BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

December 18, 2015

This Management's Discussion and Analysis ("**MD&A**") relates to the financial condition and results of operations of Boyuan Construction Group, Inc. (the "**Company**") for the fiscal year ended June 30, 2015 ("**FY2015**") and the fiscal year ended June 30, 2014 ("**FY2014**"). It should be read in conjunction with the audited consolidated financial statements for FY2015 and FY2014 and notes thereto. The United States dollars is the Company's reporting currency and all figures herein are in United States dollars unless otherwise indicated. Boyuan reported its financial results in accordance with International Financial Reporting Standards **(IFRS)**, as required for public companies in Canada. Additional information about Boyuan including the Company's Annual Information Form and other filings are available through the System for Electronic Document Analysis and Retrieval **(SEDAR)** at www.sedar.com.

Caution Regarding Forward-Looking Information:

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to future events or the Company's future performance and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, but is not limited to, management's belief in the level of credit risk arising from the Company's customers, management's expectation on the effectiveness of the Company's disclosure controls and internal controls, management's plan to implement independent consultant's recommendations on internal controls and the plan to engage the consultant to perform an updated review on the internal control system, the Company's outlook on China's ongoing expansion of middle class and the growth of China's tier-2 cities and on the continued demand for the Company's services, the Company's plan to increase focus on specialty construction projects, the Company's expectation of higher profit margins for the specialty construction projects, and the Company's plan to upgrade its construction licences and qualifications. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risk of the current depressed property market in China, risk of macro-economy cycle, risk from competition, risk from insufficient marketing to secure new projects, risk in obtaining additional financing, risk involving permits and licenses, reliance on key management member, risk from supply of raw materials, risk of financial leverage, risk of bad debts in accounts receivables, risk involved in real estate development, foreign exchange fluctuations, political and economic conditions in China and other risks included in the Company's Annual Information Form for FY2015 and in the Company's other public disclosure documents filed with certain Canadian securities regulatory authorities and available at www.sedar.com. The forward-looking information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law.

OVERVIEW OF BUSINESS

About Boyuan

Based in Jiaxing City, China, Boyuan Construction Group, Inc. is in the business of residential and commercial building construction, municipal infrastructure and engineering projects. The Company operates as a general contractor across China. Having a national class I construction qualification, the Company is qualified to participate in construction projects up to 40 storeys with a gross construction area of 200,000 square meters and with a contract value of less than five times of the registered capital of Zhejiang Boyuan Construction Co., Ltd., the operating entity in China.

The Company has completed 45 material projects in the past three fiscal years. Currently the Company has a significant project backlog including residential, commercial, industrial, and hotels. The duration of these projects ranges from one to three years. The majority of these projects are located in the Yangtze River Delta and Hainan Island.

The Company's common shares are publicly traded on the Toronto Stock Exchange (the "**Exchange**" or the "**TSX**") under the symbol "BOY". The Company's 11.5% unsecured convertible debentures due October 31, 2018 (the "**Unsecured Debentures**") are traded on the Exchange under the symbol "BOY.DB.A".

Significant Accounting Policies

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.

Recognition of revenue

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.

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.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, 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.

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.

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.

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.

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.

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) to the consolidated financial statements 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.

OVERALL PERFORMANCE

Revenue for FY2015 was $320.9 million, up 16.5% from $275.4 million for FY2014. Net income after taxes for FY2015 was $12.4 million or $0.45 per fully diluted share. This compares to $6.1 million, or $0.24 per fully diluted share, for FY2014.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from the Company's audited consolidated financial statements for the three years ended June 30, 2015, 2014 and 2013:

US$'000 (except earnings per share amounts)	2015	2014	2013

Operating Results			
Construction revenue	320,896	275,388	205,411
Cost of construction	288,692	242,599	178,643
Gross profit	32,204	32,789	26,768
Net income	12,429	6,128	7,043
Earnings per share			
Basic	0.49	0.24	0.28
Diluted	0.45	0.24	0.28
Financial Position			
Current assets	187,943	140,670	133,593
Non-current assets	69,526	54,255	54,438
Total assets	257,469	194,925	188,031
Current liabilities	145,790	92,613	94,816
Long term debt	5,293	16,075	12,355
Shareholders' equity	106,386	86,237	80,860
Cash dividend per share	Nil	Nil	Nil
Common shares outstanding	25,420,065	25,420,065	25,434,020

RESULTS OF OPERATIONS

Revenue for FY2015 was $320.9 million, up 16.5% from $275.4 million for FY2014. Revenue is recognized on the percentage-of-completion method. The measures introduced by the Chinese central government three years ago to cool down the real estate market have had a negative impact on our business activities resulting in slower growth in revenue and a smaller gross margin in the past two years. The Company was also more selective in taking up new construction projects under the uncertain economic environment. However, with the real estate market seemingly more stabilized and with the full repayment of the secured debentures last year, the Company has been more aggressive in taking on new projects in the past two years. New projects taken up in FY2015 and FY2014 amounted to $204 million and $367 million respectively. Most of the Company's projects have duration between 1 to 3 years.

The increase in revenue was mainly driven by the following projects:

	Project	Revenue in FY2015 ($M)	Completion
1.	A residential project in Sanya Hainan	19.3	100%
2.	A commercial project in Haining, Zhejiang	17.5	50%

Cost of construction for FY2015 was $288.7 million, up 19.0% from $242.6 million for FY2013. The increase was primarily as a result of higher expenses associated with greater project volume. Cost of construction includes all direct material, labour, subcontract and other related costs, such as equipment repairs. The two major components of the cost of construction are direct material and labour costs. Direct material costs were $203.8 million and labour cost was $76.2 million in FY2015. In comparison, direct material costs and labour costs were $174.7 million and $58.6 million in FY2014.

Gross profit for FY2015 was $32.2 million, representing a margin of 10.0% on revenue. Gross profit for FY2014 was also $32.8 million, representing a margin of 11.9% on revenue. Historically, Boyuan's gross profit margins have been in the range of 14% to 17%.

G&A expenses were $6.0 million in FY2015 compared to $6.1 million in FY2014. G&A expenses have remained fairly stable year on year.

Interest and other income was $3.6 million in FY2015, compared to $4.4 million in FY2014. Imputed interest on accounts receivable and unbilled revenue of $3.5 million and $4.3 million was recorded to interest and other income for the years ended June 30, 2015 and 2014 respectively.

Interest expense was $7.1 million in FY2015, a decrease of $0.4 million over FY2014. The decrease was mainly due to a decrease in interest paid on notes receivables discounting paid on early redemption. The Company has redeemed fewer notes receivables prior to their maturity date in the period as a result of improved cash flow position of the Company.

The other expense of $3.1 million for FY2015 (nil for FY2014) was related to the carrying amount of the financial guarantee contracts, representing the amount of obligation under these contracts as at June 30, 2015. The fair value of the financial guarantee contracts at initial recognition was assessed by an independent qualified professional valuer. 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.

After-tax net income for FY2015 was 12.4 million or $0.45 per fully diluted share while it was $6.1 million or $0.24 for FY2014. The increase was principally due to an impairment loss recognized on unbilled revenue and a provision for allowance for doubtful debts recorded in FY2014.

Boyuan had working capital of $42.1 million, including cash, cash equivalents, and restricted cash totalling $20.2 million as at June 30, 2015. This compares to $48.1 million and $13.3 million, respectively at June 30, 2014.

FOURTH QUARTER RESULTS

The following table sets forth the selected financial information in the three months ended June 30, 2015 and 2014:

US$'000 (except earnings per share amounts)	**Three months ended June 30**

Operating Results	2015	2014
Revenue	91,815	101,767
Cost of construction	85,280	90,830
Gross profit	6,535	10,937
Net loss	(452)	(3,274)
Loss per share		
Basic	(0.02)	(0.13)
Diluted	(0.02)	(0.13)

Revenue for the three-month period ended June 30, 2015 was $91.8 million, down 9.8% from $101.8 million for Q4 FY2014. Historically, the fourth quarter was the Company's strongest and busiest period due to a variety of seasonal factors.

Cost of construction for Q4 FY2015 was $85.3 million, down 6.1% from $90.8 million for Q4 FY2014. The decrease was consistent with the decrease in construction revenue recorded in this period.

Gross profit for Q4 FY2015 was $6.5 million, representing a margin of 7.1% on revenue. Gross profit for Q4 FY2014 was $10.9 million, representing a margin of 10.7% on revenue.

As a result of the other expense of $3.1 million recorded in Q4 FY2015 that was related to the Group's obligation under the financial guarantee contracts as at June 30, 2015, the Company incurred a net loss of $0.45 million for Q4, FY2015. For the comparative period last fiscal year, the Company recorded a net loss of $3.3 million mainly due to the impairment loss and bad debt allowance incurred in the period.

RELATED PARTY BALANCES AND TRANSACTIONS

Related parties transactions are summarized as follows:

	June 30, 2015	June 30, 2014
	$	$
The Group has the following related party balances:		
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer (“**CEO**”)	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 to the consolidated financial statements which are non-interest bearing, unsecured and have no fixed terms of repayment.

The Company advances money to suppliers and project managers in order to secure construction materials and pay suppliers. The advances to the project managers are held in bank accounts in trust for the Company. As the funds advanced to project managers are held in trust there is a risk that they may be used in an unintended manner. Management has put controls to minimize the risks associated with these advances.

The use of personal bank accounts in local jurisdictions is solely for operation efficiency. Under the banking regulations in China, there are two main types of bank account; Basic account and General account. Basic account can be used for transfers to companies and individuals (i.e personal account) as well as cash deposits and cash withdrawals. General accounts are used for banking transactions other than those in the basic account. Company to personal bank transfers are not allowed in the General account. Companies are allowed to open only ONE basic account but unlimited general accounts. The Company needs to transact certain business activities through the basic bank account. For example, local projects need to purchase certain raw material from local suppliers, especially the smaller items such as sand, bricks etc, and these suppliers are mostly unincorporated suppliers, the Company has to make payments to their personal bank accounts or by cash. Local construction workers also need to be paid through their personal bank accounts or by cash as well. All these payments can only be made through the basic account (i.e payments made to personal accounts). Since the Company can open only ONE basic account and this account is opened at the head office, the Company has to use the basic bank accounts of the local project managers (bank account in trust) to transact these business activities. It would not be practical to use the Company's basic account in the head office to transact these transfers due to the number of ongoing construction projects in various locations and the number of transfers required on a daily basis.

Construction work is normally carried out 7 days a week as the Company uses a shift system for construction workers. As such the Company at times needs to make certain purchases on weekends, though the amount of purchase is typically smaller.

The Company has put in place the following alternative control procedures since September 2014 to address the fund safety issues identified by the Consultant:

i. The bank account in trust held by the project managers can only be used for project related expenditures. It is controlled by the local finance department. The local finance department is the custodian of the bank card without which one cannot make any cash outlays from the bank account. In addition, all cash outlays from the bank account are also reviewed on a monthly basis by the head office finance team.
ii. The bank card for the bank account in trust is held by the local finance department. Cash outlays from this account have to go through the normal expenditures approval and authorization procedures controlled by the local finance department. The relevant user in the project team has to complete and submit a requisition form along with the supporting document to the local finance department. The local finance department will check all supporting document to make sure they are in order and sign off by the local finance manager. The finance team will then submit all information to the project manager for final

approval.

iii. Monthly bank reconciliations are done by staff in the head office finance department and reviewed by the finance manager.

iv. More detailed planning of expenditures is done to minimize the amount required to be held in the bank account in trust, especially towards the end of the construction period.

In addition, the central government in China is currently reforming the sales taxes system for construction companies. Under the current system, construction companies can pay to personal bank accounts of their suppliers as long as proper invoices are issued. Under the proposed system, construction companies can only pay to the bank accounts of the invoice issuing entities therefore eliminating the practice of paying to the personal bank accounts in future. It is expected the proposed new system will take full effect before the end of next year.

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 to the consolidated financial statements 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 to the consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of the Company's selected quarterly financial information for each of the eight quarters ended June 30, 2015:

US$'000	Revenue	Net Income (Loss)	Basic earnings (loss) per share	Diluted earnings (loss) per share
Q4, FY2015	91,815	(452)	(0.02)	(0.02)
Q3, FY2015	90,014	7,525	0.30	0.25
Q2, FY2015	76,324	4,710	0.19	0.16
Q1, FY2015	67,732	3,896	0.15	0.14
Q4, FY2014	101,767	(3,274)	(0.13)	(0.13)
Q3, FY2014	63,960	5,885	0.23	0.21
Q2, FY2014	61,990	3,617	0.14	0.13
Q1, FY2014	49,039	2,338	0.09	0.09

As a result of the Company taking on more projects in the past year, the quarterly revenue have been on an upward trend over the past two years. Generally speaking, there are relatively less construction activities in the third quarter due to the Chinese New year holidays, and relatively more construction activities in the fourth quarter attributable to friendlier weather conditions and the Company trying to make up for the loss of production time in the previous quarter.

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q4, FY2015	Q4, FY2014	FY2015	FY2014
Operating activities	(3,740)	4,134	(14,027)	4,631
Investing activities	(968)	(1,227)	(3,933)	1,538
Financing activities	8,915	(69)	21,296	(4,042)
Effect of currency translation	(217)	(100)	(153)	(144)
Net Increase (decrease) in cash and cash equivalents	3,990	2,738	3,183	1,983

Net cash used in operating activities was $14.0 million for the FY2015, and $3.7 million in Q4 FY2015. For the same periods last year, net cash provided were $4.6 million and $4.1 million respectively. The changes were primarily caused by the increase in net income and the normal business operating fluctuations in non-cash working capital items such as account receivable and unbilled revenue.

Net cash used in investing activities was $3.9 million in FY2015 and $1.0 million for the last quarter of FY2015. For the same periods last year, the net cash provided (used) were $1.5 million and $1.2 million respectively. The major component for cash used in FY2015 was related to the change in restricted cash.

Net cash provided from financing activities was $21.3 million in FY2015, compared to a net cash used of $4.0 million in FY2014. Net cash provided in Q4 FY2014 was $8.9 million compared to $0.1 million used in the same period last year. The change was mainly due to the increase in loan payable, offset partially by the decrease in bank loans.

The increase in unbilled revenue over the few years has put additional pressure on the Company's cash flows situation. The unbilled revenue balance was $173.3 million at June 30, 2015, compared to $127.9 million at the same time last year. There are essentially two main reasons the unbilled revenue balances have increased year over year.

The first reason relates to the growth strategy of the Company over the last several years. The Company continues to gain market share in the construction industry in China by capitalizing on opportunities to take on additional work. This strategy is paying off, as potential customers observe that the Company is able to complete complex projects at a high quality standard on a timely basis. Ultimately, this increases the amount of unbilled revenue at a rate faster than what is being final billed and collected for previous projects. The unbilled revenue of the Company would certainly decrease if the Company stopped taking on projects or decreased the number and size of projects. The Company currently uses this strategy as its business model and has historically used the same model, which has resulted in growth and success over the years.

The other reason being the Company has experienced some delays in billing our customers over the last couple of years as the measures introduced by the Chinese central government three years ago to cool down the real estate market have had a negative impact on collection period. Delays in billing can occur during construction period and also when the projects have been completed. Generally speaking, delays in billing during construction period occurred as a result of customers wanting us to delay the issuance of the invoices until they are in a better cash flow position.

It is normally stipulated in the contracts as well as industry practices that a portion of the construction price will not be invoiced to the customers until the final completion report is signed. The final completion report establishes the final price of the contract (i.e. the final contract price plus all the extras and change orders). Executing the final completion report is dependent on many different variables and there maybe delays. The variables range from customers waiting for sales of the development to occur so they can pay their suppliers and tax obligations, remediation of certain work or final government permits to name a few. As a result amounts are classified as unbilled revenue for a longer period of time until these issues are resolved. The finalization of the completed contract reports is a long and tedious process as it involves checking of all the work done and related costs in a particular project. This is particularly so when a lot of changes have been made to the original design during the construction process. Normally this process will take approximately up to 12 months to complete. In recent years this process has taken longer to complete due to the increase in size of the projects that the Company has taken on. The inspection process has become more complex and the developer often dictates the inspection timing. . The average contract price of new projects accepted in fiscal 2014 was approximately RMB 127 million compared to approximately RMB 35 million for ongoing projects in 2009. Due to the significant increase in size of projects, the construction period, timing of the issuance of completion reports and the overall length of the Company’s operating cycle has increased. Additionally, the Company believes this is a tactic used by the developers to delay payments to their contractors as once the completion reports are issued; the developers have to start making final payments to the contractor. From a business perspective, developers are avoiding payment until the very last moment. Unlike the distribution industry where they can stop selling products or providing services to a customer who has reached their credit limit, companies in the construction industry will general complete project even though customers may be behind on their payment terms.

The following projects have significant overdue balances in accounts receivable and unbilled revenue as at June 30, 2015 as a result of the delays in billing for reasons noted above:

		Contract Value ($'M)	**Overdue Amount ($'M)**
1.	A commercial project in Jiangsu	14.5	1.0
2.	A residential project in Zaozhuang, Shandong	15.4	2.4
3.	A residential project in Jiaxing Zhejiang	13.0	6.4
4.	A commercial project in Haining Zhejiang	32.1	10.3
5.	A residential project in Boao Hainan	36.4	2.1

6.	A residential project in Sanya Hainan	43.3	7.4
7.	A residential project in Sanya Hainan	8.4	2.3
8.	A residential project in Wenchang Hainan	25.7	5.9
9.	A commercial project in Sanya Hainan	17.5	1.8
10.	A residential project in Sanya Hainan	44.3	1.9
11.	A residential project in Sanya Hainan	43.1	4.0
12.	A residential project in Sanya Hainan	13.7	1.5
		307.4	47.0

All of the above accounts are considered normal as most of the amounts overdue are within one year. These are ongoing projects and there are no indications from the customers that payments will not be made. The customers have also been making regular payments to the Company in the past. $23.1 million of the above overdue balance was subsequent collected between July to December 2015.

The Company intends to use cash generated from operations to fund working capital requirements. The Company also intends to aggressively pursuit customers for payments of unbilled revenue and overdue accounts receivable. The Company will obtain long and/or short term financing from local PRC banks or make other lending arrangements in order to subsidize any shortfall in working capital requirements in case of the cash generated from operations is not sufficient. The Company may also look to the market to issue shares or debentures in order to fund any cash shortages.

The Company actual cash receipts from customers for the FY2015 was $258.9 million. The Company also has approximately $75 million of banking facilities of which approximately $67 million has been used at the moment. The Company is constantly looking for additional banking facilities, and currently discussing with several local financial institutions to obtain additional facilities up to $10 million.

The Company's objectives when managing capital are:

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

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

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

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

The Company had cash and cash equivalents balance of $9.8 million, $187.9 million in current assets and $145.8 million in current liabilities as at June 30, 2015.

On November 3, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of $987 (CDN$1,000) per debenture for gross proceeds of $14,799,000 (CDN$15,000,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and will be 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 of CDN$2.60 per share. The convertible debentures are redeemable by the Company at any time from and after November 1, 2013 at a price equal to the principal amount thereof plus accrued and unpaid interest if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the 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.

On July 1, 2015, the Company amended its Unsecured Debentures with the following principal amended terms:

(i) interest rate was increased to 11.5% from 10.0% on and from July 1, 2015;

(ii) Debenture holders were provided with a retraction right to require the Company to repurchase Debentures on each of October 31, 2015 (up to Cdn$5 million), October 31, 2016 (up to Cdn$1.5 million) and October 31, 2017 (up to Cdn$1.5 million);

(iii) conversion price was decreased from Cdn$2.60 to Cdn$1.00 per share of the Company;

(iv) maturity date of the Debentures was extended from October 31, 2015 to October 31, 2018; and

(v) the restricted redemption period was extended to October 31, 2016.

On October 31, 2015, the Company completed the retraction of Cdn$5 million aggregate principal amount of its Unsecured Debentures.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 25,420,065 common shares outstanding. The Company has Unsecured Debentures outstanding of $10 million that can be converted into 10 million common shares. The outstanding share options granted to directors and officers are 1,755,000.

OFF BALANCE SHEET ARRANGEMENTS

As at June 30, 2015, the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company**.**

FINANCIAL INSTRUMENTS

Interest rate risk

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

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 approximately US$151,273 (June 30, 2014: increase/decrease in the Group's post-tax profit of approximately 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 approximately US$315,579 (June 30, 2014: decrease/increase in the Group's post-tax profit of approximately US$185,765). This is mainly attributable to the Group's exposure to the interest rates on its variable-rate loans.

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 to the consolidated financial statements.

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

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

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.

Foreign currency risk

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.

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in Canada and China and is exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risks. A significant change in the currency exchange rates between the US or Canadian dollar relative to the RMB could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash on hand through equity financing and bank loans.

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	-	57,154,119	-	-	57,154,119	3,132,237
		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	-	14,911,177	-	-	14,911,177	-
		88,010,350	16,764,911	553,675	105,328,936	87,337,692

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.

Economic, political, & legal risk

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

<u>Application of New and Revised International Financial Reporting Standards ("IFRSs")</u>

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]

IFRS 9 *Financial Instruments*

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[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.

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.

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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The design and effectiveness of internal controls over financial reporting was assessed as of June 30, 2015. Based on the evaluation, the Company concluded that the design and effectiveness of the Company's DC&P and ICFR was sufficiently effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations.

In 2010, the Company engaged an international consulting company to review its internal control system for financial reporting and to make recommendations on improving the internal control system. The Company's internal control system has been strengthened to a certain extent as the majority of the recommendations were implemented by the end of calendar 2010, although management acknowledged that many improvements were needed. In August 2013, as a result of information noted below, the Company again engaged the same consulting company to perform another comprehensive review of the financial reporting and internal control system.

On May 31, 2013, Boyuan announced that the OSC had issued a Notice of Hearing to consider a settlement agreement (the "**Settlement Agreement**") that had been reached by the Staff of the OSC (the "Staff") with Boyuan. The Settlement Agreement related to allegations made by the Staff regarding certain inaccurate documents and information provided by Boyuan to the Staff and to Boyuan's auditors for a related party loan transaction entered into by the CEO on behalf of Boyuan and to Boyuan's lack of adequate internal control procedures on related party transactions and provision of information to its auditor and regulator.

On June 5, 2013, Boyuan announced that the OSC issued an Order approving the Settlement Agreement. Pursuant to the terms of the OSC Order, Boyuan is required to engage an internal control consultant to review the internal control and financial reporting procedures and policies of Boyuan, to make recommendations for improvement and to report to the Staff on its review and Boyuan's progress in implementing the consultant's recommendations. The consultant is required to report to the Staff on its recommendations within three months of its engagement by Boyuan, and Boyuan is required to implement the consultant's recommendations within nine months, subject to certain time extensions that may be approved by the Staff. The consultant's report was issued on November 26, 2013. By December 31, 2014, the Company has implemented all the recommendations made by the consultant. The consultant has completed a review of the implementation in March 2015 and issued a final report to the Staff and Company stating that the Company has successfully implemented all their recommendations.

SUBSEQUENT EVENTS

(a) On October 16, 2015, the OSC 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 ("CEO) and Chief Financial Officer ("CFO") of the Company until all required filings have been made.

(b) On October 31, 2015, the Company successfully retracted and redeemed CDN$5,000,000 of the 11.5% convertible debentures due on October 31, 2018.

OUTLOOK

The continued growth of China's middle class and the ongoing development of tier two cities as a result of urbanization suggest that higher demand for the Company's construction services will remain strong in the long term. In the near term, the restrictive measures imposed by the central government on the residential market and the tightening of financing facilities to property developers will continue to dampen the pace of growth for the Company. Over the longer term, the Company believes that its growth will be driven by expanding its reach in tier-two cities and increasing focus on speciality construction projects, which the Company believes will deliver higher profit margins. As a part of this strategic direction, the Company plans to upgrade its qualification and engineering standards to ensure that it can tap into this growing market potential.