BOYUAN

ANNUAL REPORT 2011

- Audited annual consolidated comparative financial statements for the fiscal years ended June 30, 2011 and 2010
- Management discussion & analysis for the fiscal year ended June 30, 2011

November 11, 2011

Dear Shareholders[1]:

Fiscal 2011 was a year of considerable progress and achievement. We experienced record levels in all significant financial and operational results and successfully expanded into new markets within Hainan Island and Shandong province.

Demand for our construction and engineering services continued to grow. As a result of our reputation for delivering on time and on budget projects, we won more projects and grew our project backlog to records levels, which at the end of fiscal 2011, stood at over $US270 million.

We are proud to have reported during the year that we initiated building on two of the largest construction projects in the Company's history, both of which are residential projects located in the Sanya Peninsula district in Hainan Island. The first is a 150,000 square metre development valued at $US44.3 million and the second is a 140,000 square metre development valued at $US43.1 million.

In fiscal 2011 we achieved new milestones in many different financial and operational metrics. Those new milestones include:

- Completed more than 70 projects over the past three fiscal years
- Approximately 14 material construction projects currently in progress
- Record revenue of $US186.1 million, up 26.3% from $US147.3 million in FY2010
- Record EBITDA of $US27.1 million, up 20.2% from $US22.5 million in FY2010
- Record net earnings of $US13.6 million, up 35.2% from $US10.1 million in FY2010

[1] *This letter to shareholders includes certain forward-looking statements within the meaning of Canadian securities laws. Forward-looking statements involve risks, uncertainties and other factors that could cause actual results, performance, prospects and opportunities to differ materially from those expressed in such forward-looking statements. 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 letter includes, but is not limited to, the Company's outlook on China's ongoing expansion of middle class and the growth of China's teir-2 cities, the continued demand for the Company's services in its core markets, the Company's expectation of expansion to new markets, the Company's plan to increase focus on larger construction projects, the Company's expectation of higher profit margins for the larger construction projects, and the Company's plan to upgrade its construction licences and qualifications. Any number of important factors could cause actual results to differ materially from these forward-looking statements as well as future results. Although Boyuan Construction believes that the assumptions and factors used in making the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this letter to shareholders, and no assurance can be given that such events will occur in the disclosed timeframes or at all. Boyuan Construction disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*

- Total new project value initiated in the 12-month period was $US200.7 million, largest in the Company's history

The main driver of the higher demand for our construction and engineering services is due to two major trends taking place in China. These trends are urbanization and a growth in the middle class. Both propel the need for new housing, commercial and public infrastructure projects.

Overall, the Chinese economy has shown signs of slowing slightly as the central government introduced restrictive measures on the residential market in tier one cities, tightening financing facilities available to property developers. Those measures have had virtually no effect on the Company's demand for its services as we operate in tier two cities. Various financial institutions, such as the International Monetary Fund, have recently forecasted a calendar 2011 growth rate of between 9.1% and 9.5% for the Chinese economy. Although down from 10.3% growth experienced last year, on a relative basis, a 9% or greater growth rate for an economy the size of China still provides many opportunities, especially when compared to the expected growth of other large economies around the world.

In one of our core markets, Hainan Island, the central government's efforts to develop the island as a major international tourist destination by 2020 is having a noticeable positive impact. It is as a direct result of those government efforts, providing us with additional opportunities for growth, which was the basis for our successful expansion into additional cities within the island during the year.

During the year a number of China-based Canadian exchange listed companies have experienced some serious credibility issues that have still yet to be resolved. As a result, many China-based Canadian-listed companies such as Boyuan, who have no direct or indirect involvement to the situation, experienced pressure on their share price. We remain committed to practicing the very highest standards of corporate governance, transparency, and financial reporting and disclosure.

We remain confident in the demand for our services in the near and longer term for our current core markets. We also continue to believe there are opportunities for us to expand into newer markets, where we will leverage our strong reputation of completing projects on time and on budget, allowing us to capitalize on the high rate of urban migration taking place and the growing need for construction and engineering services.

The ongoing development of tier two cities due to urbanization suggests continued growth in demand for our construction and engineering services. In an effort to further tap into this growing market potential, we remain committed to upgrading our qualifications and engineering standards, both of which will allow us to bid on larger scale projects with potentially higher margins.

On behalf of our Board of Directors and employees, I thank all of you for your continued confidence and support.

Signature

Cai Liang Shou, Chairman

November 11, 2011

Boyuan Construction Group, Inc.

Consolidated Financial Statements

For the Years Ended

June 30, 2011 and 2010

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Boyuan Construction Group, Inc.

We have audited the accompanying consolidated financial statements of Boyuan Construction Group, Inc. which comprise the consolidated balance sheets as at June 30, 2011 and 2010, and the consolidated statements of income, comprehensive income, retained earnings, accumulated other comprehensive income and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Boyuan Construction Group, Inc. as at June 30, 2011 and 2010, 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 27, 2011

Boyuan Construction Group, Inc.
Consolidated Balance Sheets
As at June 30, 2011 and 2010
(Expressed in US Dollars)

	2011 $	2010 $
Current Assets		
Cash and cash equivalents	6,314,390	4,853,755
Restricted cash (Note 5)	3,841,685	3,872,488
Accounts receivable	2,331,401	676,187
Unbilled revenue	76,000,785	49,778,594
Other receivables	1,214,447	1,577,310
Inventory	1,790,311	390,130
Advances to suppliers and prepaid expenses	22,923,720	14,516,086
Deposits	7,528,300	9,385,787
Future income tax assets	-	479,000
	121,945,039	85,529,337
Due from related parties (Note 6)	82,572	-
Property and equipment (Note 7)	17,426,538	8,213,535
Land use rights (Note 8)	119,203	126,392
	139,573,352	93,869,264
Current Liabilities		
Bank loans (Note 9)	19,773,793	19,480,040
Bank notes payable (Note 9)	10,067,924	6,151,475
Accounts payable and accrued liabilities	17,385,942	12,679,266
Income taxes payable	3,051,017	3,038,947
Deferred revenue	5,171,128	1,057,840
Automobile loans	234,212	382,425
Due to related parties (Note 6)	462,302	592,214
Current portion of convertible debentures (Note 10)	2,519,786	2,223,048
Future income tax liabilities (Note 14)	930,000	-
	59,596,104	45,605,255
Future income tax liabilities (Note 14)	717,000	808,000
Convertible debentures (Note 10)	16,331,915	3,919,428
	76,645,019	50,332,683
Shareholders' Equity		
Share capital (Note 11)	7,402,304	7,374,344
Contributed surplus (Note 12)	8,499,428	7,332,471
Reserves (Note 13)	4,297,509	2,774,998
Equity component of convertible debentures (Note 11)	2,779,401	372,533
	22,978,642	17,854,346
Retained earnings	35,607,674	23,537,584
Accumulated other comprehensive income	4,342,017	2,144,651
	39,949,691	25,682,235
	62,928,333	43,536,581
	139,573,352	93,869,264

CONTINGENT LIABILITIES (Note 20)

Approved on behalf of the Board:

"Cailiang Shou"
Cailiang Shou, Director

"David Horsley"
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, 2011 and 2010
(Expressed in US Dollars)

	2011 $	2010 $
Construction revenue	186,127,572	147,344,451
Cost of construction	154,969,068	121,775,099
Gross profit	31,158,504	25,569,352
Expenses		
Amortization of property and equipment	1,325,075	782,500
General and administrative expenses	4,094,043	3,047,626
	5,419,118	3,830,126
Income from operations	25,739,386	21,739,226
Other Income (expense)		
Interest and other income	341,543	219,900
Foreign exchange loss	(39,301)	(157,557)
Interest expense	(4,387,639)	(2,692,989)
Debenture valuation gain	704,418	-
Stock based compensation (Note 11)	(1,164,860)	(114,762)
Interest related to minimum total return	(1,076,507)	-
Make good provision	-	(3,243,192)
	(5,622,346)	(5,988,600)
Net income before income taxes	20,117,040	15,750,626
Income taxes (Note 14)	6,524,439	5,693,771
Net income for the year	13,592,601	10,056,855
Other Comprehensive Income		
Unrealized gain on foreign exchange translation	2,197,366	391,026
Comprehensive income for the year	15,789,967	10,447,881
Earnings per share, basic (Note 19)	$ 0.63	$ 0.80
Earnings pre share, diluted (Note 19)	$ 0.53	$ 0.43
Weighted average number of common shares outstanding, basic (Note 19)	21,428,556	12,542,210
Weighted average number of common shares outstanding, diluted (Note 19)	31,296,743	26,097,269

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Retained Earnings
For the Years Ended June 30, 2011 and 2010
(Expressed in US Dollars)

	2011 $	2010 $
Retained earnings, beginning of year	23,537,584	14,326,995
Net income for the year	13,592,601	10,056,855
Transfer to reserve (Note 13)	(1,522,511)	(846,266)
Retained earnings, end of year	35,607,674	23,537,584

Consolidated Statements of Accumulated Other Comprehensive Income
For the Years Ended June 30, 2011 and 2010
(Expressed in US Dollars)

	2011 $	2010 $
Accumulated other comprehensive income, beginning of year	2,144,651	1,753,625
Foreign exchange translation adjustment	2,197,366	391,026
Accumulated other comprehensive income, end of year	4,342,017	2,144,651

Boyuan Construction Group, Inc.
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010
(Expressed in US Dollars)

	2011 $	2010 $
OPERATING ACTIVITIES		
Net income for the year	13,592,601	10,056,855
Items not involving cash:		
Amortization	1,325,075	782,500
Interest accretion	3,131,028	1,510,837
Make good provision	-	3,243,192
Debenture valuation gain	(704,418)	-
Interest related to minimum total return	1,076,507	-
Stock based compensation	1,164,860	114,762
Unrealized foreign exchange (gain) loss	(610,787)	41,712
	18,974,866	15,749,858
Changes in non-cash working capital balances:		
Accounts receivables	(1,582,119)	714,424
Unbilled revenue	(23,188,056)	(13,891,389)
Other receivable	486,775	182,620
Inventories	(1,347,084)	272,343
Advance to suppliers and prepaid expenses	(7,264,256)	(11,439,982)
Deposits	2,024,057	(5,773,489)
Accounts payable and accrued liabilities	3,183,948	(266,950)
Deferred revenue	3,961,542	(407,172)
Income taxes payable	1,139,667	1,441,781
Due from / to related parties	291,510	473,552
Cash used in operating activities	(3,319,150)	(12,944,404)
INVESTING ACTIVITIES		
Acquisition of equipment	(9,894,022)	(1,928,667)
Cash used in investing activities	(9,894,022)	(1,928,667)
FINANCING ACTIVITIES		
Restricted cash	216,022	(737,280)
Bank loans	(648,988)	10,634,091
Bank notes payable	3,524,911	1,865,184
Automobile loans	(162,941)	261,261
Advances to developer (Note 6)	(7,022,205)	-
Repayment from developer (Note 6)	7,022,205	-
Convertible debentures, net	11,496,038	3,291,697
Proceeds from issuance of common stock, net	7,895	1,256,529
Cash injection by shareholder	-	751,417
Cash provided by financing activities	14,432,937	17,322,899
Effect of changes in exchange rates on cash	240,870	38,189
Increase in cash	1,460,635	2,488,017
Cash and cash equivalents, beginning	4,853,755	2,365,738
Cash and cash equivalents, ending	6,314,390	4,853,755
Supplemental disclosure of cash flow information:		
Cash paid for interest	3,120,656	1,487,425
Cash paid for income taxes	5,195,481	4,746,697

Significant non-cash transactions (Note 15)

See accompanying notes to consolidated financial statements.

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. 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.

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 until January 10, 2009.

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

3. 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, estimation of equity and debt components of convertible debentures, 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.

(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
Scaffoldings	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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. 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 Company uses 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.

3. 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 for proceeds.

4. RECENT ACCOUNTING PRONOUNCEMENTS

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, 2011. In July 2008 AcSB announced that early adoption will be allowed in 2009 subject to seeking exemptive relief. The Company is in the process of assessing the impact of convergence of Canadian GAAP to IFRS and commenced preparation work related to the conversion.

(Expressed in US Dollars)

5. RESTRICTED CASH

Restricted cash mainly represents compensating deposits held at banks to partially secure bank notes. The imposed restrictions dictate that funds cannot be withdrawn when there are outstanding bank notes payable, and the funds are only allowed to be used to settle bank notes payable (see Note 9 b). 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.

6. DUE FROM / TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS

	2011 $	2010 $
Due from related parties		
Due from companies controlled by the Chairman and Chief Executive Officer ("CEO")	82,572	-
Due to related parties		
Due to the Chairman and CEO	-	171,925
Due to companies controlled by the Chairman and CEO	462,302	420,289
	462,302	592,214

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

During 2011, the Company advanced $7,022,205 (HKD54,550,540) to a developer for a construction project, $4,286,948 (HKD33,297,864) of which was advanced to the developer through a person related to the CEO. The project did not materialize and the full amount was repaid to the Company by May 2011, $1,012,955 of which was repaid through the wife of the CEO. The advance was non-interest bearing, unsecured and with no specified repayment terms.

At June 30, 2011, the Company's CEO and a person related to him held $1,315,158 (RMB8,500,000) in term deposits in trust for the Company. These amounts are included in cash and cash equivalents. Subsequent to June 30, 2011, $603,622 (RMB3,900,000) was transferred to the Company's bank account.

7. PROPERTY AND EQUIPMENT

	Cost $	Accumulated Amortization $	Net Book Value $
2011			
Machinery, equipment and scaffoldings	15,096,525	3,043,400	12,053,125
Buildings	2,621,785	698,982	1,922,803
Vehicles	1,421,955	574,979	846,976
Office equipment	1,302,380	363,399	938,981
Leasehold improvements	1,006,018	121,840	884,178
Construction in progress	780,475	-	780,475
	22,229,138	4,802,600	17,426,538
2010			
Machinery, equipment and scaffoldings	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
Office equipment	871,603	165,927	705,676
Leasehold improvements	209,014	104,507	104,507
Construction in progress	684,238	-	684,238
	11,444,468	3,230,933	8,213,535

(Expressed in US Dollars)

8. LAND USE RIGHTS

	2011 $	2010 $
Cost	123,963	133,114
Accumulated amortization	(4,760)	(6,722)
Net book value	119,203	126,392

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.

9. BANK LOANS AND NOTES PAYABLE

(a) The bank loans are due within one year with interest paid monthly or quarterly at rates varying between 5.31% to 7.31% (2010 – 4% to 9.36%), weighted average at 6.40% (2010 – 5.82%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $29,181,043 in aggregate provided by construction project developers and the Chairman and CEO of the Company.

(b) The bank notes payable generally have terms six months or less and are issued at a discount. The notes are secured by compensating deposit held by the banks (see Note 5).

10. CONVERTIBLE DEBENTURES

	2011 $	2010 $
Balance, beginning of year	6,142,476	1,880,200
Gross proceeds from issue	14,799,000	4,174,620
Issue costs (Note 11)	(1,387,037)	(756,251)
Amount allocated to the equity component	(2,408,370)	(235,488)
Interest accretion	3,131,028	1,510,837
Interest paid	(1,915,925)	(913,300)
Debenture valuation adjustment	(704,418)	-
Transfer of debentures converted to common shares	(18,563)	(3,518)
Foreign exchange loss on translation	1,213,510	485,376
Balance, end of year	18,851,701	6,142,476

The amounts of convertible debentures due, if not converted before their due date, in the next three years are as follows:

	$
Due on February 28, 2012	2,741,367
Due on February 28, 2013	5,450,845
Due on October 31, 2015	15,555,325
Total principal	23,747,537
Less: interest at weighted average effective interest rate of 26.36%	(4,895,836)
	18,851,701
Less: current portion	(2,519,786)
Non-current portion	16,331,915

10. CONVERTIBLE DEBENTURES (continued)

(a) Convertible Debentures – Principal Amount of $11,918,231

On November 1, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of $987 (CDN$1,000) per debenture for gross proceeds of $14,799,000 (CDN$15,000,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and will be due on October 31, 2015. Each convertible debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price of CDN$2.60 per share. The convertible debentures are redeemable by the Company at any time on or after November 1, 2013 at a price equal to the principal amount thereof plus accrued and unpaid interest if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the debentures for the 20 most recent trading days with at least 1,000 shares traded in each trading day ending five trading days before the applicable redemption notice. The Company paid 6% agent's fee of $887,940 agent's legal and expenses of $404,646 and other issue costs of $94,451, totaling $1,387,037.

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 $2,657,900 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 $11,003,593 was computed as the present value of future principal and interest payments discounted at a rate of 18% per annum. Debenture issue costs of $249,530 was allocated to the equity component.

(b) Convertible Debentures – Principal Amount of $4,304,186

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.

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.

In 2010, management of the Company deposited 3,237,000 common shares of the Company into escrow with an escrow agent. Pursuant to the Company achieving after tax net income ("ATNI") of less than $8,500,000 and $11,500,000 for the years ended June 30, 2009 and 2010 respectively, each of the rights and additional rights entitles the holder, upon exercise at no additional consideration, to have one issued and outstanding common share of the Company transferred to the holder from shares which were deposited by management with an escrow agent. The Company's ATNI exceeded the requirement and the rights and additional rights expired on and the escrow shares were deemed to have been returned to the original shareholders on June 30, 2009 and 2010 respectively. On September 30, 2009, a make good provision of $3,243,192 for the fair value of the shares deemed to have been returned to the original shareholders on June 30, 2009 was charged to operations and included in contributed surplus.

10. CONVERTIBLE DEBENTURES (continued)

(b) Convertible Debentures – Principal Amount of $4,304,186 (continued)

During the 2011 year, 35 Convertible Debentures were converted to 13,125 common shares of the Company at $2.03 (CDN$2.00) per share. The principal amount of these debentures calculated under the effective interest method of $1,502 (CDN$1,481) was transferred to share capital upon their conversion.

(c) Convertible Debentures – Principal Amount of $2,629,284

Concurrent with the RTO transaction described in Note 1, 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 and ending 30 days thereafter.

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 $234,850 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 $2,840,150 was computed as the present value of future principal and interest payments discounted at a rate of 28% per annum.

In 2009, management of the Company deposited 2,050,000 common shares of the Company into escrow with an escrow agent. Pursuant to the Company achieving after tax net income ("ATNI") of less than $8,500,000 and $11,500,000 for the years ended June 30, 2009 and 2010 respectively, each of the rights and additional rights entitles the holder, upon exercise at no additional consideration, to have one issued and outstanding common share of the Company transferred to the holder from shares which were deposited by management with an escrow agent. The Company's ATNI exceeded the requirement and the rights and additional rights expired on and the escrow shares were deemed to have been returned to the original shareholders on June 30, 2009 and 2010 respectively.

Investors holding Convertible Debentures will be entitled to a non-transferable minimum total retum right ("MTR") 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. For the year ended June 30, 2011, the Company recorded MTR expenses of $1,076,507 (2010- $374,976) and charged to operations. At June 30, 2011 accrued liability for MTR totalled $1,507,145 (June 30, 2010- $374,976)

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

(Expressed in US Dollars)

11. 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, 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 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
Conversion of preferred shares into common	9,592,059	-	9,592,058	-
Conversion of convertible debentures	-	-	13,125	18,563
Transfer from equity component of convertible debentures	-	-	-	1,502
Exercise of warrants	-	-	3,800	7,895
Balance, June 30, 2011	-	-	25,796,924	7,402,304

On July 7, 2009, the Company completed a private placement offering issuing 6,474 Units at $860 (CDN$1,000) per Unit (see Note 10) 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 (CDN$2.00) per share for gross proceeds of $1,391,540 (CDN$1,618,500). Each warrant entitles the holder to purchase one additional common share at an exercise price of CDN$2.00 per share, expiring June 30,, 2013. The Company paid a 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 CDN$2.00 per share expiring June 30, 2013. The fair value of the finders' warrants was $272,548. Share issue costs of $756,251 were allocated to the convertible debentures described in Note 11.

On February 17, 2011, 35 units of convertible debt issued on February 27, 2009 were converted to 13,125 common shares at $18,563. On April 14, 2011, 3,800 agent warrants were exercised and 3,800 common shares were issued for $7,895 (CDN$7,600).

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.

(Expressed in US Dollars)

11. SHARE CAPITAL (continued)

Options (continued)

As of June 30, 2011 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 3.9 years.

	Number of Options	Weighted Average Exercise Price	Expiry Date
Balance, June 30, 2009	-		
Granted	140,000	$2.45	October 28, 2014
Balance, June 30, 2010	140,000	2.45	
Granted	1,000,500	2.10	July 8, 2015
Balance, June 30, 2011	1,140,500	$2.14	
Exercisable at June 30, 2011	343,458		

During the year ended June 30, 2011, the Company granted 1,000,500 (2010 – 140,000) options. Compensation expense of $1,164,860 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:

	2011	2010
Risk-free interest rate (%)	2.31%	2.44%
Expected dividend yield (%)	-	-
Expected option life (years)	4	4
Expected stock price volatility (%)	90%	90%

The weighted average grant date fair value for the options was $1.28 (2010 - $1.84).

Warrants

	Number	Exercised Price	Expiry Date
Warrants outstanding, June 30, 2009	1,230,000	$ 1.72 (CDN$2.00)	February 27,2013
Issued – unit warrants	1,618,500	$ 1.89 (CDN$2.00)	June 30, 2013
Issued – agents' warrants	323,700	$ 1.89 (CDN$2.00)	June 30, 2013
Warrants exercised	(38,500)	$ 1.94 (CDN$2.00)	
Warrants outstanding, June 30, 2010	3,133,700		
Warrants exercised	(3,800)	$2.08(CDN$2.00)	
Warrants outstanding, June 30, 2011	3,129,900		

The fair value of the agents' warrants issued during the 2010 year was $272,548 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
Risk-free interest rate (%)	2.27%
Expected dividend yield (%)	-
Expected option life (years)	4
Expected stock price volatility (%)	70%

The weighted average issue date fair value of the warrants was $0.84 for 2010.

(Expressed in US Dollars)

11. SHARE CAPITAL (continued)

Equity Component of Convertible Debentures

	2011 $	2010 $
Balance, beginning of year	372,533	137,295
Convertible debentures issued (Note 10)	2,408,370	235,488
Debentures converted transferred to share capital	(1,502)	(250)
Balance, end of year	2,779,401	372,533

Rights and Additional Rights

	Rights		Additional Rights	
	Underlying Shares	Expiry	Underlying Shares	Expiry
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 and 2011	–		–	

12. CONTRIBUTED SURPLUS

	2011 $	2010 $
Balance, beginning of year	7,332,471	1,890,711
Agents' warrants	-	272,548
Stock-based compensation (Note 11)	1,166,957	114,762
Make good provision (Note 10)	-	3,243,192
Warrants exercised	-	(11,646)
Contribution from shareholders	-	1,822,904
Balance, end of year	8,499,428	7,332,471

13. 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:

	2011 $	2010 $
Balance, beginning of year	2,774,998	1,928,732
Transfer from retained earnings	1,522,511	846,266
Balance, end of year	4,297,509	2,774,998

(Expressed in US Dollars)

14. 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:

	2011 $	2010 $
Current	5,207,026	6,139,341
Future	1,317,413	(445,570)
Total income tax expenses	6,524,439	5,693,771

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:

	2011 $	2010 $
Canadian combined statutory rates	27.5%	29.3%
Income taxes at combined statutory rates	5,532,188	4,607,059
Difference in foreign income tax rates	(650,700)	(932,537)
Non-deductible items	616,376	1,152,847
Non-taxable items	-	(162,492)
Reduction in income tax rates	79,384	69,924
Valuation allowance	947,191	958,970
Total income tax expenses	6,524,439	5,693,771

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:

	2011 $	2010 $
Non-capital losses	1,854,000	892,000
Share issue costs	486,000	294,000
Unbilled revenue, net of charges	(930,000)	479,000
Plant and equipment	(717,000)	(809,000)
Valuation allowance	(2,340,000)	(1,185,000)
	(1,647,000)	(329,000)
Future income tax assets	-	479,000
Total future income tax liabilities	(1,647,000)	(808,000)

The Company has non-capital losses carried forward of $7,127,000 which expire from 2029 to 2031.

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.

(Expressed in US Dollars)

14. INCOME TAX (continued)

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.

15. SIGNIFICANT NON-CASH TRANSACTIONS

The Company has the following significant non-cash transactions:

	2011 $	2010 $
Agent's warrants issued pursuant to a private placement offering	-	272,548
Make good provision	-	3,243,192
Interest related to minimum return	1,076,507	-
Stock based compensation	1,164,860	114,762

16. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, other receivables, deposits, bank loans, bank 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 consisting of 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 comprised of convertible debentures. The fair value of these financial instruments approximates their carrying values under the effective interest method.

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

		2011
Held for trading (i)	$	10,156,075
Loans and receivables (ii)		11,156,720
Other financial liabilities (iii)		57,496,124

(i) Cash and cash equivalents and restricted cash
(ii) Accounts receivable, other receivables, deposits and amounts due from related parties
(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

(Expressed in US Dollars)

16. FINANCIAL INSTRUMENTS (continued)

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	$ 10,156,075	$ -	$ -	$ 10,156,075

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 cash equivalents and restricted cash balances. To minimize the interest rate and credit risk the Company places these instruments with 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, 2011, revenue from 1 largest customers accounted for 16% (2010 – 3 largest customers accounted for 45%) of total revenue. At June 30, 2011, outstanding amounts owed by 1 customer accounted for 22% of the total accounts receivable and unbilled revenue (June 30, 2010 – outstanding amounts owed by 2 customers accounted for 10% of total accounts receivable and unbilled revenue). 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 against assets of its customers, which gives a general contractor a "mechanic lien" senior to all other secured debt including but limited to bank loans, bank 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 the 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, 2011:

	0 – 180 days	181 – 365 days	Over 1 Year	Over 2 Years	Carrying Value
Accounts receivable	$ 2,007,559	$ 113,391	$ 58,251	$ 152,200	$ 2,331,401

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.

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.

16. FINANCIAL INSTRUMENTS (continued)

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in PRC and is exposed to risk from changes in foreign currency exchange 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, 2011, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of $5,253,262 (2010 - $8,676,636), accounts receivable and other receivables of $3,499,483 (2010 - $2,299,042), bank loans of $19,773,793 (2010 - $19,480,040), bank notes payable of $10,067,924 (2010 - $6,151,475), accounts payable of $6,596,721 (2010 - $4,698,114), amounts due from related parties of $82,572 (2010 - $592,214), amounts due to related parties of $462,302 (2010 - $592,214), and automobile loans of $234,212 (2010 - $382,425) which were denominated in RMB.

At June 30, 2011, the Company had cash of $1,049,368 (2010 - $Nil) and convertible debentures of $18,851,701 (2010 - $6,142,476) which were denominated in CDN$.

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, 2011:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 5 years
	$	$	$	$	$
Bank loans	19,773,793	(19,773,793)	(19,773,793)	-	-
Notes payable	10,067,924	(10,067,924)	(10,067,924)	-	-
Accounts payable	8,106,192	(8,106,192)	(8,106,192)	-	-
Due to related parties	462,302	(462,302)	(462,302)	-	-
Automobile loans	234,212	(234,212)	(234,212)	-	-
Convertible debentures	18,851,701	(23,747,537)	(2,741,367)	(5,450,845)	(15,555,325)
Total	57,496,124	(62,391,960)	(41,385,790)	(5,450,845)	(15,555,325)

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income which a change in foreign exchange rate during the year ended June 30, 2011 would have had.

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

Sensitivity analysis (continued)

The result of sensitivity analysis shows that an increase (decrease) of 10% in the RMB to US Dollar exchange rate could have no impact on the Company's net income but could have increased (decreased) the comprehensive income by approximately $1,021,000. An increase (decrease) of 10% in CDN$ to US Dollar exchange rate could have no impact on the Company's net income but could have decreased (increased) the comprehensive income by approximately $1,780,000.

The above result arises primarily because the Company has RMB and CND$ denominated cash and cash equivalents, restricted cash, accounts and other receivable balances, deposits, bank loans, accounts payable and automobile loans, convertible debentures and amounts due to and due from related parties. The financial position of the Company may vary at the time that a change in the foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

(Expressed in US Dollars)

17. GEOGRAPHIC DISCLOSURES

The Company operates in one reporting segment – the construction of residential and business buildings, municipal infrastructure and engineering projects in PRC. The Company's Zhejiang 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.

18. 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 banks as compensating balances for 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.

19. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

For the year ended June 30, 2011	Net income $	Weighted Average Number of Common Shares Outstanding	Earnings per Share $
Net income for the year ended June 30, 2011	13,592,601	-	-
Weighted average number of shares outstanding	-	21,428,556	-
Basic Earnings per Share	13,592,601	21,428,556	0.63
Effect of warrants and convertible debentures:			
• Exercise of warrants	-	149,081	
• Convertible debentures	3,016,267	9,719,106	-
Diluted Earnings per Share	16,608,868	31,296,743	0.53

For the year ended June 30, 2010	Net income $	Weighted Average Number of Common 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 Debentures:			
• Convertible 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

20. CONTINGENT LIABILITIES

The Company has guaranteed the bank loans on behalf of certain developers, which are also its customers, in amounts totalling $3,049,490. No consideration has been specifically received by the Company for these guarantees.

BOYUAN CONSTRUCTION GROUP, INC.

Revised Management's Discussion and Analysis

September 27, 2011

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, 2011 ("**FY2011**") and the fiscal year ended June 30, 2010 ("**FY2010**"). It should be read in conjunction with the audited consolidated financial statements for FY2011 and FY2010 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 2012, 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 FY2011 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 70 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 FY2011 was $186.1 million, up 26.3% from $147.3 million for FY2010. Net income after taxes for FY2011 was $13.6 million or $0.53 per share fully diluted. This compares to $10.1 million, or $0.43 per fully diluted share, for FY2010.

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, 2011, 2010 and 2009:

US$'000 (except earnings per share amounts)	2011	2010	2009
Operating Results			
Construction revenue	186,127	147,344	101,664
Cost of construction	154,969	121,775	85,683
Gross profit	31,158	25,569	15,981
Net income	13,593	10,057	7,893
Adjusted net income	13,593	13,300	9,611
Earnings per share			
Basic	0.63	0.80	2.40
Diluted	0.53	0.43	0.31
Adjusted earnings per share			
Basic	0.63	1.06	2.93
Diluted	0.53	0.51	0.37
Financial Position			
Current assets	121,945	85,529	51,289
Non-current assets	17,628	8,340	6,227
Total assets	139,573	93,869	57,516
Current liabilities	59,596	45,605	28,886
Long term debt	17,049	4,727	2,453
Shareholders' equity	62,928	43,537	26,177
Cash dividend per share	Nil	Nil	Nil
Common shares outstanding	25,796,924	16,187,941	3,659,741

RESULTS OF OPERATIONS

Revenue for FY2011 was $186.1 million, up 26.3% from $147.3 million for FY2010. Revenue is recognized on the percentage-of-completion method. The significant year-over-year growth was primarily attributable to an increase in the contract value 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 and other cities in Hainan Island. New projects taken up in FY 2011 amounted to $200.7 million including a $15.4 million residential project in Shandong, 6 residential projects and 1 commercial project in Hainan Island with total contract value of $162.2 million, and a $23.1 million mixed used development in Yangtze River Delta. Most of the Company's projects have duration between 1 year to 2 years.

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 FY2011 was $155 million, up 27.3% from $121.8 million for FY2010. 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. The two major components of the cost of construction are direct material and labour costs. Direct material costs were $109.2 million and labour cost was $35.7 million in FY2011. In comparison, Direct material costs and labour costs were $81.3 million and $33.2 million in FY2010. Direct material costs have increased significantly (34.3% increase over the past year) as most of our construction materials such as steel and cement have experienced substantial price increases during the year.

Gross profit for FY2011 was $31.2 million, representing a margin of 16.7% on revenue. Gross profit for FY2010 was $25.6 million, representing a margin of 17.4% on revenue. The gross margin this year is consistent to the gross margins experienced in the past despite the substantial increase in our direct material costs as most of our construction contracts have cost adjustment clauses for raw material and labour. Historically, Boyuan's gross profit margins have been in the range of 15% to 17%.

G&A expenses were $4.1 million in FY2011 compared to $3 million in FY2010. The increase was a result of the Company having to continue to strengthen its management team in response to its listing status since March 2009. The increase in its business activities also contributed to the increase in general expenses such as travelling..

Interest expense was $4.4 million in FY2011, an increase of $1.7 million over FY2010. The increase was due to increase in bank notes payable and convertible debentures needed to fund start-up costs for new projects. In FY2011, the Company has signed new agreements and commenced work for construction development projects valued at $200.7 million. Revenue for the projects will be recognized as the projects are completed, typically a duration of up to two years.

On February 27, 2011, the redemption of one third of the 11.75% debenture outstanding was not exercised by the holders. Based on the redemption date of February 27, 2013 and effective interest rates of 28.94% and 32.64%, the principal amount of the one third outstanding debentures at February 27, 2011 was recalculated and the reduced amount was accounted for as valuation gain of $0.7 million in this financial year.

The Company also incurred a minimum total return (MTR) charge of $1.1 million for FY 2011 compare to $0.4 million in FY2010. MTR charges were determined based on the provisions of previous financing activities. Investors of the Company's convertible debentures issued on February 2009 were entitled to a MTR right of 25% per annum on their units. The calculation is 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 MTR expense recorded in FY2011 was a non-cash accrued expense based on calculations on June 30, 2011.

After-tax net income for FY2011 was $13.6 million, or $0.53 per fully diluted share, compared to net income of $10.1 million which included a make good provision of $3.2 million, or $0.43 per fully diluted share for FY2010. The increase was principally due to higher revenues from increased sales, and the valuation gain on the 11.75% debenture, partially offset by higher interest expenses, the MTR charge as well as to a stock-based compensation charge of $1.2 million in FY2011. The increase in fully diluted earnings per share for the period was tempered by a 20% increase year-over-year in the weighted average number of common shares outstanding, diluted relating to the issuance of a CDN$15 million debenture during the year.

Boyuan had working capital of $62.3 million, including cash, equivalents, and restricted cash totalling $10.2 million as at June 30, 2011. This compares to $39.9 million and $8.7 million, respectively at June 30, 2010.

FOURTH QUARTER RESULTS

The following table sets forth the selected financial information in the three months ended June 30, 2011 and 2010:

US$'000 (except earnings per share amounts)	**Three months ended June 30**	
Operating Results	2011	2010
Revenue	56,578	43,681
Cost of construction	46,998	35,661
Gross profit	9,580	8,020
Net income	4,274	4,593
Adjusted net income	4,274	4,593
Earnings per share		
Basic	0.17	0.29
Diluted	0.15	0.17
Adjusted earnings per share		
Basic	0.17	0.29
Diluted	0.15	0.17

Revenue for the three-month period ended June 30, 2011 was $56.6 million, up 29.5% from $43.7 million for Q4 FY2010. 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 other cities in Hainan Island.

Cost of construction for Q4 FY2011 was $47 million, up 31.7% from $35.7 million for Q4 FY2010. The increase was primarily as a result of higher expenses associated with greater project volume and an expanded work force. The significant increase in our raw material costs also contributed to the increase in our construction costs.

Gross profit for Q4 FY2011 was $9.6 million, representing a margin of 16.9% on revenue. Gross profit for Q4 FY2010 was $8 million, representing a margin of 18.4% on revenue.

Net income for Q4 FY2011 was $4.3 million or $0.15 per diluted share. These compare to $4.6 million and $0.17, respectively, for Q4 FY2010. Despite the significant increase in sales and gross profit, the net income for this period has experienced a small decline over the same period last year due to the stock based compensation and MTR expenses, both are non-cash accounting charges.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	2011	2010
Due from companies controlled by the Chairman & CEO	$ 82,572	-
Due to Chairman & CEO	-	171,925
Due to companies controlled by the Chairman & CEO	462,302	420,289

Due to companies controlled by the Chairman and CEO of $462,302 was a result of payments made to suppliers on the Company's behalf.

During 2011, the Company advanced $7,022,205 (HKD54,550,540) to a developer for a construction project, $4,286,948 (HKD33,297,864) of which was advanced to the developer through a person related to the CEO. The project did not materialize and the full amount was repaid to the Company by May 2011, $1,012,955 of which was repaid through the wife of the CEO. The advance was non-interest bearing, unsecured and with no specified repayment terms.

At June 30, 2011, the Company's CEO and a person related to him held $1,315,158 (RMB8,500,000) in term deposits in trust for the Company. These amounts are included in cash and cash equivalents. Subsequent to June 30, 2011, $603,622 (RMB3,900,000) was transferred to the Company's bank account.

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, 2011:

US$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q4, FY2011	56,578	4,274	0.29	0.17
Q3, FY2011	41,042	3,167	0.12	0.10
Q2, FY2011	45,464	3,346	0.19	0.14
Q1, FY2011	43,044	2,805	0.17	0.10
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)

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q4, FY2011	Q4, FY2010	FY2011	FY2010
Operating activities	(4,206)	(2,944)	(3,319)	(12,944)
Investing activities	(3,633)	(388)	(9,894)	(1,928)
Financing activities	5,343	5,161	14,433	17,323
Effect of currency translation	76	31	241	38
Net Increase in cash and cash equivalents	(2,420)	1,860	1,461	2,488

Net cash used in operating activities was $3.3 million for the FY2011 compared to $12.9 million in FY2010. Net cash used for the last quarter of FY2011 was $4.2 million compared to net cash used of $2.9 million in the last quarter in FY2010. The change was primarily caused by the increase in the Company's unbilled revenue and advances to suppliers. For FY2011, cash used by increase in unbilled revenue, and advances to suppliers and prepaid expenses were $23.2 million, $7.3 million respectively. These were offset partially by cash provided from operations of $19 million, changes in accounts payable of $3.2 million and deferred revenue of $4 million, and relatively smaller changes in other accounts such as accounts receivables, other receivable, inventories, deposits, income taxes payable and due from/to related parties with an aggregate value of $1 million.

Revenues from contracts are recognized based on the percentage-of-completion method primarily based on costs incurred to date 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 revenue. Unbilled revenue essentially represents the revenue recognized in excess of actual billing amount. The difference is because revenues are recognized based on the percentage-of completion method and billings to customers are based on negotiated and contractual terms. The increase in unbilled revenue is consistent with the increase in the backlog for the year as the Company has taken on a number of new contracts in the period. The increase in the backlog also caused a substantial increase in the Company's advances to suppliers as the Company has to secure more raw materials in support of the additional contracts taken on in the period. The Company normally made advances to suppliers to ensure continuous supplies of raw materials for the duration of its projects.

Net cash used in investing activities was $9.9 million in FY2011 and $3.6 million for the last quarter of FY2011. For FY2010 and the last quarter of FY2010, net cash used was $1.5 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 $14.3 million in FY2011, a decrease of $3 million over FY2010. The increase in bank loans and bank notes payable totalling $2.9 million ($12.5 million in FY2010) and the issuance of convertible debentures of $11.5 ($3.3 million in FY 2010) were the main funding sources for the Company. Net cash provided from financing activities was $5.3 million in the last quarter of FY2011 and $5 million in the corresponding quarter in FY2010. The primary financing source for both quarters was from bank financing. The additional bank financing and the proceeds from the convertible debenture and common shares issued were used to support the increase in the Company's backlog.

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- to provide an adequate return to shareholders through expansion and acquisition correspondingly to the level of risk.

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

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

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

The Company had cash and cash equivalents balance of $6.3 million as at June 30, 2011 as compared to a cash and cash equivalents balance of $4.9 million as at June 30, 2010. 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 $121.9 million in current assets and $59.6 million in current liabilities as at June 30, 2011.

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 $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 3,273,000 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 the Company has met its ANTI target for both FY2009 and FY2010, all shares remaining in the make-good escrow arrangement have been transferred back to management of the Company and as a result, there are no more common shares remaining in this make-good escrow account as at June 30, 2011.

On November 1, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of $987 (CDN$1,000) per debenture for gross proceeds of $14,799,000 (CDN$15,000,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and will be due on October 31, 2015. Each convertible debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price of CDN$2.60 per share. The convertible debentures are redeemable by the Company at any time from and after November 1, 2013 at a price equal to the principal amount thereof plus accrued and unpaid interest if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the debentures for the 20 most recent trading days with at least 1,000 shares traded in each trading day ending five trading days before the applicable redemption notice.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 25,796,924 common shares outstanding. The Company has Secured Debentures outstanding of $7.7 million (CDN$7.9 million) and Unsecured Debentures outstanding of $14.8 million (CDN$15 million) that can be converted into 3,949,875 and 5,769,230 common shares respectively. The Company also has 3,129,900 warrants outstanding exercisable into 3,129,900 common shares. The outstanding share options granted to directors and officers are 1,140,500.

Off Balance Sheet Arrangements

As at June 30, 2011, 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, 2011 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 that an increase (decrease) of 10% in the RMB to US Dollar exchange rate could have no impact on the Company’s net income but could have increased (decreased) the comprehensive income by approximately $1,021,000. An increase (decrease) of 10% in CDN$ to US Dollar exchange rate could have no impact on the Company’s net income but could have decreased (increased) the comprehensive income by approximately $1,780,000.

The above result arises primarily because the Company has RMB and CND$ denominated cash and cash equivalents, restricted cash, accounts and other receivable balances, deposits, bank loans, accounts payable and automobile loans, convertible debentures and amounts due to and due from related parties. The financial position of the Company may vary at the time that a change in 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, 2011:

	Carrying Amount	**Contractual Cash Flows**	**Within 1 year**	**Within 2 years**	**Within 3 years**
	$	**$**	**$**	**$**	**$**
Bank loans	19,773,793	(19,773,793)	(19,773,793)	-	-
Notes payable	10,067,475	(10,067,924)	(10,067,924)	-	-
Accounts payable	8,106,192	(8,106,192)	(8,106,192)	-	-
Due to related parties	462,302	(462,302)	(462,302)	-	-
Automobile loans	234,212	(234,212)	(234,212)	-	-
Secured Debentures	18,851,701	(23,747,537)	(2,741,367)	(5,450,845)	(15,555,325)
Total	57,496,124	(62,391,960)	(41,385,790)	(5,450,845)	(15,555,325)

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 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. The Company has completed its preliminary planning and scoping and a detailed impact assessment of its IFRS plan. The Company is in the process of implementing the IFRS conversion portion of its plan. The Company has identified several key areas that may be different under Canadian GAAP versus IFRS:

- Revenue recognition
- Financial instruments – convertible debentures
- Capital assets componentization
- Deferred income taxes
- Stock-based compensation on escrow shares returned to management
- Foreign exchange – cumulative translation differences

Currently, Management expects reconciliation adjustments on the future income tax liabilities recognized on capital assets acquired that did not meet the IFRS deferred income tax liabilities recognition requirements. In addition, an adjustment will be required with regards to stock-based compensation recognized on escrow shares returned to management that did not meet the IFRS share-based payment recognition requirements. Management also intends to use IFRS 1 elections upon transition which will affect opening retained earnings and the cumulative translation differences.

The IFRS changeover is expected to impact the presentation and/or valuations of balances and transactions in the Company¹s quarterly and annual consolidated financial statements and related notes effective July 1, 2011, however continued progress on the IFRS conversion plan is needed in order to quantify those effects. Management does not expect material impact on the Company's financial statements from the other significant areas mentioned above.

The Company will continue to execute the transition in accordance with its plan, and it will also continue to monitor standards development as issued by the International Accounting Standards Board and the AcSB , as well as regulatory developments as issued by the Canadian Securities Administrators.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The design and effectiveness of internal controls over financial reporting was assessed as of June 31, 2011. Based on the evaluation, the Company concluded that the design and effectiveness of the Company's DC&P and ICFR was ineffective due to the weakness discussed below with respect to ICFR.

1. Concentration of authority, or lack of segregation of duties.

2. Inadequate written policies and procedures for recording transactions.

3. Inadequate inventory and fixed asset management systems.

4. Inadequate IT support system.

Management believes that these material weaknesses will create risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in the coming year to address these deficiencies, management will continue to monitor and work on mitigating these weaknesses.

There has been no change in the design of the Company's internal controls over financial reporting during the quarter ended June 30, 2011 that would materially affect, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

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

CORPORATE DIRECTORY

Management

Shou Cailiang
Chairman, President & Chief Executive Officer

Paul Law
Chief Financial Officer

Shu Ren
Secretary

Board of Directors

Shou Cailiang
Chairman, Director, President &
Chief Executive Officer

Francis Leong
Lead Director

Manhong Liu
Director

David Horsley
Director

Dr. Fan Lixin
Director

Shu Ren
Director and Secretary

Tang Wei
Director and Vice President

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Transfer Agent

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Stock Exchange Listing

Toronto Stock Exchange
Symbol: BOY, BOY.DB, BOY.DB.A