BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

September 23, 2010

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, 2010 ("**FY2010**") and the fiscal year ended June 30, 2009 ("**FY2009**"). It should be read in conjunction with the audited consolidated financial statements for FY2010 and FY2009 and notes thereto. All financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("**GAAP**"). The United States dollars is the Company's reporting currency and all figures herein are in United States dollars unless otherwise indicated. 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, the Company's expectations regarding its net income in 2011, the Company's ability to sustain revenue generating momentum, 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 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 FY2010 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 more than 80 projects in the past three years with clients including Cargill and Dalian Shide Group, a billion dollar conglomerate whose partners include Dupont, Mitsubishi, and GE. 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 has also recently expanded its business activities into the Province of Shandong.

The Company was listed on the TSX Venture Exchange ("**TSXV**") on March 11, 2009 by completing the acquisition of SND Energy Ltd. through a reverse-takeover (RTO) transaction. On June 14, 2010, Boyuan's common shares and the 11.75% secured convertible debentures due February 27, 2013 (the "**Secured Debentures**") were delisted from the TSXV and began trading on the Toronto Stock Exchange ("**TSX**") under the symbol "BOY" and "BOY.DB" respectively.

Significant Accounting Policies

Variable Interest Entity Agreements

The Company through its subsidiary entity effectively takes on all the rights and privileges of beneficial ownership of Zhejiang Boyuan Construction Co., Ltd. via four agreements entered into between the subsidiary entity and Zhejiang Boyuan Construction Co., Ltd. Under the generally accepted accounting principles in Canada this relationship is accounted for as a variable interest entity by the Company. The financial positions and the related results of operations, changes in equity and cash flow are therefore consolidated under the Company.

Recognition of revenue

Revenues are recognized on the percentage-of-completion method, measured by the ratio of costs incurred up to a given date to estimated total costs for each contract.

Contract costs include all direct material, labor, subcontract and other costs and those indirect costs related to contract performance, such as indirect salaries and wages, equipment repairs, insurance and payroll taxes. Administrative and general expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. An amount attributable to contract claims is included in revenues when realization is probable and the amount can be reliably estimated. The Company generally provides a two to three year warranty for workmanship under its contracts. Warranty claims historically have been inconsequential.

The asset, "Unbilled revenue" represents revenues recognized in excess of amounts billed on these contracts.

Critical Accounting Estimates

Revenue Recognition

The Company recognizes revenue under the percentage-of-completion method for the majority of its contracts. The Company uses the cost-to-cost method which is based on the percentage of total costs incurred to date in proportion to total estimates costs to complete the contracts. Changes in job performance, job conditions and final contract settlements, among others, are factors that influence the assessment of the total estimated costs to complete these contracts and ultimately how much revenue the Company can recognize.

Allowance for doubtful receivables

The Company provides for an allowance for doubtful accounts when collection of an account is considered doubtful. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, its customers' access to capital, its customers' willingness or ability to pay, general economic conditions and the ongoing relationship with the customer.

Useful lives of property and equipment

Management makes assumptions of the estimated useful lives of property and equipment which it believes are reasonable. The recoverability of tangible assets is significantly impacted by the estimated useful lives of assets. If a significant change in the estimated useful lives of the property and equipment is identified, the effect of such changes on amortization expense would be accounted for on a prospective basis. Reductions in the estimated useful lives of the property and equipment would result in additional amortization expense in future periods and may necessitate acceleration of planned capital expenditures.

OVERALL PERFORMANCE

Revenue for FY2010 was $147.3 million, up 44.9% from $101.7 million for FY2009. Adjusted net income after taxes for FY2010 was $13.3 million or $0.55 per share fully diluted. This compares to $9.6 million, or $0.39 per fully diluted share, for FY2009.

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, 2010, 2009 and 2008:

US$'000 (except earnings per share amounts)	2010	2009	2008
Operating Results			
Construction revenue	147,344	101,664	56,175
Cost of construction	121,775	85,683	46,320
Gross profit	25,569	15,981	9,855
Net income	10,057	7,893	6,180
Adjusted net income	13,300	9,611	6,180
Earnings per share			
Basic	0.80	2.40	1.99
Diluted	0.43	0.31	0.25
Adjusted earnings per share			
Basic	1.06	2.93	1.99
Diluted	0.55	0.39	0.25
Financial Position			
Current assets	85,529	51,289	29,819
Non-current assets	8,340	6,227	6,096
Total assets	93,869	57,516	35,915
Current liabilities	45,605	28,886	19,366
Long term debt	4,727	2,453	632
Shareholders' equity	43,537	26,177	15,917
Cash dividend per share	Nil	Nil	Nil
Common shares outstanding	16,187,941	3,659,741	3,104,741

RESULTS OF OPERATIONS

Revenue for FY2010 was $147.3 million, up 44.9% from $101.7 million for FY2009. Revenue is recognized on the percentage-of-completion method. The significant year-over-year growth was primarily attributable to an increase in the number of successful project bids by the Company as well as an increase in demand for construction and engineering services in the Yangtze River Delta, Hainan Island, Boyuan's core markets. The growth was also due to the Company's decision to expand into Shandong Province.

Higher demand for construction and engineering services is due to ongoing urban migration and an expansion of China's middle class, which drive the need for new housing, commercial and public infrastructure projects.

Cost of construction for FY2010 was $121.8 million, up 42.1% from $85.7 million for FY2009. The increase was primarily as a result of higher expenses associated with greater project volume and an expanded work force. Cost of construction includes all direct material, labour, subcontract and other related costs, such as equipment repairs.

Gross profit for FY2010 was $25.6 million, representing a margin of 17.4% on revenue. Gross profit for FY2009 was $16.0 million, representing a margin of 15.7% on revenue. The year-over-year improvement in gross margins by 170 basis points was primarily due to a higher volume of projects on Hainan Island, where the Company is experiencing strong demand for its construction and engineering services but is encountering limited competition. Historically, Boyuan's gross profit margins have been in the range of 15% to 16%.

Net income after taxes for FY2010 was $10.1 million or $0.43 per share fully diluted. This compares to $7.9 million, or $0.31 per fully diluted share, for FY2009.

Adjusted net income for FY2010 was $13.3 million, up 38.3% from $9.6 million for FY2009. Adjusted net income is not a recognized measure under GAAP and excludes a non-cash, stock-based compensation charge of $3.2 million related to the fair value transfer of shares under the make-good provisions of two separate financing agreements signed respectively in March and July of 2009. As specified by the Company's make-good provisions, Boyuan forecasted an after-tax net income of $11.5 million in March, 2009 and $12.4 million in July, 2009, respectively, for FY2010.

There were a total of 2.64 million shares from the Chairman held in escrow on June 30, 2010 under a make good escrow agreement entered into on February 27, 2009. By generating $13.3 million in adjusted after tax net income, the shares previously held in escrow will be returned to the Chairman.

The accounting treatment of make-good provisions has subsequently changed and is no longer applied if issuers reach their financial targets. Boyuan has no make-good provisions in effect.

Boyuan had working capital of $39.9 million, including cash, equivalents, and restricted cash totalling $8.7 million as at June 30, 2010. This compares to $22.4 million and $5.5 million, respectively at June 30, 2009.

FOURTH QUARTER RESULTS

The following table sets forth the selected financial information in the three months ended June 30, 2010 and 2009:

US$'000 (except earnings per share amounts)	**Three months ended June 30**	
Operating Results	2010	2009
Revenue	43,681	41,066
Cost of construction	35,661	33,618
Gross profit	8,020	7,448
Net income	4,593	2,315
Adjusted net income	4,593	4,033
Earnings per share		
Basic	0.29	0.63
Diluted	0.17	0.09
Adjusted earnings per share		
Basic	0.29	1.23
Diluted	0.17	0.16

Revenue for the three-month period ended June 30, 2010 was $43.7 million, up 6.4% from $41.1 million for Q4 FY2009. Historically, the fourth quarter is the Company's strongest and busiest period due to a variety of seasonal factors. The growth on a comparative basis was primarily due to the Company's decision to expand into Shandong Province.

Cost of construction for Q4 FY2010 was $35.7 million, up 6.0% from $33.6 million for Q4 FY2009. The increase was primarily as a result of higher expenses associated with greater project volume and an expanded work force.

Gross profit for Q4 FY2010 was $8.0 million, representing a margin of 18.3% on revenue. Gross profit for Q4 FY2009 was $7.4 million, representing a margin of 18.1% on revenue.

Due to changes in the accounting treatment of make good provisions. Boyuan did not incur any make good stock-based compensation charges in Q4 FY2010. Under accounting principles at the time, Boyuan incurred a stock-based based compensation charge of $1.8 million in Q4 FY2009. Adjusted net income for Q4 FY2010, as a result, was $4.6 million or $0.17 per diluted share. These compare to $4.1 million and $0.16, respectively, for Q4 FY2009.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	2010	**2009**
Due from the Chairman & CEO	$ -	$113,010
Due to Chairman & CEO	171,925	-
Due to affiliated companies	420,289	22,839

The advances to the Chairman and CEO were used for travel and general business expenses incurred in the normal course of business. The advances did not bear interest and were uncollateralized.

Due to affiliated companies balance of $420,289 was a result of payments made to suppliers on the Company's behalf by the Company's affiliated companies.

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, 2010:

US$'000	**Revenue**	**Net Income (Loss)**	**Basic EPS**	**Diluted EPS**
Q4, FY2010	43,681	4,593	0.29	0.17
Q3, FY2010	31,048	2,156	0.16	0.09
Q2, FY2010	37,611	3,512	0.26	0.15
Q1, FY2010	35,003	(206)	(0.03)	(0.03)
Q4, FY2009	41,066	2,314	0.63	0.09
Q3, FY2009	15,939	1,160	0.36	0.05
Q2, FY2009	23,388	2,375	0.76	0.10
Q1, FY2009	21,271	2,043	0.66	0.08

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q4, FY2010	Q4, FY2009	FY2010	FY2009
Operating activities	(2,944)	(997)	(12,944)	(11,781)
Investing activities	(1,486)	(442)	(1,928)	(1,151)
Financing activities	4,964	2,149	17,323	8,787
Effect of currency translation	31	(46)	38	26
Net Increase in cash and cash equivalents	565	664	2,488	(4,119)

Net cash used in operating activities was $12.9 million for the FY2010 compared to $11.7 million in FY2009. Net cash used for the last quarter of FY2010 was $2.9 million compared to net cash used of 1 million in the last quarter in FY2009. The change was primarily caused by the increase in the Company's unbilled revenue and advances to suppliers.

Net cash used in investing activities was $1.9 million in FY2010 and $1.5 million for the last quarter of FY2010. For FY2009 and the last quarter of FY2009, net cash used was $1.2 million and $0.4 million respectively. All cash used in investment activities were related to acquisition of equipment.

Net cash provided from financing activities was $17.3 million in FY2010, an increase of $8.8 million over FY2009. The increase in bank financing and the Secured Debentures/common shares issued were the main funding sources in FY2010. Net cash provided from financing activities was $5 million in the last quarter of FY2010 and $2.1 million in the corresponding quarter in FY2009. The primary financing source for both quarters was from bank financing.

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 Debenture, 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 $4.9 million as at June 30, 2010 as compared to a cash and cash equivalents balance of $2.4 million as at June 30, 2009. This increase was the result of funding provided by the financing activities during the year offset by the funds used to take on additional construction projects. The Company had $85.5 million in current assets and $45.6 million in current liabilities as at June 30, 2010.

On July 7, 2009 (with an effective date of June 30, 2009), the Company closed a non-brokered private placement of 6,474 units (the "**Units**") at a price of $860 (CDN$1,000) per Unit for gross proceeds of $5.6 million (CDN$6.5 million). Each Unit consists of one Secured Debenture in the principal amount of $645 (CDN$750), 125 common shares, 250 non-transferable warrants, 250 non-transferable rights and 250 non-transferable additional rights.

Each Secured Debenture bears interest at a rate of 11.75% per annum, paid quarterly in arrears and will be, at the election of the holder, convertible into 375 common shares at a conversion price of CDN$2.00 per share plus accrued interest paid in cash. The conversion right may be exercised at the option of the holder commencing July 7, 2009 and until the close of business on the sixth day prior to the maturity date. The Secured Debentures mature on February 27, 2013. One third of the outstanding principal is redeemable by the Company, at the holder's option, on each of February 27, 2011 and February 27, 2012. Each warrant entitles the holder, upon exercise, to receive a common share at a price of CDN$2.00 for a period of four years following closing date. Each right and additional right entitles the holder, upon exercise, to receive one common share of the Company transferred to the holder from escrow at no additional consideration. Each right would be exercisable during the rights exercise period and each additional right would be exercisable during the additional rights exercise period, should the Company fails to achieve the after tax net income prior to the deduction of any make good charge ("**ANTI**") of US$8.5 million for FY 2009 and US$12.4 million for FY2010, respectively. The rights exercise period shall commence on the date that the Company files on SEDAR its audited annual financial statements for FY2009 and ending 30 days thereafter. The additional rights exercise period shall commence on the date that the Company files on SEDAR its audited annual financial statements for FY2010 and ending 30 days thereafter. All rights expired on or about October 26, 2009 after the Company announced that it had met the ANTI target of US$8.5 million for FY2009. All additional rights expired on September 23, 2010 as the Company announced that it had met the ANTI target of US$12.4 million for FY2010.

Management of the Company deposited a total of 3,351,722 common shares of the Company with an escrow agent upon the conversion of certain Class A Series 1 preferred shares and release of certain common shares from TSXV value escrow agreement held by a certain member of the management. In the event the rights are exercisable, the escrow agent, upon exercise, or deemed exercise, of the rights during the rights exercise period, would transfer to holders of the rights for no additional consideration one escrowed share for each right exercised by such holder. In the event the additional rights are exercisable, the escrow agent, upon exercise, or deemed exercise, of the additional rights during the additional rights exercise period, would transfer to the holders of the additional rights for no additional consideration one escrowed share for each additional right exercised by such holder. As at

June 30, 2010, a total of 2,643,500 common shares remained in this make-good escrow. As the Company has met the ANTI target for both FY2009 and FY2010, all shares remaining in the make-good escrow arrangement will be transferred back to management of the Company.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 16,187,941 common shares and 9,592,059 preferred shares outstanding. The Company also has Secured Debentures outstanding of $7.4 million (CDN$7.9 million) that can be converted into 3,963,000 common shares and 3,133,700 warrants outstanding exercisable into 3,133,700 common shares. The outstanding share options granted to directors and officers are 1,145,000.

Off Balance Sheet Arrangements

As at June 30, 2010, 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 and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and restricted cash and accounts receivable. The Company has significant cash and restricted cash balances that are interest-bearing. To minimize the credit risk the Company places these instruments with high credit quality financial institutions located in China.

The Company's accounts receivable are all from well-known customers located in China. Credit risk from accounts receivable encompasses the default risk of the Company's customers. The Company extends credit to its customer. The credit is secured by virtue of law. Under PRC regulations, a general contractor is entitled to first claim of assets against its customers. This entitlement gives the class I general contractor "mechanic lien" which is senior than all other secured debt including but limited to bank loans, notes, and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with that real property that is under construction.

Management, on an ongoing basis, monitor the level of accounts receivable 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.

Management does not believe that there is significant credit risk arising from any of the Company's customers; however, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts.

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.

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income for the period which a change in foreign exchange rate during the year ended June30, 2010 would have had.

The sensitivity analysis includes the assumption of changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter.

The result of sensitivity analysis shows a an increase (decrease) of 10% in RMB exchange rate could have no impact of the Company's net income but could have increase (decrease) the comprehensive income by approximately $1,350,000 ($1,350,000).

The above result arises primarily as a result of the Company having RMB denominated trade accounts receivable balances, trade accounts payable and accrued liabilities balances and bank account balances. The financial position of the Company may vary at the time that a change of the foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

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 following are the contractual maturities of financial liabilities as at June 30, 2010:

	Carrying Amount	**Contractual Cash Flows**	**Within 1 year**	**Within 2 years**	**Within 3 years**
	$	**$**	**$**	**$**	**$**
Bank loans	19,480,040	(19,480,040)	(19,480,040)	-	-
Notes payable	6,151,475	(6,151,475)	(6,151,475)	-	-
Accounts payable	4,783,193	(4,783,193)	(4,783,193)	-	-
Due to related parties	592,214	(592,214)	(592,214)	-	-
Automobile loans	382,425	(382,425)	(382,425)	-	-
Secured Debentures	6,142,476	(7,473,128)	(2,488,214)	(2,492,457)	(2492,457)
Total	37,531,823	(38,862,475)	(33,877,561)	(2,492,457)	(2,492,457)

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.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the CICA amended the Handbook Section 3862, "Financial Instruments – Disclosures". These amendments are applicable to financial statements relating to the Company's annual financial statements for FY2010. The amendments provide for additional disclosure requirements about fair value measurements of financial instruments and enhanced liquidity risk disclosure requirements for publicly accountable enterprises. The additional required disclosures are included in Note 17 of these consolidated financial statements.

Effective January 1, 2010, the Company changed its policy, on a prospective basis, to account for certain escrowed share arrangements as non-compensatory. Historically, an escrowed share arrangement involving the release of shares to certain shareholders based on performance-related criteria is presumed to be compensatory. Under the new policy the Company evaluates whether the substance of the arrangement is related to or is contingent upon the continued employment of the escrow holder. The arrangement is viewed as compensatory where it is related to the employment of the escrow holder and is recorded as a current expense in the period where the performance criteria are met.

In January 2009, the Accounting Standards Board ("**AcSB**") issued CICA Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The AcSB also issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which replace Section 1600, "Consolidated Financial Statements". These new sections are based on the International Accounting Standards Board's ("**IASB**") International Financial Reporting Standard 3, "Business Combinations". These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The adoption of this standard will affect the presentation and disclosure of the non-controlling interest. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2008, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("**IFRS**"). AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for FY2010. In July 2008 AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

The Company expects its first consolidated financial statements presented in accordance with IFRS to be for the three- month period ended September 30, 2011, which includes presentation of its comparative results for the same period in 2010 under IFRS. In order to prepare for the changeover to IFRS, the Company is in the process of developing an IFRS conversion plan comprised of various phases as follows:

Preliminary Planning and Scoping – This phase involves development of an internal diagnostic review designed to understand, identify and assess the overall effort required to produce financial information under IFRS. The review will include high level consideration of the impacts of IFRS on the Company's consolidated financial statements, internal control over financial reporting and information systems. Based on management's preliminary review and current Company processes, minimal impact is expected on information systems. The IFRS diagnostic review includes a high level impact assessment of IFRS, as relevant to the Company. This initial assessment will identify standards of high or medium priority to the Company. The Company will assess any such changes required as a component of its detailed Impact Assessment phase and update its IFRS conversion plan as appropriate.

Detailed Impact Assessment - This phase involves detailed review of IFRS relevant to the Company and identification of all differences between existing Canadian GAAP and IFRS that may or will result in accounting and/or disclosure differences in the Company's consolidated financial statements, along with quantification of impact on key line items and disclosures. The phase includes identification, evaluation and selection of accounting policies necessary for the Company's conversion to IFRS. The Company is in the process of its detailed review of IFRS relevant to the Company and identification of key differences. The Company expects to complete this phase in through the remainder of fiscal 2011.

Implementation - This phase will embed the required changes for conversion to IFRS into the underlying financial close and reporting process and business process. This will include finalization and approval of accounting policy changes, collection of financial information necessary to prepare IFRS compliant consolidated financial statements, implementation of additional internal controls, and preparation and approval of completed IFRS consolidated financial statements. The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company's quarterly and annual consolidated financial statements and related notes effective July 1, 2011, however continued progress on the IFRS conversion plan is necessary before the Company is able to describe or quantify those effects.

SUBSEQUENT EVENTS

On July 8, 2010, the Company granted 1,005,000 stock options to directors and officers of the Company. 251,250 options will vest every six months from January 8, 2011 to July 8, 2012 to purchase 1,005,000 common shares of the Company at CAD$2.10 per share until July 8, 2015.

On September 23, 2010, the Company announced that it had met the ANTI target of $12,400,000 for FY2010 and therefore the Additional Rights were cancelled accordingly on September 23, 2010 and the applicable escrow was terminated and all escrowed common shares were released to the applicable holder thereof.

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 coming periods. 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 new strategic direction, the Company plans to upgrade its qualification and engineering standards to ensure that it can tap into this growing market potential.

Boyuan Construction Group, Inc.

Consolidated Financial Statements

For the Years ended

June 30, 2010 and 2009

MANNING ELLIOTT
CHARTERED ACCOUNTANTS
11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7
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AUDITORS' REPORT

To the Shareholders of
Boyuan Construction Group, Inc.

We have audited the consolidated balance sheets of Boyuan Construction Group, Inc. (the "Company") as at June 30, 2010 and 2009, and the consolidated statements of income and comprehensive income, retained earnings, accumulated other comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

September 18, 2010

Boyuan Construction Group, Inc.

Consolidated Balance Sheets
As at June 30, 2010 and 2009
(Expressed in US Dollars)

	2010 $	2009 $
Current Assets		
Cash and cash equivalents	4,853,755	2,365,738
Restricted cash (Note 6)	3,872,488	3,101,189
Accounts receivable	676,187	1,314,900
Unbilled revenue	49,778,594	35,528,915
Other receivables	1,577,310	1,808,877
Inventory	390,130	658,150
Advances to suppliers and prepaid expenses	14,516,086	2,971,020
Deposits	9,385,787	3,540,155
Future income tax assets	479,000	-
	85,529,337	51,288,944
Deferred transaction costs	-	55,222
Due from related parties (Note 7)	-	113,010
Property and equipment (Note 8)	8,213,535	5,946,748
Land use rights (Note 9)	126,392	112,243
	93,869,264	57,516,167
Current Liabilities		
Bank loans (Note 10)	19,480,040	8,692,730
Bank notes payable (Note 10)	6,151,475	4,234,046
Accounts payable and accrued liabilities	12,679,266	12,842,823
Income taxes payable	3,038,947	1,318,874
Deferred revenue	1,057,840	1,454,145
Automobile loans	382,425	118,292
Due to related parties (Note 7)	592,214	22,839
Current portion of convertible debentures (Note 11)	2,223,048	-
Future income tax liabilities (Note 15)	-	202,000
	45,605,255	28,885,749
Future income tax liabilities (Note 15)	808,000	573,000
Convertible debentures (Note 11)	3,919,428	1,880,200
	50,332,683	31,338,949
Shareholders' Equity		
Share capital (Note 12)	7,374,344	6,139,860
Contributed surplus (Note 13)	7,332,471	1,890,711
Reserves (Note 14)	2,774,998	1,928,732
Equity component of convertible debentures (Note 11)	372,533	137,295
	17,854,346	10,096,598
Retained earnings	23,537,584	14,326,995
Accumulated other comprehensive income	2,144,651	1,753,625
	25,682,235	16,080,620
	43,536,581	26,177,218
	93,869,264	57,516,167

CONTINGENT LIABILITIES (Note 21)
SUBSEQUENT EVENT (Note 23)

Approved on behalf of the Board:

"Cailiang Shou"	*"David Horsley"*
Cailiang Shou, Director	David Horsley, Director

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Income and Comprehensive Income
For the Years Ended June 30, 2010 and 2009
(Expressed in US Dollars)

	2010 $	2009 $
Construction revenue	147,344,451	101,664,080
Cost of construction	121,775,099	85,682,653
Gross profit	25,569,352	15,981,427
Expenses		
Amortization of property and equipment	782,500	733,559
General and administrative expenses	3,047,626	1,752,521
	3,830,126	2,486,080
Income from operations	21,739,226	13,495,347
Other Income (expense)		
Interest and other income	219,900	20,573
Foreign exchange loss	(157,557)	(138,135)
Interest expense	(2,692,989)	(430,139)
Stock based compensation (Note 12)	(114,762)	-
Make good provision (Note 11)	(3,243,192)	(1,718,357)
	(5,988,600)	(2,266,058)
Net income before income taxes	15,750,626	11,229,289
Income taxes (Note 15)	5,693,771	3,336,779
Net income for the year	10,056,855	7,892,510
Other Comprehensive Income		
Unrealized gain on foreign exchange translation	391,026	64,217
Comprehensive income for the year	10,447,881	7,956,727
Earnings per share, basic (Note 20)	$ 0.80	$ 2.40
Earnings pre share, diluted (Note 20)	$ 0.43	$ 0.31
Weighted average number of common shares outstanding, basic (Note 20)	12,542,210	3,291,768
Weighted average number of common shares outstanding, diluted (Note 20)	26,097,269	26,099,527

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Retained Earnings
For the Years Ended June 30, 2010 and 2009
(Expressed in US Dollars)

	2010 $	2009 $
Retained earnings, beginning of year	14,326,995	8,063,055
Net income for the year	10,056,855	7,892,510
Transfer to reserve (Note 14)	(846,266)	(1,304,898)
Excess of transaction costs over net assets acquired (Note 2)	-	(323,672)
Retained earnings, end of year	23,537,584	14,326,995

Consolidated Statements of Accumulated Other Comprehensive Income
For the Years Ended June 30, 2010 and 2009
(Expressed in US Dollars)

	2010 $	2009 $
Accumulated other comprehensive income, beginning of year	1,753,625	1,689,408
Foreign exchange translation adjustment	391,026	64,217
Accumulated other comprehensive income, end of year	2,144,651	1,753,625

Boyuan Construction Group, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009
(Expressed in US Dollars)

	2010 $	2009 $
OPERATING ACTIVITIES		
Net income for the year	10,056,855	7,892,510
Items not involving cash:		
Amortization	782,500	733,559
Interest accretion	1,510,837	139,137
Make good provision	3,243,192	1,718,357
Stock based compensation	114,762	-
Unrealized foreign exchange loss	41,712	73,495
	15,749,858	10,557,058
Changes in non-cash working capital balances:		
Accounts receivables	714,424	4,251,069
Unbilled revenue	(13,891,389)	(24,842,565)
Other receivable	182,620	(1,291,245)
Inventories	272,343	(556,705)
Advance to suppliers and prepaid expenses	(11,439,982)	1,819,102
Deposits	(5,773,489)	(2,207,317)
Accounts payable and accrued liabilities	(266,950)	2,350,473
Deferred revenue	(407,172)	890,713
Income taxes payable	1,441,781	(1,745,327)
Due from / to related parties	473,552	(1,005,999)
Cash used in operating activities	(12,944,404)	(11,780,743)
INVESTING ACTIVITIES		
Acquisition of equipment	(1,928,667)	(1,151,626)
Cash used in investing activities	(1,928,667)	(1,151,626)
FINANCING ACTIVITIES		
Restricted cash	(737,280)	(2,811,457)
Bank loans	10,634,091	5,548,903
Bank notes payable	1,865,184	3,567,409
Automobile loans	261,261	112,155
Cash used in RTO (Note 2)	-	(344,754)
Convertible debentures, net	3,291,697	1,976,908
Deferred financing costs incurred	-	53,810
Proceeds from issuance of common stock, net	1,256,529	684,153
Cash injection by shareholder	751,417	-
Cash provided by financing activities	17,322,899	8,787,127
Effect of changes in exchange rates on cash	38,189	26,435
Increase (decrease) in cash	2,488,017	(4,118,807)
Cash and cash equivalents, beginning	2,365,738	6,484,545
Cash and cash equivalents, ending	4,853,755	2,365,738
Supplemental disclosure of cash flow information:		
Cash paid for interest	1,487,425	366,146
Cash paid for income taxes	4,746,697	5,082,103

Significant non-cash transactions (Note 16)

See accompanying notes to consolidated financial statements.

(Expressed in US Dollars)

1. NATURE OF OPERATIONS

Boyuan Construction Group, Inc. (the "Company"), formerly SND Energy Ltd. ("SND"), was incorporated under the Canada Business Corporations Act on May 4, 2007.

On February 27, 2009, SND and Hong Kong Wealthy Holdings Limited ("HKCo"), a company incorporated on July 4, 2008 under the Companies Ordinance of Hong Kong, entered into an agreement whereby SND acquired HKCo and its wholly-owned subsidiary Zhejiang Boyuan Trading Co., Limited ("China Privco"). China Privco is a wholly foreign owned enterprise and was incorporated on November 25, 2008 under the business laws of the Peoples Republic of China ("PRC" or "China"). China Privco consolidates the accounts of Zhejiang Boyuan Construction Co., Ltd. ("Zhejiang") through its variable interest entity relationship as it is the primary beneficiary of Zhejiang. The acquisition was accomplished through an exchange of shares which resulted in the former shareholders of HKCo obtaining control of SND. Accordingly, this transaction was recorded as a reverse takeover ("RTO") for accounting purposes as HKCo was deemed to be the acquirer and these consolidated financial statements are deemed to be a continuation of the financial statements of HKCo and its predecessors, China Privco and Zhejiang, while the capital structure is that of SND. These consolidated financial statements are presented on a continuity of interest basis and reflect the financial position, results of operations and cash flows as if the Company had always carried on the business formerly carried on by HKCo, China Privco and Zhejiang and accordingly, the carrying amounts of assets and liabilities included in these consolidated financial statements and the 2008 comparative figures are comprised of the assets and liabilities and operations of HKCo, China Privco and Zhejiang.

Concurrent with this transaction, the Company changed its name from SND Energy Ltd. to Boyuan Construction Group, Inc. The Company's primary business, through its interest in Zhejiang, is in the construction of residential and commercial buildings, municipal infrastructure and engineering projects in PRC.

2. ACQUISITION

Acquisition of HKCo

On February 27, 2009, SND entered into an agreement to acquire all of the issued and outstanding shares in HKCo. Pursuant to the terms of the agreement, the Company consolidated its share capital on the basis of 1 post-consolidation share for every 1,258.0342 pre-consolidation shares. The Company issued 3,104,741 of its post-consolidated common shares and 21,270,259 of its preferred shares to complete the acquisition. As the transaction resulted in the shareholders of HKCo owning 98.6% of the issued shares of the Company, the acquisition has been accounted for as a capital transaction resulting from a reverse takeover as described above. The Company paid a sponsorship fee of $323,672 in connection with the acquisition.

As the shares of the Company were thinly traded and were not considered to represent the best estimate of the fair value of the net assets acquired, and accordingly, the acquisition fair value of net assets acquired was recorded based on carrying amounts as follows:

Net assets acquired	$	-
Transaction costs		(323,672)
Excess of transaction costs over net assets acquired	$	(323,672)

2. ACQUISITION (continued)

Consolidation of Variable Interest Entity (Zhejiang)

Pursuant to four agreements dated January 10, 2009 among China Privo, Zhejiang and the shareholders of Zhejiang, Zhejiang entrusted China Privco to manage and operate the business of Zhejiang. These agreements include:

(i) an exclusive option agreement which ensures that China Privco can buy the equity interest in and all or part of the assets and business of Zhejiang at any time if legally permitted;

(ii) a management agreement whereby Zhejiang entrusted China Privco to manage and operate the business of Zhejiang, China Privco will be remunerated with the net earnings before tax of Zhejiang and will assume all operation risks and bear all losses of Zhejiang;

(iii) a share pledge agreement whereby the shareholders of Zhejiang agreed to pledge all of the shares of Zhejiang they own to China Privco; and

(iv) a shareholders voting proxy agreement whereby the shareholders of Zhejiang granted the right to exercise all of the voting rights to China Privco.

China Privco effectively controls and is the primary beneficiary of Zhejiang's operations. Accordingly, management determined that China Privco has a variable interest in Zhejiang and China Privco consolidates the accounts of Zhejiang. Zhejiang was incorporated on January 17, 2000 under the business laws of PRC and was a company owned by the common shareholders of HKCo on January 10, 2009. As the agreements are only a rearrangement of the legal interest of the controlling shareholders, the Company applied "continuity-of-interest" accounting whereby the consolidated financial statements reflect the Company's financial position, income and comprehensive income and cash flows as if Zhejiang had always been the combined entity. The reported income of the combined entity includes income of the combined companies for the entire fiscal period in which the combination took place, and the consolidated financial statements of the combined entity presented for prior periods are restated to reflect the financial position and results of operations as if the companies had been combined since their inception. Assets and liabilities of the combined entity are reflected at their net book value as reported in the financial statements of the combined companies.

3. BASIS OF CONSOLIDATION AND PRESENTATION

These consolidated financial statements include the assets and operations of the Company, HKCo, China Privco and Zhejiang. The Company does not own any shares of Zhejiang. However, the Company has contractual agreements with Zhejiang whereby the Company controls and is the primary beneficiary of Zhejiang's operations effective January 10, 2009.

All significant inter-company balances and transactions have been eliminated on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are expressed in US Dollars and are prepared in accordance with Canadian generally accepted accounting principles including the following significant accounting policies:

(a) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions about the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the results of operations. Significant areas requiring the use of management estimates include the recognition of revenue, allowance for doubtful receivables, useful lives of property and equipment, determination of accrued liabilities and stock based compensation and future income tax valuation allowances. Actual results could differ from the estimates made.

(b) Cash equivalents

Cash equivalents consist of highly liquid investments that are readily convertible to cash with maturities of three months or less when purchased, or which are redeemable at the option of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Inventory

The Company's inventory comprises raw materials mainly steel and concrete, which are carried at the lower of cost and net realizable value. Cost is determined on a first-in first-out basis. The cost of raw materials includes delivery costs. An allowance for obsolete, slow-moving or defective inventories is made where necessary.

(d) Share issue costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are expensed.

(e) Property and equipment

Property and equipment are stated at cost which includes the acquisition price and any direct costs to bring the asset into productive use at its intended location.

Amortization of property and equipment is calculated using the straight-line method to write off the cost, net of any estimated residual value, over their estimated useful lives as follows:

Buildings	30 years
Machinery and equipment	10 years
Office equipment	10 years
Vehicles	4 to 5 years
Leasehold improvements	3 years

(f) Construction-in-progress

Construction-in-progress is stated at cost, which comprises direct costs of design, acquisition, and construction of buildings, building improvements and land improvements. Upon completion, construction-in-progress is transferred to its respective asset classification and is amortized upon being put into use.

(g) Land use rights

The Company acquired its land use rights from the PRC Government. Land use rights are stated at cost less accumulated amortization. Amortization is provided over the life of the rights which is 50 years, using the straight-line method.

(h) Impairment of Long-Lived Assets

Property and equipment and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss is recognized for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows expected from the asset or quoted market prices. The Company has not recognized any impairment losses to date.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Statutory reserve

Statutory reserve refers to the amount appropriated from the net income 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.

(j) Comprehensive income

Comprehensive income reflects net income and other comprehensive income (loss) for the period. Other comprehensive income (loss) includes changes in unrealized foreign currency translation amounts arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale assets and changes in the fair value of derivatives designated as cash flow hedges to the extent they are effective.

(k) Revenue recognition

Revenues from contracts are recognized based on the percentage-of-completion method primarily based on costs incurred to date, excluding costs that are not representative of progress to completion, compared to the total estimated costs for each contract. Costs incurred and estimated profits on contracts in progress in excess of amounts billed are reflected as unbilled revenues. Cash received in advance of revenue being recognized on contracts is classified as unearned revenue. A provision is made for losses on contracts in progress when such losses first become known. Revisions in cost and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known.

Contract costs include all raw materials, direct labour, subcontract and other costs and indirect costs related to contract performance, such as indirect salaries and wages and equipment repairs.

The Company generally provides a two to three year warranty for workmanship under its contracts. Warranty cost provisions are based on management's best estimates of such costs and are charged to project costs as they are incurred, taking into account the specific arrangements of the contracts and past history. Warranty claims historically have been nominal.

(l) Retirement benefits

Full-time employees of the Company are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Company is required to contribute a specific percentage of the employees' salaries to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions which are charged to operations as incurred.

(m) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences which arise between the accounting basis and the tax basis of various assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. A valuation allowance is provided for any future income tax assets if it is more likely than not that the asset will not be realized.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Foreign currency translation

The reporting currency of the Company is the US dollar.

The functional currency of the Company is the Canadian dollar ("CAD"). The functional currency of HKCo is Hong Kong dollar ("HKD"). Monetary assets and liabilities denominated in CAD and HKD are translated into US dollars, the reporting currency, at rates of exchange prevailing at the balance sheet dates. Revenues and expenses and other assets and liabilities are translated into US dollars at rates of exchange in effect at the related transaction dates. Any exchange gains and losses are recognized in operations under the temporal method.

The functional currency of the Company's PRC subsidiaries, which comprise substantially all of the assets and operations, is the Chinese Renminbi ("RMB"). Management considers these entities to be self-sustaining foreign operations and accordingly, their financial statements are translated into US Dollars for consolidation purposes using the current rate method. Under the current rate method, amounts are translated using the current rates of exchange for assets and liabilities and using the average rates of exchange for the year for revenues and expenses. Gains and losses resulting from translation adjustments using the current rate method are recorded as other comprehensive income (loss) and accumulated in a separate component of shareholder's equity, described as accumulated other comprehensive income (loss). In the event of a reduction of the Company's net investment in the self-sustaining foreign operation, the portion of accumulated other comprehensive income related to the reduction is realized and recognized in operations.

(o) Stock-based compensation

The Company follows the recommendation of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Under this method, compensation expense for stock option grants to employees and non-employees is based on the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option-Pricing Model. Compensation expense for stock options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for stock options granted to employees is amortized over the vesting period. Consideration paid by employees and non-employees together with the related contributed surplus on the exercise of stock options is recorded as share capital.

(p) Variable interest entity

The Company follows the recommendation of CICA Accounting Guidelines ("AcG") 15, "Consolidation of Variable Interest Entities", to consolidate the accounts of variable interest entities ("VIE") where the Company is considered the primary beneficiary of such variable interest, using the continuity-of-interest method (see Note 2).

(q) Earning per share

Basic earning per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The treasury stock method to calculate the dilutive effect of options and warrants and uses the "if-converted" method to calculate the dilutive effect of convertible debentures. Diluted earnings per share excludes all dilutive potential common shares if their effect is anti-dilutive.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Financial instruments

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the CICA Handbook Section 3840 "Related Party Transactions".

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

The Company has classified its cash and cash equivalents and restricted cash as held for trading, its accounts receivable, other receivables, advance to suppliers, deposits and due from related parties as loans and receivables, and its bank loans, notes payable, accounts payable, automobile loans, due to related parties and convertible debentures as other financial liabilities.

(s) Convertible debentures

Convertible debentures are segregated into debt and equity components at the date of issue. The debt component of the debenture is classified as a liability and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument.

The carrying value of the debt component is accreted to the original face value of the instrument over the term of the convertible debenture using the effective interest method. The value of the conversion option makes up the equity component of the instrument. The conversion option is recorded using the residual value approach.

5. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the CICA amended the Handbook Section 3862, "Financial Instruments – Disclosures". These amendments are applicable to financial statements relating to the Company's annual financial statements ended on June 30, 2010. The amendments provide for additional disclosure requirements about fair value measurements of financial instruments and enhanced liquidity risk disclosure requirements for publicly accountable enterprises. The additional required disclosures are included in Note 17 of these consolidated financial statements.

Effective January 1, 2010, the Company changed its policy, on a prospective basis, to account for certain escrowed share arrangements as non-compensatory. Historically, an escrowed share arrangement involving the release of shares to certain shareholders based on performance-related criteria is presumed to be compensatory. Under the new policy the Company evaluates whether the substance of the arrangement is related to or is contingent upon the continued employment of the escrow holder. The arrangement is viewed as compensatory where it is related to the employment of the escrow holder and is recorded as a current expense in the period where the performance criteria are met.

(Expressed in US Dollars)

5. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Recent accounting pronouncements

In January 2009, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, “Business Combinations”, which replaces Section 1581, “Business Combinations”. The AcSB also issued Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”, which replace Section 1600, “Consolidated Financial Statements”. These new sections are based on the International Accounting Standards Board’s (“IASB”) International Financial Reporting Standard 3, “Business Combinations”. These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The adoption of this standard will affect the presentation and disclosure of the non-controlling interest. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2008, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2010. In July 2008 AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

6. RESTRICTED CASH

Restricted cash represents compensating deposits held at banks to partially secure bank loans. The imposed restrictions dictate that funds cannot be withdrawn when there are outstanding bank loans, and the funds are only allowed to be used to settle bank loans (see Note 10). The funds deposited as compensating balances are interest bearing. The amount of cash restricted varies based on the Bank’s credit policy at the time that the Company requests an increase or extension of its credit facilities.

7. DUE FROM (TO) RELATED PARTIES

	2010 $	2009 $
Due from related parties		
Due from the Chairman and Chief Executive Officer (“CEO”)	-	113,010
Due to related parties		
Due to the Chairman and CEO	171,925	-
Due to companies controlled by the Chairman and CEO	420,289	22,839
	592,214	22,839

The amounts due from or due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

(Expressed in US Dollars)

8. PROPERTY AND EQUIPMENT

	Cost $	Accumulated Amortization $	Net Book Value $
2010			
Machinery and equipment	5,902,406	2,063,064	3,839,342
Buildings	2,498,763	587,056	1,911,707
Vehicles	1,278,444	310,379	968,065
Construction in progress	684,238	-	684,238
Office equipment	871,603	165,927	705,676
Leasehold improvements	209,014	104,507	104,507
	11,444,468	3,230,933	8,213,535
2009			
Machinery and equipment	4,613,044	1,504,393	3,108,651
Buildings	2,475,581	503,216	1,972,365
Vehicles	544,727	213,998	330,729
Office equipment	341,021	95,997	245,024
Construction in progress	186,442	-	186,442
Leasehold improvements	207,075	103,538	103,537
	8,367,890	2,421,142	5,946,748

9. LAND USE RIGHTS

	2010 $	2009 $
Cost	133,114	116,398
Accumulated amortization	(6,722)	(4,155)
Net book value	126,392	112,243

In June 2006, Zhejiang acquired a 50 year land use right from a company controlled by the Chairman and Chief Executive Officer at a carrying value of $Nil. The right expires on July 19, 2050. In June 2007, Zhejiang acquired another 50 year land use right for RMB769,719 for a piece of land in Jiaxing, Zhejiang, PRC. The right expires on August 23, 2056.

10. BANK LOANS AND NOTES PAYABLE

(a) The bank loans are due within one year with interest paid monthly or quarterly at rates of 4% to 9.36% (2009 – 5.35% to 9.36%), weighted average at 5.64% (2009 – 5.82%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $16,737,200 in aggregate provided by construction project developers and the Chairman and CEO of the Company.

(b) The bank notes are due within six months and are non-interest bearing. The notes are secured by compensating deposit held by the banks (see Note 6).

(Expressed in US Dollars)

11. CONVERTIBLE DEBENTURES

	June 30, 2010 $	June 30, 2009 $
Balance, beginning of year	1,880,200	-
Gross proceeds from issue	4,174,620	2,419,926
Issue costs (Note 12)	(756,251)	(622,254)
Amount allocated to the equity component	(235,488)	(137,295)
Interest accretion	1,510,837	142,788
Interest paid	(913,300)	(77,505)
Transfer of debentures converted to common shares	(3,518)	-
Foreign exchange loss on translation	485,376	154,540
Balance, end of year	6,142,476	1,880,200

The amount of convertible debentures due, if unconverted, in the next three years are as follows:

	$
Due on February 28, 2011	2,488,214
Due on February 28, 2012	2,492,457
Due on February 28, 2013	2,492,457
Total principal	7,473,128
Less: interest at weighted average effective interest rate of 26.36%	(1,330,652)
	6,142,476
Less: current portion	(2,223,048)
Non-current portion	3,919,428

(a) Convertible Debentures – Principal Amount of $2,895,059

Concurrent with the RTO transaction described in Notes 1 and 2, the Company completed a financing of $3,226,568 (CDN$4,100,000). The Company issued 4,100 subscription receipts at a price of $787 (CDN$1,000). Each subscription receipt was comprised of one unit (the “Units”). Each Unit consisted of one convertible debenture in the principal amount of $590 (CDN$750) (the “Convertible Debentures”), 125 common shares, 250 non-transferable warrants, 250 transferable rights and 250 non-transferable additional rights.

Each Convertible Debenture bears interest at a rate of 11.75% per annum, paid quarterly in arrears and will be, at the election of the holder, convertible into 375 common shares at a conversion price of CDN$2.00 per share plus accrued interest paid in cash. The conversion right may be exercised at the option of the holder commencing February 28, 2009 and until the close of business on the sixth day prior to the maturity date. The Convertible Debentures mature on February 27, 2013. One third of the outstanding principal is redeemable by the Company, at the holder’s option, on each of February 27, 2011 and February 27, 2012. The debentures are secured by all of the Company’s present and future acquired properties, subordinated to senior indebtedness of the Company, and a pledge of all the common shares of HKCo.

Each warrant entitles the holder, upon exercise, to receive one additional common share at a price of CDN$2.00 expiring February 27, 2013.

Each additional right entitles the holder, upon exercise, to have one issued and outstanding common share of the Company transferred to the holder from escrow at no additional consideration. Each additional right was exercisable, according to its terms, for a period commencing on the date the Company filed its audited annual financial statements for the year ended June 30, 2010 ending 30 days thereafter.

11. CONVERTIBLE DEBENTURES (continued)

(a) Convertible Debentures – Principal Amount of $2,899,302 (continued)

In 2009, management of the Company deposited 2,050,000 common shares of the Company into escrow with an escrow agent. In the event that the consolidated financial statements of the Company, compiled in accordance with U.S. GAAP reflected less than $8,500,000 of after tax net income ("ATNI") for the fiscal year ended June 30, 2009, the escrow agent, upon exercise, or deemed exercise, of the rights during the rights exercise period, would have transferred to holders of the rights for no additional consideration one escrowed share for each right exercised by such holder.

In the event the consolidated financial statements of the Company, compiled in accordance with U.S. GAAP, reflected less than $11,500,000 of ATNI for the fiscal year ended June 30, 2010, the escrow agent, upon exercise, or deemed exercise, of the additional rights during the additional rights exercise period, would have transferred to the holders of the additional rights for no additional consideration one escrowed share for each additional right exercised by such holder. At June 30, 2010, 1,025,000 (2009 - 1,025,000) common shares held in escrow were deemed to have been transferred back to the original shareholders as the ATNI exceeded $11,500,000 (2009 - ATNI exceeded $8,500,000). A make good provision of $Nil (2009 - $1,718,357) for the fair value of these shares was charged to operations and included in contributed surplus.

Investors holding Convertible Debentures will be entitled to a non-transferable minimum total return right of 25% per annum on their Units. The calculation will be based upon the twenty day volume weighted average price of the Company's common shares, less interest paid or payable on the Convertible Debentures, calculated on the first, second and third anniversary of February 27, 2009 and payable, if triggered, on February 27, 2013.

The Company uses the residual value method to allocate the principal amount of the Convertible Debentures between the liability and equity components. Under this method, the value of the equity component of $137,295 was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component of $1,660,377 was computed as the present value of future principal and interest payments discounted at a rate of 28% per annum.

During the 2010 year, 6 Convertible Debentures were converted to 2,250 common shares of the Company at $1.94 (CAD$2.00) per share. The principal amount of these debentures calculated under the effective interest method of $3,566 (CAD$3,682) was transferred to share capital upon their conversion.

(b) Convertible Debentures – Principal Amount of $4,578,069

Pursuant to a private placement, the Company completed a financing of $5,566,159 (CDN$6,474,000) on July 7, 2009 with an effective date of June 30, 2009. The Company issued 6,474 units (the "Units") at a price of $860 (CDN$1,000) per Unit. Each Unit consisted of one convertible debenture in the principal amount of $645 (CDN$750) (the "Convertible Debentures"), 125 common shares, 250 non-transferable warrants, 250 non-transferable rights and 250 non-transferable additional rights.

Each Convertible Debenture bears interest at a rate of 11.75% per annum, paid quarterly in arrears and will be, at the election of the holder, convertible into 375 common shares at a conversion price of CDN$2.00 per share plus accrued interest paid in cash. The conversion right may be exercised at the option of the holder commencing July 7, 2009 and until the close of business on the sixth day prior to the maturity date. The Convertible Debentures mature on February 27, 2013. One third of the outstanding principal is redeemable by the Company, at the holder's option, on each of February 27, 2011 and February 27, 2012. The debentures are secured by all of the Company's present and future acquired properties, subordinated to senior indebtedness of the Company, and a pledge of all the common shares of HKCo.

Each warrant entitles the holder, upon exercise, to receive one additional common share at a price of CDN$2.00 expiring June 30, 2013.

Each additional right entitles the holder, upon exercise, to have one issued and outstanding common share of the Company transferred to the holder from escrow at no additional consideration. Each additional right is exercisable for a period commencing on the date that the Company files its audited annual financial statements for the year ended June 30, 2010 and ending 30 days thereafter.

(Expressed in US Dollars)

11. CONVERTIBLE DEBENTURES (continued)

(b) Convertible Debentures – Principal Amount of $4,578,069 (continued)

In 2009, management of the Company deposited 3,237,000 common shares of the Company into escrow with an escrow agent. In the event that the consolidated financial statements of the Company, compiled in accordance with Canadian GAAP reflected less than $8,500,000 of after tax net income ("ATNI"), prior to the deduction of any make good provision, for the fiscal year ended June 30, 2009, the escrow agent, upon exercise, or deemed exercise, of the rights during the rights exercise period, would have transferred to holders of the rights for no additional consideration, one escrowed share for each right exercised by such holder.

In the event the consolidated financial statements of the Company, compiled in accordance with Canadian GAAP, reflected less than $12,400,000 of ATNI, prior to the deduction of any make good provision, for the fiscal year ended, June 30, 2010, the escrow agent, upon exercise, or deemed exercise, of the additional rights during the additional rights exercise period, would have transferred to the holders of the additional rights for no additional consideration one escrowed share for each additional right exercised by such holder. At June 30, 2010, 3,237,000 common shares held in escrow were deemed to have been transferred back to the original shareholders as the ATNI at June 30, 2010 exceeded $12,400,000 (June 30, 2009, ATNI exceeded $8,500,000). On September 30, 2009, a make good provision of $3,243,192 (June 30, 2009 - $Nil) for the fair value of these shares was charged to operations and included in contributed surplus.

The Company uses the residual value method to allocate the principal amount of the Convertible Debentures between the liability and equity components. Under this method, the value of the equity component of $235,488 was determined by deducting the fair value of the liability component from the principal amount of the financing. The fair value of the liability component of $3,182,881 was computed as the present value of future principal and interest payments discounted at a rate of 25% per annum.

12. SHARE CAPITAL

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

Issued and outstanding:

	Preferred Shares Number	$	Common Shares Number	$
Balance, June 30, 2008	-	-	-	5,540,636
Adjustment of SND's issued shares before RTO			53,466,453	-
Share consolidation at 1,258.0342			(53,423,953)	-
Shares reissued on RTO (Note 2)	21,270,259	-	3,104,741	-
Shares issued at $1.57 (CAD$2.00) per share	-	-	512,500	806,642
Share issue costs	-	-	-	(207,418)
Balance, June 30, 2009	21,270,259	-	3,659,741	6,139,860
Shares issued at $1.72 (CAD $2.00) per share	-	-	809,250	1,391,540
Conversion of preferred shares into common	(11,678,200)	-	11,678,200	-
Exercise of warrants	-	-	38,500	74,569
Transfer from contributed surplus	-	-	-	11,646
Conversion of convertible debentures	-	-	2,250	4,368
Transfer from convertible debentures and equity component of convertible debentures	-	-	-	3,768
Share issue costs	-	-	-	(251,407)
Balance, June 30, 2010	9,592,059	-	16,187,941	7,374,344

12. SHARE CAPITAL (continued)

Issued and outstanding: (continued)

On February 27, 2009, SND consolidated its then issued and outstanding 53,466,453 common shares on a 1 post-consolidation share for every 1,258.0342 pre-consolidation shares basis such that 42,500 shares were outstanding immediately prior to the RTO.

On February 27, 2009, in a reverse takeover acquisition, the outstanding shares of HKCo were exchanged for 21,270,259 preferred shares and 3,104,741 post consolidated common shares of SND (see Note 2). The Company paid sponsor fee of $323,673 which was charged to retained earnings.

Concurrent with the acquisition of SND, the Company completed a private placement offering issuing 4,100 subscription receipts at $787 (CAD$1,000) per receipt (see Note 11). Pursuant to the offering, 512,500 common shares, 1,025,000 non-transferable warrants, 1,025,000 transferable rights and 1,025,000 non-transferable additional rights were issued. The common shares were issue at $1.57 (CAD$2.00) per share for gross proceeds of $806,642 (CAD$1,025,000). Each warrant entitles the holder to purchase one additional common share at an exercise price of CAD$2.00 per share, expiring February 27, 2013. The Company paid agents' commission of $263,531, sponsor fee of $21,792, legal fees and other issue costs of $372,004. The Company also granted agents' compensation warrants to acquire 205,000 common shares at an exercise of CAD$2.00 per share expiring February 27, 2013. The fair value of the agent's warrants is $172,345. Share issue costs of $622,254 were allocated to the convertible debentures described in Note 11.

On July 7, 2009, the Company completed a private placement offering issuing 6,474 Units at $860 (CAD$1,000) per Unit (see Note 11) with an effective date of June 30, 2009. Pursuant to the offering, 809,250 common shares, 1,618,500 non-transferable warrants, 1,618,500 non-transferable rights and 1,618,500 non-transferable additional rights were issued. The common shares were issue at $1.72 (CAD$2.00) per share for gross proceeds of $1,391,540 (CAD$1,618,500). Each warrant entitles the holder to purchase one additional common share at an exercise price of CAD$2.00 per share, expiring June 30,, 2013. The Company paid finder' fee of $556,615 and legal fees and other issue costs of $178,495. The Company also granted finders' compensation warrants to acquire 294,500 common shares at an exercise of CAD$2.00 per share expiring June 30, 2013. The fair value of the finders' warrants is $272,548. Share issue costs of $756,251 were allocated to the convertible debentures described in Note 11.

Securities held in escrow

At June 30, 2010, 1,428,131 (2009 - 2,347,197) of the common shares and 9,592,059 (2009 - 15,986,769) of the preferred shares issued and outstanding were escrowed subject to release only with regulatory approval pursuant to the release provisions of the escrow agreement as described in Note 11.

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 of June 30, 2010 the Company has stock options outstanding to directors and officers to acquire an aggregate of 140,000 common shares summarized as follows. The options have a weighted average remaining life of 4.33 years.

(Expressed in US Dollars)

12. SHARE CAPITAL (continued)

Options (continued)

	Number of Options	Weighted Average Exercise Price	Expiry Date
Balance, June 30, 2010 and 2009	-	-	
Granted	140,000	$2.45	October 28, 2014
Balance, June 30, 2010	**140,000**	**$2.45**	
Exercisable at June 30, 2010	**46,688**		

One-third of the options vested on October 28, 2009. The remaining one-thirds will vest on October 28, 2010 and October 28, 2011 respectively. Compensation expense of $114,762 was charged to operations. 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 weighted average assumptions are as follows:

Risk-free interest rate (%)	2.44%
Expected dividend yield (%)	-
Expected option life (years)	4
Expected stock price volatility (%)	90%

The weighted average grant date fair value for the options was $1.84.

Warrants

	Number	Exercised Price	Expiry Date
		$	
Warrants outstanding, June 30, 2007 and 2008	–	–	–
Issued – unit warrants	1,025,000	1.72 (CAD$2.00)	February 27,2013
Issued – agents' warrants	205,000	1.72 (CAD$2.00)	February 27, 2013
Warrants outstanding, June 30, 2009	1,230,000		
Issued – unit warrants	1,618,500	$ 1.89 (CAD$2.00)	June 30, 2013
Issued – agents' warrants	323,700	$ 1.89 (CAD$2.00)	June 30, 2013
Warrants exercised	(38,500)	$ 1.94 (CAD$2.00)	
Warrants outstanding, June 30, 2010	3,133,700		

The fair value of the agents' warrants issued during the year was $272,548 (2009 - $172,345) and was recognized as share issue costs, using the Black-Scholes model with the following weighted average assumptions and resulting issue date fair value:

	2010	2009
Risk-free interest rate (%)	2.27%	1.83%
Expected dividend yield (%)	-	-
Expected option life (years)	4	4
Expected stock price volatility (%)	70%	70%

The weighted average issue date fair value of the warrants is $0.84 (2009 - $0.84).

(Expressed in US Dollars)

12. SHARE CAPITAL (continued)

Equity Component of Convertible Debentures

	2010 $	2009 $
Balance, beginning of year	137,295	-
Convertible debentures issued (Note 11)	235,488	137,295
Debentures converted transfer to share capital	(250)	-
Balance, end of year	372,533	137,295

Rights and Additional Rights

	Rights		Additional Rights	
	Underlying Shares	Expiry	Underlying Shares	Expiry
Outstanding, June 30, 2007 and 2008	–		–	
Issued	1,025,000	November 30, 2009	1,025,000	October 28, 2010
Expired	(1,025,000)		–	
Outstanding, June 30, 2009	–		1,025,000	
Issued	1,618,500	November 30, 2009	1,618,500	October 28, 2010
Expired	(1,618,500)		(2,643,000)	
Outstanding, June 30, 2010	–		–	

13. CONTRIBUTED SURPLUS

	2010 $	2009 $
Balance, beginning of year	1,890,711	-
Contribution of share capital of HKCo	-	9
Agents' warrants	272,548	172,345
Stock-based compensation (Note 12)	114,762	-
Make good provision (Note 11)	3,243,192	1,718,357
Warrants exercised	(11,646)	-
Contribution from shareholders	1,822,904	-
Balance, end of year	7,332,471	1,890,711

(Expressed in US Dollars)

14. RESERVES

According to the Company Law of China and Zhejiang's Articles of Association, Zhejiang is required each year to transfer 10% of the profit after tax as reported in its financial statements, prepared in accordance with Chinese generally accepted accounting principles, to the statutory common reserve fund until the fund reaches 50% of the registered capital. This fund can be used to make up for any losses incurred in the future or be converted into paid-in capital, provided that the fund does not fall below 50% of the registered capital. Transfers to the Zhejiang's reserves are as follows:

	2010 $	2009 $
Balance, beginning of year	1,928,732	623,834
Transfer from retained earnings	846,266	1,304,898
Balance, end of year	2,774,998	1,928,732

15. INCOME TAX

HKCo, China Privco and Zhejiang are subject to taxes under their respective tax jurisdictions, which are the same as their respective place of incorporation.

Income tax expenses are as follows:

	2010 $	2009 $
Current	6,139,341	3,309,495
Future	(445,570)	27,284
Total income tax expenses	5,693,771	3,336,779

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. The significant differences are as follows:

	2010 $	2009 $
Canadian combined statutory rates	29.3%	30%
Income taxes at combined statutory rates	4,607,059	3,396,860
Difference in foreign income tax rates	(932,537)	(692,173)
Non-deductible items	1,152,847	530,586
Non-taxable items	(162,492)	-
Other	-	27,103
Reduction in income tax rates	69,924	7,340
Valuation allowance	958,970	67,063
Total income tax expenses	5,693,771	3,336,779

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets (liabilities) are as follows:

	2010 $	2009 $
Non-capital losses	892,000	113,000
Share issue costs	294,000	196,000
Unbilled revenue, net of charges	479,000	(202,000)
Plant and equipment	(809,000)	(573,000)
Valuation allowance	(1,186,000)	(309,000)
	(330,000)	(775,000)
Future income tax assets	479,000	-
Total future income tax liabilities	(809,000)	(775,000)

The Company has non-capital losses carried forward of $3,331,000 which expire from 2029 to 2030.

(Expressed in US Dollars)

15. INCOME TAX (continued)

The Company, through Zhejiang, conducts a substantial amount of its business in China. China currently has tax laws related to various taxes imposed by both federal and regional governments. Applicable taxes include value added tax, corporate income tax, payroll or social taxes and others. Laws related to these taxes have not been effective for an extended period of time compared to laws of more developed countries. The implementation of regulations is frequently unclear and their application is sometimes inconsistent or non-existent. Conflicting opinions about interpretation and application often exist among and within government ministries and organizations creating uncertainties and conflict.

Tax declarations, together with other legal compliance areas, such as customs and currency controls are subject to review and investigation by various agencies and authorities, who are enabled by law to impose very severe fines, penalties and interest charges. These facts create tax risks in China substantially more significant than typically found in countries with more developed tax systems and structures.

Various tax authorities could take differing positions on interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from future review and assessment by tax authorities.

On March 16, 2007, PRC introduced the new Enterprise Income Tax Law of the People's Republic of China which came into force on January 1, 2008. Among other measures, the new Tax Law introduces a 25% tax rate for Foreign Invested Enterprises, and domestic enterprises, with some reduced rates for qualified small companies. Although certain existing preferential tax policies, including those previously applicable to Foreign Invested Entities will be eliminated going forward, most existing preferential tax incentives previously granted will continue to be grandfathered for up to five years.

The new Tax Law also imposes a new 10% withholding tax on all dividends paid by PRC companies to non-PRC shareholders and contains rules governing such matters as international transfer pricing.

16. SIGNIFICANT NON-CASH TRANSACTIONS

The Company has the following significant non-cash transactions:

	2010 $	2009 $
Agent's warrants issued pursuant to a private placement offering	272,548	172,345
Make good provision	3,243,192	1,718,357
Stock based compensation	114,762	-

17. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments includes cash and cash equivalents, restricted cash, accounts receivable, other receivables, deposits, bank loans, notes payable, accounts payable and automobile loans. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature. The Company has financial instruments in amounts due from and due to related parties. It is impractical to determine the fair value of these financial instruments with sufficient reliability due to the nature of the financial instrument, the absence of secondary market and the significant cost of obtaining external appraisals. The Company has financial instruments in convertible debentures. The fair value of these financial instruments approximates their carrying value under the effective interest method.

The following table summarizes the carrying values of the Company's financial instruments:

		June 30, 2010
Held for trading (i)	$	8,726,243
Loans and receivables (ii)		11,639,284
Other financial liabilities (iii)		37,531,823

(Expressed in US Dollars)

17. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

(i) Cash and cash equivalents and restricted cash
(ii) Accounts receivable, other receivables and deposits
(iii) Bank loans, notes payable, accounts payable, automobile loans, amounts due to related parties and convertible debentures

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
Level 3 – Inputs that are not based on observable market date

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total 2010
Cash and cash equivalents and restricted cash	$ 8,726,243	$ -	$ -	$ 8,726,243

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and accounts and other receivables. The Company has significant cash and restricted cash balances. To minimize the interest rate and credit risk the Company places these instruments with high credit quality financial institutions located in Canada and PRC. Credit risk from accounts and other receivables encompasses the default risk of customers. Management, on an ongoing basis, monitor the level of accounts and other receivables 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.

For the year ended June 30, 2010, revenue from the 3 largest customers accounted for 45% (2009 – 2 largest customers accounted for 62%) of total revenue. At June 30, 2010, outstanding amounts owed by 1 customer accounted for 10% of the total accounts and other receivables (June 30, 2009 – outstanding amounts owed by 2 customers accounted for 32% of total accounts and other receivables). Management does not believe that there is significant credit risk arising from any of the Company's customers. Under PRC regulations, a general contractor is entitled to first claim of assets against its customers, which gives a general contractor a "mechanic lien" senior than all other secured debt including but limited to bank loans, notes and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with that real property that is under construction. However, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts and other receivables is equal to their total carrying amounts.

Financial assets past due

The following table provides information regarding the aging of financial assets that are past due but which are not impaired at June 30, 2010:

	Current	31 – 60 days	61 – 90 days	91 + days	Carrying Value
Accounts receivable	$ 7,070	$ -	$ -	$ 90,088	$ 97,158

The definition of items that are past due is determined by reference to terms agreed with individual customers. None of the amounts outstanding have been challenged by the respective customer(s) and the Company continues to conduct business with them on an ongoing basis.

17. FINANCIAL INSTRUMENTS (continued)

Financial assets past due (continued)

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in Canada and PRC 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 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.

At June 30, 2010, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of $8,676,636 (2009 - $5,465,078), accounts receivable and other receivables of $2,299,042, bank loans of $19,480,040, notes payable of $6,151,475, accounts payable of $4,698,114, due to related parties of $592,214 and automobile loans of $382,425 which were denominated in RMB.

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 following are the contractual maturities of financial liabilities as at June 30, 2010:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years
	$	$	$	$	$
Bank loans	19,480,040	(19,480,040)	(19,480,040)	-	-
Notes payable	6,151,475	(6,151,475)	(6,151,475)	-	-
Accounts payable	4,783,193	(4,783,193)	(4,783,193)	-	-
Due to related parties	592,214	(592,214)	(592,214)	-	-
Automobile loans	382,425	(382,425)	(382,425)	-	-
Convertible debentures	6,142,476	(7,473,128)	(2,488,214)	(2,492,457)	(2,492,457)
Total	37,531,823	(38,862,475)	(33,877,561)	(2,492,457)	(2,492,457)

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income for the period which a change in foreign exchange rate during the year ended June 30, 2010 would have had.

The sensitivity analysis includes the assumption of changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter.

The result of sensitivity analysis shows an increase (decrease) of 10% in RMB exchange rate could have no impact on the Company's net income but could have increased (decreased) the comprehensive income by approximately $1,350,000 ($1,350,000).

The above result arises primarily as a result of the Company having RMB denominated cash and cash equivalents, restricted cash, accounts and other receivable balances, bank loans, accounts payable and automobile loans. The financial position of the Company may vary at the time that a change of the foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

(Expressed in US Dollars)

18. GEOGRAPHIC DISCLOSURES

The Company operates in one reporting segment – the construction of residential and business building, municipal infrastructure and engineering projects in PRC. The Zhejiang's office building is located in Jiaxing, Zhejiang, PRC. All of the Company's revenue was generated in PRC and substantially all capital assets are located in PRC.

19. CAPITAL DISCLOSURES

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 correspondingly to the level of risk.

The Company is required to maintain a certain level of deposits with its bankers as compensating balances to bank loans provided by these banks.

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 issue new shares, sell assets, reduce debt or increase its debt.

20. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

For the year ended June 30, 2010	Net income $	Weighted Average No. of Shares outstanding	Earnings per Share $
Net income for the year ended June 30, 2010	10,056,855	-	-
Weighted average number of shares outstanding	-	12,542,210	-
Basic Earnings per Share	10,056,855	12,542,210	0.80
Effect of preferred shares and convertible securities:			
• Preferred shares	-	9,592,059	-
• Convertible debentures	1,132,824	3,963,000	-
Diluted Earnings per Share	11,189,679	26,097,269	0.43

For the year ended June 30, 2009	Net income $	Weighted Average No. of Shares outstanding	Earnings per Share $
Net income for the year ended June 30, 2009	7,892,510	–	
Weighted average number of shares outstanding	–	3,291,768	
Basic Earnings per Share	7,892,510	3,291,768	2.40
Effect of preferred shares and convertible securities:			
• Preferred shares	–	21,270,259	
• Convertible debentures	139,137	1,537,500	
	8,031,647	26,099,527	0.31

21. CONTINGENT LIABILITIES

The Company is a guarantor to certain developers' bank loan of $2,595,400.

22. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purposes only and has no effect on previously-reported results.

23. SUBSEQUENT EVENT

On July 8, 2010, the Company granted 1,005,000 stock options to directors and officers of the Company at CAD$2.10 per share until July 8, 2015. 251,250 options will vest every six months from January 8, 2011 to July 8, 2012.