDED MARCH 31, 2018**

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, 2017, 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 nine months ended March 31, 2018 were authorized for issuance by the Board of Directors on May 14, 2018.

Except as described below, the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the three months and nine months ended March 31, 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended June 30, 2017.

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 7

Amendments to IAS 12

Amendments to IFRS 12

Disclosure Initiative

Recognition of Deferred Tax Assets for Unrealized Losses

As part of the Annual Improvement to IFRSs 2014 – 2016 Cycle

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****2. SIGNIFICANT ACCOUNTING POLICIES - continued**

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.

3. PROPERTY AND EQUIPMENT

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

	<u>Buildings</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, 2017 (audited)	5,340,051	20,222,416	1,521,070	1,850,934	2,175,078	51,646	31,161,195
Additions	-	312,193	8,873	86,164	-	288,207	695,437
Disposals	-	-	(40,272)	-	-	-	(40,272)
Effect of foreign currency exchange differences	<u>413,646</u>	<u>1,579,368</u>	<u>116,525</u>	<u>146,940</u>	<u>168,484</u>	<u>15,925</u>	<u>2,440,888</u>
Balance at March 31, 2018 (unaudited)	<u>5,753,697</u>	<u>22,113,977</u>	<u>1,606,196</u>	<u>2,084,038</u>	<u>2,343,562</u>	<u>355,778</u>	<u>34,257,248</u>
ACCUMULATED DEPRECIATION							
Balance at June 30, 2017 (audited)	2,433,604	17,879,155	1,262,534	1,518,723	1,686,806	-	24,780,822
Depreciation expense	108,938	502,620	58,432	91,810	184,373	-	946,173
Disposals	-	-	(38,259)	-	-	-	(38,259)
Effect of foreign currency exchange differences	<u>193,017</u>	<u>1,405,734</u>	<u>102,833</u>	<u>121,441</u>	<u>138,288</u>	-	<u>1,961,313</u>
Balance at March 31, 2018 (unaudited)	<u>2,735,559</u>	<u>19,787,509</u>	<u>1,385,540</u>	<u>1,731,974</u>	<u>2,009,467</u>	-	<u>27,650,049</u>
NET BOOK AMOUNTS							
At March 31, 2018 (unaudited)	<u>3,018,138</u>	<u>2,326,468</u>	<u>220,656</u>	<u>352,064</u>	<u>334,095</u>	<u>355,778</u>	<u>6,607,199</u>
At June 30, 2017(audited)	<u>2,906,447</u>	<u>2,343,261</u>	<u>258,536</u>	<u>332,211</u>	<u>488,272</u>	<u>51,646</u>	<u>6,380,373</u>

Buildings with carrying amount of US\$3,013,623 (June 30, 2017: US\$2,473,519) have been pledged to secure the bank loans as disclosed in note 11.

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****4. PREPAID LEASE PAYMENTS**

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	<u>93,744</u>	<u>90,546</u>
Analysed for reporting purposes as:		
Non-current assets	88,317	85,509
Current assets	<u>5,427</u>	<u>5,037</u>
	<u>93,744</u>	<u>90,546</u>

In June 2007, Zhejiang Boyuan acquired a 50 year land use right in Jiaying, 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\$93,744 (June 30, 2017: US\$90,546) 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>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Completed contracts	68,544,954	91,496,534
Contracts in progress	<u>92,280,660</u>	<u>43,101,084</u>
Gross unbilled revenue	160,825,614	134,597,618
Less: Effect of discounting, net	(4,744,124)	(4,216,631)
Allowance for doubtful debts	<u>(10,766,801)</u>	<u>(13,947,881)</u>
	<u>145,314,689</u>	<u>116,433,106</u>
Analysed for reporting purposes as:		
Non-current assets	43,711,925	32,076,872
Current assets	<u>101,602,764</u>	<u>84,356,234</u>
	<u>145,314,689</u>	<u>116,433,106</u>

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****5. UNBILLED REVENUE - continued**

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

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Aggregate costs of construction	383,830,219	163,562,922
Gross profit recognized	<u>53,741,372</u>	<u>22,435,597</u>
	437,571,591	185,998,519
Less: aggregate of progress billings	<u>(345,290,931)</u>	<u>(142,897,435)</u>
Contracts in progress - unbilled revenue portion, end of period/year	<u>92,280,660</u>	<u>43,101,084</u>

Movement in allowance for doubtful debts

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
At beginning of the period/year	13,947,881	15,382,650
Impairment losses recognized	76,337	2,036,981
Impairment losses reversed	(3,105,969)	(3,162,991)
Transferred to accounts receivable	(1,062,568)	-
Effect of foreign currency exchange differences	<u>911,120</u>	<u>(308,759)</u>
At end of the period/year	<u>10,766,801</u>	<u>13,947,881</u>

Recoverability of unbilled revenue is reviewed on a case-by-case basis when there is objective evidence 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 the amount of impairment.

6. ACCOUNTS RECEIVABLE

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Accounts receivable	65,302,070	70,638,719
Less: Effect of discounting, net	(1,789,754)	(2,601,361)
Allowance for doubtful debts	<u>(12,666,198)</u>	<u>(4,122,672)</u>
	<u>50,846,118</u>	<u>63,914,686</u>
Analysed for reporting purpose as:		
Non-current assets	14,836,811	15,488,246
Current assets	<u>36,009,307</u>	<u>48,426,440</u>
	<u>50,846,118</u>	<u>63,914,686</u>

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018**

6. ACCOUNTS RECEIVABLE - continuedMovement in the allowance for doubtful debts

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
At beginning of the period/year	4,122,672	1,099,808
Impairment losses recognized	7,146,343	3,110,623
Impairment losses reversed	(311,460)	(81,514)
Transferred from unbilled revenue	1,062,568	-
Effect of foreign currency exchange differences	<u>646,075</u>	<u>(6,245)</u>
At end of the period/year	<u>12,666,198</u>	<u>4,122,672</u>

7. DEPOSITS

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Contract performance deposits (Note a)	12,271,198	8,300,677
Project tender deposits (Note b)	2,219,504	1,866,633
Others	<u>456,111</u>	<u>133,451</u>
	<u>14,946,813</u>	<u>10,300,761</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.

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****8. ADVANCES AND PREPAID EXPENSES**

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Advances to project managers and suppliers (Note)	16,847,166	1,407,335
Prepaid expenses	95,394	44,268
Other	<u>483,103</u>	<u>306,875</u>
	<u>17,425,663</u>	<u>1,758,478</u>

Note: The Group advanced monies to suppliers and project managers in order to secure construction materials and services. The advances of US\$12,837,072 (June 30, 2017: US\$1,219,042) 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>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</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>59,410</u>	<u>55,139</u>

As at March 31, 2018, the Group has loans from a company totalling US\$273,463 (June 30, 2017: US\$nil) 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:

	<u>For the three months ended March 31</u>		<u>For the nine months ended March 31</u>	
	2018	2017	2018	2017
	(unaudited) US\$	(unaudited) US\$	(unaudited) US\$	(unaudited) US\$
Short-term employee benefits	<u>129,839</u>	<u>125,358</u>	<u>276,849</u>	<u>275,045</u>

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****10. RESTRICTED CASH/BANK NOTES PAYABLE**

As at March 31, 2018 and June 30, 2017, the Group had restricted cash pledged for credit facilities as follows:

	<u>March 31, 2018</u>	<u>June 30, 2017</u>
	(unaudited)	(audited)
	US\$	US\$
Bank notes payable deposits	5,690,261	2,287,624
Bank loans deposits	<u>3,378,544</u>	<u>4,537,473</u>
	<u>9,068,805</u>	<u>6,825,097</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\$25,372,000 as of March 31, 2018 (June 30, 2017: US\$10,883,000). The restrictions on the deposited cash will be released between January 2018 and June 2018, 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.

11. BANK LOANS

As at March 31, 2018, the Group has bank loans outstanding totalling US\$66,186,060 (June 30, 2017: US\$66,776,845) for working capital and capital expenditure purposes.

	<u>March 31, 2018</u>	<u>June 30, 2017</u>
	(unaudited)	(audited)
	US\$	US\$
Secured	66,186,060	61,348,109
Unsecured	-	<u>5,428,736</u>
	<u>66,186,060</u>	<u>66,776,845</u>

As at March 31, 2018 and June 30, 2017, 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\$7,472,000, US\$1,479,000 and US\$50,565,000 (June 30, 2017: US\$8,854,000, US\$15,073,000 and US\$30,692,000) respectively. In addition, the Group has pledged its assets to secure bank loans of US\$6,670,000 (June 30, 2017: US\$6,729,000) granted to the Group and the carrying values of the pledged assets are as follows:

	<u>March 31, 2018</u>	<u>June 30, 2017</u>
	(unaudited)	(audited)
	US\$	US\$
Restricted cash	3,378,544	4,537,473
Property and equipment	3,013,623	2,473,519
Prepaid lease payments	<u>93,744</u>	<u>90,546</u>
	<u>6,485,911</u>	<u>7,101,538</u>

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****11. BANK LOANS - continued**

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>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Fixed-rate borrowing		
Denominated in RMB (range from 4.35% to 8.04% as of March 31, 2018 and range from 4.35% to 8.70% as of June 30, 2017)	65,391,109	34,018,504
Variable rate borrowing		
Denominated in RMB (at 7.80% as of March 31, 2018 and range from 4.40% to 9.60% as of June 30, 2017) (Note a)	<u>794,951</u> <u>66,186,060</u>	<u>32,758,341</u> <u>66,776,845</u>

Notes:

(a) For bank loans in RMB, the variable rate range from 95% of Prime to Prime plus 3.45% as of March 31, 2018 (June 30, 2017: range from Prime plus 0.05% to Prime plus 5.25%). Prime is the benchmark rate of the People's Bank of China.

12. ACCOUNTS AND OTHER PAYABLES AND ACCRUED LIABILITIES

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Accounts payable (Note)	4,366,545	3,237,024
Salaries and wages payable	268,686	326,189
Other taxes payable	17,534,067	8,173,430
Accrued expenses	2,691,188	4,867,234
Contract performance deposits from sub-contractors	4,453,039	2,983,466
Project tender deposits from sub-contractors	1,835,861	1,619,932
Others	<u>908,175</u>	<u>788,082</u>
	<u>32,057,561</u>	<u>21,995,357</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.

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****13. OTHER LOANS**

As at March 31, 2018, the Group has other loans outstanding totalling US\$4,041,022 (June 30, 2017: US\$3,778,113) for working capital and capital expenditure purposes.

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Loans from third parties (Note a)	3,752,171	3,750,978
Obligation under a finance lease (Note b)	15,388	27,135
Loans from a related company (Note c)	<u>273,463</u>	<u>-</u>
	<u>4,041,022</u>	<u>3,778,113</u>
Carrying amount repayable:		
Within one year	4,041,022	3,769,693
After one year	<u>-</u>	<u>8,420</u>
	4,041,022	3,778,113
Less: Amounts shown under current liabilities	<u>(4,041,022)</u>	<u>(3,769,693)</u>
	<u>-</u>	<u>8,420</u>

Notes:

- (a) During the period ended March 31, 2018, 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.
- (b) For the year ended June 30, 2017, the Group entered into the finance lease arrangement to lease a motor vehicle, with a lease period of two years ending on March 31, 2018. As at March 31, 2018, US\$15,388 (June 30, 2017: US\$27,135) will be repayable within one year and US\$nil (June 30, 2017: US\$8,420) will be repayable after one year.
- (c) For the period ended March 31, 2018, the Group obtained several loans from a company controlled by a family member of Mr. Shou. The loans were unsecured, interest-free and repayable within one year from the end of the reporting period.

14. CONVERTIBLE DEBENTURES

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Balance, beginning of period/year	5,202,812	5,413,941
Interest charged	1,265,928	1,712,317
Interest paid	(369,277)	(780,606)
Redemption of convertible debentures	(1,163,332)	(1,155,446)
Conversion of convertible debentures	-	(1,390)
Effect of foreign currency exchange differences	<u>29,715</u>	<u>13,996</u>
Balance, end of period/year	<u>4,965,846</u>	<u>5,202,812</u>

BOYUAN CONSTRUCTION GROUP, INC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED MARCH 31, 2018

14. CONVERTIBLE DEBENTURES – continued

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

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Current liability	4,965,846	1,065,754
Non-current liability	-	4,137,058
	<u>4,965,846</u>	<u>5,202,812</u>

15. INCOME TAXES

Income tax expenses are as follows:

	<u>For the three months</u> <u>ended March 31</u>		<u>For the nine months</u> <u>ended March 31</u>	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	US\$	US\$	US\$	US\$
Current tax:				
PRC Enterprise Income				
Tax	2,390,616	1,649,566	6,362,416	4,051,754
Deferred tax:	(973,908)	(1,030,740)	(3,677,215)	(2,052,088)
Current period	<u>1,452,708</u>	<u>618,826</u>	<u>2,685,201</u>	<u>1,999,666</u>

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:

	<u>Impairment losses on</u> <u>accounts receivable</u> <u>and unbilled revenue</u>	<u>Unbilled</u> <u>revenue</u>	<u>Plant and</u> <u>equipment</u>	<u>Total</u>
	US\$	US\$	US\$	US\$
At June 30, 2016 (audited)	4,488,457	(2,681,557)	1,600,223	3,407,123
(Charged) credited to profit or loss	(59,239)	1,604,980	(10,891)	1,534,850
Effect of foreign currency exchange differences	88,419	(52,824)	31,523	67,118
At June 30, 2017 (audited)	4,517,637	(1,129,401)	1,620,855	5,009,091
Credited (charged) to profit or loss	951,313	2,837,085	(111,183)	3,677,215
Effect of foreign currency exchange differences	389,300	(87,619)	125,746	427,427
At March 31, 2018 (unaudited)	<u>5,858,250</u>	<u>1,620,065</u>	<u>1,635,418</u>	<u>9,113,733</u>

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****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	<u>Amount</u> US\$
Balance at June 30, 2017 and March 31, 2018	<u>25,423,065</u>	<u>7,159,175</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.

As at March 31, 2018, the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,755,000 (June 30, 2017: 1,755,000) common shares summarized as follows.

	Underlying shares	Weighted average exercised price CAD
Stock options outstanding at June 30, 2017 and March 31, 2018	<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>March 31, 2018</u>	<u>June 30, 2017</u>	<u>March 31, 2018</u>	<u>June 30, 2017</u>
June 30, 2019	CAD0.61	1,755,000	1,755,000	1,755,000	1,755,000

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018**

16. SHARE CAPITAL - continued

(b) Issued common shares - continued

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%

For the period ended March 31, 2018, no share-based compensation expense related to the above options (March 31, 2017: US\$nil) was charged to the statement of profit or loss.

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 March 31, 2018 was US\$14,437,387 (June 30, 2017: US\$12,323,657).

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.

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****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 March 31		For the nine months ended March 31	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	US\$	US\$	US\$	US\$
<u>Earnings</u>				
Earnings for the purpose of basic earnings per share (represented by profit for the period)	2,900,233	2,405,871	5,503,221	4,301,890
Effect of diluted earnings per share:				
Interest on convertible debentures (net of income tax in Canada of 26%)	<u>282,219</u>	<u>286,181</u>	<u>936,787</u>	<u>958,782</u>
	<u>3,182,452</u>	<u>2,692,052</u>	<u>6,440,008</u>	<u>5,260,672</u>
<u>Number of shares</u>				
Weighted average number of common shares for the purpose of basic earnings per share	25,423,065	25,420,065	25,423,065	25,420,065
Effect of dilutive potential common shares:				
Convertible debentures	<u>6,997,000</u>	<u>6,695,000</u>	<u>7,670,358</u>	<u>6,695,000</u>
Weighted average number of common shares for the purpose of diluted earnings per share	<u>32,420,065</u>	<u>32,420,065</u>	<u>33,093,423</u>	<u>32,420,065</u>
Basic earnings per common share	<u>0.11</u>	<u>0.09</u>	<u>0.22</u>	<u>0.17</u>
Diluted earnings per common share	<u>0.10</u>	<u>0.08</u>	<u>0.19</u>	<u>0.16</u>

For the three months and nine months ended March 31, 2018, 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 an increase in earnings per share.

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018****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.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, sell assets, reduce debt or increase its debt.

20. FINANCIAL INSTRUMENTS

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Financial assets		
Loans and receivables		
Unbilled revenue	145,314,689	116,433,106
Accounts receivables	50,846,118	63,914,686
Deposits	14,946,813	10,300,761
Other receivables	1,832,036	1,146,929
Due from a related party	59,410	55,139
Restricted cash	9,068,805	6,825,097
Cash and cash equivalents	<u>5,774,959</u>	<u>3,996,016</u>
Total financial assets	<u>227,842,830</u>	<u>202,671,734</u>
Financial liabilities		
At amortized cost		
Bank loans	66,186,060	66,776,845
Accounts and other payables	10,655,445	7,840,422
Bank notes payable	25,371,668	10,882,557
Other loans	4,041,022	3,778,113
Convertible debentures	4,965,846	5,202,812
Financial guarantee contracts	<u>1,776,642</u>	<u>1,736,706</u>
Total financial liabilities	<u>112,996,683</u>	<u>96,217,455</u>

BOYUAN CONSTRUCTION GROUP, INC.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018**

20. FINANCIAL INSTRUMENTS - continued

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.

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 interim condensed 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 (March 31, 2017: 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\$111,328 ((March 31, 2017: increase/decrease in the Group's post-tax profit of approximately US\$76,342). 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 ((March 31, 2017: 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\$5,962 ((March 31, 2017: decrease/increase in the Group's post-tax profit of approximately US\$84,600). 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 NINE MONTHS ENDED MARCH 31, 2018**

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 interim condensed 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.

As of March 31, 2018, revenue from the three customers accounted for 26% ((March 31, 2017: 21%) of total revenue. The outstanding amounts owed by top three customers accounted for 30% and 41% (June 30, 2017: 34% and 37%) of the total accounts receivable and unbilled revenue, respectively.

The management 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2018

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 March 31, 2018 and June 30, 2017.

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 March 31, 2018 and June 30, 2017. 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 March 31, 2018						
Bank loans	5.1	66,186,060	-	-	66,186,060	66,186,060
Bank notes payable	2.0	25,371,668	-	-	25,371,668	25,371,668
Accounts and other payables	-	10,655,445	-	-	10,655,445	10,655,445
Other loans	-	4,041,022	-	-	4,041,022	4,041,022
Convertible debentures	33.0	7,670,485	-	-	7,670,485	4,965,846
Financial guarantee contracts (Note)	-	<u>27,378,125</u>	<u>-</u>	<u>-</u>	<u>27,378,125</u>	<u>1,776,642</u>
		<u>141,302,805</u>	<u>-</u>	<u>-</u>	<u>141,302,805</u>	<u>112,996,683</u>
			<u>=</u>	<u>=</u>		
	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 June 30, 2017						
Bank loans	4.9	67,610,134	-	-	67,610,134	66,776,845
Bank notes payable	2.0	10,988,159	-	-	10,988,159	10,882,557
Accounts and other payables	-	7,840,422	-	-	7,840,422	7,840,422
Other loans	-	3,769,693	8,420	-	3,778,113	3,778,113
Convertible debentures	33.8	1,820,313	5,601,043	-	7,421,356	5,202,812
Financial guarantee contracts (Note)	-	<u>30,574,451</u>	<u>-</u>	<u>-</u>	<u>30,574,451</u>	<u>1,736,706</u>
		<u>122,603,172</u>	<u>5,609,463</u>	<u>-</u>	<u>128,212,635</u>	<u>96,217,455</u>

BOYUAN CONSTRUCTION GROUP, INC.

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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 March 31, 2018 and June 30, 2017, the Group has guaranteed the bank loans for other construction companies, in amounts totalling US\$27,378,125 (June 30, 2017: US\$30,574,451). No consideration has been specifically received by the Group for these guarantees and are designated as at fair value through profit or loss.

During the year ended June 30, 2017, 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\$1,777,000 (June 30, 2017: US\$1,737,000) represented the amount of obligation under these contracts as at March 31, 2018.

BOYUAN CONSTRUCTION GROUP, INC.
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FOR THE NINE MONTHS ENDED MARCH 31, 2018

23. OPERATING LEASES

The Group as lessee

	<u>March 31, 2018</u> (unaudited) US\$	<u>March 31, 2017</u> (unaudited) US\$
Minimum lease payments paid under Operating leases during the year	<u>693,687</u>	<u>513,019</u>

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>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Within one year	611,469	697,830
In the second to fifth years inclusive	<u>1,230,255</u>	<u>2,018,976</u>
	<u>1,841,724</u>	<u>2,716,806</u>

Operating lease payments represent rentals payable for office premise in Zhejiang and Hainan, the PRC. Leases are negotiated for terms ranging from one to five years.

The Group as lessor

The Group leased part of its building under operating lease arrangements. Leases are negotiated for terms of 1 year.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	<u>March 31, 2018</u> (unaudited) US\$	<u>June 30, 2017</u> (audited) US\$
Within one year	41,927	25,193
In the second to fifth years inclusive	<u>6,559</u>	<u>-</u>
	<u>48,486</u>	<u>25,193</u>