BOYUAN CONSTRUCTION GROUP, INC.

Consolidated Financial Statements
As at and for the years ended June 30, 2015 and 2014
(Expressed in US dollars)

BOYUAN CONSTRUCTION GROUP, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED JUNE 30, 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BOYUAN CONSTRUCTION GROUP, INC.
(incorporated in the Province of Alberta, Canada with limited liability)

We have audited the accompanying consolidated financial statements of Boyuan Construction Group, Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at June 30, 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BOYUAN CONSTRUCTION GROUP, INC. - continued
(incorporated in the Province of Alberta, Canada with limited liability)

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at June 30, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Other Matter**

The consolidated financial statements of the Group for the year ended June 30, 2014, were audited by another auditor who expressed an unmodified opinion on the consolidated financial statements on November 27, 2015.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong
December 18, 2015

BOYUAN CONSTRUCTION GROUP, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2015

| | NOTES | 2015<br>US$ | 2014<br>US$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Unbilled revenue | 6 | 45,887,492 | 32,289,474 |
| Accounts receivable | 7 | 8,104,804 | 2,803,087 |
| Property and equipment | 4 | 12,489,904 | 16,584,392 |
| Refundable deposit | 14(a) | 583,859 | 573,073 |
| Prepaid lease payments | 5 | 105,086 | 110,124 |
| Deferred tax assets | 16 | 2,354,964 | 1,894,382 |
| | | 69,526,109 | 54,254,532 |
| **Current assets** | | | |
| Unbilled revenue | 6 | 127,385,149 | 95,586,120 |
| Accounts receivable | 7 | 27,744,320 | 9,215,050 |
| Deposits | 8 | 9,582,795 | 11,032,704 |
| Advances and prepaid expenses | 9 | 1,512,648 | 10,275,211 |
| Other receivables | | 648,442 | 570,238 |
| Inventory | | 831,571 | 653,920 |
| Due from a related party | 10 | 61,370 | 60,236 |
| Prepaid lease payments | 5 | 7,111 | 6,979 |
| Restricted cash | 11 | 10,358,730 | 6,641,224 |
| Cash and cash equivalents | | 9,810,988 | 6,628,064 |
| | | 187,943,124 | 140,669,746 |
| **Current liabilities** | | | |
| Bank loans | 12 | 73,487,387 | 48,902,568 |
| Accounts payable and accrued liabilities | 13 | 35,739,578 | 20,830,433 |
| Bank notes payable | 11 | 16,277,958 | 18,127,156 |
| Other loans | 14 | 10,281,570 | 1,834,422 |
| Convertible debentures | 15 | 3,503,174 | - |
| Income taxes payable | | 3,368,445 | 2,650,567 |
| Deferred revenue | 6 | - | 267,959 |
| Other financial liabilities | 25 | 3,132,257 | - |
| | | 145,790,369 | 92,613,105 |
| **Net current assets** | | 42,152,755 | 48,056,641 |
| **Non-current liabilities** | | | |
| Convertible debentures | 15 | 4,735,260 | 13,474,515 |
| Other loans | 14 | 558,027 | 2,600,197 |
| | | 5,293,287 | 16,074,712 |
| **Net assets** | | 106,385,577 | 86,236,461 |

| | NOTES | 2015<br>US$ | 2014<br>US$ |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 18 | 7,156,864 | 7,156,864 |
| Reserves | 19 | 99,228,713 | 79,079,597 |
| | | 106,385,577 | 86,236,461 |

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

BOYUAN CONSTRUCTION GROUP, INC.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2015

| | NOTES | 2015<br>US$ | 2014<br>US$ |
|---|---|---|---|
| Construction revenue | | 320,895,842 | 275,388,474 |
| Costs of construction | | (288,691,655) | (242,598,731) |
| Gross profit | | 32,204,187 | 32,789,743 |
| Other income | 26 | 3,636,312 | 4,430,258 |
| Foreign exchange gain (loss) | | 536 | (1,907) |
| General and administrative expenses | 17 | (5,955,247) | (6,079,342) |
| Provision for allowance of doubtful debts | | - | (1,337,824) |
| Impairment loss recognised on unbilled revenue | | - | (12,918,514) |
| Interest expense | | (7,141,595) | (7,534,447) |
| Share-based compensation | 18 | (420,050) | (302,993) |
| Gain on extinguishment of debt | 15 | 193,818 | - |
| Other expense | 25 | (3,132,257) | - |
| Profit before income taxes | | 19,385,704 | 9,044,974 |
| Income taxes | 16 | (6,956,813) | (2,917,267) |
| Profit for the year | | 12,428,891 | 6,127,707 |
| Other comprehensive income (expense) | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | |
| Exchange difference on translation of foreign operations | | 3,590,687 | (1,054,106) |
| Total comprehensive income for the year | | 16,019,578 | 5,073,601 |
| Earnings per share: | 20 | | |
| Basic | | 0.49 | 0.24 |
| Diluted | | 0.45 | 0.24 |
| Weighted average number of common shares outstanding: | 20 | | |
| Basic | | 25,420,065 | 25,420,065 |
| Diluted | | 31,271,562 | 25,420,065 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED JUNE 30, 2015

| | Share capital US$ | Contributed surplus US$ (note 19) | Statutory reserve US$ (note 19) | Convertible debentures equity reserve US$ | Foreign currency translation reserve US$ | Retained earnings US$ | Total equity US$ |
|---|---|---|---|---|---|---|---|
| Balance at June 30, 2013 | 7,156,864 | 5,037,728 | 7,373,221 | 2,059,230 | 8,276,529 | 50,956,295 | 80,859,867 |
| Profit for the year | - | - | - | - | - | 6,127,707 | 6,127,707 |
| Exchange difference on translation of foreign operations | - | - | - | - | (1,054,106) | - | (1,054,106) |
| Total comprehensive (expense) income for the year | - | - | - | - | (1,054,106) | 6,127,707 | 5,073,601 |
| Recognition of equity-settled share-based compensation (note 18) | - | 302,993 | - | - | - | - | 302,993 |
| Balance at June 30, 2014 | 7,156,864 | 5,340,721 | 7,373,221 | 2,059,230 | 7,222,423 | 57,084,002 | 86,236,461 |
| Profit for the year | - | - | - | - | - | 12,428,891 | 12,428,891 |
| Exchange difference on translation of foreign operations | - | - | - | - | 3,590,687 | - | 3,590,687 |
| Total comprehensive income for the year | - | - | - | - | 3,590,687 | 12,428,891 | 16,019,578 |
| Recognition of equity-settled share-based compensation (note 18) | - | 420,050 | - | - | - | - | 420,050 |
| Modification of convertible debentures (note 15) | - | 1,165,248 | - | 2,544,240 | - | - | 3,709,488 |
| Transfer to reserve | - | - | 3,697,150 | - | - | (3,697,150) | - |
| Balance at June 30, 2015 | 7,156,864 | 6,926,019 | 11,070,371 | 4,603,470 | 10,813,110 | 65,815,743 | 106,385,577 |

BOYUAN CONSTRUCTION GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| **Cash flows (used in) from operating activities** | | |
| Profit before taxes | 19,385,704 | 9,044,974 |
| Items not affecting cash: | | |
| Depreciation and amortization | 4,516,858 | 4,355,163 |
| Interest expense | 7,141,595 | 7,534,447 |
| Other expense | 3,132,257 | - |
| Share-based compensation expenses | 420,050 | 302,993 |
| Allowance for doubtful debts | - | 1,337,824 |
| Loss on disposal of equipment | 6,861 | 380,101 |
| Gain on extinguishment of debt | (193,818) | - |
| Impairment loss recognized on unbilled revenue | - | 12,918,554 |
| Unrealized foreign exchange | (393,665) | (284,124) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (23,446,904) | (4,259,144) |
| Unbilled revenue | (42,702,698) | (28,408,662) |
| Other receivables | (295,974) | 899,368 |
| Inventory | (164,238) | (216,102) |
| Advance to suppliers and prepaid expenses | 8,892,235 | 10,213,951 |
| Deposits | 1,873,283 | 773,304 |
| Accounts payable and accrued liabilities | 14,718,060 | (688,476) |
| Deferred revenue | (271,177) | (3,914,286) |
| Due from related parties | - | (552,436) |
| Cash (used in) generated from operations | (7,381,571) | 9,437,449 |
| Income taxes paid | (6,644,988) | (4,806,709) |
| | (14,026,559) | 4,630,740 |
| **Cash flows (used in) from investing activities** | | |
| Change in restricted cash | (3,814,835) | 1,938,798 |
| Purchase of property and equipment | (119,723) | (451,047) |
| Proceeds from disposal of equipment | 1,843 | 50,506 |
| | (3,932,715) | 1,538,257 |
| **Cash flows from (used in) financing activities** | | |
| Proceeds from bank loans | 41,844,758 | 61,089,434 |
| Repayment of bank loans | (17,716,728) | (64,488,829) |
| Proceeds from loan payable | 7,912,167 | 5,424,698 |
| Repayment of loan payable | (1,890,856) | (1,295,070) |
| Payment of refundable deposit | - | (579,188) |
| Change in bank notes payable | (2,175,727) | 1,858,942 |
| Interest paid on convertible debentures | (1,643,385) | (706,438) |
| Other interest paid | (5,034,393) | (5,345,464) |
| | 21,295,836 | (4,041,915) |

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Effect of changes in exchange rate changes on cash and cash equivalents | (153,638) | (144,406) |
| Increase in cash and cash equivalents | 3,182,924 | 1,982,676 |
| Cash and cash equivalents, beginning of year | 6,628,064 | 4,645,388 |
| Cash and cash equivalents, end of year, represented by bank balances and cash | 9,810,988 | 6,628,064 |

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

## 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 No. 6 East Road, Jiaxing Port, 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

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors of the Company on December 18, 2015.

### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for share options and convertible debentures that are measured at fair value at grant date and issuance date, respectively.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of International Accounting Standards ("IAS") 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of preparation - continued

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including a special purpose entity) controlled by the Company and its subsidiaries.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of 90 days or less.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventory

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a first-in first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

Property and equipment

Property and equipment including buildings and freehold land held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land as described below), are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method as follow:

| | |
|---|---|
| Buildings | 30 years, or over the life of the lease, if shorter |
| Machinery and equipment | 10 years |
| Scaffoldings | 5 years |
| Office equipment | 10 years |
| Vehicles | 4 to 5 years |
| Leasehold improvements | 3 years |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Freehold land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss.

Prepaid lease payments

Prepaid lease payments represent the cost of land use rights paid to the local land bureau of the PRC Government.

Prepaid lease payments are stated in the consolidated statement of financial position at cost, and amortized on a straight-line basis over the period for which the relevant land use rights have been granted to the Group.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

The Group's policy for recognition of revenue from construction contracts is described in the accounting policy for construction contracts below.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as unbilled revenue. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under accounts receivable.

Unbilled revenue and deferred revenue

The Group presents as an asset as unbilled revenue the amount due from customers for contract work for all completed contracts and contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The Group presents as a liability as deferred revenue the amount due to customers for contract work for all completed contracts and contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Retirement benefits costs

Payments to defined contribution retirement benefit plans including state-managed retirement benefit schemes are recognized as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before income taxes' as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

**Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries an, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**Current and deferred tax for the year**

Current and deferred tax are recognized in the statement of profit or loss.

Foreign currencies

The individual financial statements of the China based subsidiaries (including the special purpose entity) are presented in the Chinese Renminbi ("RMB"), which is the currency of the primary economic environment in which they operate (their functional currency). The functional currency of the Company and the other subsidiaries is the Canadian dollar ("CAD").

The consolidated financial statements of the Group are presented in United States Dollars (“US$”), which the directors of the Company believe is a currency widely and commonly recognised in the global economy.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies - continued

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in the statement of profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of profit or loss in the period in which they are incurred.

Share-based compensation

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded vesting basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the statement of profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based compensation - continued

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to the statement of profit or loss.

When share options are exercised, the amount previously recognized in contributed surplus will be transferred to share capital. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in contributed surplus will be transferred to retained earnings.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

**Financial assets**

Financial assets comprise of those that are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including accounts receivable, unbilled revenue, other receivables, amounts due from a related party, deposits, refundable deposit, restricted cash and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as accounts receivable and unbilled revenue, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and unbilled revenue, where the carrying amount is reduced through the use of an allowance account. When an account receivable and unbilled revenue are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial liabilities and equity instruments**

*Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

*Convertible debentures*

The component parts of compound instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognized in equity will be transferred to retained earnings. No gain or loss is recognized in the statement of profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial liabilities and equity instruments** - continued

*Substantial modification of convertible debentures*

Modification is deemed to be substantial if the net present value of the cash flows under the modified terms, including any fees paid or received, is a least 10 percent different from the net present value of the remaining cash flows of the liability prior to the modification, both discounted at the original effective interest rate of the liability prior to the modification. A substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The consideration paid, represented by the fair value of the modified convertible debentures are allocated to the liability and equity components of the original convertible debentures at the date of the extinguishment. The method used in allocating the consideration paid to the separate components of the original convertible debentures is consistent with that used in the original allocation to the separate components of the original convertible debentures of the proceeds received by the Company when the original convertible debentures were issued.

Once the allocation of the consideration is made, any resulting gain or loss is treated as follows:

- the amount of gain or loss relating to the original liability component is recognised in the statement of profit or loss; and
- the amount of consideration relating to the original equity component is recognised in equity in contributed surplus. The amount recognised in convertible debentures equity reserve attributable to the extinguished convertible debentures is also transferred to contributed surplus.

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Early redemption options embedded in convertible debentures are not closely related to the host contract unless:

(i) the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument; or

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial liabilities and equity instruments** - continued

*Derivative financial instruments* - continued

(ii) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

*Financial liabilities*

The Group's financial liabilities are classified as other financial liabilities.

*Other financial liabilities*

Other financial liabilities (including accounts payable, bank loans, bank notes payable, other loans and convertible debentures) are subsequently measured at amortized cost using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, (where appropriate), a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

- the amount initially recognized less, where appropriate, cumulative amortisation recognized in accordance with the revenue recognition policies.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Derecognition**

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the statement of profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the statement of profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Group as lessee**

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the "other loans" in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the statement of profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Application of New and Revised International Financial Reporting Standards ("IFRSs")

***Amendments to IFRSs and an interpretation that are mandatorily effective for the current year***

In the current year, the Group has applied for the first time the following amendments to IFRSs and an interpretation issued by the IASB and IFRS Interpretations Committee.

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 | Investment Entities |
| Amendments to IAS 19 | Defined Benefit Plans: Employee Contributions |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| Amendments to IFRSs | Annual Improvements to IFRSs 2010 - 2012 Cycle |
| Amendments to IFRSs | Annual Improvements to IFRSs 2011 - 2013 Cycle |
| IFRIC - Int 21 | Levies |

The application of the amendments to IFRSs and an interpretation in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

***New and revised IFRSs issued but not yet effective***

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

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

[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

[2] Effective for first annual IFRS financial statements beginning on or after January 1, 2016, with earlier application permitted.

[3] Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Application of New and Revised International Financial Reporting Standards ("IFRSs") - continued

**IFRS 9 *Financial Instruments***

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt Instruments.

Key requirements of IFRS 9 are described below:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in the statement of profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The management of the Company are still assessing the impact of application of IFRS 9 on the amounts reported in respect of the Group's financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

**IFRS 15 *Revenue from Contracts with Customers***

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The management of the Company are still assessing the impact of application of IFRS 15 on the amounts reported and disclosures made in the Group's consolidated financial statements. It is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

The management of the Company do not anticipate that the application of the other new and revised IFRSs will have a material impact on the consolidated financial statements.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

***Critical judgements in applying accounting policies***

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue recognition

Construction revenue, construction costs and unbilled revenue include amounts derived using the percentage of completion method applied to construction contracts. Percentage of completion is calculated based on the costs incurred on each construction contract at the end of the respective accounting period divided by the total estimated costs for the contract and then multiplied by the estimated construction revenue expected to be earned. To determine the estimated construction costs and revenues to complete the construction contract, judgment, assumptions and estimates are required to evaluate issues related to the schedule, material and labour costs, labour productivity, changes in contract scope, subcontractor costs and others. Due to the nature of construction, estimates may change significantly from one accounting period to the next.

The value of construction contracts usually increases over the duration of the construction period. Change orders may be issued by customers to modify the original contract scope of work or conditions. Construction work related to a change order may proceed, and costs may be incurred, in advance of final determination of the value of the change order. Revenue on change orders is recognized by the Company to the extent that management estimates that realization is probable. As many change orders are settled at the end of the construction project, significant increases or decreases in revenue and income may arise during any particular accounting period.

Control over Zhejiang Boyuan Construction Co., Ltd. ("Zhejiang Boyuan")

The Group operates its business through Zhejiang Boyuan by means of Contractual Arrangement (as defined below).

The management of the Company assessed whether or not the Group has control over Zhejiang Boyuan based on whether the Group has the practical ability to direct the relevant activities of Zhejiang Boyuan unilaterally. In making their judgment, the directors of the Company considered the Contractual Arrangement (as defined below).

On January 10, 2009, Zhejiang Jianyou Trading Co., Ltd. ("China Privco"), a wholly-owned PRC subsidiary of the Group, Zhejiang Boyuan and shareholders of Zhejiang Boyuan, entered into a series of agreements (the “Contractual Arrangement”). Mr. Shou Cailiang (“Mr. Shou”), the ultimate controlling shareholder, CEO and director of the Company, holds 90% equity interest in Zhejiang Boyuan.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES - continued

***Critical judgements in applying accounting policies*** - continued

Control over Zhejiang Boyuan Construction Co., Ltd. ("Zhejiang Boyuan") - continued

The key provisions of the Contractual Arrangement are follows:

(i) *Exclusive Option Agreement:* China Privco can acquire the equity interest in, and all or part of the assets and business of, Zhejiang Boyuan at any time if legally permitted at a minimal amount;

(ii) *Management Agreement:* Zhejiang Boyuan entrusted China Privco to manage and operate the business of Zhejiang Boyuan. China Privco will be remunerated with the net earnings before tax of Zhejiang Boyuan and will assume all operational risks and bear all losses of Zhejiang Boyuan;

(iii) *Shareholder's Voting Proxy Agreement:* The shareholders of Zhejiang Boyuan granted the right to exercise all of the voting rights of Zhejiang Boyuan to China Privco; and

(iv) *Share Pledged Agreement:* The shareholders of Zhejiang Boyuan pledged all of the shares of Zhejiang Boyuan they own to China Privco to guarantee their obligations under Exclusive Option Agreement, Management Agreement and Shareholder's Voting Proxy Agreement.

The directors of the Company, after consulting legal opinion, are of the view that the terms of the Contractual Arrangement have in substance enabled China Privco to have power over Zhejiang Boyuan, rights to variable returns from its involvement with Zhejiang Boyuan, and has the ability to use its power to affect its returns, despite the absence of formal legal equity interests held by the Group therein. Accordingly, Zhejiang Boyuan is accounted for as a consolidated structured entity and as a subsidiary of the Company.

In the opinion of the Company's directors, with reference to opinion of legal counsel, the Contractual Arrangement is in compliance with existing PRC laws and regulations, are valid, binding and enforceable, and do not result in any violation of PRC laws or regulations currently in effect in all material respects. However, uncertainties in the PRC legal system could cause the Group's current contractual arrangement structure to be found in violation of any existing and/or future PRC laws or regulations and could limit the Company's ability, through China Privco, to enforce its rights under the Contractual Arrangement.

Substantially all of the operation of the Group is carried out through Zhejiang Boyuan. If the current structure or any of the Contractual Arrangement were found to be in violation of any existing or future PRC law, the Group may be subject to penalties, which may include but not be limited to, the cancellation or revocation of the Group's business and operating licenses, being required to restructure the Group's operations or discontinue the Group's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Group's ability to conduct its operations. Further, if the Group is unable to enforcement the Contractual Agreements, the Group will not be able to control Zhejiang Boyuan and hence will not be able to operate any of its construction business, which will result in its deconsolidation.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES - continued

***Key sources of estimation uncertainty***

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Construction contracts

Revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contract, as well as the work done to date. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction revenue is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs are prepared by the management on the basis of quotations from time to time provided by the suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the management conducts periodic reviews of the management budgets by comparing the budgeted amounts to the actual amounts incurred.

A considerable amount of judgement is required in estimating the total contract revenue, contract costs, variation orders and contract claims which may have an impact in terms of percentage of completion and profit recognised for each job.

Impairment of accounts receivable and unbilled revenue

On assessing any impairment of the Group's accounts receivable and unbilled revenue, the management regularly reviews the recoverability, creditworthiness of customers and ages of accounts receivable and unbilled revenue. Impairment on accounts receivable and unbilled revenue is made based on estimation of the future cash flows discounted at the original effective interest rates. If the financial condition of the customers of the Group deteriorates, resulting in an impairment of their ability to make payments, additional impairment may be required. As at June 30, 2015, the carrying amount of accounts receivable and unbilled revenue are approximately US$35,849,000 (June 30, 2014: US$12,018,000) (net of allowance for doubtful debts of approximately US$1,528,000 (June 30, 2014: US$1,328,000)) and US$173,273,000, (June 30, 2014: US$127,876,000) (net of allowance for doubtful debts of approximately US$12,986,000 (June 30, 2014: US$12,919,000)), respectively.

Expected timing of collections of accounts receivable and unbilled revenue

The Group classifies its accounts receivable and unbilled revenue as current and non-current assets based on the expected timing of collections of cash. This determination requires significant judgement and is based on the characteristics of each customer, contract terms and past repayment record.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES - continued

Fair value measurements and valuation processes

The Group's share options and convertible debentures are measured at fair value at grant date and issuance date respectively.

In estimating the fair value of the share options and convertible debentures, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management establishes the appropriate valuation techniques and inputs for fair value measurement. Notes 15 and 18(b) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of the share options and convertible debentures.

4. PROPERTY AND EQUIPMENT

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

| | Buildings | Machinery, equipment and scaffoldings | Vehicles | Office equipment | Leasehold improvement | Total |
|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ |
| COST | | | | | | |
| Balance at June 30, 2013 | 5,908,716 | 22,628,435 | 1,942,669 | 1,561,579 | 1,665,481 | 33,706,880 |
| Additions | 119,119 | 49,243 | 252,084 | 240,798 | - | 661,244 |
| Disposals | - | (526,766) | (222,918) | (10,955) | - | (760,639) |
| Effect of foreign currency exchange differences | (194,100) | (238,626) | (21,227) | (19,242) | (17,936) | (491,131) |
| Balance at June 30, 2014 | 5,833,735 | 21,912,286 | 1,950,608 | 1,772,180 | 1,647,545 | 33,116,354 |
| Additions | - | 26,486 | 16,632 | 97,852 | - | 140,970 |
| Disposals | - | - | - | (96,623) | - | (96,623) |
| Effect of foreign currency exchange differences | 109,799 | 412,599 | 36,825 | 33,363 | 31,010 | 623,596 |
| Balance at June 30, 2015 | 5,943,534 | 22,351,371 | 2,004,065 | 1,806,772 | 1,678,555 | 33,784,297 |
| ACCUMULATED DEPRECIATION | | | | | | |
| Balance at June 30, 2013 | 2,057,125 | 7,834,646 | 1,062,083 | 814,832 | 779,227 | 12,547,913 |
| Depreciation expense | 162,895 | 3,512,845 | 422,691 | 295,397 | 200,017 | 4,593,845 |
| Disposals | - | (116,068) | (211,772) | (2,192) | - | (330,032) |
| Effect of foreign currency exchange differences | (32,659) | (211,067) | (13,664) | (11,871) | (10,503) | (279,764) |
| Balance at June 30, 2014 | 2,187,361 | 11,020,356 | 1,259,338 | 1,096,166 | 968,741 | 16,531,962 |
| Depreciation expense | 158,962 | 3,488,800 | 209,676 | 350,564 | 301,794 | 4,509,796 |
| Disposals | - | - | - | (87,919) | - | (87,919) |
| Effect of foreign currency exchange differences | 42,240 | 230,533 | 25,114 | 22,400 | 20,267 | 340,554 |
| Balance at June 30, 2015 | 2,388,563 | 14,739,689 | 1,494,128 | 1,381,211 | 1,290,802 | 21,294,393 |
| NET BOOK AMOUNT | | | | | | |
| At June 30, 2014 | 3,646,374 | 10,891,930 | 691,270 | 676,014 | 678,804 | 16,584,392 |
| At June 30, 2015 | 3,554,971 | 7,611,682 | 509,937 | 425,561 | 387,753 | 12,489,904 |

Buildings with carrying amount of US$1,336,600 (June 30, 2014: US$2,114,955) have been pledged to secure the bank loans as disclosed in note 12.

## 5. PREPAID LEASE PAYMENTS

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| The Group's prepaid lease payments comprise: | | |
| Leasehold land in the PRC: | | |
| Medium-term leases | 112,197 | 117,103 |
| Analysed for reporting purposes as: | | |
| Non-current assets | 105,086 | 110,124 |
| Current assets | 7,111 | 6,979 |
| | 112,197 | 117,103 |

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

Prepaid lease payments with carrying amount of US$112,197 (June 30, 2014: US$117,103) have been pledged to secure the bank loans as disclosed in note 12.

## 6. 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.

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Completed contracts | 66,420,043 | 24,144,503 |
| Contracts in progress | 125,142,587 | 121,044,471 |
| Gross unbilled revenue | 191,562,630 | 145,188,974 |
| Less: Effect of discounting, net | (5,303,863) | (4,394,866) |
| Impairment loss recognised | (12,986,126) | (12,918,514) |
| | 173,272,641 | 127,875,594 |
| Analysed for reporting purposes as: | | |
| Non-current assets | 45,887,492 | 32,289,474 |
| Current assets | 127,385,149 | 95,586,120 |
| | 173,272,641 | 127,875,594 |

6. UNBILLED REVENUE - continued

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

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Aggregate costs of construction | 394,578,674 | 509,934,151 |
| Gross profit recognized | 64,485,407 | 92,110,398 |
| | 459,064,081 | 602,044,549 |
| Less: aggregate of progress billings | (333,921,494) | (481,000,078) |
| Contracts in progress - unbilled revenue portion, end of year | 125,142,587 | 121,044,471 |
| Less: deferred revenue related to contract in progress, end of year | - | (267,959) |
| Net position | 125,142,587 | 120,776,512 |

Unbilled revenue for completed contracts included the following amounts of unbilled retention monies which are analysed as follows:

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Expected to be due within one year | 1,016,303 | 1,022,905 |
| Expected to be due after one year | 8,902,154 | - |
| | 9,918,457 | 1,022,905 |

During the year ended June 30, 2015, construction revenue of US$253,852,622 (June 30, 2014: US$238,536,533) generated from contracts in progress were recognized in the statement of profit or loss.

Included in the Group's unbilled revenue are debtors with aggregate carrying amount of approximately US$39,950,000 (June 30, 2014: US$29,309,000) which are past due based on the payment terms stated in each construction contract as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold collateral over these balances.

Ageing of unbilled revenue which are past due but not impaired

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| 0 - 180 days | 31,057,253 | 20,936,118 |
| 181 - 365 days | 7,340,931 | 5,418,398 |
| 1 - 2 years | 1,031,828 | 1,536,596 |
| Over 2 years | 520,248 | 1,418,306 |
| | 39,950,260 | 29,309,418 |

6. UNBILLED REVENUE - continued

Movement in allowance for doubtful debts

| | 2015 US$ | 2014 US$ |
|---|---|---|
| At beginning of the year | 12,918,514 | - |
| Impairment losses recognized | - | 12,918,514 |
| Transferred to accounts receivable | (175,534) | - |
| Effect of foreign currency exchange differences | 243,146 | - |
| At end of the year | 12,986,126 | 12,918,514 |

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.

As at June 30, 2014, the Group identified unbilled revenue of US$12,918,514 that were impaired due to difficulties and delay in collecting the outstanding balances.

7. ACCOUNTS RECEIVABLE

| | 2015 US$ | 2014 US$ |
|---|---|---|
| Accounts receivable | 38,176,988 | 13,936,511 |
| Less: Effect of discounting, net | (799,755) | (590,786) |
| Allowance for doubtful debts | (1,528,109) | (1,327,588) |
| | 35,849,124 | 12,018,137 |
| Analysed for reporting purpose as: | | |
| Non-current assets | 8,104,804 | 2,803,087 |
| Current assets | 27,744,320 | 9,215,050 |
| | 35,849,124 | 12,018,137 |

Retention receivable included in accounts receivable is analysed as follows:

| | 2015 US$ | 2014 US$ |
|---|---|---|
| Due within one year | 472,057 | 289,257 |
| Due after one year | 5,040,892 | 330,213 |
| | 5,512,949 | 619,470 |

The Group will assess the potential customer's credit quality and defines credit limits by customer. In addition, the Group will review the repayment history of receivables by each customer with reference to the payment terms stated in the contracts, the credit worthiness and the current economic environment in which the customer operates to assess the recoverability of accounts receivable.

## 7. ACCOUNTS RECEIVABLE - continued

Included in the Group's accounts receivable balance are debtors with aggregate carrying amount of approximately US$13,043,000 (June 30, 2014: US$2,151,000) which are past due based on the payment terms stated in each construction contract as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of accounts receivable which are past due but not impaired

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| 0 - 180 days | 2,579,257 | 876,879 |
| 181 - 365 days | 7,866,492 | 142,479 |
| 1 - 2 years | 2,105,159 | - |
| Over 2 years | 492,112 | 1,131,505 |
| | 13,043,020 | 2,150,863 |

Movement in the allowance for doubtful debts

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| At beginning of the year | 1,327,588 | - |
| Impairment losses recognized | - | 1,337,824 |
| Transferred from unbilled revenue | 175,534 | - |
| Effect of foreign currency exchange differences | 24,987 | (10,236) |
| At end of the year | 1,528,109 | 1,327,588 |

## 8. DEPOSITS

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Contract performance deposits (Note a) | 8,550,879 | 10,008,880 |
| Project tender deposits (Note b) | 571,531 | 672,212 |
| Others | 460,385 | 351,612 |
| | 9,582,795 | 11,032,704 |

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.

## 9. ADVANCES AND PREPAID EXPENSES

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Advances to project managers and suppliers (Note) | 1,177,652 | 9,580,647 |
| Prepaid expenses | 91,059 | 96,663 |
| Other | 243,937 | 597,901 |
| | 1,512,648 | 10,275,211 |

Note: The Group advanced monies to suppliers and project managers in order to secure construction materials and services. The advances of US$1,155,119 (June 30, 2014: US$9,513,617) to the project managers are held in bank accounts in trust for the Group.

## 10. RELATED PARTY BALANCES AND TRANSACTIONS

The Group has the following related party balances:

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| **Amount due from a related party** | | |
| Due from a company controlled by Mr. Shou | 61,370 | 60,236 |

As at June 30, 2014, the Company advanced project funds totalling US$2,475,634 (June 30 2015: nil) to project managers who are family members of Mr. Shou. The amounts are included in advances and prepaid expenses in note 9 which are non-interest bearing, unsecured and have no fixed terms of repayment.

As at June 30, 2015, the Group has loans from a company totalling US$2,627,776 (June 30, 2014: US$nil) controlled by a family member of Mr. Shou. The amount is included in other loans in note 14 which are unsecured, interest-free and repayable within one year from the end of the reporting period.

The Group also had related party balances and transactions at the end of the reporting period shown in notes 11, 12 and 14.

**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:

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Short-term employee benefits | 346,427 | 502,403 |
| Share-based payment | 313,542 | 195,280 |
| | 659,969 | 697,683 |

## 11. RESTRICTED CASH/BANK NOTES PAYABLE

As at June 30, 2015 and 2014, the Group had restricted cash pledged for credit facilities as follows:

| | 2015<br>US$ | 2014<br>US$ |
|---|---:|---:|
| Bank notes payable deposits | 6,178,924 | 6,313,616 |
| Bank loans deposits | 4,179,806 | 327,608 |
| | 10,358,730 | 6,641,224 |

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$16,278,000 as of June 30, 2015 (June 30, 2014: US$18,127,000). The restrictions on the deposited cash will be released between July 2015 and December 2015, 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.

## 12. BANK LOANS

As at June 30, 2015, the Group has bank loans outstanding totalling US$73,487,387 (June 30, 2014: US$48,902,568) for working capital and capital expenditure purposes.

| | 2015<br>US$ | 2014<br>US$ |
|---|---:|---:|
| Secured | 66,178,886 | 46,418,093 |
| Unsecured | 7,308,501 | 2,484,475 |
| | 73,487,387 | 48,902,568 |

As at June 30, 2015 and 2014, 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$29,127,000, US$821,000 and US$31,500,000 (June 30, 2014: US$6,690,000, US$3,224,000 and US$34,280,000) respectively. In addition, the Group has pledged its assets to secure bank loans of US$4,730,000 (June 30, 2014: US$2,224,000) granted to the Group and the carrying values of the pledged assets are as follows:

| | 2015<br>US$ | 2014<br>US$ |
|---|---:|---:|
| Restricted cash | 4,179,806 | 327,608 |
| Property and equipment | 1,336,600 | 2,114,955 |
| Prepaid lease payments | 112,197 | 117,103 |
| | 5,628,603 | 2,559,666 |

12. 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:

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Fixed-rate borrowing | | |
| Denominated in RMB (range from 5.36% to 8.69% as of June 30, 2015 and range from 5.60% to 7.50% as of June 30, 2014) | 31,410,130 | 24,133,893 |
| Variable rate borrowing | | |
| Denominated in RMB (range from 4.85% to 8.70% as of June 30, 2015 and range from 5.59% to 8.20% as of June 30, 2014) (Note a) | 42,077,257 | 24,768,675 |
| | 73,487,387 | 48,902,568 |

Notes:

(a) For bank loans in RMB, the variable rate range from 95% of Prime to Prime plus 3.1% as of June 30, 2015 and 2014. Prime is the benchmark rate of the People's Bank of China.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Accounts payable (Note) | 15,264,031 | 1,969,755 |
| Salaries and wages payable | 187,783 | 429,079 |
| Business taxes and other taxes payable | 10,255,145 | 9,248,992 |
| Accrued expenses | 6,190,185 | 4,249,525 |
| Others | 3,842,434 | 4,933,082 |
| | 35,739,578 | 20,830,433 |

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.

## 14. OTHER LOANS

As at June 30, 2015, the Group has other loans outstanding totalling US$10,839,597 (June 30, 2014: US$4,434,619) for working capital and capital expenditure purposes.

| | 2015 US$ | 2014 US$ |
|---|---|---|
| Obligation under a finance lease (Note a) | 2,512,078 | 4,189,818 |
| Loans from third parties (Note b) | 5,578,810 | - |
| Loan from a related company (Note c) | 2,627,776 | - |
| Others | 120,933 | 244,801 |
| | 10,839,597 | 4,434,619 |
| Secured | 2,512,078 | 4,189,818 |
| Unsecured | 8,327,519 | 244,801 |
| | 10,839,597 | 4,434,619 |
| Carrying amount repayable: | | |
| Within one year | 10,281,570 | 1,834,422 |
| More than one year, but not exceeding two years | 558,027 | 2,600,197 |
| | 10,839,597 | 4,434,619 |
| Less: Amounts shown under current liabilities | (10,281,570) | (1,834,422) |
| | 558,027 | 2,600,197 |

Notes:

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

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | June 30, 2015 US$ | June 30, 2014 US$ | June 30, 2015 US$ | June 30, 2014 US$ |
| Amounts payable under finance lease: | | | | |
| Within one year | 2,165,170 | 2,136,052 | 1,980,963 | 1,722,585 |
| In more than one year and not more than five years | 541,428 | 2,656,598 | 531,115 | 2,467,233 |
| | 2,706,598 | 4,792,650 | 2,512,078 | 4,189,818 |
| Less: future finance charges | (194,520) | (602,832) | N/A | N/A |
| Present value of lease obligation | 2,512,078 | 4,189,818 | | |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | (1,980,963) | (1,722,585) |
| Amount due for settlement after 12 months | | | 531,115 | 2,467,233 |

14. OTHER LOANS - continued

Notes: - continued

a. - continued

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

In connection with the finance lease arrangement, the Group paid a security deposit of RMB3,550,000 (equivalent to US$580,693) at inception of the lease which will be refunded to the Group in full at the end of the lease period. As at June 30, 2015, the refundable deposit is US$583,859 (June 30, 2014: US$573,073).

(b) During the year ended June 30, 2015, the Group obtained several loans from independent third parties to fund the construction projects of the Group. The loans are unsecured, interest-free and repayable within one year from the end of the reporting period.

(c) During the year ended June 30, 2015, the Group obtained several loans from a company controlled by a family member of Mr. Shou. The loans are unsecured, interest-free and repayable within one year from the end of the reporting period.

15. CONVERTIBLE DEBENTURES

| | 2015 | 2014 |
|---|---|---|
| | US$ | US$ |
| Balance, beginning of year | 13,474,515 | 12,169,260 |
| Interest charged | 2,371,192 | 2,188,983 |
| Interest paid | (1,643,385) | (706,438) |
| Extinguishment of convertible debentures | (11,702,473) | - |
| Fair value of liability component (including fair value of closely related embedded derivatives) of modified convertible debentures | 7,176,773 | - |
| Effect of foreign currency exchange differences | (1,438,188) | (177,290) |
| Balance, end of year | 8,238,434 | 13,474,515 |

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

| | 2015 | 2014 |
|---|---|---|
| | US$ | US$ |
| Current liability | 3,503,174 | - |
| Non-current liability | 4,735,260 | 13,474,515 |
| | 8,238,434 | 13,474,515 |

15. CONVERTIBLE DEBENTURES - continued

Convertible debentures - principal amount of CAD15,000,000

On November 1, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of CAD1,000 (equivalent to US$987) per debenture for gross proceeds of CAD15,000,000 (equivalent to US$14,799,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and is due on October 31, 2015. Each convertible debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price (subject to adjustment for among other things, subdivision or consolidation of shares, distribution of shares by way of dividend, cash dividend and options, rights or warrants) of CAD2.60 per share. The convertible debentures are redeemable by the Company at any time on or after November 1, 2013 at a price equal to the principal amount thereof plus accrued and unpaid interest if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the debentures for the 20 most recent trading days with at least 1,000 shares traded in each trading day ending five trading days before the applicable redemption notice. The Company paid 6% agent's fee of CAD900,016 (equivalent to US$887,940) agent's legal and related expenses of CAD410,149 (equivalent to US$404,646) and other issue costs of CAD95,736 (equivalent to US$94,451), totalling CAD1,405,901 (equivalent to US$1,387,037).

The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of CAD2,694,000 (equivalent to US$2,657,900) was determined by deducting the fair value of the liability component from the fair value of the entire convertible debentures. The fair value of the liability component of CAD11,153,000 (equivalent to US$11,003,593) was computed as the present value of future principal and interest payments discounted at a rate of 18% per annum. Debenture issue costs of CAD252,924 (equivalent to US$249,530) and deferred income tax expense of CAD341,330 (equivalent to US$336,750) were allocated to the equity component.

The principal amount of original convertible debentures outstanding as at June 30, 2014 was CAD15,000,000 (equivalent to US$14,050,000).

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

(i) The interest rate was increased from 10% to 11.5% per annum;
(ii) A retraction right was added whereby CAD5,000,000 is redeemable by the Company, at the holder's option, on October 31, 2015 and CAD1,500,000 is redeemable by the Company, at the holder's option, on each of October 31, 2016 and October 31, 2017. The redemption price is equivalent to 100% of the principal amount thereof to be retracted, together with accrued and unpaid interest on the principal amount of the debentures;
(iii) The maturity date was extended from October 31, 2015 to October 31, 2018;
(iv) The conversion price was reduced from CAD2.60 per share to CAD1.00 per share; and
(v) The restricted redemption period was extended to October 31, 2016.

15. CONVERTIBLE DEBENTURES - continued

Convertible debentures - principal amount of CAD15,000,000 - continued

The modification was considered an extinguishment of the existing convertible debenture and the recognition of a new convertible debenture as the modified terms were substantially different from the original terms. The carrying amount of liability and equity components of the existing convertible debentures on the date of approval of modification is CAD14,739,265 (equivalent to US$11,702,473) and CAD2,087,236 (equivalent to US$2,059,230), respectively. The Group engaged an independent valuer to carry out a fair value assessment on the liability component of the existing convertible debentures on that date, which is CAD13,711,246 (equivalent to US$10,886,261) at a discount rate of 27.4%. As a result, a gain on extinguishment of the liability component of CAD1,028,019 (equivalent to US$816,212), being the difference between the fair value and carrying amount of the liability component together with any closely related embedded derivatives on extinguishment date, is recognised in the statement of profit or loss. Furthermore, the Company incurred transaction costs of CAD717,807 (equivalent to US$622,394) in relation to the modification, and recorded this against the gain on extinguishment of liability component, resulting in a net gain on extinguishment of CAD310,212 (equivalent to US$193,818) recognised in the statement of profit or loss.

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

(i) Liability component is initially measured at fair value amounted to CAD10,070,966 (equivalent to US$7,996,003), which represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option component, of 27.43% per annum;

(ii) In the opinion of the management of the Company, the economic characteristics and risks of the early redemption options are closely related to the host debt contract of the convertible bonds. Therefore, the Company does not account for the early redemption options separately. The fair value of early redemption options is determined using a Binomial Option Pricing Model. The variables and assumptions used in computing the fair value are based on the management' best estimate. The value varies with different variables of certain subjective assumptions.

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

| | |
|---|---|
| Share price | CAD0.62 |
| Exercise price | CAD1 |
| Option life | 3.62 |
| Volatility | 93% |
| Risk-free interest rate | 0.51% |
| Dividend yield | 0% |

15. CONVERTIBLE DEBENTURES - continued

Convertible debentures - principal amount of CAD15,000,000 - continued

(iii) The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability and equity components. Under this method, the value of equity component of CAD5,798,071 (equivalent to US$4,603,470), is determined by deducting the fair value of liability component (included the closely related embedded derivatives) from the fair value of the entire convertible debentures.

16. INCOME TAXES

Income tax expenses are as follows:

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax | 7,372,013 | 4,929,974 |
| Deferred tax: | | |
| Current year | (415,200) | (2,012,707) |
| | 6,956,813 | 2,917,267 |

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 years.

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.

Income tax expense varies from the income from different tax jurisdictions by applying the combined Canadian federal and provincial tax rate of 26% (June 30, 2014: 26%) to profit before income taxes as follows:

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Profit before income taxes | 19,385,704 | 9,044,974 |
| Income taxes at combined Canadian tax rate of 26% | 5,040,283 | 2,351,693 |
| Increase (decrease) in income taxes resulting from: | | |
| Lower tax rate on results of the PRC subsidiaries | (207,922) | (246,035) |
| Tax effect of expenses not deductible for tax purpose | 959,209 | 78,778 |
| Tax effect of income not taxable for tax purpose | (1,158,196) | (212,966) |
| Change in income tax rates | - | (290,748) |
| Tax effect of tax losses not recognized | 2,323,439 | 1,236,545 |
| | 6,956,813 | 2,917,267 |

16. INCOME TAXES - continued

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

| | Impairment losses on accounts receivable and unbilled revenue | Unbilled revenue | Plant and equipment | Total |
|---|---|---|---|---|
| | US$ | US$ | US$ | US$ |
| At July 1, 2013 | - | (379,920) | 340,339 | (39,581) |
| Credited or (charged) to profit or loss | 3,459,813 | (1,870,586) | 423,480 | 2,012,707 |
| Exchange realignment | (138,075) | 89,814 | (30,483) | (78,744) |
| At June 30, 2014 | 3,321,738 | (2,160,692) | 733,336 | 1,894,382 |
| Credited to profit or loss | - | (168,049) | 583,249 | 415,200 |
| Exchange realignment | 62,520 | (40,667) | 23,529 | 45,382 |
| At June 30, 2015 | 3,384,258 | (2,369,408) | 1,340,114 | 2,354,964 |

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounting to approximately US$108,807,000 (June 30, 2014: US$91,942,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at June 30, 2015, the Group has unused tax losses of US$29,934,000 (June 30, 2014: US$20,998,000) available for offset against future profits, which will expire from 2029 to 2034. No deferred tax asset has been recognized in respect of the tax losses due to the unpredictability of future profit streams.

17. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2015 | 2014 |
|---|---|---|
| | US$ | US$ |
| General and administrative expenses comprise the following: | | |
| Depreciation and amortization | 1,028,058 | 1,088,054 |
| Office expenses | 1,150,434 | 1,274,435 |
| Salaries and other benefits | 1,989,278 | 1,895,035 |
| Others | 1,787,477 | 1,821,818 |
| Total | 5,955,247 | 6,079,342 |

18. SHARE CAPITAL

**(a) Authorized**

Unlimited number of common shares without par value.

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

**(b) Issued common shares**

| | Number of shares | Amount US$ |
|---|---|---|
| Balance at July 1, 2013, June 30, 2014 and 2015 | 25,420,065 | 7,156,864 |

**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 June 30, 2015, the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,755,000 (June 30, 2014: 1,755,000) common shares summarized as follows.

| | Underlying shares | Weighted average exercised price CAD |
|---|---|---|
| Stock options outstanding at June 30, 2013 | 2,125,000 | 1.40 |
| Issued during the year | 1,755,000 | 0.61 |
| Forfeited during the year | (2,125,000) | 1.40 |
| Stock options outstanding at June 30, 2014 and 2015 | 1,755,000 | 0.61 |

18. SHARE CAPITAL - continued

**(b) Issued common shares** - continued

Details of stock options outstanding:

| Expiry date | Exercise price | Stock options outstanding | | Stock options exercisable and vested | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| June 30, 2019 | CAD0.61 | 1,755,000 | 1,755,000 | 1,170,000 | 585,000 |

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

| | 2014 |
|---|---|
| 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 year ended June 30, 2015, share-based compensation expense related to the above options of US$420,050 (June 30, 2014: US$261,615) was charged to the statement of profit or loss.

During the year ended June 30, 2014, the Company forfeited 2,125,000 options. The fair value of the unvested options that were cancelled of US$41,378 was immediately charged to the statement of profit or loss.

## 19. 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 June 30, 2015 was US$11,070,371 (June 30, 2014: US$7,373,221).

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.

## 20. 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:

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| *Earnings* | | |
| Earnings for the purpose of basic earnings per share (represented by profit for the year) | 12,428,891 | 6,127,707 |
| Effect of diluted earnings per share: | | |
| Interest on convertible debentures (net of income tax) | 1,754,682 | - |
| | 14,183,573 | 6,127,707 |

| | 2015 | 2014 |
|---|---|---|
| *Number of shares* | | |
| Number of common shares for the purpose of basic earnings per share | 25,420,065 | 25,420,065 |
| Effect of dilutive potential common shares: | | |
| Share options issued by the Company | 82,266 | - |
| Convertible debentures | 5,769,231 | - |
| Weighted average number of common shares for the purpose of diluted earnings per share | 31,271,562 | 25,420,065 |
| Basic earnings per common share | 0.49 | 0.24 |
| Diluted earnings per common share | 0.45 | 0.24 |

For the year ended June 30, 2014, the computation of diluted earnings per share does not assume i) the exercise of the Company's outstanding share options because the exercise price of those options was higher than the average market price and ii) the conversion of the Company's convertible debentures since their exercise would result in a decrease in earnings per share.

## 21. 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.

## 22. FINANCIAL INSTRUMENTS

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables | | |
| Unbilled revenue | 173,272,641 | 127,875,594 |
| Accounts receivables | 35,849,124 | 12,018,137 |
| Restricted cash | 10,358,730 | 6,641,224 |
| Cash and cash equivalents | 9,810,988 | 6,628,064 |
| Deposits | 9,582,795 | 11,032,704 |
| Other receivables | 648,442 | 570,238 |
| Refundable deposits | 583,859 | 573,073 |
| Due from a related party | 61,370 | 60,236 |
| Total financial assets | 240,167,949 | 165,399,270 |
| **Financial liabilities** | | |
| Other financial liabilities | | |
| Bank loans | 73,487,387 | 48,902,568 |
| Bank notes payable | 16,277,958 | 18,127,156 |
| Accounts and other payables | 15,451,814 | 2,398,834 |
| Other loans | 10,839,597 | 4,434,619 |
| Convertible debentures | 8,238,434 | 13,474,515 |
| Financial guarantee contracts | 3,132,257 | - |
| Total financial liabilities | 127,427,447 | 87,337,692 |

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.

22. FINANCIAL INSTRUMENTS - continued

**Market risk**

*Foreign currency risk management*

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

*Interest rate risk management*

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans (note 12). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and loans (note 12).

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 12 to the consolidated financial statements.

*Sensitivity Analysis*

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

*Bank balances*

If interest rates had been 100 basis points (June 30, 2014: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would increase/decrease by US$151,273 (June 30, 2014: increase/decrease in the Group's post-tax profit of US$99,520). 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 (June 30, 2014: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by US$315,579 (June 30, 2014: decrease/increase in the Group's post-tax profit of US$185,765). This is mainly attributable to the Group's exposure to the interest rates on its variable-rate loans.

22. FINANCIAL INSTRUMENTS - continued

**Credit risk management**

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognized financial assets as stated in the consolidated statements of financial position and financial guarantees provided by the Group as disclosed in note 25.

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 subject to certain conditions, 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 management of the Company consider that the Group's credit risk in relation to the accounts receivable and unbilled revenue are significantly reduced.

As of June 30, 2015, revenue from the top three customers accounted for 19% (June 30, 2014: 21%) of total revenue. The outstanding amounts owed by the top three customers accounted for 46% and 22% (June 30, 2014: 39% and 24%) 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.

22. FINANCIAL INSTRUMENTS - continued

**Credit risk management** - continued

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

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

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 June 30, 2015 and 2014.

**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 14 and 15, 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 June 30, 2015 and 2014. 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 years | 2 - 5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| | % | $ | $ | $ | $ | $ |
| **At June 30, 2015** | | | | | | |
| Bank loans | 6.2 | 73,487,387 | - | - | 73,487,387 | 73,487,387 |
| Bank notes payable | - | 16,277,958 | - | - | 16,277,958 | 16,277,958 |
| Accounts and other payables | - | 15,451,814 | - | - | 15,451,814 | 15,451,814 |
| Other loans | 2.8 | 10,465,777 | 568,340 | - | 11,034,117 | 10,839,597 |
| Convertible debentures | 29.0 | 5,447,407 | 2,610,491 | 8,747,208 | 16,805,106 | 8,238,434 |
| Financial guarantee contracts (Note) | - | 57,154,119 | - | - | 57,154,119 | 3,132,257 |
| | | 178,284,462 | 3,178,831 | 8,747,208 | 190,210,501 | 127,427,447 |
| **At June 30, 2014** | | | | | | |
| Bank loans | 6.5 | 48,902,568 | - | - | 48,902,568 | 48,902,568 |
| Bank notes payable | - | 18,127,156 | - | - | 18,127,156 | 18,127,156 |
| Accounts and other payables | - | 2,398,834 | - | - | 2,398,834 | 2,398,834 |
| Other loans | 12.0 | 2,265,594 | 2,241,233 | 553,675 | 5,060,502 | 4,434,619 |
| Convertible debentures | 18.0 | 1,405,021 | 14,523,678 | - | 15,928,699 | 13,474,515 |
| Financial guarantee contracts (Note) | - | 14,911,177 | - | - | 14,911,177 | - |
| | | 88,010,350 | 16,764,911 | 553,675 | 105,328,936 | 87,337,692 |

22. 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 consolidation financial statements approximate their fair value.

23. EMPLOYEE BENEFITS

The employees of the Group's subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

For the years ended June 30, 2015 and 2014, the Group incurred the following employee compensation expenses:

| | 2015 | 2014 |
|---|---|---|
| | US$ | US$ |
| Salaries, bonus and other short-term employee benefits | 3,826,308 | 3,103,844 |
| Contributions to retirement benefit scheme | 462,116 | 365,858 |
| Share-based compensation | 420,050 | 302,993 |
| | 4,708,474 | 3,772,695 |

Staff costs of US$81,477,869 (June 30, 2014: US$54,805,640) related to construction site workers who are employed by various sub-contractors engaged by the Group, are excluded from the amounts above and are included in the costs of construction.

## 24. 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.

## 25. OTHER FINANCIAL LIABILITIES/CONTINGENT LIABILITIES

As at June 30, 2015, the Group has guaranteed the bank loans for other construction companies, in amounts totalling US$57,154,119 (June 30, 2014: US$14,911,177). No consideration has been specifically received by the Group for these guarantees.

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

The carrying amount of the Group's financial guarantee contracts amounted to approximately US$3,132,000 (June 30, 2014: US$nil) represented the best estimate of the amount of obligation under these contracts as at June 30, 2015.

## 26. OTHER INCOME

Other income comprise the following:

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Imputed interest on accounts receivable and unbilled revenue | 3,477,673 | 4,282,559 |
| Others | 158,639 | 147,699 |
| | 3,636,312 | 4,430,258 |

## 27. DIVIDEND

During the years ended June 30, 2015 and 2014, no dividends were declared or paid to the shareholders.

No final dividend has been proposed in respect of the years ended June 30, 2015 and 2014.

## 28. OPERATING LEASES

**The Group as lessee**

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

| | 2015<br>US$ | 2014<br>US$ |
|---|---|---|
| Within one year | 201,869 | 213,251 |
| In the second to fifth years inclusive | 2,013 | 302,844 |
| | 203,882 | 516,095 |

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

## 29. RECLASSIFICATION

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

## 30. SUBSEQUENT EVENTS

(a) On October 16, 2015, the Ontario Securities Commission issued a management cease trade order which imposed restrictions on all trading in and all acquisitions of securities of the Company by the Chief Executive Officer and Chief Financial Officer of the Company until all required filings have been made.

(b) On October 31, 2015, the Company successfully retracted and redeemed CAD5,000,000 of the 11.5% convertible debentures due on October 31, 2018.