BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

For the nine months ended March 31, 2020

May 13, 2020

This Management's Discussion and Analysis ("**MD&A**") relates to the results of operations and the financial condition of Boyuan Construction Group, Inc. (the "**Company**") for the nine months ended March 31, 2020. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the Company for the nine months ended March 31, 2020 and notes thereto. The United States dollars is the Company's reporting currency and all figures herein are in United States dollars unless otherwise indicated. Boyuan reported its financial results in accordance with International Financial Reporting Standards (IFRS), as required for public companies in Canada. Additional information about Boyuan including the Company's Annual Information Form and other filings are available through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Caution Regarding Forward-Looking Information:

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to future events or the Company's future performance and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, but is not limited to, management's belief in the level of credit risk arising from the Company's customers, management's expectation on the effectiveness of the Company's disclosure controls and internal controls, management's plan to implement independent consultant's recommendations on internal controls and the plan to engage the consultant to perform an updated review on the internal control system, the Company's outlook on China's ongoing expansion of middle class and the growth of China's tier-2 cities and on the continued demand for the Company's services, the Company's plan to increase focus on specialty construction projects, the Company's expectation of higher profit margins for the specialty construction projects, and the Company's plan to upgrade its construction licences and qualifications. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risk of the current depressed property market in China, risk of macro-economy cycle, risk from competition, risk from insufficient marketing to secure new projects, risk in obtaining additional financing, risk involving permits and licenses, reliance on key management member, risk from supply of raw materials, risk of financial leverage, risk of bad debts in accounts receivables, risk involved in real estate development, foreign exchange fluctuations, political and economic conditions in China and other risks included in the Company's Annual Information Form for FY2019 and in the Company's other public disclosure documents filed with certain Canadian securities regulatory authorities and available at www.sedar.com. The forward-looking information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law.

OVERVIEW OF BUSINESS

Based in Jiaxing City, China, Boyuan Construction Group, Inc. is in the business of residential and commercial building construction, municipal infrastructure and engineering projects. The Company operates as a general contractor across China. Having a national class I construction qualification, the Company is qualified to participate in construction projects with individual contract amount exceeding CNY30 million and building height of up to 200 meters.

The Company has completed 37 material projects in the past three fiscal years. Currently the Company has a significant project backlog including residential, commercial, industrial, and hotels. The duration of these projects ranges from one to three years. The majority of these projects are located in the Yangtze River Delta and Hainan Island.

The Company’s common shares are publicly traded on the Toronto Stock Exchange (the “**Exchange**” or the “**TSX**”) under the symbol “BOY”.

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* ("IFRSs") as issued by the IASB. Therefore, the unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2019, which include information necessary to understand the Company's business and financial statement presentation.

These unaudited interim condensed consolidated financial statements for the three months and nine months ended March 31, 2020 were authorized for issuance by the Board of Directors on May 13, 2020.

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statement for the three months and nine months ended March 31, 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended June 30, 2019.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatorily effective for the annual period beginning on or after July 1, 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC - Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation

Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 - 2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed financial statements.

2.1 Impacts and changes in accounting policies of application on IFRS 16 *Leases* ("IFRS 16")

The Group has applied IFRS 16 for the first time in the current period. IFRS 16 superseded IAS 17 Leases ("IAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

<u>Short-term leases and leases of low-value assets</u>

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets. The amounts of such adjustments are considered insignificant.

Lease liabilities

At the commencement date of a lease, the Group recognizerecognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.
After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizerecognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognized at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and

(IFRIC) - Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after July 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, July 1, 2019. Any difference at the date of initial application is recognized in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.
iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended March 31, 2020 and March 31, 2019 and our financial positions as at March 31, 2020 and June 30, 2019.

US$'000 (except earnings per share amounts)	For the three months ended March 31, 2020	For the three months ended March 31, 2019	For the nine months ended March 31,2020	For the nine months ended March 31,2019
Operating Results				
Construction revenue	81,238	121,282	306,752	312,761
Cost of construction	79,696	111,907	294,202	287,904
Gross profit	1,542	9,375	12,550	24,857
Net income	(8,725)	1,370	680	9,617
Earnings per share				
Basic	(0.27)	0.05	0.02	0.38
Diluted	(0.27)	0.05	0.02	0.38
Financial Position	As at March 31, 2020	As at June 30, 2019		
Current assets	260,675	240,481		
Non-current assets	67,792	69,687		
Total assets	328,467	310,168		
Current liabilities	183,875	185,027		
Long term liabilities	21,318	_		
Shareholders' equity	123,274	125,141		
Cash dividend per share	Nil	Nil		
Common shares outstanding	31,778,830	25,423,065		

RESULTS OF OPERATIONS

Revenue for the third quarter ended March 31, 2020 was $81.2 million, a decrease of $40.1 million or 33.0% from the corresponding period last year. Revenue for the first nine months of FY2020 was $306.8 million, a decrease of $6.0 million or 1.9% for the same period of FY2019. Revenue is recognized on the percentage-of-completion method. The substantial decrease in revenue for the third quarter was due to ourconstruction activities being halted for most of the months of February and March as a result of the lockdown order from the government in response to the spread of COVID-19 at the time. The Company gradually began to resume construction activities starting in late March.

Cost of construction for Q3 FY2020 was $79.7 million, down 28.8% from $111.9 million for Q3 FY2019. Cost of construction for the first nine months of FY2020 was $294.2 million, an increase of 2.2% from $287.9 million for the corresponding period in FY2019. Cost of construction includes all direct material, labour, subcontract and other related costs, such as equipment repairs. The two major components of the cost of construction are direct material and labour costs. Direct material costs were $53.2 million and labor costs were $21.2 million in this quarter. In comparison, direct material costs and labor costs were $77.5 million and $28.8 million respectively in the same quarter last year.

Gross profit for Q3 FY2020 was $1.5 million, which represented a margin of 1.9% on revenue. Gross profit for the corresponding period of last year was $9.4 million, which represented a margin of 7.7% on revenue. On a nine-month basis, gross profit for FY2020 was $12.5 million, which represented a margin of 4.1% on revenue. In the same period of FY2019, gross profit and gross margins were $24.9 million and 7.9%, respectively. The Company has been experiencing tighter gross margins in recent years due to relatively depressed real estate markets. The particularly low gross margin for this quarter was caused by the additional costs incurred in resuming the construction activities after the government mandatory lockdown

Other income was $1.3 million in this quarter, compared to $1.1 million in the same quarter last year. On a nine-month basis, other income was $3.9 million for this period compared to $3.4 million in the same period last year. The major component of other income is the accretion income from the discount on non-current accounts receivable and contract assets.

G&A expenses were $1.3 million this quarter, an increase of $0.3 million from the same quarter last year. G&A expenses for the nine months period ended March 31, 2020 were $4.6 million, representing an increase of $0.7 million in the same period last year. G&A expenses last year were unusually low as a result of the recovery of deposits relating to construction projects that were written off in the past.

The impairment losses recognized on contract assets and accounts receivable for this quarter were $6.4 million and $5.4 million respectively. On a YTD basis, the impairment losses were $4.2 million and $6.1 million respectively. These losses primarily came from four projects that have overdue payments to the Company. Their properties sales have slowed down significantly since January of this year due to the outbreak of COVID-19, thus adversely affecting their cash flows and business viability.

Interest expense for Q3 FY2020 was $1.4 million, an increase of $0.3 million from $1.1 million for the same period last year. The increase in the interest expenses in this quarter was a result of the increase in borrowings and bank notes payable. On a year-to-date basis, interest expense for FY2020 was $3.8 million, compare to the $4.1 million in the same period last year. The redemption of the convertible debentures last year was the main reason for the decrease in the YTD interest expenses.

After tax loss for Q3 FY2020 was $8.7 million, or loss of $0.27 per diluted share, compared to net income of $1.4 million, or $0.05 per diluted share, for Q3 FY2019. On a nine-month basis, net income for FY2020 was $0.7 million or $0.02 per diluted share. This compares to a net income of $9.6 million, or $0.38 per diluted share for the same period of FY2019.

The Company had working capital of $76.8 million, including cash and cash equivalents of $7.7 million for the period ended March 31, 2020. This compares to $55.5 million and $19.0 million, respectively, at June 30, 2019.

TRANSACTIONS WITH RELATED PARTIES

The Group has the following related party balances:

	March 31, 2020 (Unaudited) US$	June 30, 2019 (Audited) US$
Amount due from related parties		
Due from a company controlled by Mr. Shou	52,730	54,421
Due from shareholders	5,170,463	3,204,090
	5,223,193	3,258,511

Note: As at March 31, 2020, amount represented cash advanced to shareholders, for placement into banks to secure bank loans of RMB5 million (approximately US$705,000) (June 30, 2019: RMB5 million (approximately US$755,000)) and bank notes payable of RMB32 million (approximately US$4,465,000 (June 30, 2019: RMB17 million (approximately US$2,476,000))

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 ended March 31		For the nine months ended March 31	
	2020 (unaudited)	2019 (unaudited)	2020 (unaudited)	2019 (unaudited)
	US$	US$	US$	US$
Short-term employee benefits	114,976	123,074	250,170	270,513

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended March 31, 2020:

US$'000 (except EPS)	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q3, FY2020	81,238	(8,725)	(0.27)	(0.27)
Q2, FY2020	112,619	3,376	0.13	0.13
Q1, FY2020	112,895	6,030	0.24	0.24
Q4, FY2019	82,411	9,568	0.38	0.38
Q3, FY2019	121,282	1,370	0.05	0.05
Q2, FY2019	97,199	4,392	0.17	0.17
Q1, FY2019	94,280	3,855	0.15	0.13
Q4, FY2018	83,845	3,218	0.13	0.10

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q3, FY2020	Q3, FY2019	YTD2020	YTD2019
Operating activities	(7,867)	3,942	(23,150)	14,099
Investing activities	(3,922)	(1,414)	1,872	(754)
Financing activities	5,544	(3,941)	10,521	(12,723)
Effect of currency translation	(167)	179	(482)	(93)
Net (decrease) increase in cash and cash equivalents	(6,412)	(1,234)	(11,239)	529

Net cash used by operating activities was $7.9 million and $23.2 million for this quarter and YTD respectively. In comparison, net cash provided for the same periods last year were $3.9 million and $14.1 million respectively. The biggest component contributing to the change between the periods was the increases in advances and prepaid expenses. The Company was not able to utilize the advances and prepaid to projects in the period as almost no construction activities since late January as a result of the lockdown order form the government in response to COVID-19.

Net cash used by investing activities in this quarter was $3.9 million compared to $1.4 million for the same quarter last year. For YTD FY2020 the net cash provided was $1.9 million versus net cash used of $0.8 million in the same period last year. The change was primarily due to the change in restricted cash in these periods.

Net cash provided by financing activities was $5.5 million and $10.5 million for this quarter and YTD respectively. For the same periods last year, net cash used were $3.9 million and $12.7 million respectively. The change was mainly due to the movements of debentures, borrowings, other loans, and bank notes payable in the periods.

The Company intends to use cash generated from operations to fund working capital requirements. The Company also intends to aggressively pursuit customers for payments of contract assets and overdue accounts receivable. The Company will obtain long and/or short term financing from local PRC banks or make other borrowing arrangements in order to subsidize any shortfall in working requirements.

The Company actual cash receipts from customers for the nine-month period ending March 31, 2020 was approximately $333 million. The Company also has approximately $99 million of banking facilities of which approximately $96 million has been used at the moment.

The Company's objectives when managing capital are:

- to safeguard the Company'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 and acquisition correspondingly to the level of risk.

The Company sets the amount of capital in proportion to risk. The Company 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 Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company is subject to externally imposed capital requirements through its restricted cash and bank loan requirements. In addition the PRC law requires the Company to set aside a statutory reserve. Statutory reserve refers to the amount appropriated from the retained earnings in accordance with laws or regulations, which can be used to recover losses and increase capital, as approved, and, are to be used to expand production or operations. PRC laws prescribe that an enterprise operating at a profit must appropriate, on an annual basis, from its earnings an amount to the statutory reserve to be used for future company development. Such an appropriation is made until the reserve reaches a maximum equaling 50% of the enterprise's capital.

The Company's primary sources of funding have been short-term loans from banks, other loans, and cash provided by operating activities. The Company's primary uses of funding have been to provide working capital to the Company's construction projects.

The Company had cash and cash equivalents balance of $7.7 million as at March 31, 2020 as compared to a cash and cash equivalents balance of $19.0 million as at June 30, 2019. The Company had $260.7 million in current assets and $183.9 million in current liabilities as at March 31, 2020.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 31,778,830 common shares outstanding.

Off Balance Sheet Arrangements

As at March 31, 2020, the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company**.**

FINANCIAL INSTRUMENTS

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 borrowings. The Group is also exposed to cash flow interest rate risk in relation to variable-rate restricted cash, cash and cash equivalents and borrowings.

The Group does not currently hold any financial instruments that mitigate these risks. Unfavorable 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 unaudited 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, 2019: 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 $56,108 (March 31, 2019: increase/decrease in the Group's post-tax profit of approximately $123,848). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

Borrowings

If interest rates had been 100 basis points (March 31, 2019: 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 $237,735 (March 31, 2019:

decrease/increase in the Group's post-tax profit of approximately $384,683). This is mainly attributable to the Group's exposure to the interest rates on its variable-rate loans.

Credit risk and impairment assessment

As at March 31, 2020, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group as disclosed in note 21. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, contract assets and financial guarantee contracts.

Accounts receivable and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed periodically. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

Under PRC regulations, a general contractor is entitled to first claim against assets of its customers subject to certain conditions, which gives a general contractor a "mechanic lien" senior to all other secured debt including bank borrowings, 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 addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 on trade balances based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As of March 31, 2020, revenue from the top three customers accounted for 16% (March 31, 2019: 17%) of total revenue. The outstanding amounts owed by top three customers accounted for 26% and 22% (June 30, 2019: 32% and 26%) of the total accounts receivable and contract assets, respectively. In order to minimize the concentration of credit risk, the management of the Group performs periodic evaluations and visits to ensure there are no changes in the credit quality of these customers. In the opinion of the management of the Group, these customers are reputable organization in the market. The management of the Group considers that the credit risk is limited in this regard.

Deposits/other receivables/amounts due from related parties/bank notes receivable/restricted cash/bank balances/financial guarantee contracts

The Group assessed the loss allowance for deposits, other receivables, amounts due from related parties, bank notes receivable, restricted cash, bank balances and financial guarantee contracts on 12-month ECL basis. In determining the ECL, the Group has taken into account the historical default experience and forward-looking information as appropriate. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments and concluded that credit risk inherent in the Group's outstanding balances is insignificant.

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.

As part of the Company's credit risk management, the Group applies internal credit rating for its customers in relation to its accounts receivable and contract assets. The following table provides information about the exposure to credit risk for accounts receivable and contract assets which are assessed based on provision matrix as at March 31, 2020 within lifetime ECL (not credit impaired). The credit-impaired accounts receivable and contract assets with gross carrying amounts of US$7,965,417 and US$10,174,596 (June 30, 2019: US$6,805,001 and US$8,868,566), respectively, as at March 31, 2020 were assessed individually

The Group had concentration of credit risk by geographical locations as all the accounts receivable and contract assets are located in the PRC as at March 31, 2020 and June 30, 2019.

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 to the unaudited interim condensed financial statements, 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, 2020 and June 30, 2019. 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 interest rate	Less than 1 year	1-2 year	Total discounted cash flows	Carrying amount
	%	US$	US$	US$	US$
At March 31, 2020					
Borrowings	5.6	72,497,212	23,342,296	95,839,508	90,659,679
Accounts and other payables	-	11,247,269	-	11,247,269	11,247,269
Bank notes payable	1.5	13,063,324	-	13,063,324	12,992,480
Other loans	-	2,829,810	-	2,829,810	2,673,928
Financial guarantee contracts (Note)	-	6,350,186	-	6,350,186	34,348
		105,987,801	23,342,296	129,330,097	117,607,704

	Weighted average interest rate	Less than 1 year	Total undiscounted cash flows	Carrying amount
	%	US$	US$	US$
At June 30, 2019				
Borrowings	4.6	73,655,596	73,655,596	72,703,706
Accounts and other payables	-	26,390,620	26,390,620	26,390,620
Bank notes payable	1.5	15,984,795	15,984,795	15,896,654
Other loans	-	8,011,661	8,011,661	7,882,620
Financial guarantee contracts (Note)	-	10,558,931	10,558,931	350,822
		134,601,603	134,601,603	123,224,422

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.

The Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the unaudited interim condensed consolidation financial statements approximate their fair value, which is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

SEGMENTED INFORMATION/CONSTRUCTION REVENUE

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. An analysis of the Group’s revenue based on regions of China and projects types is disclosed in note 20 to the unaudited condensed consolidated financial statements.

Economic, political, & legal risk

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

The real estate industry in China is subject to government regulations. Until 2009, the real estate markets in a number of major cities in China had experienced rapid and significant growth. Before the global economic crisis hit all the major economies worldwide in 2009, the PRC government had adopted a series of measures to restrain what it perceived as unsustainable growth in the real estate market. From 2003 to 2013, the PRC government introduced a series of specific administrative and credit-control measures including, but not limited to, setting minimum down payment requirements for residential and commercial real estate transactions, limiting availability of mortgage loans, and tightening governmental approval process for certain real estate transactions. Such measures and policies by the government have negatively affected the real estate market and caused a reduction in transactions in the real estate market. While these measures and policies remain in effect, they may continue to depress the real estate market, dissuade would-be buyers from making purchases, reduce transaction volume, cause a decline in average selling prices, and prevent developers from raising the capital they need and increase developers' costs to start new projects. This naturally has a negative impact on the construction industry, particularly on gross margins and payment terms for new construction projects. These factors may materially and adversely affect our business, financial condition, results of operations and prospects. Despite the recent government measures aimed at maintaining the long-term stability of the real estate market, there is no assurance that the PRC government will not continue to adopt new measures in the future that may result in short-term downward adjustments and uncertainty in the real estate market.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The **Chief Executive Officer ("CEO**") and Chief Financial Officer ("**CFO**") are responsible for designing disclosure controls and procedures ("**DC&P**") and internal controls over financial reporting ("**ICFR**") as defined in National Instrument 52-109. The control framework used in the design of both DC&P and ICFR is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management does not expect the Company's disclosure controls and internal controls can prevent all errors or fraud. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all controls issues have been detected. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

The design and effectiveness of internal controls over financial reporting was assessed as of March 31, 2020. Based on the evaluation, the Company concluded that the design and effectiveness of the Company's DC&P and ICFR was sufficiently effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations.

There has been no change in the design of the Company's internal controls over financial reporting during the quarter ended March 31, 2020 that would materially affect, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

The continued growth of China's middle class and the ongoing development of tier two cities as a result of urbanization suggest that higher demand for the Company's construction services will remain strong in the long term. In the near to mid term, the effects of COVID 19 will have a very significant negative impact on our business activities. In addition, the conflicts and uncertainty in the trade relationships between China and US will also add to the lack of clarity in the economic system in China.