Boyuan Construction Group, Inc.

Consolidated Financial Statements

For The Three and Six Months Ended

December 31, 2010 and 2009

(Unaudited)

Notice of No Auditor Review of Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared by management and approved by the Audit Committee.

The Company's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Boyuan Construction Group, Inc.

Consolidated Balance Sheets
(Expressed in US Dollars)

	(Unaudited) December 31, 2010 $	(Audited) June 30, 2010 $
Current Assets		
Cash and cash equivalents	9,586,311	4,853,755
Restricted cash (Note 6)	7,432,167	3,872,488
Accounts receivable	1,177,025	676,187
Unbilled revenue	71,044,838	49,778,594
Other receivables	4,993,044	1,577,310
Inventory	113,469	390,130
Advances to suppliers and prepaid expenses	18,232,837	14,516,086
Deposits	10,680,666	9,385,787
Future income tax assets	-	479,000
	123,260,357	85,529,337
Property and equipment (Note 8)	8,483,842	8,213,535
Land use rights (Note 9)	135,990	126,392
	131,880,189	93,869,264
Current Liabilities		
Bank loans (Note 10)	18,618,227	19,480,040
Bank notes payable (Note 10)	11,403,854	6,151,475
Accounts payable and accrued liabilities	19,843,437	12,679,266
Income taxes payable	5,280,327	3,038,947
Deferred revenue	1,896,889	1,057,840
Automobile loans	286,922	382,425
Due to related parties (Note 7)	739,008	592,214
Current portion of convertible debentures (Note 11)	2,584,176	2,223,048
Future income tax liabilities	316,000	-
	60,968,840	45,605,255
Accrued liabilities (Note 11 (a))	1,024,941	-
Future income tax	773,000	808,000
Convertible debentures (Note 11)	15,654,181	3,919,428
	78,420,962	50,332,683
Shareholders' Equity		
Share capital (Note 12)	7,374,344	7,374,344
Contributed surplus (Note 13)	7,987,154	7,332,471
Reserve (Note 14)	4,300,710	2,774,998
Equity component of convertible debentures (Note 12)	2,764,106	372,533
	22,426,314	17,854,346
Retained earnings	28,163,546	23,537,584
Accumulated other comprehensive income	2,869,367	2,144,651
	31,032,913	25,682,235
	53,459,227	43,536,581
	131,880,189	93,869,264

Approved on behalf of the Audit Committee:

"David Horsley"
David Horsley, Director

"Francis Leong"
Francis Leong, Director

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.
Consolidated Statements of Income and Comprehensive Income
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2010 $	December 31, 2009 $	December 31, 2010 $	December 31, 2009 $
Construction revenue	45,464,494	37,611,808	88,508,149	72,615,615
Cost of construction	37,872,579	30,901,132	73,863,031	60,225,015
Gross profit	7,591,915	6,710,676	14,645,118	12,390,600
Expenses				
Amortization of property and equipment	273,589	147,189	529,902	289,030
General and administrative expenses	929,853	961,516	1,938,748	1,775,658
	1,203,442	1,108,705	2,468,650	2,064,888
Income from operations	6,388,473	5,601,971	12,176,468	10,325,712
Other Income (expense)				
Interest and other income	41,101	47,843	158,428	186,778
Foreign exchange loss	134,637	(67,498)	110,046	(67,498)
Interest expense	(1,164,946)	(572,480)	(1,868,262)	(1,137,261)
MTR expense (Note 11 (a))	(82,374)	-	(649,965)	-
Stock- based compensation (Note 12)	(392,646)	-	(654,683)	-
Make good provision (Note 11(b))	-	-	-	(3,243,192)
	(1,464,228)	(592,135)	(2,904,436)	(4,261,173)
Net income before income taxes	4,924,245	5,009,836	9,272,032	6,064,539
Income taxes (Note 15)	(1,577,757)	(1,497,097)	(3,120,358)	(2,757,707)
Net income for the period	3,346,488	3,512,739	6,151,674	3,306,832
Other Comprehensive Income (loss)				
Unrealized gain (loss) on foreign exchange translation	228,801	51,393	724,716	(3,957)
Comprehensive income (loss) for the period	3,575,289	3,564,132	6,876,390	3,302,875
Earnings per share, basic (Note 20)	$0.19	$0.26	$0.36	$0.25
Earnings per share, diluted (Note 20)	$0.14	$ 0.15	$0.28	$0.14
Weighted average number of common shares outstanding, basic (Note 20)	18,064,648	12,981,503	17,126,295	12,981,503
Weighted average number of common shares outstanding, diluted (Note 20)	27,796,879	28,936,825	26,858,526	28,936,825

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.

Consolidated Statements of Retained Earnings
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2010 $	December 31, 2009 $	December 31, 2010 $	December 31, 2009 $
Retained earnings, beginning of period	26,342,770	14,121,088	23,537,584	14,326,995
Net income for the period	3,346,488	3,512,739	6,151,674	3,306,832
Transfer to reserve	(1,525,712)	(831,916)	(1,525,712)	(831,916)
Retained earnings, end of period	28,163,546	16,801,911	28,163,546	16,801,911

Consolidated Statements of Accumulated Other Comprehensive Income
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2010 $	December 31, 2009 $	December 31, 2010 $	December 31, 2009 $
Accumulated other comprehensive income, beginning of period	2,640,566	1,698,275	2,144,651	1,753,625
Foreign exchange translation adjustment	228,801	51,393	724,716	(3,957)
Accumulated other comprehensive income, end of period	2,869,367	1,749,668	2,869,367	1,749,668

See accompanying notes to consolidated financial statements.

Boyuan Construction Group, Inc.

Consolidated Statements of Cash Flows
(Expressed in US Dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2010 $	December 31, 2009 $	December 31, 2010 $	December 31, 2009 $
OPERATING ACTIVITIES				
Net income for the period	3,346,488	3,512,739	6,151,674	3,306,832
Items not involving cash:				
Amortization of property and equipment	273,589	147,189	529,902	289,230
Interest accretion	761,469	368,777	1,181,348	716,356
Make good provision	-	-	-	3,243,192
Stock- based compensation	392,646	-	654,683	-
Unrealized foreign exchange gain (loss)	(260,573)	190,010	(276,864)	263,505
	4,513,619	4,218,715	8,240,743	7,819,115
Changes in other assets and liabilities:				
Accounts receivables	(278,621)	4,010,369	(475,458)	4,278,255
Unbilled revenue	(7,539,687)	(6,309,397)	(19,657,521)	(10,311,457)
Other receivable	(1,077,621)	1,892,170	(3,992,362)	(4,446,723)
Inventories	308,931	8,170	281,893	650,874
Advance to suppliers and prepaid expenses	(5,321,683)	(5,864,393)	(3,288,967)	(8,015,096)
Deposits	(2,653,293)	2,512,202	(879,940)	-
Accounts payable and accrued liabilities	(1,071,883)	-	7,416,195	2,566,920
Deferred revenue	1,548,470	(2,459,836)	1,701,176	(968,059)
Income taxes payable	1,793,772	(204,042)	2,866,538	2,712,043
Due to related parties	(296,305)	(344,610)	(77,870)	(253,594)
Cash used in operating activities	(10,074,301)	(2,540,652)	(7,865,573)	(5,967,722)
INVESTING ACTIVITIES				
Acquisition of equipment	(402,798)	(159,640)	(587,523)	(1,362,493)
Acquisition of intangible assets	-	5,472	-	1,158
Cash used in investing activities	(402,798)	(154,168)	(587,523)	(1,361,335)
FINANCING ACTIVITIES				
Restricted cash	(1,129,337)	-	(3,402,829)	-
Bank loans	59,038	(642,475)	(973,362)	681,253
Bank notes payable	135,512	-	5,009,913	-
Auto loan	(47,357)	(15,984)	(103,554)	(5,432)
Convertible debentures, net	12,681,460	(400,104)	12,457,591	3,222,676
Deferred financing costs	-	(210,619)	-	(210,619)
Proceeds from issuance of common stock, net	-	-	-	1,208,270
Contribution from shareholders (Note 13)	-	1,850,714	-	1,850,714
Cash provided by financing activities	11,699,316	581,532	12,987,759	6,746,862
Effect of changes in exchange rates on cash	96,945	(20,477)	197,893	5,958
Increase (decrease) in cash	1,319,162	(2,133,765)	4,732,556	(576,237)
Cash and cash equivalents, beginning	8,267,149	7,024,455	4,853,755	5,466,927
Cash and cash equivalents, ending	9,586,311	4,890,690	9,586,311	4,890,690
Supplemental disclosure of cash flow information:				
Cash paid for interest	735,043	572,480	1,244,657	1,137,261
Cash paid for income taxes	1,376	47,087	7,206	47,087

Significant non-cash transactions (Note 16)

See accompanying notes to consolidated financial statements.

(Expressed in US Dollars)

1. NATURE OF OPERATIONS

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

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

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 business buildings, municipal infrastructure and engineering projects in PRC.

2. ACQUISITION

Acquisition of HKCo

On February 27, 2009, SND entered into an agreement to acquire all of the issued and outstanding shares in HKCo. Pursuant to the terms of the agreement, the Company consolidated its share capital on the basis of 1 post-consolidation share for every 1,258.0342 pre-consolidation shares. The Company issued 3,104,741 of its post-consolidated common shares and 21,270,259 of its preferred shares to complete the acquisition. As the transaction resulted in the shareholders of HKCo owning 98.6% of the issued shares of the Company, the acquisition has been accounted for as a capital transaction resulting from a reverse takeover as described above. The Company paid a sponsorship fee of $323,673 in connection with the acquisition.

As the shares of the Company were thinly traded and were not considered to represent the best estimate of the fair value of the net assets acquired, and accordingly, the acquisition fair value of net assets acquired was recorded based on carrying amounts as follows. The $323,671 excess of transaction costs over net asses acquired was charged to retained earnings for the year ended June 30, 2009.

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

2. ACQUISITION (continued)

Consolidation of Variable Interest Entity (Zhejiang)

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

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

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

3. BASIS OF CONSOLIDATION AND PRESENTATION

These consolidated financial statements include the assets and operations of the Company, HKCo, China Privco and Zhejiang. The Company has contractual agreements with Zhejiang whereby the Company has control in and is the primary beneficiary of Zhejiang's operations effective January 10, 2009.

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

4. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and, accordingly, do not include all information and note disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented, have been made. Results for the interim periods presented are not necessarily indicative of the results that may be expected for the year or for any other period. These unaudited interim consolidated financial statements have been prepared using the same accounting policies used in the preparation of the Company's audited consolidated financial statements for the year ended June 30, 2010, and should be read in conjunction with those financial statements and notes thereto.

These consolidated financial statements are expressed in US Dollars and are prepared in accordance with Canadian generally accepted accounting principles.

(Expressed in US Dollars)

5. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 1582, “Business Combinations”, which replaces Section 1581, “Business Combinations”. The AcSB also issued Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”, which replace Section 1600, “Consolidated Financial Statements”. These new sections are based on the International Accounting Standards Board’s (“IASB”) International Financial Reporting Standard 3, “Business Combinations”. These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The adoption of this standard will affect the presentation and disclosure of the non-controlling interest. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2009, 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 July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. In July 2009 AcSB announced that early adoption will be allowed in 2010 subject to seeking exemptive relief. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

6. RESTRICTED CASH

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

7. DUE TO RELATED PARTIES

	December 31, 2010 $	June 30, 2010 $
Due to the Chairman and Chief Executive Officer (“CEO”)	11,341	171,925
Due to companies controlled by the Chairman and CEO	727,667	420,289
	739,008	592,214

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

(Expressed in US Dollars)

8. PROPERTY AND EQUIPMENT

	At December 31, 2010			At June 30, 2010
	Cost $	Accumulated Amortization $	Net Book Value $	Net Book Value $
Machinery and equipment	6,053,720	2,386,885	3,666,835	3,839,342
Buildings	2,562,821	642,684	1,920,137	1,911,707
Vehicles	1,342,104	441,140	900,964	968,065
Construction in progress	320,949	-	320,949	684,238
Office equipment	1,073,499	239,020	834,479	705,676
Leasehold improvements	983,393	142,915	840,478	104,507
	12,336,486	3,852,644	8,483,842	8,213,535

9. LAND USE RIGHTS

	December 31, 2010 $	June 30, 2010 $
Balance, at cost	137,739	133,114
Accumulated amortization	(1,749)	(6,722)
Net book value	135,990	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 nominal carrying value. The right expires on July 19, 2050. In June 2007, Zhejiang acquired another 50 year land use right for RMB769,719 for a piece of land in Jiaxing, Zhejiang, PRC. The right expires on August 23, 2056.

10. BANK LOANS AND NOTES PAYABLE

(a) The bank loans are due within one year with interest paid monthly or quarterly at rates of 4% to 6.38% (June 30, 2010 – 4% to 9.36%), weighted average at 5.57% (June 30, 2010 – 5.64%) per annum. The loans are secured by the Company's real property and land lease, and guarantees of $16,737,200 in aggregate provided by construction project developers and the Chairman and CEO of the Company.

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

(Expressed in US Dollars)

11 CONVERTIBLE DEBENTURES

	December 31, 2010 $	June 30, 2010 $
Balance, beginning of period	6,142,476	1,880,200
Gross proceeds from issue	14,799,000	4,174,620
Issue costs	(1,483,792)	(756,251)
Amount allocated to the equity component	(2,391,573)	(235,488)
Interest accretion	1,181,348	1,510,837
Interest paid	(686,122)	(913,300)
Transfer of debentures converted to common shares	-	(3,566)
Foreign exchange loss on translation	677,020	485,424
Balance, end of period	18,238,357	6,142,476

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

	$
Due on February 28, 2011	2,653,250
Due on February 28, 2012	2,657,775
Due on February 28, 2013	2,657,775
Due on October 31, 2015	15,081,000
Total principal	23,049,800
Less: interest at weighted average effective interest rate of 20.75%	(4,811,443)
	18,238,357
Less: current portion	(2,584,176)
Non-current portion	15,654,181

(a) Convertible Debentures – Principle Amount of $2,684,200

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

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

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

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.

11 CONVERTIBLE DEBENTURES (continued)

(a) Convertible Debentures – Principle Amount of $2,684,200 (continued)

Investors holding Convertible Debentures will be entitled to a non-transferable minimum total return 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 six months ended December 31, 2010, the Company recorded MTR expenses of $649,965 and charged to operations. At December 31, 2010, accrued liability for MTR totalled $1,024,941 (June 30, 2010 - $374,976)

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

(b) Convertible Debentures – Principal Amount of $4,346,795

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.

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.

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.

(c) Convertible Debentures – Principal Amount of $11,207,362

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 payable 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. The Company paid 6% agents' fee of $887,940 and agents' legal and expenses of $404,646, and other issue costs of $191,206.

(Expressed in US Dollars)

(c) Convertible Debentures – Principal Amount of $11,207,362 (continued)

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 $2,391,573 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 $11,072,000 was computed as the present value of future principal and interest payments discounted at a rate of 18% per annum.

12. SHARE CAPITAL

Authorized:

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

Issued and outstanding:

	Preferred Shares Number	$	Common Shares Number	$
Balance, June 30, 2010	9,592,059	-	16,187,940	7,374,344
Conversion of preferred shares into common	(9,592,059)		9,592,059	-
Balance, December 31, 2010	-		25,779,999	7,374,344

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.

On July 9, 2010, 1,000,500 options were granted to directors and officers of the Company, 25% of the options will vest every six months from the date of grant. As of December 31, 2010 the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,140,500 common shares summarized as follows. The options have a weighted average remaining life of 4.44 years.

	Number of Options	Weighted Average Exercise Price	Expiry Date
Balance, June 30, 2010	140,000	$2.64 (CAD$2.63)	October 28, 2014
Granted	1,005,000	$2.11 (CAD$2.10)	July 8, 2015
Balance, December 31, 2010	1,145,000	$2.18 (CAD$2.17)	
Exercisable at December 31, 2010	93,334		

During the six months ended December 31, 2010, the Company recorded stock-based compensation of $654,683 for the options described above and 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:

	July 8, 2010 Options	October 28, 2009 Options
Risk-free interest rate (%)	2.31%	2.44%
Expected dividend yield (%)	-	-
Expected option life (years)	4	4
Expected stock price volatility (%)	100%	90%

The weighted average grant date fair value for the options was $1.40 for the July 8, 2010 issuance and $1.45 for the October 28, 2009 issuance.

(Expressed in US Dollars)

12. SHARE CAPITAL (continued)

Equity Component of Convertible Debentures

	$
Balance, June 30, 2010	372,533
Convertible debentures issued (Note 11 (c))	2,391,573
Balance, December 31, 2010	2,764,106

Warrants

	Underlying Shares
Warrants outstanding, June 30, 2010 and December 31, 2010	3,133,700

During the three months ended December 31, 2009, the Company recorded share issue costs of $272,548 for the 323,700 finders' warrants issued (see Note 11(b)), using the Black-Scholes model with the following weighted average assumptions and resulting issue date fair value:

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 for the warrants was $0.84.

Warrants outstanding at December 31, 2010 are as follows:

Exercise Price	Underlying Shares	Expiry
$2.01 (CAD$2.00)	1,223,750	February 28, 2013
$2.01 (CAD$2.00)	1,909,950	July 7, 2013
	3,133,700	

13. CONTRIBUTED SURPLUS

	$
Balance, June 30, 2010	7,332,471
Stock-based compensation (Note 12)	654,683
Balance, December 31, 2010	7,987,154

14. RESERVE

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:

	$
Balance, June 30, 2010	2,774,998
Transfer from retained earnings	1,525,712
Balance, December 31, 2010	4,300,710

(Expressed in US Dollars)

15. INCOME TAX

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

Income tax expenses are as follows:

	Six Months Ended December 31, 2010 $	December 31, 2009 $
Current	2,360,088	2,737,870
Future	760,270	19,837
Total income tax expenses	3,120,358	2,757,707

16. SIGNIFICANT NON-CASH TRANSACTIONS

The Company has the following significant non-cash transactions:

	Six Months Ended December 31, 2010 $	December 31, 2009 $
Agent's warrants issued pursuant to a public offering	-	272,548
Make good provision	-	3,243,192
Stock-based compensation	654,683	-

17. FINANCIAL INSTRUMENTS

Fair values

The Company's financial instruments includes 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 in amounts due to related parties. It is impractical to determine the fair value of these financial instruments with sufficient reliability due to the nature of the financial instrument, the absence of secondary market and the significant cost of obtaining external appraisals. The Company has financial instruments in convertible debentures. The fair value of these financial instruments approximates their carrying value under the effective interest method.

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

	December 31, 2010 $
Held for trading (i)	17,018,478
Loans and receivables (ii)	16,850,735
Other financial liabilities (iii)	62,624,782

Fair values (continued)

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

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

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

17. FINANCIAL INSTRUMENTS (continued)

Fair values (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	$ 17,018,478	$ -	$ -	$ 17,018,478

Interest Rate and Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and accounts and other receivables. The Company has significant cash and restricted cash balances. To minimize the interest rate and credit risk the Company places these instruments with high credit quality financial institutions located in Canada and PRC. Credit risk from accounts and other receivables encompasses the default risk of customers. Management, on an ongoing basis, monitor the level of accounts and other receivables attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

For the period ended December 31, 2010, revenue from the 3 largest customers accounted for 35% (December 31, 2009 – 5 largest customers accounted for 68%) of total revenue. At December 31, 2010, amounts outstanding from the 2 largest customers accounted for 30% (December 31, 2009 – 57%) of total accounts and other receivables. Management does not believe that there is significant credit risk arising from any of the Company's customers. Under PRC regulations, a general contractor is entitled to first claim of assets against its customers, which gives a general contractor a "mechanic lien" senior than all other secured debt including but limited to bank loans, notes and any payables. If a customer defaults payment on the contract with the Company, the customer can be liable to surrender the real property and the land use rights associated with that real property that is under construction. However, should one of the Company's main customers be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts and other receivables is equal to their total carrying amounts.

Financial assets past due

The following table provides information regarding the aging of financial assets that are past due but which are not impaired at December 31, 2010:

	Current	31 – 60 days	61 – 90 days	91 + days	Carrying Value
Accounts receivable	$ 87,052	$ 39,715	$ 52,558	$ 7,806	$ 187,131

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.

Currency Risk

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

At December 31, 2010, through its subsidiaries, the Company had cash and cash equivalents and restricted cash of $16,862,681, accounts and other receivables of $6,851,001, bank loans and notes payable of $30,022,082, accounts payable of $12,078,927 and automobile loan of $286,922 which were denominated in RMB.

(Expressed in US Dollars)

17. FINANCIAL INSTRUMENTS (continued)

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 December 31, 2010:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years	Above 3 years
	$	$	$	$	$	$
Bank loans	18,618,227	(18,618,227)	(18,618,227)	-	-	
Notes payable	11,403,854	(11,403,854)	(11,403,854)	-	-	
Accounts payable	13,338,414	(13,338,414)	(13,338,414)	-	-	
Due to related parties	739,008	(739,008)	(739,008)	-	-	
Automobile loans	286,922	(286,922)	(286,922)	-	-	
Convertible debentures	18,238,357	(23,049,800)	(2,653,250)	(2,657,775)	(2,657,775)	(15,081,000)
Total	62,624,782	(67,436,225)	(47,039,675)	(2,657,775)	(2,657,775)	(15,081,000)

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 period ended December 31, 2010 would have had.

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

The result of sensitivity analysis shows an increase (decrease) of 10% in RMB exchange rate could have no impact on the Company’s net income but could have increased or decreased the comprehensive income by approximately $1,967,000.

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

18. GEOGRAPHIC DISCLOSURES

The Company has two operating segments, the construction of residential and business building, municipal infrastructure and engineering projects in PRC. These two segments share similar economic characteristics and are aggregated into one reporting segment for financial statement presentation purposes.

The Zhejiang’s office building is located in Jiaxing, Zhejiang, PRC. All of the Company’s revenue was generated in PRC and substantially all capital assets are located in PRC.

19. CAPITAL DISCLOSURES

The Company's objectives when managing capital are:

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

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

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

(Expressed in US Dollars)

20. EARNINGS PER SHARE

Earnings per share amounts have been calculated as follows:

	Net income $	Weighted Average No. of Shares outstanding	Earnings per Share $
For the period ended December 31, 2010			
Net income for the year ended December 31, 2010	6,151,674	-	
Weighted average number of shares outstanding	-	17,126,295	
Basic Earnings per Share	6,151,674	17,126,295	0.36
Effect of convertible securities:			
• Stock options	-	-	
• Convertible debentures	1,300,612	9,732,231	
Diluted Earnings per Share	7,452,286	26,858,526	0.28

	Net income $	Weighted Average No. of Shares outstanding	Loss per Share $
For the period ended December 31, 2009			
Net income for the period ended December 31, 2009	3,306,832	–	
Weighted average number of shares outstanding	–	12,981,503	
Loss per Share – Basic and Diluted	3,306,832	12,981,503	0.25

Effects of preferred shares and convertible securities

Preferred shares	–	11,990,072	
Convertible debentures	736,493	3,965,250	
Diluted earnings per Share	4,043,325	28,936,825	0.14

21. CONTINGENT LIABILITIES

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