

CHINA HGS REAL ESTATE INC.

Form 10-K

December 26, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2012

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-34864

CHINA HGS REAL ESTATE INC.

(Exact Name of Registrant as Specified in its Charter)

Florida

33-0961490

(State or Other Jurisdiction of Incorporation) (I.R.S. Employer Identification Number)

6 Xinghan Road, 19th Floor, Hanzhong City

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Shaanxi Province, PRC 723000

(Address of principal executive offices) (zip code)

(86)091-62622612

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class registered: Name of each exchange on which registered:
Common Stock, par value \$0.001 The NASDAQ Stock Market LLC

Securities registered under Section 12(g) of the Exchange Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒
No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-K (ss.229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☒
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of the registrant's common stock on March 31, 2012, the last business day of the Company's second fiscal quarter, as reported by the NASDAQ Stock Market LLC on that date, was approximately \$11,925,316. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

As of December 21, 2012, the number of shares outstanding of the registrant's common stock was 45,050,000.

DOCUMENTS INCORPORATED BY REFERENCE

None

CHINA HGS REAL ESTATE, INC.

FORM 10-K

For the Fiscal Year Ended September 30, 2012

INDEX

| | Page |
|--|------|
| PART I | |
| Item 1. Business | 1 |
| Item 1A. Risk Factors | 15 |
| Item 1B. Unresolved Staff Comments | 26 |
| Item 2. Properties | 26 |
| Item 3. Legal Proceedings | 26 |
| Item 4. Mine and Safety Disclosure | 26 |
| PART II | |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 26 |
| Item 6. Selected Financial Data | 27 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 28 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk | 39 |
| Item 8. Financial Statements and Supplementary Data | 40 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 62 |

| | | |
|------------|--|----|
| Item 9A. | Controls and Procedures | 62 |
| Item 9B. | Other Information | 63 |
| PART III | | |
| Item 10. | Directors, Executive Officers and Corporate Governance | 64 |
| Item 11. | Executive Compensation | 67 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 70 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 72 |
| Item 14. | Principal Accountant Fees and Services | 73 |
| PART IV | | |
| Item 15. | Exhibits and Financial Statement Schedules | 74 |
| SIGNATURES | | 76 |

PART I

ITEM 1. BUSINESS

Our Organization

China HGS Real Estate Inc. (the “Company” or “China HGS,” “we”, “our”, “us”), formerly known as China Agro Sciences Corp., is a corporation organized under the laws of the State of Florida.

On August 21, 2009, a Share Exchange Agreement (“Share Exchange”) was entered into by and among the Company, Rising Pilot, Inc., a British Virgin Islands company (the “HGS Shareholder”), and China HGS Investment Inc., a Delaware corporation and wholly-owned subsidiary of the HGS Shareholder (“HGS Investment”). Pursuant to the Share Exchange Agreement, the HGS Shareholder transferred and assigned to the Company all of the issued and outstanding capital stock of HGS Investment in exchange for 14,000,000 shares of the Company’s common stock, \$0.001 par value. The closing of the Share Exchange transaction occurred on August 31, 2009. As a result of the Share Exchange, HGS Investment became a wholly-owned subsidiary of the Company. After the consummation of the Share Exchange transaction, the Company changed its name to China HGS Real Estate, Inc.

In addition, as a part of the Share Exchange transaction, the Company entered into an entrusted management agreement (the “Entrusted Management Agreement”) with the management of the Company’s PRC operating subsidiary, Shaanxi Guangsha Investment and Development Group Co., Ltd. (“Guangsha”) and issued to Mr. Zhu Xiaojun, the CEO of Guangsha and his management team an aggregate of 25,000,000 shares of the Company’s common stock.

Prior to and in conjunction with the consummation of the Share Exchange, the Company entered into a purchase and sale agreement with Mr. Zhengquan Wang, the Company’s former CEO, pursuant to which, Mr. Wang returned 14,000,000 shares of the Company’s common stock to the Company in exchange for the business and assets of Dalian Holding Corp., a Florida corporation and wholly-owned subsidiary of the Company. In addition, Mr. Wang assumed all the liabilities of Dalian Holding and released the Company from any and all claims, known or unknown, with regard to such liabilities. As a result of the Share Exchange transaction, the shareholders of Guangsha acquired the majority of the equity in the Company. In addition, the original officers and directors of the Company resigned from their positions and new directors and officers affiliated with Guangsha were appointed ten days after the notice pursuant to Rule 14f-1 was mailed to the Company’s shareholders of record.

The transaction has been accounted for as a reverse merger under the purchase method of accounting. Accordingly, HGS Investment and its subsidiaries are treated as the continuing entity for accounting purposes.

HGS Investment is a Delaware corporation and owns 100% of the equity interest in Shaanxi HGS Management and Consulting Co., Ltd. (“Shaanxi HGS”), a wholly owned foreign entity incorporated under the laws of the People’s Republic of China (“PRC” or “China”) on June 3, 2009.

China HGS does not conduct any substantive operations of its own. Instead, through its subsidiary, Shaanxi HGS, in November 2007 it entered into certain exclusive contractual agreements with Guangsha. Pursuant to these agreements, Shaanxi HGS is obligated to absorb a majority of the risk of loss from Guangsha’s activities and entitles Shaanxi HGS to receive a majority of Guangsha’s expected residual returns. In addition, Guangsha’s shareholders have pledged their equity interest in Guangsha to Shaanxi HGS, irrevocably granted Shaanxi HGS an exclusive option to purchase, to the extent permitted under PRC Law, all or part of the equity interests in Guangsha and agreed to entrust all the rights to exercise their voting power to the person(s) appointed by Shaanxi HGS.

Based on these contractual arrangements, we believe that Guangsha should be considered a “Variable Interest Entity” (“VIE”) under ASC 810 “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51”, because the equity investors in Guangsha no longer have the characteristics of a controlling financial interest, and the Company, through Shaanxi HGS, is the primary beneficiary of Guangsha and its operations. Accordingly, Guangsha has been consolidated under ASC 810.

Our Company, along with our subsidiaries and VIE, engages in real estate development, primarily in the construction and sale of residential apartments, car parks and commercial properties.

Shaanxi Guangsha Investment and Development Group Co., Ltd. (“Guangsha”)

Guangsha was organized in August 1995 as a liability limited company under the laws of the PRC. Guangsha is headquartered in the city of Hanzhong, Shaanxi Province. Due to the rapid growth of the business, the shareholders of Guangsha increased the company’s registered capital twice, once in 2000, from the original registered capital of RMB 2.1 million (approximately \$0.2 million) to RMB 30 million (approximately \$3.6 million) and again in 2008 to RMB 130 million (approximately \$17.6 million). Guangsha is engaged in developing large scale and high quality commercial and residential projects, including multi-layer apartment buildings, sub-high-rise apartment buildings, high-rise apartment buildings, and office buildings.

Our corporate structure is set forth below:

Business Overview

We conduct substantially all of our business through our subsidiary and VIE in China. All of our business is conducted in mainland China. Guangsha was founded by Mr. Xiaojun Zhu, our Chairman and Chief Executive Officer and commenced operations in 1995 in Hanzhong, a prefecture-level city in Shaanxi Province.

Since Guangsha was founded, management has been focused on expanding our business in Tier 3 and Tier 4 cities and counties in China that we strategically select based on population and urbanization growth rates, general economic conditions and growth rates, income and purchasing power of resident consumers, anticipated demand for private residential properties, availability of future land supply and land prices, and governmental urban planning and development policies. We utilize a standardized and scalable model that emphasizes rapid asset turnover, efficient capital management and strict cost control. We plan to expand into strategically selected Tier 3 and Tier 4 cities and counties with real estate development potential in Shaanxi Province, and expect to benefit from rising demand for residential housing as a result of increasing income levels of consumers and growing populations in these cities and counties due to urbanization.

Real Estate Industry Overview

During fiscal 2012,, China witnessed a slowdown in economic growth. This was due to its ongoing application of austerity policies to combat inflation, and the external impact of global instability triggered by the European debt crisis. As exports slowed, China's reported GDP growth dropped to 7.6% year on year in the second quarter ended June 30, 2012 from 8.1% in the first quarter of 2012, and GDP growth further dropped to 7.4% year on year in the third quarter ended September 30, 2012. This has prompted the government to loosen economic policy to support growth. The current package of economic support policies is designed to stabilize the economy against slowing exports and to ensure the full-year official target of 7.5% GDP growth is met.

Ongoing government regulatory measures, including the "Ten National Notices" announced in 2010, the "Eight National Notices" and property tax approved in January 2011, have brought the PRC property market further down to the bottom in the first nine months of 2012. In accordance with reports from National Bureau of Statistics of China, Gross Floor Area ("GFA") sales nationwide for the period from January to March 2012 decreased by 13.6% as compared to the same period last year. It is primarily attributed to the potential buyers' anticipation for possible further declines in prices, and the government's implementation of market regulation as a long-term policy was also considered as a crucial factor. By June 2012, the six month decline rate for GFA sales nationwide was significantly narrowed down to 7.7%. As of September 30, 2012, GFA sales nationwide for the first nine months of 2012 was 684.4 million square meters, a decrease of 4% from the same period of 2011¹.

Despite the declining transaction volume and cooling real estate market, housing prices in many cities have not shown a substantial correction. While short-term market correction is a process that the property sector is bound to undergo, the fundamental demand for residential housing will remain given the rising per capita income, accelerating urbanization and increasing demand for better living environment. The average GFA selling price for the first nine months of 2012 was RMB 5,896¹ (approximately to \$933), representing a 6.9% increase from the same period of last year. Meanwhile, a lot of local governments introduced measures such as housing provident fund loan adjustment and tax benefit for first time home buyers to encourage purchases by home buyers. In terms of monetary policy, the People's Bank of China ("PBOC") posted a statement on February 7, 2012, indicating that PBOC would ensure that mortgages are available to affordable housing projects and loan demand from creditworthy first-time homebuyers. The mandatory bank reserve ratio has been lowered twice (on February 24 and May 18, respectively), while the interest-rate has been cut twice (on June 8 and July 6, respectively). These policies are expected to improve market sentiment and help to unleash pent-up demand. Market sentiment and confidence are improving, enticing buyers to re-enter the market in the balance of 2012.

During the volatile real estate market, the Company has been capitalizing on its inherent strengths and market opportunities in Tier 3 and Tier 4 cities and counties to deliver value for our shareholders. We feel confident and also competent to take on every challenge and grasp every opportunity during market consolidation. We expect to provide rapid response to the market on the basis of our projected business plans together with a flexible approach in seizing market opportunities; strict investment standard and prudent attitude towards investment opportunities, and appropriate replenishment of quality land resources in existing regions to realize value within the Tier 3 and Tier 4

cities and counties in Western China.

Company Positioning:

The Company is headquartered in Hanzhong in the southwestern part of the Shaanxi province, in the center of the Hanzhong Basin, on the Han River, near the Sichuan border. According to the China City Statistical Yearbook, Hanzhong had a population of about 3.8 million.

¹ National Bureau of Statistics of China Jan – September national real estate development and sales report
<http://www.stats.gov.cn>

Hanzhong is a key transportation hub connecting China's Middle Economic Zone and Western Economic Zone. Since Xi'an express highway was completed in September 2007, the travel time from Xi'an, the provincial capital of Shaanxi province, to Hanzhong takes only about 3 hours. The new airport in Hanzhong is going to be completed and put into service in September 30, 2013. The airport is expected to handle 300,000 passengers and 1,300 tons of cargo by 2020. Xichang high-speed railway between Chengdu, the provincial capital of Sichuan province to Xi'an with a major stop in Hanzhong, is under-construction. After its completion, it only takes 1 hour from Hanzhong to both Xi'an and Chengdu. The railway passengers are expected to increase from 1.5 million to 6 million by 2020.

In accordance with Hanzhong Government's annual report², Hanzhong's GDP reached to RMB 64.748 billion (approximately \$10.2 billion) by 2011, representing a 15.5% increase from 2010. For the first nine months of 2012, Hanzhong's GDP was RMB 48.948 billion (approximately \$7.7 billion), representing a growth of 15%. Residents' disposable income was RMB 17,019 (equivalent to \$2,693) in 2011, increasing by 17.3% from 2010. For the first nine months of 2012, residents' disposable income was RMB 13,884 (approximately \$2,197) per person, increasing by 14.6% comparing to the same period last year.

Many Tier 3 and Tier 4 cities and counties in China provide a major source of migration workers for the Tier 1 and Tier 2 cities in China. The income from migration workers also is becoming a significant factor in supporting the hometown economy. Based on Hanzhong Government's annual reports, the number of Hanzhong's migration workers reached to 836,000 as of December 31, 2011, representing an increase of 5.4% from 2010. Total income of migration workers was about RMB 8.9 billion in 2011, representing an increase of 18.5% from 2010.

The target market of the Company is in Western China. The Company continues to focus on Tier 3 and Tier 4 cities and counties in acquiring sizable quality land reserves at low cost in a flexible and diversified manner. There has been an increasing demand for high quality residential housing, largely driven by the "Go West" policy and accelerated urbanization.

² Hanzhong 2011, 2010, 2009 and 2008 annual government report <http://www.shaanxi.gov.cn/>

³ Shaanxi Information Center Jan – September 2012 and 2011 economic report <http://www.sxi.cn/>

Many buyers in Tier 3 and Tier 4 cities and counties are first time home buyers. In order to mitigate default risk, the Company generally requires from its homebuyer customers a deposit in the range of 30%-50% of the purchase price, which is higher than the percentage required by the government for the mortgage down payment.

The Company received the National Grade-I real-estate development qualification granted by the Ministry of Housing and Urban-Rural Development of the People's Republic of China ("MOHURD") on October 12, 2011. The Grade-I real-estate development qualification is the highest qualification for real-estate developers in China and requires meeting several strict criteria, including:

- Registered capital of at least RMB 50 million (approximately \$7.9 million);
- At least five years of experience in real estate development and operation;
- The completion of construction of a total over 300,000 square meters of ground floor area (GFA) within the last three years and, in the most recent year, developed real estate projects of at least 150,000 square meters; and
- The completed real estate projects have no quality issues in each of the past five years; and an established, comprehensive quality control and guarantee system

The National Grade-I real-estate development qualification provides significant opportunities for the Company to expand its operations beyond Shaanxi province into new regional real estate markets in China.

Looking ahead, the Company will continue to focus on developing high quality and large scale real estate projects in the suburban areas of Tier 3 and Tier 4 cities and counties with promising economic growth potential. Leveraging on its unique competitive strengths, and under the direction and guidance of the government's macro policies, the Company expects to further replicate its successful business model into new high growth regions through strategic selection of project locations, a short project development schedule characterized by fast asset turnover and excellent execution ability, as well as innovative product offering closely in line with market demand. The Company aims at becoming a leading large-scale residential property developer in Western China and a well-recognized brand name.

Pre-Sales and Sales

In the PRC, real estate developers begin to market properties before construction is completed. Like other developers, we pre-sell properties prior to completion of construction. Under PRC pre-sales regulations, property developers must satisfy specific conditions before properties under construction can be pre-sold. These mandatory conditions include:

- the land premium must have been paid in full;

the land use rights certificate, the construction site planning permit, the construction work planning permit and the construction permit must have been obtained;

at least 25% of the total project development cost must have been incurred;

the progress and the expected completion and delivery date of the construction must be fixed;

the pre-sale permit must have been obtained; and

the completion of certain milestones in the construction processes must be specified by the local government authorities.

These mandatory conditions are designed to require a certain level of capital expenditure and substantial progress in project construction before the commencement of pre-sales. Generally, the local governments also require developers and property purchasers to have standard pre-sale contracts prepared under the auspices of the government. Developers are required to file all pre-sale contracts with local land bureaus and real estate administrations after entering into such contracts.

After-Sale Services and Delivery

We assist customers in arranging for and providing information related to financing. We also assist our customers in various title registration procedures related to their properties, and we have set up an ownership certificate team to assist purchasers to obtain their property ownership certificates. We offer various communication channels to customers to facilitate customer feedback collection. We also cooperate with property management companies that manage our properties and ancillary facilities, to handle customer feedback.

We endeavor to deliver the units to our customers on a timely basis. We closely monitor the progress of construction of our property projects and conduct pre-delivery property inspections to ensure timely delivery. The time frame for delivery is set out in the sale and purchase agreements entered into with our customers, and we are subject to penalty payments to the purchasers for any delay in delivery caused by us. The Company has never incurred any delay penalties. Once a property development has been completed, has passed the requisite government inspections and is ready for delivery, we will notify our customers and hand over keys and possession of the properties.

Marketing and Distribution Channel

We maintain a marketing and sales force for our development projects, which at September 30, 2012 consisted of 79 employees specializing in marketing and sales. We also train and use outside real estate agents to market and increase the public awareness of our projects, and spread the acceptance and influence of our brand. However, our marketing and sales are primarily conducted by our own sales force because we believe our own dedicated sales representatives are better motivated to serve our customers as well as to control our property pricing and selling expenses.

Our marketing and sales team determines the appropriate advertising and selling plan for each project. We develop public awareness through marketing and advertising as well as referrals from customers. We utilize a customer relationship management system to track customer profiles, which helps us to forecast future customer requirements and general demand for our projects. This allows us to have real-time information on the status of individual customer transactions as well as available inventory by project, which enables us to better anticipate the preferences of current and future customers.

We use various advertising media to market our developments and enhance our brand name, including newspapers, magazines, television, radio, e-marketing and outdoor billboards. We also participate in real estate exhibitions.

We have also developed a strong relationship with local institutional purchasers and governments. The Company entered into a residential-apartment bulk-purchase agreement with Hanzhong Municipal Public Security Bureau on May 28, 2011. Pursuant to this Agreement, the purchaser will purchase a total of 224 residential-apartment units in Tower C1 and Tower C3 of the Company's "Mingzhu Beiyuan" project located in downtown Hanzhong for a total price of RMB 120 million (approximately \$19.0 million). The Company also entered into a residential-apartment bulk-purchase agreement with Hanzhong Municipal Bureau of Justice on June 8, 2011. Pursuant to this Agreement, the purchaser will purchase a total of 112 residential-apartment units in Tower B3 of the Company's "Mingzhu Beiyuan" project located in downtown Hanzhong for a total price of RMB 60 million (approximately \$9.5 million). On October 18, 2011, the Company signed another bulk-purchase agreement with the Hanzhong Local Tax Bureau and the Hanzhong Social Insurance Center for the Company's "Mingzhu Beiyuan" project. According to the Agreements, the Hanzhong Local Tax Bureau and the Hanzhong Social Insurance Center will purchase the residential apartments in the "Mingzhu Beiyuan" project at fixed price of RMB 278 per sq. ft. (approximately \$44.0 per sq. ft.) for the first floor of each building. The unit price will increase by RMB 2.30 per sq. ft. (approximately \$0.36 per sq. ft.) per floor, starting on the second floor of each building. All of these bulk purchases are expected to be completed in the next 2-3 years. In addition, the Company entered into a preliminary contract with Yang County to develop affordable apartment buildings with total Gross Floor Area ("GFA") of 40,000 square meters. The construction of these units is expected to be completed by September 30, 2013. In June 2012, the Company was approved by Hanzhong local government to construct two municipal roads with total length of 1,064.09 meters. The budget for these two municipal roads is RMB 18,716,489.34 (equivalent to approximately \$3.0 million) and was approved by Hanzhong Ministry of Finance. The related construction is expected to be completed by December 31, 2012.

A typical real estate property sales transaction usually consists of three steps. First, the customer pays a deposit to the Company. Within a week, after paying the deposit, the customer will sign a purchase contract with us and make a down payment to us in cash. After making the down payment, the customer arranges for a mortgage loan for the balance of the purchase price. Once the loan is approved, the mortgage loan proceeds are paid to us directly by the bank. Finally, we deliver the property to the customer. Legal title, as evidenced by a property ownership certificate issued by local land and construction bureaus, will be delivered to the customer in 12 months from the property delivery date.

For customers purchasing properties with mortgage financing, under current PRC laws, their minimum down payment is 30% of the total purchase price for the purchase of the first self-use residential unit with total GFA of 90 square meters (about 970 square feet) or more on all existing units and those yet to be completed, and a down payment of 20% on the first residential units for self-use with total GFA of under 90 square meters. In order to mitigate the default risk, the Company requires from its homebuyer customers deposits ranging from 30%-50% of the purchase price, which is higher than the percentage required by the government for the mortgage down payment.

Like most real estate companies in China, we generally provide guarantees to mortgagee banks in respect of the mortgage loans provided to the purchasers of our properties up until completion of the registration of the mortgage with the relevant mortgage registration authorities. Guarantees for mortgages on residential properties are typically discharged when the individual property ownership certificates are issued. In our experience, the issuance of the individual property ownership certificates typically takes six to twelve months, so our mortgage guarantees typically remain outstanding for up to twelve months after we deliver the underlying property.

Our Property Development Operations

We have a systematic and standardized process of project development, which we implement through several well-defined phases. One critically significant portion of our process is the land acquisition process, which is segmented into three stages: (i) opportunity identification, (ii) initial planning and budgeting, and (iii) land use rights acquisition. The following diagram sets forth the key stages of our property development process.

Our Projects

Overview

We develop the following three types of real estate projects, which may be developed in one or more phases:

- multi-layer apartment buildings, which are typically six stories or less;
- sub-high-rise apartment buildings, which are typically seven to 11 stories; and
- high-rise apartment buildings, which are typically 12 to 33 stories.

At any one time, our projects (or phases of our projects) are in one of the following three stages:

· ***completed projects***, meaning properties for which construction has been completed;

· ***properties under construction***, meaning properties for which construction permits have been obtained but construction has not been completed; and

· ***properties under planning***, meaning properties for which we have entered into land grant contracts and are in the process of obtaining the required permits to begin construction.

We have three main projects that we are developing in Hanzhong City and one in Yang County, which is adjacent to Hanzhong City. Our main projects located in Hanzhong City are: Mingzhu Garden -Mingzhu Nanyuan, Mingzhu Beiyuan, Oriental Pearl Garden and NanDajie (Mingzhu Xinju). In Yang County, our project is Yangzhou Pearl Garden. Most projects are being developed in multiple phases.

Projects located in Hanzhong City

(1) Mingzhu Garden -Mingzhu Nanyuan

Mingzhu Nanyuan consists of multi-layer residential buildings and sub-high-rise and high-rise residential buildings with commercial shops on the first floors, all of which have been completed as of September 30, 2012. The unsold property remained in two sub-high-rise and two high-rise residential buildings with total unsold GFA of 33,389 square meters as of September 30, 2012.

(2)

Mingzhu Garden -Mingzhu Beiyuan

This project is located in the south west part of Hanzhong City. The project includes two high-rise residential buildings with commercial shops located on the first floor with unsold GFA of 9,043 square meters as of September 30, 2012. The Mingzhou Beiyuan project under development includes 17 high-rise residential buildings with an estimated GFA of 350,000 square meters. The Company started construction in the third quarter of fiscal 2012 and expect to complete the construction in 2-3years.

(3)

Mingzhu Xinju

This project is located in the downtown of Hanzhong City. It consists of two residential high-rise buildings, with commercial shops located on the first floors. One building was completed as at September 30, 2010 and the other one completed as at September 30, 2011 with remaining unsold GFA of 9,633 square meters as at September 30, 2012

(4)

Oriental Pearl Garden

This project is located in the downtown of Hanzhong City and currently under development. The Company started construction in the third quarter of fiscal 2012 and expects to complete the construction in 2-3 years. It consists of 12 high-rise residential buildings with commercial shops on the first and second floors with an estimated GFA of 260,000 square meters.

Projects located in Yang County

Yangzhou Pearl Garden consists of multi-layer residential buildings and sub-high-rise and high-rise residential buildings with commercial shops on the first floors. As of September 30, 2012, the remaining completed portion of Yangzhou Pearl Garden includes multi-layer residential buildings, commercial units, sub-high-rise and high-rise residential buildings, with a total GFA of 50,445 square meters. Yangzhou Pearl Garden under development consists of multi-layer residential buildings and high-rise residential buildings, with a total GFA of 99,038 square meters as of September 30, 2012.

Completed Projects

The following table sets forth our completed projects in the year ending September 30, 2012:

| Project Name | Location | Type of Buildings | Total GFA (square meters) completed during the year | Total Number of Units completed during the year | Number of units sold during the year | Number of units available for sale |
|----------------------------------|---------------|--|---|---|--------------------------------------|------------------------------------|
| Yangzhou Pearl Garden | Yang County | Multi-layer residential Sub-high-rise residential | 31,440 | 219 | 341 | 684 |
| Mingzhu Garden (Mingzhu Nanyuan) | Hanzhong City | Sub-high-rise residential | 32,701 | 316 | 49 | 352 |

| | | | | | | |
|----------------------------------|---------------|-----------------------|--------|-----|-----|-------|
| Mingzhu Garden (Mingzhu Beiyuan) | Hanzhong City | High-rise residential | - | - | 41 | 113 |
| Central Plaza | Hanzhong City | Commercial units | - | - | 1 | 1 |
| NanDajie (Mingzhu Xinju) | Hanzhong City | High-rise residential | - | - | 6 | 7 |
| Total | | | 64,141 | 535 | 438 | 1,157 |

(1) The amounts for “total GFA” in this table are the amounts of total saleable gross floor area and are derived on the following basis:

- for properties that are sold, the stated GFA is based on that sales contracts relating to such property;

for unsold properties that are completed, the stated GFA is calculated based on the detailed construction blueprint and the calculation method approved by the PRC government for saleable GFA, after necessary adjustments;

·for properties that are under planning, the stated GFA is based on the land grant contract and our internal projections

Properties under Construction and Properties under Planning

The following table sets forth each of our properties currently under construction or planning as of September 30, 2012:

| Projects under Construction | Location | Type of Projects | Total GFA(1) (square meters) | Total Number of Units | Number of Pre-sold Units |
|----------------------------------|-------------|-----------------------|---------------------------------|-----------------------|--------------------------|
| Mingzhu Garden (Mingzhu Beiyuan) | Hanzhong | High-rise residential | 350,000 | N/A | 518 |
| Oriental Pearl Garden | Hanzhong | High-rise residential | 260,000 | N/A | N/A |
| Yangzhou Pearl Garden | Yang County | High-rise residential | 99,038 | N/A | 281 |
| Total | | | 709,038 | N/A | 799 |

(1) The amounts for “total GFA” in this table are the amounts of total saleable GFA and are derived on the following basis:

·for properties that are sold, the stated GFA is based on that sales contracts relating to such property;

·for unsold properties that are completed, the stated GFA is calculated based on the detailed construction blueprint and the calculation method approved by the PRC government for saleable GFA, after necessary adjustments;

·for properties that are under planning, the stated GFA is based on the land grant contract and our internal projections.

Suppliers

Land Bank

In China, the supply of land is controlled by the government. Since the early 2000s, the real estate industry in China has been transitioning from an arranged system controlled by the PRC government to a more market-oriented system. At present, although the Chinese government still owns all urban land in China, land use rights with terms up to 70

years, can be granted to, and owned or leased by, private individuals and companies.

(a) Land - under development

In 2009, the Company successfully acquired additional land use rights covering 180 acres through bidding on an auction held by the local Land Consolidation and Rehabilitation Center of Hanzhong City. After the acquisition, the Company started the construction of its Mingzhu Garden project, which consisted of two large sub projects: Mingzhu Nanyuan and Mingzhu Beiyuan. Both of these sub projects were further developed under multiple phases. As of September 30, 2012, all of Mingzhu Nanyuan has been completed while most of Mingzhu Beiyuan was still under construction.

In March 2011, the Company entered into a land transfer agreement with Hanzhong Guangxia Real Estate Development Limited (“Hanzhong”), which is a related party controlled by our Chief Executive Officer and major shareholder Mr, Xiaojun Zhu. Pursuant to the agreement, Hanzhong agreed to transfer land use rights covering 66 acres (GFA 44,000 square meters) to the Company at the fair value of RMB80,000,000 (approximately \$12,509,380) based on an independent valuation report. The Company paid the purchase price in full and received the land use rights in March, 2011. The Company started construction of Mingzhu Beiyuan on this property during the third quarter of fiscal 2012. The construction of this project is expected to be completed in 2-3 years.

In May 2011, the Company successfully acquired additional land use rights covering GFA 62,700 square meters through bidding on an auction held by the local Land Consolidation and Rehabilitation Center of Hanzhong City. After the acquisition, the Company planned to start the construction of Oriental Pearl Garden project. The Company started construction of Oriental Pearl Garden project on this property during the third quarter of fiscal 2012. The construction of this project is expected to be completed in 2-3 years.

(b)

Land - under planning

In May 2011, the Company entered into a development agreement with the local government of Hanzhong City. Pursuant to the agreement, the Company is required to prepay the development cost of RMB 119,700,000 (equivalent to \$18,942,871) and obtain the right to acquire the land use rights through public bidding. The prepaid development cost will be deducted from the final purchase price of the land use rights. As of September 30, 2012, a deposit of RMB20,000,000 (equivalent to \$3,165,058) had been paid by the Company with respect to such prepaid development cost. The Company currently expects to make payment of the remaining development cost within the next twelve months based on the government's current work in process. Since the public bidding has not commenced, the Company has not yet acquired the property.

In August 2011, the Company entered into a land transfer agreement with a non-affiliated party Hanzhong Shijin Real Estate Development Limited ("Shijin"). Pursuant to the agreement, Shijin agreed to transfer certain land use rights to the Company for a total price of RMB 45,500,000 (equivalent to \$7,114,711). As of September 30, 2012, a deposit of the full contract amount of RMB 45,500,000 and a commission of RMB 410,000 (equivalent to \$7,265,390) was paid by the Company. The Company is in the process of applying for the land use rights certificate.

On November 18, 2011, the Company won two bids for certain land use rights by auction. The first bid is for the land use rights for a parcel of land in Yang County for total consideration of approximately RMB 60,824,600 (approximately \$9,578,700). The land has a total area of 69,913 square meters. The second bid is for the land use rights for another parcel of land in the same area in Yang County. The total consideration for the second bid is approximately RMB 17,528,000 (equivalent to \$2,760,300). The land has a total area of 20,863 square meters. Both of these sets of acquired land use rights will be used for the construction of multi-layer residential buildings. As of September 30, 2012, the Company has paid RMB78,761,600 (equivalent to \$12,464,250). The remaining balance of \$133,667 is expected to be paid by March 31, 2013 when the Company receive the land use right certificates

All land transactions are required to be reported to and authorized by local Bureau of Land and Natural Resources. As to real estate project design and construction services, the Company typically selects the lowest-cost provider based on quality selected through an open bidding process. Such service providers are numerous in China and the Company foresees no difficulties in securing alternative sources of services as needed.

Other Suppliers

The Company uses various suppliers in the construction of its projects. One supplier accounted for 29% and 20% of project expenditures for the years ended September 30, 2012 and 2011, respectively.

Competition

The real estate industry in China is highly competitive. In the Tier 3 and Tier 4 cities and counties that we focus on the markets are relatively more fragmented than in the Tier 1 or Tier 2 cities. We compete primarily with regional property developers and an increasing number of large national property developers who have also started to enter these markets. Competitive factors include the geographical location of the projects, the types of products offered, brand recognition, price, designing and quality. In the regional markets in which we operate, our major competitors include three regional real estate developers: Wanbang Real Estate Development Co. Ltd., (“Wanbang”), Jingtai Real Estate Development Co. Ltd., (“Jingtai”) and Shaanxi Fenghui Real Estate Development Co. Ltd., (“Fenghui”) as well other national real estate developers including Evergrande Real Estate Group (“Evergrande”) who have also started their projects in these local markets.

Nationally, there are numerous companies that have real estate projects across China. There are over 55 housing and land development companies listed on the Shanghai and Shenzhen Stock Exchanges. However, such companies usually undertake large scale projects and are unlikely to compete with the Company for business as the Company targets small to medium sized projects in Tier 3 and Tier 4 cities and counties.

In the regional market, the Company's only direct competitor with meaningful market share in the market is Wanbang. This company generally undertakes medium and small scale projects and focuses on development of commercial real estate properties, such as hotels and shopping centers. During the past two years, Wanbang has developed about 300,000 square meters residential property in the North West of Hanzhong city.

Competitive Strengths:

We believe the following strengths allow us to compete effectively:

Well Positioned to Capture Opportunities in Tier 3 and Tier 4 Cities and Counties.

With the increase in consumer disposable income and urbanization rates, a growing middle-income consumer market has emerged driving demand for affordable and high quality housing in many cities across northwest China. We focus on building large communities of modern, mid-sized residential properties for this market segment and have accumulated substantial knowledge and experience about the residential preferences and demands of mid-income customers. We believe we can leverage our experience to capture the growth opportunities in the markets.

Standardized and Scalable Business Model.

Our business model focuses on a standardized property development process designed for rapid asset turnover. We break up the overall process into well-defined stages and closely monitor costs and development schedules through each stage. These stages include (i) identifying land, (ii) pre-planning and budgeting, (iii) land acquisition, (iv) detailed project design, (v) construction management, (vi) pre-sales, sales and (vii) after-sale service. We commence pre-planning and budgeting prior to the land acquisition, which enables us to acquire land at costs that meet our pre-set investment targeted returns and to quickly begin the development process upon acquisition. Our enterprise resource planning enables us to collect and analyze information on a real-time basis throughout the entire property development process. We utilize our customer relationship management system to track customer profiles and sales to forecast future individual preferences and market demand.

Experienced Management Team Supported by Trained and Motivated Workforce.

Our CEO and founder Mr. Xiaojun Zhu has over 17 years' experience in the real estate industry and has gained considerable strategic planning and business management expertise in the past decade. Our management and workforce are well-trained and motivated. Employees receive on-going training in their areas of specialization at our head office in Hanzhong.

Guangsha is also an "AAA Enterprise in Shaanxi Construction Industry" as recognized by the Credit Association of Agricultural Bank of China, Shaanxi Branch.

Strategies

Our goal is to become the leading residential property developer focused on China's Tier 3 and Tier 4 cities and counties by implementing the following strategies:

Continue Expanding in Selected Tier 3 and Tier 4 Cities. We believe that Tier 3 and Tier 4 cities and counties present development opportunities that are well suited for our scalable business model of rapid asset turnover. Furthermore, Tier 3 and Tier 4 cities and counties currently tend to be in an early stage of market maturity and have fewer large national developers. We believe that the fragmented market and relative abundance of land supply in Tier 3 and Tier 4 cities, as compared to Tier 1 and Tier 2 cities, offer more opportunities for us to generate attractive margins. And we also believe that our experience affords us the opportunity to emerge as a leading developer in these markets. In the near future, we plan to enter into other Tier 3 and Tier 4 cities that have:

- Increasing urbanization rates and population growth;
- High economic growth and increasing individual income; and
- Sustainable land supply for future developments.

We plan to continue to closely monitor our capital and cash positions and carefully manage our cost for land use rights, construction costs and operating expenses. We believe that we will be able to use our working capital more efficiently by adhering to prudent cost management, which will help to maintain our profit margins. When selecting a property project for development, we will continue to follow our established internal evaluation process, including utilizing the analysis and input of our experienced management team and choosing third-party contractors through a tender process open only to bids which meet our budgeted costs.

Quality Control

We emphasize quality control to ensure that our buildings and residential units meet our standards and provide high quality service. We select only experienced design and construction companies. We, through our contracts with construction contractors, provide customers with warranties covering the building structure and certain fittings and facilities of our property developments in accordance with the relevant regulations. To ensure construction quality, our construction contracts contain quality warranties and penalty provisions for poor work quality. In the event of delay or poor work quality, the contractor may be required to pay pre-agreed damages under our construction contracts. Our construction contracts do not allow our contractors to subcontract or transfer their contractual arrangements with us to third parties. We typically withhold 2% of the agreed construction fees for two to five years after completion of the construction as security to guarantee quality, which provides us with assurance for our contractors' work quality.

Our contractors are also subject to our quality control procedures, including examination of materials and supplies, on-site inspection and production of progress reports. We require our contractors to comply with relevant PRC laws and regulations, as well as our own standards and specifications. We set up a profile for each and every unit constructed and monitor the quality of such unit throughout its construction period until its delivery. We also employ independent surveyors to supervise the construction progress. In addition, the construction of real estate projects is regularly inspected and supervised by the PRC governmental authorities.

Environmental Matters

As a developer of property in the PRC, we are subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air pollution, noise emissions, as well as water and waste discharge. As of September 30, 2012, we have never paid any penalties associated with the breach of any such laws and regulations. Compliance with existing environmental laws and regulations has not had a material adverse effect on our financial condition and results of operations, and we do not believe it will have such an impact in the future.

Our projects are normally required to undergo an environmental impact assessment by government-appointed third parties, and a report of such assessment needs to be submitted to the relevant environmental authorities in order to obtain their approval before commencing construction.

Upon completion of each project, the relevant environmental authorities inspect the site to ensure the applicable environmental standards have been complied with, and the resulting report is presented together with other specified documents to the relevant construction administration authorities for their approval and record. Approval from the environmental authorities on such report is required before we can deliver our completed work to our customers. As of September 30, 2012, we have not experienced any difficulties in obtaining those approvals for commencement of construction and delivery of completed projects.

Employees

We currently have 116 full-time staff and employees.

| | |
|---------------------------|-----|
| Department | |
| Management | 15 |
| Accounting staff | 6 |
| Sales and marketing staff | 79 |
| Administrative | 16 |
| Total | 116 |

ITEM 1A. RISK FACTORS

Risks Relating to Our Business

Our business is sensitive to China economy and China real estate policies. A downturn in China economy and restrictive real estate policies could materially and adversely affect our revenues and results of operations.

Any slowdown in China's economic development might lead to tighter credit markets, increased market volatility, sudden drops in business and consumer confidence and dramatic changes in business and consumer behaviors. As exports slowed, China's reported GDP growth dropped to 7.6% year on year in the second quarter ended June 30, 2012 from 8.1% in the first quarter of 2012, and GDP growth further dropped to 7.4% year on year in the third quarter ended September 30, 2012, prompting the government to loosen economic policy to support growth. The current package of economic support policies is designed to stabilize the economy against slowing exports and to ensure the full-year official target of 7.5% GDP growth is met. Ongoing government regulatory measures, including the "Ten National Notices" announced in 2010, the "Eight National Notices" and property tax approved in January 2011, have brought the PRC property market further down to the bottom in the first nine months of 2012. In response to their perceived uncertainty in economic conditions, consumers might delay, reduce or cancel purchases of homes, and our homebuyers may also defer, reduce or cancel purchases of our units and our results of operations may be materially and adversely affected.

If we are unable to successfully manage our expansion into other Tier 3 and Tier 4 cities, we will not be able to execute our business plan.

Historically, our business and operations have been concentrated in Hanzhong City and other surrounding counties. If we are unable to successfully develop and sell projects outside Hanzhong City, our future growth may be limited and we may not generate adequate returns to cover our investments in these Tier 3 and Tier 4 cities. In addition, as we expand our operations to Tier 3 and Tier 4 cities with higher land prices, our costs may increase, which may lead to a decrease in our profit margin.

We require substantial capital resources to fund our land use rights acquisition and property developments, which may not be available.

Property development is capital intensive. Our ability to secure sufficient financing for land use rights acquisition and property development depends on a number of factors that are beyond our control, including market conditions in the

capital markets, the PRC economy and the PRC government regulations that affect the availability and cost of financing for real estate companies.

In order to strengthen liquidity management and regulate money and credit supply, the People's Bank of China raised the RMB reserve requirement ratio for depository financial institutions from 13.5% as of September 30, 2009 to 18.5%, effective on December 20, 2010. Prior to December 2011, the People's Bank of China raised the reserve requirement ratio by an additional 1.5%. Effective on December 5, 2011, the People's Bank of China reduced the RMB reserve requirement ratio by 0.5%. Effective on February 24, 2012 and May 18, 2012, People's Bank of China decided to further cut the RMB reserve requirement ratio by 0.5% twice. The reserve requirement ratio refers to the amount of funds that banks must hold in reserve against deposits made by their customers. These increases in the reserve requirement ratio have reduced the amount of commercial bank credit available to businesses in China, including us.

We may be unable to acquire desired development sites at commercially reasonable costs.

Our revenue depends on the completion and sale of our projects, which in turn depends on our ability to acquire development sites. Our land use rights costs are a major component of our cost of real estate sales and increases in such costs could diminish our gross margin. In China, the PRC government controls the supply of land and regulates land sales and transfers in the secondary market. As a result, the policies of the PRC government, including those related to land supply and urban planning, affect our ability to acquire, and our costs of acquiring, land use rights for our projects. In recent years, the PRC government has introduced various measures attempting to moderate investment in the property market in China.

Although we believe that these measures are generally targeted at the luxury property market and speculative purchases of land and properties, the PRC government could introduce other measures in the future that may adversely affect our ability to obtain land for development. We currently acquire our development sites primarily by bidding for government land. Under current regulations, land use rights acquired from government authorities for commercial and residential development purposes must be purchased through a public tender, auction or listing-for-sale. Competition in these bidding processes has resulted in higher land use rights costs for us. We may also need to acquire land use rights through acquisition, which could increase our costs. Moreover, the supply of potential development sites in any given city will diminish over time and we may find it increasingly difficult to identify and acquire attractive development sites at commercially reasonable costs in the future.

We provide guarantees for the mortgage loans of our customers which expose us to risks of default by our customers.

We pre-sell properties before actual completion and, in accordance with industry practice, our customers' mortgage banks require us to guarantee our customers' mortgage loans. Typically, we provide guarantees to PRC banks with respect to loans procured by the purchasers of our properties for the total mortgage loan amount until the completion of the registration of the mortgage with the relevant mortgage registration authorities, which generally occurs within six to twelve months after the purchasers take possession of the relevant properties. In line with what we believe to be industry practice, we rely on the credit evaluation conducted by mortgagee banks and do not conduct our own independent credit checks on our customers. The mortgagee banks typically require us to maintain, as restricted cash, 5% to 10% of the mortgage proceeds paid to us as security for our obligations under such guarantees (the security deposit).

If a purchaser defaults on its payment obligations during the term of our guarantee, the mortgagee bank may deduct the delinquent mortgage payment from the security deposit. If the delinquent mortgage payments exceed the security deposit, the banks may require us to pay the excess amount. If multiple purchasers default on their payment obligations at around the same time, we will be required to make significant payments to the banks to satisfy our guarantee obligations. If we are unable to resell the properties underlying defaulted mortgages on a timely basis or at prices higher than the amounts of our guarantees and related expenses, we will suffer financial losses.

We rely on third-party contractors.

Substantially all of our project construction and related work are outsourced to third-party contractors. We are exposed to risks that the performance of our contractors may not meet our standards or specifications. Negligence or poor work quality by any contractors may result in defects in our buildings or residential units, which could in turn cause us to suffer financial losses, harm our reputation or expose us to third-party claims. We work with multiple contractors on different projects and we cannot guarantee that we can effectively monitor their work at all times.

Although our construction and other contracts contain provisions designed to protect us, we may be unable to successfully enforce these rights and, even if we are able to successfully enforce these rights, the third-party contractor may not have sufficient financial resources to compensate us. Moreover, the contractors may undertake projects from other property developers, engage in risky undertakings or encounter financial or other difficulties, such as supply shortages, labor disputes or work accidents, which may cause delays in the completion of our property projects or increases in our costs.

We may be unable to complete our property developments on time or at all.

The progress and costs for a development project can be adversely affected by many factors, including, without limitation:

- delays in obtaining necessary licenses, permits or approvals from government agencies or authorities;

- shortages of materials, equipment, contractors and skilled labor;
- disputes with our third-party contractors;
- failure by our third-party contractors to comply with our designs, specifications or standards;
- difficult geological situations or other geotechnical issues;
- onsite labor disputes or work accidents; and natural catastrophes or adverse weather conditions.

Any construction delays, or failure to complete a project according to our planned specifications or budget, may delay our property sales, which could harm our revenues, cash flows and our reputation.

Changes of laws and regulations with respect to pre-sales may adversely affect our cash flow position and performance.

We depend on cash flows from pre-sale of properties as an important source of funding for our property projects and servicing our indebtedness. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance the construction of specific developments.

Our results of operations may fluctuate from period to period.

Our results of operations tend to fluctuate from period to period. The number of properties that we can develop or complete during any particular period is limited due to the substantial capital required for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated. In addition, several properties that we have developed or that are under development are large scale and are developed in multiple phases over the course of one to several years. The selling prices of the residential units in larger scale property developments tend to change over time, which may impact our sales proceeds and, accordingly, our revenues for any given period.

We rely on our key management members.

We depend on the services provided by key management members. Competition for management talent is intense in the property development sector. In particular, we are highly dependent on Mr. Xiaojun Zhu, our founder, Chairman and Chief Executive Officer. We do not maintain key employee insurance. In the event that we lose the services of any key management member, we may be unable to identify and recruit suitable successors in a timely manner or at all, which will adversely affect our business and operations. Moreover, we need to employ and retain more management personnel to support our expansion into other Tier 3 and Tier 4 cities and counties. If we cannot attract and retain suitable human resources, especially at the management level, our business and future growth will be adversely affected.

Increases in the price of raw materials may increase our cost of sales and reduce our earnings.

Our third-party contractors are responsible for procuring almost all of the raw materials used in our project developments. Our construction contracts typically provide for fixed or capped payments, but the payments are subject to changes in government-suggested steel prices. The increase in steel prices could result in an increase in our construction cost. In addition, the increases in the price of raw materials, such as cement, concrete blocks and bricks, in the long run could be passed on to us by our contractors, which will increase our construction cost. Any such cost increase could reduce our earnings to the extent we are unable to pass these increased costs to our customers.

Any unauthorized use of our brand or trademark may adversely affect our business.

We own trademarks for “ ”, in the form of Chinese characters and our company logo. We rely on the PRC intellectual property and anti-unfair competition laws and contractual restrictions to protect brand name and trademarks. We believe our brand, trademarks and other intellectual property rights are important to our success. Any unauthorized use of our brand, trademarks and other intellectual property rights could harm our competitive advantages and business. Historically, China has not protected intellectual property rights to the same extent as the United States, and infringement of intellectual property rights continues to pose a serious risk of doing business in China. Monitoring and preventing unauthorized use is difficult. The measures we take to protect our intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our brand, trademarks and other intellectual property rights, our reputation may be harmed and our business may be adversely affected.

We may fail to obtain, or may experience material delays in obtaining necessary government approvals for any major property development, which will adversely affect our business.

The real estate industry is strictly regulated by the PRC government. Property developers in China must abide by various laws and regulations, including implementation rules promulgated by local governments to enforce these laws and regulations. Before commencing, and during the course of, development of a property project, we need to apply for various licenses, permits, certificates and approvals, including land use rights certificates, construction site planning permits, construction work planning permits, construction permits, pre-sale permits and completion acceptance certificates. We need to satisfy various requirements to obtain these certificates and permits. To date, we have not encountered serious delays or difficulties in the process of applying for these certificates and permits, but we cannot guarantee that we will not encounter serious delays or difficulties in the future. In the event that we fail to obtain the necessary governmental approvals for any of our major property projects, or a serious delay occurs in the government’s examination and approval progress, we may not be able to maintain our development schedule and our business and cash flows may be adversely affected.

We may forfeit land to the PRC government if we fail to comply with procedural requirements applicable to land grants from the government or the terms of the land use rights grant contracts.

According to the relevant PRC regulations, if we fail to develop a property project according to the terms of the land use rights grant contract, including those relating to the payment of land premiums, specified use of the land and the time for commencement and completion of the property development, the PRC government may issue a warning, may impose a penalty or may order us to forfeit the land. Specifically, under current PRC law, if we fail to commence development within one year after the commencement date stipulated in the land use rights grant contract, the relevant PRC land bureau may issue a warning notice to us and impose an idle land fee on the land of up to 20% of the land premium. If we fail to commence development within two years, the land will be subject to forfeiture to the PRC

government, unless the delay in development is caused by government actions or force majeure. Even if the commencement of the land development is compliant with the land use rights grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or the total capital invested is less than one-fourth of the total investment of the project and the suspension of the development of the land continues for more than one year without government approval, the land will also be treated as idle land and be subject to penalty or forfeiture. We cannot assure you that circumstances leading to significant delays in our development schedule or forfeiture of land will not arise in the future. If we forfeit land, we will not only lose the opportunity to develop the property projects on such land, but may also lose all past investments in such land, including land premiums paid and development costs incurred.

Any non-compliant GFA of our uncompleted and future property developments will be subject to governmental approval and additional payments.

The local government authorities inspect property developments after their completion and issue the completion acceptance certificates if the developments are in compliance with the relevant laws and regulations. If the total constructed GFA of a property development exceeds the GFA originally authorized in the relevant land grant contracts or construction permit, or if the completed property contains built-up areas that do not conform with the plan authorized by the construction permit, the property developer may be required to pay additional amounts or take corrective actions with respect to such non-compliant GFA before a completion acceptance certificate can be issued to the property development.

Our failure to assist our customers in applying for property ownership certificates in a timely manner may lead to compensatory liabilities to our customers.

We are required to meet various requirements within 90 days after delivery of property, or such other period contracted with our customers, in order for our customers to apply for their property ownership certificates, including passing various governmental clearances, formalities and procedures. Under our sales contract, we are liable for any delay in the submission of the required documents as a result of our failure to meet such requirements, and are required to compensate our customers for delays. In the case of serious delays on one or more property projects, we may be required to pay significant compensation to our customers and our reputation may be adversely affected.

We are subject to potential environmental liability.

We are subject to a variety of laws and regulations concerning the protection of health and the environment. The particular environmental laws and regulations that apply to any given development site vary significantly according to the site's location and environmental condition, the present and former uses of the site and the nature of the adjoining properties. Environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict project development activity in environmentally-sensitive regions or areas. Although the environmental investigations conducted by local environmental authorities have not revealed any environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations to date, it is possible that these investigations did not reveal all environmental liabilities and that there are material environmental liabilities of which we are unaware. We cannot assure you that future environmental investigations will not reveal material environmental liability. Also, we cannot assure you that the PRC government will not change the existing laws and regulations or impose additional or stricter laws or regulations, the compliance with which may cause us to incur significant capital expenditure.

We have never paid cash dividends and are not likely to do so in the foreseeable future.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future but will review this policy as circumstances dictate.

We need to improve our internal financial reporting controls. If we are unable to establish appropriate internal financial reporting controls and procedures, it could cause us to fail to meet our reporting obligations, subject us to regulatory scrutiny and sanction, cause investors to lose confidence in our reported financial information and have a negative effect on the market price for shares of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We maintain a system of internal control over financial reporting, which is defined as a process designed by, or under the supervision of, our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

We cannot assure you that we will not, in the future, identify areas requiring improvement in our internal control over financial reporting. We cannot assure you that the measures we will take to remediate any areas in need of improvement will be successful or that we will implement and maintain adequate controls over our financial processes and reporting in the future as we continue our growth.

As a public company, we are required to comply with the reporting obligations of the Exchange Act and Section 404 of the Sarbanes-Oxley Act of 2002. If we fail to comply with the reporting obligations of the Exchange Act and Section 404 of the Sarbanes-Oxley Act or if we fail to maintain adequate internal controls over financial reporting, our business, results of operations and financial condition could be materially adversely affected.

As a public company, we are required to comply with the periodic reporting obligations of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including preparing annual reports and quarterly reports. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under U.S. federal securities laws, expose us to lawsuits and restrict our ability to access financing. In addition, we are required under applicable law and regulations to design and implement internal controls over financial reporting, and evaluate our existing internal controls with respect to the standards adopted by the U.S. Public Company Accounting Oversight Board.

We cannot assure you that we will not identify control deficiencies that may constitute significant deficiencies or material weaknesses in our internal controls in the future. As a result, we may be required to implement further remedial measures and to design enhanced processes and controls to address issues identified through future reviews. This could result in significant delays and costs to us and require us to divert substantial resources, including management time, from other activities.

If we do not fully remediate the material weaknesses identified by management or fail to maintain the adequacy of our internal controls in the future, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, any failure to satisfy the requirements of Section 404 on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock.

Risk Relating to the Residential Property Industry in China

The PRC government may adopt further restrictive measures to slow the increase in prices of real property and real property development.

Along with the economic growth in China, investments in the property sectors have increased significantly in the past few years. In response to concerns over the scale of the increase in property investments, the PRC government has introduced policies to curtail property development. We believe those regulations, among others, significantly affect the property industry in China.

These restrictive regulations and measures could increase our operating costs in adapting to these regulations and measures, limit our access to capital resources or even restrict our business operations. We cannot be certain that the PRC government will not issue additional and more stringent regulations or measures, which could further slowdown property development in China and adversely affect our business and prospects.

We are heavily dependent on the performance of the residential property market in China, which is at a relatively early development stage.

The residential property industry in the PRC is still in a relatively early stage of development. Although demand for residential property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuation in property prices. It is extremely difficult to predict how much and when demand will develop, as many social, political, economic, legal and other factors, most of which are beyond our control, may affect the development of the market. The level of uncertainty is increased by the limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC, especially in Tier 3 and 4 cities which have lagged in progress in these aspects when compared to Tier 1 cities.

The lack of a liquid secondary market for residential property may discourage investors from acquiring new properties. The limited amount of property mortgage financing available to PRC individuals may further inhibit demand for residential developments.

We face intense competition from other real estate developers.

The property industry in the PRC is highly competitive. In the Tier 3 and Tier 4 cities we focus on, local and regional property developers are our major competitors, and an increasing number of large state-owned and private national property developers have started entering these markets. Many of our competitors, especially the state-owned and private national property developers, are well capitalized and have greater financial, marketing and other resources than we have. Some also have larger land banks, greater economies of scale, broader name recognition, a longer track record and more established relationships in certain markets. In addition, the PRC government's recent measures designed to reduce land supply further increased competition for land among property developers.

Competition among property developers may result in increased costs for the acquisition of land for development, increased costs for raw materials, shortages of skilled contractors, oversupply of properties, decrease in property prices in certain parts of the PRC, a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities and an increase in administrative costs for hiring or retaining qualified personnel, any of which may adversely affect our business and financial condition. Furthermore, property developers that are better capitalized than we are may be more competitive in acquiring land through the auction process. If we cannot respond to changes in market conditions as promptly and effectively as our competitors, or effectively compete for land acquisition through the auction systems and acquire other factors of production, our business and financial condition will be adversely affected.

In addition, risk of property over-supply is increasing in parts of China, where property investment, trading and speculation have become overly active. We are exposed to the risk that in the event of actual or perceived over-supply, property prices may fall drastically, and our revenue and profitability will be adversely affected.

We may be deemed a PRC resident enterprise for PRC tax purposes under the new Enterprise Income Tax Law, which could result in the imposition of a 25% enterprise income tax payable on our taxable global income.

On March 16, 2007, the National People's Congress of the PRC passed the Enterprise Income Tax Law of the PRC ("New Income Tax Law"), which took effect on January 1, 2008. On December 6, 2007, the Implementation Rules of Enterprise Income Tax Law of the PRC ("Implementation Rules") were also enacted, and took effect on January 1, 2008. In accordance with the new laws and regulations, a unified enterprise income tax rate of 25% and unified tax deduction standards will be applied equally to both domestic enterprises and foreign-invested enterprises.

Under the New Income Tax Law and the Implementation Rules, enterprises established under the laws of foreign jurisdictions other than the PRC may nevertheless be considered as PRC-resident enterprises for tax purposes if these

enterprises have their “de facto management body” within the PRC. Under the Implementation Rules, “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. At present, it is unclear what factors will be used by the PRC tax authorities to determine whether we are a “de facto management body” in China. All of our management personnel are located in the PRC, and all of our revenues arise from our operations in China. If the PRC tax authorities determine that we are a PRC resident enterprise, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which may have a material adverse effect on our financial condition and results of operations. Notwithstanding the foregoing provision, the New Income Tax Law also provides that, if a PRC resident enterprise already invests in another PRC resident enterprise, the dividends received by the investing resident enterprise from the invested resident enterprise are exempt from income tax, subject to certain qualifications. Therefore, if we are classified as a PRC resident enterprise, the dividends received from our PRC subsidiaries may be exempt from income tax. However, due to the limited history of the New Income Tax Law, it is unclear as to (i) the detailed qualification requirements for such exemption and (ii) whether dividend payments by our PRC subsidiaries to us will meet such qualification requirements, even if we are considered a PRC resident enterprise for tax purposes.

In addition, the local taxing authority of Hanzhong City has the power to assess corporate taxes annually on local enterprises at a pre-determined fixed rate as an incentive to stimulate the local economy and encourage entrepreneurship. In 2012 and 2011, the Hanzhong City taxing authority assessed the Company for income taxes at the rate of 1.25% to 2.5% on revenue, instead of the statutory rate of 25%. As a result, income tax expenses for the year ended September 30, 2012 were significantly lower than they would have been had the Company been assessed at the statutory rate. If the Company were assessed at the statutory rate of 25%, the Company’s tax expenses would increase significantly which could significantly reduce the Company’s net income.

We face uncertainty from the Circular on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises' Share Transfer (“Circular 698”) released in December 2009 by China's State Administration of Taxation (SAT), effective as of January 1, 2008.

Where a foreign investor indirectly transfers equity interests in a Chinese resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country (jurisdiction) where the effective tax burden is less than 12.5% or where the offshore income of her residents is not taxable, the foreign investor is required to provide the tax authority in charge of that Chinese resident enterprise with the relevant information within 30 days of the transfers.

Where a foreign investor indirectly transfers equity interests in a Chinese resident enterprise through the abuse of form of organization and there are no reasonable commercial purposes such that the corporate income tax liability is avoided, the tax authority has the power to re-assess the nature of the equity transfer in accordance with the “substance-over-form” principle and deny the existence of the offshore holding company that is used for tax planning purposes.

“Income derived from equity transfers” as mentioned in this circular refers to income derived by non-resident enterprises from direct or indirect transfers of equity interest in China resident enterprises, excluding share in Chinese resident enterprises that are bought and sold openly on the stock exchange.

While the term “indirectly transfer” is not defined, we understand that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. The relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax in the country (jurisdiction) and the process of the disclosure to the tax authority in charge of that Chinese resident enterprise. Meanwhile, there are no formal declarations with regard to how to decide “abuse of form of organization” and “reasonable commercial purpose,” which can be utilized by us to determine if our company complies with the Circular 698.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may materially adversely affect us.

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Return Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75. The policy announced in this notice required PRC residents to register with the relevant SAFE branch before establishing or acquiring control over an offshore special purpose company, or SPV, for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines issued by SAFE, which

became public in May 2007 (known as Circular 106), expanded the reach of Circular 75. In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006; this date was subsequently extended indefinitely by Circular 106, which also required that the registrant establish that all foreign exchange transactions undertaken by the SPV and its affiliates were in compliance with applicable laws and regulations. Failure to comply with the requirements of Circular 75, as applied by SAFE in accordance with Circular 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV's affiliates being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

We have requested our shareholders who are PRC residents to make the necessary applications, filings and amendments as required under Circular 75 and other related rules. We attempt to comply, and attempt to ensure that our shareholders who are subject to these rules comply, with the relevant requirements. However, we cannot provide any assurances that our shareholders who are PRC residents will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular 75 or other related rules or that, if challenged by government agencies, the structure of our organization fully complies with all applicable registrations or approvals required by Circular 75. Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. A failure by such PRC resident shareholders or future PRC resident shareholders to comply with Circular 75 or other related rules, if SAFE requires it, could subject these PRC resident shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

PRC economic, political and social conditions as well as government policies can affect our business.

The PRC economy differs from the economies of most developed countries in many aspects, including:

political structure;

degree of government involvement;

degree of development;

level and control of capital reinvestment;

control of foreign exchange; and

allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For more than two decades, the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on China's overall and long-term development, we cannot predict whether changes in the PRC economic, political and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

Changes in foreign exchange regulations may adversely affect our results of operations.

We currently receive all of our revenues in RMB. The PRC government regulates the conversion between RMB and foreign currencies. Over the years, the government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service related foreign exchange transactions, payment of

dividends and service of foreign debt. However, foreign exchange transactions by our PRC subsidiaries under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. There can be no assurance that these PRC laws and regulations on foreign investment will not cast uncertainties on our financing and operating plans in China. Under current foreign exchange regulations in China, subject to the relevant registration at SAFE, we will be able to pay dividends in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. However, there can be no assurance that the current PRC foreign exchange policies regarding debt service and payment of dividends in foreign currencies will continue in the future. Changes in PRC foreign exchange policies might have a negative impact on our ability to service our foreign currency-denominated indebtedness and to distribute dividends to our shareholders in foreign currencies.

Interpretation of PRC laws and regulations involves uncertainty.

Our core business is conducted within China and is governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be used as a reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Some of these laws may be changed without being immediately published or may be amended with retroactive effect. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, particularly if a competitor has long been established in the locality of, and has developed a relationship with, such agency. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under its permits, and other statutory and contractual rights and interests.

The Chinese government exerts substantial influence over the manner in which we must conduct our business activities.

China only recently has permitted provincial and local economic autonomy and private economic activities, and, as a result, we are dependent on our relationship with the local government in the province in which we operate our business. Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, environmental regulations, land use rights, property and other matters. We believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties.

Future inflation in China may inhibit our activity to conduct business in China.

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. During the past ten years, the rate of inflation in China has been as high as 20.7% and as low as -2.2%. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. While inflation has been more moderate since 1995, high inflation may in the future cause Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

Because Chinese law governs almost all of our material agreements, we may not be able to enforce our legal rights within China or elsewhere, which could result in a significant loss of business, business opportunities, or capital.

Chinese law governs almost all of our material agreements. We cannot assure you that we will be able to enforce any of our material agreements or that remedies will be available outside of China. The system of laws and the enforcement of existing laws in China may not be as certain in implementation and interpretation as in the United States. The inability to enforce or obtain a remedy under any of our current or future agreements could result in a significant loss of business, business opportunities or capital. It will be extremely difficult to acquire jurisdiction and enforce liabilities against our officers, directors and assets based in China.

Substantially all of our assets are located in the PRC and all of our officers and most of our present directors reside outside of the United States. As a result, it may not be possible for United States investors to enforce their legal rights, to effect service of process upon our directors or officers or to enforce judgments of United States courts predicated upon civil liabilities and criminal penalties of our directors and officers under Federal securities laws. Moreover, we have been advised that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States. Further, it is unclear if extradition treaties now in effect between the United States and China would permit effective enforcement of criminal penalties of the Federal securities laws.

Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some that may compete with us, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the PRC. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

We may have difficulty establishing adequate management, legal and financial controls in the PRC.

The PRC historically has been deficient in Western style management and financial reporting concepts and practices, as well as in modern banking, computer and other control systems. We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the PRC. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards. We may have difficulty establishing adequate management, legal and financial controls in the PRC.

Risks Relating to our Securities

We may be subject to the penny stock rules which will make the shares of our common stock more difficult to sell.

We may be subject now and in the future to the SEC's "penny stock" rules if our shares of common stock sell below \$1.00 per share. Penny stocks generally are equity securities with a price of less than \$1.00. The penny stock rules require broker-dealers to deliver a standardized risk disclosure document prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information must be given to the customer orally or in writing prior to completing the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. The penny stock rules are burdensome and may reduce purchases of any offerings and

reduce the trading activity for shares of our common stock. As long as our shares of common stock are subject to the penny stock rules, the holders of such shares of common stock may find it more difficult to sell their securities.

Our shares of common stock are very thinly traded, and the price if traded may not reflect our value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future.

Our shares of common stock are very thinly traded, and the price if traded may not reflect our value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future. The market liquidity will be dependent on the perception of our operating business and any steps that our management might take to bring us to the awareness of investors. There can be no assurance given that there will be any awareness generated. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business. If a more active market should develop, the price may be highly volatile. Because there may be a low price for our shares of common stock, many brokerage firms may not be willing to effect transactions in the securities. Even if an investor finds a broker willing to effect a transaction in the shares of our common stock, the combination of brokerage commissions, transfer fees, taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such shares of common stock as collateral for any loans.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company's principal administrative, sales, and marketing facilities are located at 6 Xinghan Road, 19th Floor, Hanzhong City, Shaanxi Province. The Company built the office building in which its headquarters are located and owns the floor that houses its headquarters. In addition, the Company also owns a sales office in Yang County. See Item 1. Business — Our Projects for a description of the location and general character of the Company's real estate projects.

ITEM 3. Legal Proceedings

There are no pending legal proceedings to which the Company is a party or in which any director, officer or affiliate of the Company, any owner of record or beneficially of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company. The Company's property is not the subject of any pending legal proceedings.

ITEM 4. Mine and Safety Disclosure

Note applicable.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities

Market Information

China HGS's common stock is currently quoted on the NASDAQ Capital Market under the symbol "HGSH". Between September 13, 2010 and July 19, 2012, China HGS's common stock was quoted on the NASDAQ Global Market under the same symbol. Prior to China HGS's listing on NASDAQ Global Market, its common stock was quoted on the OTC Bulletin Board under the symbol "CAHS." The following table sets forth the high and low sale prices for the Company's common stock for the periods indicated.

| YEAR 2012 | High Bid | Low Bid |
|--------------------------------------|----------|---------|
| 1st Quarter Ended December 31, 2011 | \$ 1.66 | \$0.50 |
| 2nd Quarter Ended March 31, 2012 | \$ 1.14 | \$0.53 |
| 3rd Quarter Ended June 30, 2012 | \$ 1.18 | \$0.48 |
| 4th Quarter Ended September 30, 2012 | \$0.55 | \$0.24 |

| YEAR 2011 | High Bid | Low Bid |
|--------------------------------------|----------|---------|
| 1st Quarter Ended December 31, 2010 | \$4.18 | \$2.65 |
| 2nd Quarter Ended March 31, 2011 | \$3.50 | \$2.12 |
| 3rd Quarter Ended June 30, 2011 | \$3.10 | \$2.17 |
| 4th Quarter Ended September 30, 2011 | \$2.55 | \$1.21 |

Holders

According to the records of our transfer agent, China HGS had 298 stockholders of record as of December 21, 2012.

Dividends

All of our assets are located within the PRC. Under the laws of the PRC governing foreign invested enterprises, dividend distribution and liquidation are allowed but subject to special procedures under relevant rules and regulations. Any dividend payment is subject to the approval of the Board of Directors and subject to foreign exchange rules governing such repatriation. Any liquidation is subject to both the relevant government agency's approval and supervision, as well as foreign exchange controls.

We have never declared or paid any cash dividends on our common stock and we do not expect to pay any cash dividends in the foreseeable future. We expect to retain any earnings to support operations and to finance the growth and development of our business. Any future determination relating to our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions and future prospects and other factors the Board of Directors may deem relevant. The payment of dividends from our subsidiaries to our parent company is subject to restrictions including primarily the restriction that foreign invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents.

PRC regulations restrict the ability of our PRC subsidiary to make dividends and other payments to its offshore parent company. PRC legal restrictions permit payments of dividend by our PRC subsidiary only out of its accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Our PRC subsidiary is also required under PRC laws and regulations to allocate at least 10% of its annual after-tax profits determined in accordance with PRC GAAP to a statutory general reserve fund until the amounts in said fund reaches 50% of its registered capital. Allocations to this statutory reserve fund can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. Any limitations on the ability of our PRC subsidiary to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

Equity Compensation Plan Information

See “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” for disclosure regarding our equity compensation plan.

Purchase of Equity Securities by Our Company and Affiliated Purchases

None.

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion And Analysis of Financial Conditions And Results Of Operations.

The following discussion and analysis of financial condition and results of operations relates to the operations and financial condition reported in the financial statements of China HGS Real Estate Inc. for the fiscal years ended September 30, 2012 and 2011 and should be read in conjunction with such financial statements and related notes included in this report.

As used in this report, the terms “Company,” “we,” “our,” “us” and “HGS” refer to China HGS Real Estate, Inc. and its subsidiaries.

Preliminary Note Regarding Forward-Looking Statements.

We make forward-looking statements in Management’s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report based on the beliefs and assumptions of our management and on information currently available to us. Forward-looking statements include information about our possible or assumed future results of operations which follow under the headings “Business and Overview,” “Liquidity and Capital Resources,” and other statements throughout this report preceded by, followed by or that include the words “believes,” “expects,” “anticipates,” “intends,” “plans,” “estimates” or similar expressions.

Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in these forward-looking statements, including the risks and uncertainties described below and other factors we describe from time to time in our periodic filings with the U.S. Securities and Exchange Commission (the “SEC”). We therefore caution you not to rely unduly on any forward-looking statements. The forward-looking statements in this report speak only as of the date of this report, and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise. These forward-looking statements include, among other things, statements relating to:

- *our ability to sustain our project development*
- *our ability to obtain additional land use rights at favorable prices;*
- *the market for real estate in Tier 3 and 4 cities and counties;*

- *our ability to obtain additional capital in future years to fund our planned expansion; or*
- *economic, political, regulatory, legal and foreign exchange risks associated with our operations.*

Our Business Overview

We conduct substantially all of our business through Shaanxi Guangsha Investment and Development Group Co., Ltd, in Hanzhong, Shaanxi Province. Since the initiation of our business, we have been focused on expanding our business in certain Tier 3 and Tier 4 cities and counties in China.

The real estate market in China plodded forward amid increasingly restrictive policies starting in 2011. In January 2011, Shanghai and Chongqing officially started to levy property taxes. In February 2011, Beijing issued a purchase restriction order on the number of homes a person is allowed to purchase to curb speculation and control rising real estate price, and more than 40 cities nationwide soon followed suit. In March 2011, the National Development and Reform Commission announced that from May 2011, each residential house must be marked clearly with a specific price as the ceiling price. Apart from administrative measures, to further tighten liquidity, the People's Bank of China increased banks' required reserve ratios six consecutive times and raised the benchmark interest rate three times since the beginning of the year, leaving a profound negative impact on the residential housing transaction volume. In 2011 and the first nine months of 2012, residential housing transaction volume in major cities nationwide recorded a decrease compared with that of the comparable prior periods. The first-tier cities with stricter policies witnessed a more extensive decrease in transaction volume. The restrictive policies started to have significant impact on the real estate market in Tier 3 and Tier 4 cities in late 2011. These policies also negatively affected buyers' confidence and consumption psychology. Some buyers are taking a wait-and-see attitude and may delay their purchasing decision.

With uncertainties in the PRC government's credit tightening policies, the market for real estate sales in 2012 was extremely challenging. Our sales volume dropped significantly in fiscal 2012. Our sales, gross profit and net income for fiscal 2012 were \$ 18,856,978, \$8,086,532 and \$5,176,093, respectively, representing a 66.8%, 63.0% and 72.3% decrease from fiscal 2011, respectively.

In addition, we are using full accrual method to recognize revenue and only recognize sales revenue upon delivery of sold properties to buyers instead of upon pre-sale of the properties. This accounting method adds uncertainties in our future sales trend and causes uneven sales revenue from period to period as our sales revenue is depend upon the number of units delivered during the year. For the year ended September 30, 2012, we completed and started delivery of 4 new residential buildings with total GFA of 64,141 square meters, compared to 17 new residential buildings with GFA of 160,320 square meters completed in fiscal 2011. Currently, most of our real estate projects under construction are high-rise buildings with planned GFA over 709,038 square meters, which generally take about 2- 3 years for the construction, while our completed projects in the past were mostly multi-layer or sub-high-rise buildings and took 1-1.5 years for construction. It indicates that in certain future reporting periods, even if we have pre-sale contracts, we may not have any new construction work completed and delivered to buyers. This is a typical characteristic of our business and the uneven sales revenues from period to period are due in part to the rate at which units are completed and delivered to buyers under the current full accrual method of revenue recognition policy.

Despite the declining transaction volume and cooling real estate market, housing prices in Tier 3 and Tier 4 cities and counties have not shown a substantial correction. While short-term market correction is a process that the property sector is bound to undergo, the fundamental demand for residential housing will remain given the rising per capita income, accelerating urbanization and increasing demand for better living environment. For the year ended September 30, 2012, our average selling price ("ASP") for real estate projects (excluding sales of parking spaces) located in Yang County was approximately \$417 per square meter, a slight increase of 3% from the ASP of \$401 per square meter in fiscal 2011. The ASP of our Hanzhong real estate projects (excluding sales of parking spaces) was approximately \$754 per square meter, an increase of 30.7% from the ASP of \$577 per square meter in fiscal 2011. This was mainly due to the fact that we sold more commercial properties in Hanzhong during the first quarter of fiscal 2012. Generally, the ASP of commercial units is more than doubled from the ASP of residential units. For the year ended September 30, 2012, the ASP for commercial units located in Hanzhong was \$1,586, comparing to the ASP of \$543 per square meter for residential units in Hanzhong. The ASP for our commercial units located in Yong County was \$865 per square meter, comparing to the ASP of \$369 per square meter for residential units in Young County.

With respect to capital funding requirements, while many property developers must now worry about their debt leverage and working capital needs for debt repayment, in contrast, the Company does not have any external debt obligations outstanding at September 30, 2012 and 2011. The Company's cash flows from pre-sales and sales and, if necessary, shareholder loans should provide financial support for the current development and operations. In order to fully implement our business plan, however, we may need to raise capital in future to sustain our expansion. Therefore, we might seek to access the capital markets in both the U.S. and China to obtain the funds we require. At the present time, however, we do not have commitments of funds from any source.

Market Outlook

The Government's tightening policies should continue in the first half of 2013, which may make real estate developers face more difficulties in obtaining land use rights and bank loans. These governmental policies will also negatively affect buyers' confidence and consumption psychology. Meanwhile, with affordable housing construction still underway, it takes time for abundant affordable housing to appear in the market. The Company therefore expects the purchase restrictions and price ceiling policies to continue, which however, should have less impact on the Company's products comparing to the real estate market in Tier 1 and Tier 2 cities. Per a China 35 cities housing price report published by E-house China R&D institute (NYSE: EJ) for 2011, the average housing price to residence income ratio for Tier 1 and Tier 2 cities are in the range from 10.4 to 15.6, while the ratio for Tier 3 and Tier 4 cities generally ranges from 4.2 to 8.0. Our customers in Tier 3 and Tier 4 cities and counties have a constant growth in their disposable income. With lower housing price to family disposable income ratio and increasing urbanization level, there is a growing demand for high quality residential housing. The Company expects to continuously focus on developing real estate properties in prime locations of Tier 3 and Tier 4 cities and counties.

We believe the fundamentals underpinning real estate demand remain strong. We intend to remain focused on our existing construction projects in Hanzhong city and Yang County, deepen our institutional sales network, enhance our cost and operational synergies and improve cash flows and strengthen our balance sheet. In this respect, in late of fiscal 2012, we began the construction of two large residential projects in Hanzhong city and addition high-rise residential buildings in Yang County:

Oriental Pearl Garden

The project is located in the downtown of Hanzhong City. It consists of 12 high-rise residential buildings with commercial shops on the first and second floors with an estimated GFA of 260,000 square meters. The Company started construction in the third quarter of fiscal 2012 and expects to complete the whole construction in 2-3years. The pre-sale license is expected to be obtained by the third or fourth quarter of fiscal 2013. As of September 30, 2012, there are no customer deposit balances for the project.

Mingzhu Beiyuan

The project is located in the south west part of Hanzhong City. It includes 17 high-rise residential buildings with an estimated GFA of 350,000 square meters. The Company started construction in the third quarter of fiscal 2012 and expect to complete the whole construction in 2-3years. The pre-sale license is expected to be obtained by the second or third quarter of fiscal 2013. During fiscal 2011, we signed series of residential-apartment bulk-purchase agreements with Hanzhong Municipal Public Security Bureau, Hanzhong Municipal Bureau of Justice, Hanzhong Local Tax Bureau and the Hanzhong Social Insurance Center. The total residential units to be delivered in Mingzhu Beiyuan under these residential-apartment bulk-purchase agreements are 518 units with a total GFA of 68,752 square meters. As of September 30, 2012, the contracted sales under all residential-apartment bulk-purchase agreements and other individuals was approximately \$33.5 million (RMB 211.6 million). As of September 30, 2012, the customer deposit balance related to these bulk-purchase agreements amounted to \$ 14,703, 528 (RMB 92,911,594).

Yangzhou Pearl Garden

During fiscal 2012, the Company also started the construction of 8 high-rise residential buildings and 1 sub-high-rise residential building with total GFA of 99,038 square meters in Yangzhou Pearl Garden located in Yang County. We have obtained a pre-sale license for 3 residential buildings. The rest of pre-sale licenses are expected to be obtained by September 30, 2013. During fiscal 2011, the Company entered into a preliminary contract with Yang County to develop affordable apartment buildings with a total GFA of 40,000 square meters. These units are mainly located in 4 of 8 high-rise residential buildings. We expect the construction of 1 high-rise residential building to be completed in the first quarter of fiscal 2013 and 2 additional high-rise residential buildings to be completed in the second quarter of fiscal 2013. The construction for the rest of buildings is expected to be completed in 2 years. As of September 30, 2012, the total contracted sales for these residential buildings were approximately \$10.6 million (RMB 67 million). As of September 30, 2012, the customer deposit balance amounted to \$ 7,958,739 (RMB 50,291,273).

In addition to the above residential projects, the Company was approved by Hanzhong local government to construct two municipal roads with a total length of 1,064.09 meters. The budgeted for these two municipal roads is RMB 18,716,489.34 (equivalent to \$3.0 million) approved by Hanzhong Ministry of Finance. The related construction is expected to be completed by December 31, 2012. For these construction projects, the Company recognizes the fee as other revenue using full accrual method when the project is completed. We expect these initiatives will help us cope with this difficult period and better position us to capitalize on opportunities from a future market upturn.

RESULTS OF OPERATION

Revenues

We recognize revenue from the sales of real property in accordance with the full accrual method at the time of the closing of an individual unit sale. This occurs when title to or possession of the property is transferred to the buyer. A sale is not considered consummated until (a) the parties are bound by the terms of a contract, (b) all consideration has been exchanged, (c) any permanent financing of which the seller is responsible has been arranged, (d) all conditions precedent to closing have been performed, (e) the seller does not have substantial continuing involvement with the property, and (f) the usual risks and rewards of ownership have been transferred to the buyer. Further, the buyer's initial and continuing investment is adequate to demonstrate a commitment to pay for the property, and the buyer's receivable, if any, is not subject to future subordination. Sales transactions not meeting all the conditions of the full accrual method are accounted for using the deposit method in which all costs are capitalized as incurred, and payments received from the buyer are recorded as a deposit liability.

We provide “mortgage loan guarantees” only with respect to buyers who make down-payments of 30%-50% of the total purchase price of the property. The period of the mortgage loan guarantee begins on the date the bank approves the buyer’s mortgage and we receive the loan proceeds in our bank account and ends on the date the “Certificate of Ownership” evidencing that title to the property has been transferred to the buyer. The procedures to obtain the Certificate of Ownership take six to twelve months (the “Mortgage Loan Guarantee Period”). If, after investigation of the buyer’s income and other relevant factors, the bank decides not to grant the mortgage loan, our mortgage-loan based sales contract terminates and there is no guarantee obligation. If, during the Mortgage Loan Guarantee Period, the buyer defaults on his or her monthly mortgage payment for three consecutive months, we are required to refund the loan proceeds back to the bank, although we have the right to keep the customer's deposit and resell the property to a third party. Once the Certificate of Property has been issued by the relevant government authority, our loan guarantee terminates. If the buyer then defaults on his or her mortgage loan, the bank has the right to take the property back and sell it and use the proceeds to pay off the loan. The Company is not liable for any shortfall that the bank may incur in this event.

To date, no buyer has defaulted on his or her mortgage payments during the Mortgage Loan Guarantee Period and the Company has not been caused to refund any loan proceeds pursuant to its mortgage loan guarantees. As a result, based on the Company’s historical experience, the Company believes that its revenue recognition policy is appropriate.

The following table summarizes revenue generated by project for the years ended September 30, 2012 and 2011, respectively:

| | For the Years Ended September 30, | | | | | | Variance |
|--------------------------------------|-----------------------------------|---------|--------------|---------|----------------|----------|----------|
| | 2012 | | 2011 | | | | |
| | Revenue | % | Revenue | % | Variance | | % |
| Projects | | | | | | | |
| Yangzhou Pearl Garden | \$15,067,820 | 79.91 % | \$28,612,053 | 50.31 % | \$(13,544,233) | (47.34) | % |
| Mingzhu Xinju | 704,150 | 3.73 % | 10,087,619 | 17.74 % | (9,383,469) | (93.02) | % |
| Mingzhu Garden (Nanyuan and Beiyuan) | 3,063,875 | 16.25 % | 15,630,686 | 27.48 % | (12,566,811) | (80.40) | % |
| Central Plaza | 21,133 | 0.11 % | 2,541,051 | 4.47 % | (2,519,918) | (99.17) | % |
| Total Revenue | \$18,856,978 | \$100 % | 56,871,409 | 100 % | \$(38,014,431) | (66.84) | % |
| Sales Tax | (1,180,437) | | (3,544,584) | | (2,364,147) | (66.70) | % |
| Revenue net of sales tax | \$17,676,541 | | \$53,326,825 | | (35,650,284) | (66.85) | % |

Our revenues are derived from the sale of residential buildings, commercial front-stores and parking space in projects that we have developed. Revenues decreased by 66.8% to approximately \$18.9 million for the year ended September 30, 2012 from approximately \$56.9 million for the year ended September 30, 2011. The total GFA sold during fiscal 2012 was 40,397 square meters, representing a significant decrease from 130,556.81 square meters completed and sold in fiscal 2011. As compared to the last year, we are constructing more high-rise buildings, which need longer

construction periods. We completed and started delivery of four new residence buildings in fiscal 2012. The ASP for fiscal 2012 approximately amounted to \$467 per square meter, increasing by 7.1% from the ASP of \$436 per square meter in fiscal 2011.

Sales taxes for the years ended September 30, 2012 and 2011 consisted of a business tax, 5% of the revenue, an urban construction tax, 7% of business tax, an education surcharge tax, 3% of business tax, and land appreciation tax. Land appreciation tax for the years ended September 30, 2012 and 2011 was assessed at the rate of 0.5% of the customer deposits in Yang County and 1% of the customer deposits in Hanzhong. The sales taxes for fiscal 2012 decreased by 66.7% from last year, primarily as a result of the decrease in our revenue.

We are developing more high-rise residential buildings, which requires longer construction periods. This indicates that in certain future reporting periods, we might not have any new construction work, completed and delivered to buyers, and the only available-for-sale properties would be from our inventories which are previously completed and unsold properties. Since we recognize revenue in accordance with the full accrual method at the time of the closing of an individual unit sale, the longer construction periods for high-rise residential building would have negative impact on our revenue recognition.

Cost of sales

The following table sets forth a breakdown of our cost of revenues for the periods indicated.

| | For the Years Ended September 30, | | | | | | Variance |
|--------------------|-----------------------------------|------------|----------------|------------|------------------|-----------|----------|
| | 2012 | | 2011 | | | | |
| | USD | Percentage | USD | Percentage | Variance | | % |
| Land use rights | \$896,532 | 9.35 | % \$4,012,695 | 12.75 | % \$(3,116,163) | (77.66)% | |
| Construction costs | \$8,693,477 | 90.65 | % \$27,464,754 | 87.25 | % \$(18,771,277) | (68.35)% | |
| Total | \$9,590,009 | 100 | % \$31,477,449 | 100 | % \$(21,887,440) | (69.53)% | |

Our cost of sales consists primarily of costs associated with land use rights and construction costs. Cost of sales are capitalized and allocated to development projects using a specific identification method. Costs are allocated to specific units within a project based on the ratio of the sales area of units to the estimated total sales area of the project or phase of the project times the total cost of the project or phase of the project.

Cost of sales was approximately \$9.6 million for the year ended September 30, 2012 compared to \$31.5 million for the year ended September 30, 2011. The \$21.9 million decrease in cost of sales was mainly attributable to the decrease in total GFA sold during fiscal 2012.

Land use rights cost: The cost of land use rights includes the land premium we pay to acquire land use rights for our property development sites, plus taxes. Our land use rights cost varies for different projects according to the size and

location of the site and the minimum land premium set for the site, all of which are influenced by government policies, as well as prevailing market conditions. Costs for land use rights for the year ended September 30, 2012 were \$896,532, as compared to \$4,012,695 for the year ended September 30, 2011, representing a decrease of \$3,116,163 from last year. The decrease in costs of land use rights was consistent with the fact that the total GFA sold during for the year ended September 30, 2012 was significantly lower than fiscal 2011.

Construction cost: We outsource the construction of all of our projects to third party contractors, whom we select through a competitive tender process. Our construction contracts provide a fixed payment which covers substantially all labor, materials and equipment costs, subject to adjustments for some types of excess, such as design changes during construction or changes in government-suggested steel prices. Our construction costs consist primarily of the payments to our third-party contractors, which are paid over the construction period based on specified milestones. In addition, we purchase and supply a limited range of fittings and equipment, including elevators, window frames and door frames. Our construction costs for the year ended September 30, 2012 were approximately \$8.7 million as compared to approximately \$27.5 million for the year ended September 30, 2011, representing a decrease of \$18.8 million. The decrease in construction cost was due to the decrease in units sold reflected in the decreased revenue recognized.

The total cost of sales as a percentage of real estate sales before sales tax for the year ended September 30, 2012 decreased to 50.9% from 55.4% for the year ended September 30, 2011, which was mainly attributable to more commercial property and parking spaces with higher selling price sold during the first half of fiscal 2012. Most of properties sold during the year ended September 30, 2011 were residential units with lower selling prices.

Gross profits

Gross profit was approximately \$8.1 million for the year ended September 30, 2012 as compared to approximately \$21.8 million for the year ended September 30, 2011, representing a decrease of \$13.7 million, which was mainly attributable to the decrease in revenue. The overall gross profit as a percentage of real estate sales before sales tax increased to 43% for the year ended September 30, 2012 from 38% for the year ended September 30, 2011, mainly due to more commercial properties and parking space with higher selling prices sold in Mingzhu Garden project during the first half of fiscal 2012. During the year ended September 30, 2012, revenue from sales of commercial property and parking space represents 28.9% of the total revenue. But, for the year ended September 30, 2011, revenue from sales of commercial property and parking space only represents 11% of the total revenue. The gross margin for Yangzhou Pearl Garden project decreased by 3% from 49% in fiscal 2011 to 46% in fiscal 2012, due to less margins in promoting high-rise residential units in fiscal 2012. The ASP for Yangzhou Pearl Garden was \$423 per square meters for the year ended September 30, 2012, representing a 10.4% increase from fiscal 2011. But, due to more high-rise buildings completed and sold in fiscal 2012, the unit cost of Yangzhou Pearl Garden increased by 16.8% to \$227 per square meters for fiscal 2012, comparing to unit cost of \$195 per square meters in fiscal 2011.

| Project | For the Year Ended September 30 | | | 2011 | | | Variance | Variance % |
|---|---------------------------------|--------------|--|--------------|--------------|---------------|----------|------------|
| | Gross Profit | Gross Margin | | Gross Profit | Gross Margin | | | |
| Yangzhou Pearl Garden | \$6,971,605 | 46 % | | \$14,084,671 | 49 % | \$(7,113,066) | (51) |)% |
| Mingzhu Xinju | 164,714 | 23 % | | 2,444,508 | 24 % | (2,279,794) | (93) |)% |
| Mingzhu Garden (Mingzhu Nanyuan and Beiyuan) | 2,117,018 | 69 % | | 7,131,850 | 46 % | (5,014,832) | (70) |)% |
| Central Plaza | 13,632 | 65 % | | 1,732,931 | 68 % | (1,719,299) | (99) |)% |
| Sales Tax | (1,180,437) | | | (3,544,584) | | | | |
| Total Gross Profit | \$8,086,532 | 43 % | | \$21,849,376 | 38 % | | | |
| Total Revenue | \$18,856,978 | | | \$56,871,409 | | | | |

Operating expenses

Total operating expenses increased by 26.5% or \$536,979 to \$2,566,413 for the year ended September 30, 2012 from \$2,029,434 for the year ended September 30, 2011, as a result of an increase in general and administration expenses of \$677,043, which was offset by the decrease in selling and distribution expenses of \$140,064.

The increase in general and administrative expenses for the year ended September 30, 2012 was primarily attributed to higher legal expenses paid to previous and existing legal firms' in dealing with listing and compliance matters, higher Director and Officer liability insurance expense, increased compensation due to addition of a new financial officer, and higher professional expenses resulting from the engagement of more consultants to provide advice on our real estate operations. In addition, there was a significant recovery of general administrative expenses for the year ended September 30, 2011 as the Company entered into a settlement agreement in December 2010 with respect to fees owed in connection with its reverse acquisition in 2009, pursuant to which approximately \$167,000 of general and administrative expenses were recovered.

Additionally, selling expense decreased by \$140,064 to \$517,025 for the year ended September 30, 2012 from \$657,089 for the year ended September 30, 2011, which was consistent with decreased sales activities.

| | As of September 30, | |
|-------------------------------------|---------------------|-------------|
| | 2012 | 2011 |
| General and administrative expenses | \$2,049,388 | \$1,372,345 |
| Selling expenses | 517,025 | 657,089 |
| Total Operating expenses | \$2,566,413 | \$2,029,434 |
| Percentage of Revenue | 14 | % 4 % |

Interest Income (expense)

Net interest expense was \$73,608 for the year ended September 30, 2012, compared to net interest income of \$2,128 for the year ended September 30, 2011. The interest expense for fiscal 2012 was from the one-year shareholder loan of \$1,810,000 we entered on June 28, 2011 with our Chairman and CEO – Mr. Xiaojun Zhu. The interest rate for the loan is 4% per annum. On July 19, 2012, the Company entered into an amendment to extend the term for an additional one year until June 28, 2013.

Income taxes

U.S. Taxes

China HGS is a Florida corporation. However, all of our operations are conducted solely by our subsidiaries in the PRC. No income is earned in the United States and we do not repatriate any earnings outside the PRC. As a result, we did not generate any U.S. taxable income for the years ended September 30, 2012 and 2011.

PRC Taxes

Our Company is governed by the Enterprise Income Tax Law of the People's Republic of China concerning private-run enterprises, which are generally subject to tax at a new statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments.

However, the local taxing authority of Hanzhong City has the power to assess corporate taxes annually on local enterprises at a pre-determined fixed rate as an incentive to stimulate the local economy and encourage entrepreneurship. In both fiscal 2012 and 2011, the taxing authority assessed us for income taxes at the rate of 1.25% on revenue in Yang County and 2.5% on our revenue in Hanzhong, instead of statutory rate of 25%. As a result, income tax expenses for the year ended September 30, 2012 were \$283,077. Income taxes decreased in fiscal 2012 by 74.5% as compared to \$1,108,284 for the year ended September 30, 2011 as a result of our lower revenue in fiscal 2012.

Although the possibility exists for reinterpretation of the application of the tax regulations by higher tax authorities in the PRC, potentially overturning the decision made by the local tax authority, the Company has not experienced any reevaluation of the income taxes for prior years. Management believes that the possibility of any reevaluation of income taxes is remote based on the fact that the Company has obtained the written tax clearance from the local tax authority. Thus, no additional taxes payable have been recorded for the difference between the taxes due based on taxable income calculated according to statutory taxable income method and the taxes due based on the fixed rate method. It is the Company's policy that if such reevaluation of income taxes becomes probable and the amount of additional taxes due can be reasonably estimated, additional taxes shall be recorded in the period in which the amount can be reasonably estimated and shall not be charged retroactively to an earlier period.

Net income

We realized \$5,176,093 in net income for the year ended September 30, 2012, representing a 72.3% or \$13,543,845 decrease as compared to \$18,719,938 for the year ended September 30, 2011.

Other comprehensive income

We operate primarily in the PRC and the functional currency of our operating subsidiary is the Chinese Renminbi ("RMB"). The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into USD at the rates used in translation.

Translation adjustments resulting from this process amounted to \$862,601 and \$2,720,280 as of September 30, 2012 and 2011, respectively. The balance sheet amounts with the exception of equity at September 30, 2012 were translated at 6.3190 RMB to 1.00 USD as compared to 6.3952 RMB to 1.00 USD at September 30, 2011. The equity accounts were stated at their historical rate. The average translation rates applied to the income statements accounts for the periods ended September 30, 2012 and 2011 were 6.3198 RMB to 1.00 USD and 6.5377 RMB to 1.00 USD, respectively.

Liquidity and Capital Resources

Current Assets and Liabilities

Our principal need for liquidity and capital resources is to maintain working capital sufficient to support our operations and to make capital expenditures to finance the growth of our business. To date, we have financed our operations primarily through cash flows from operations and borrowings from our principal shareholder. Due to the credit tightening policies in China, banks were very slow to approve mortgage lending during the year ended September 30, 2012.

Due to slowdown in sales, our total cash and restricted cash balance decreased to approximately \$2.2 million as compared to \$9.6 million at September 30, 2011. Such balances have been slowly starting to increase after the first quarter of fiscal 2012 from the low point of \$1.3 million at December 31, 2011. The People's Bank of China ("PBOC")

posted a statement on its website on February 7, 2012, indicating that PBOC would ensure that lending support to affordable housing projects and loan demand from first-home families is met. Since most of our customers are first-time home buyers and our affordable housing units are in the pre-sales stage, we expect our cash flow will continue to improve in fiscal 2013.

As of September 30, 2012, the Company had approximately \$7.7 million in working capital, a decrease of \$18.6 million as compared to \$26.3 million as of September 30, 2011. The decrease in working capital was mainly related to a decrease of the current portion of real estate property under development of \$8.1 million, a decrease of advance to vendors of \$3.4 million, a decrease of loans to outside parties of \$2.6 million and an increase of other payable of 0.9 million, offsetting by a decrease in accounts payable of \$3.6 million and an increase in current portion of real estate property development completed of \$0.6 million. In addition, due to the slowdown in real estate development, the Company classified \$22.9 million security deposits for land use rights as long term assets. The comparative number has also been reclassified to conform with this presentation.

Current assets decreased by \$20.8 million to approximately \$33.1 million as of September 30, 2012 from \$53.9 million as of September 30, 2011. The primary changes in our current assets during this period were due to decreases in cash, real estate property under development, advances to vendors and loans to outside parties, classification of security deposits for land use rights from current assets to long term assets and offsetting by increases in security deposits for land use right and real estate property development completed.

The decrease in cash to \$1,104,686 as of September 30, 2012 from \$8,837,795 as of September 30, 2011 was mainly due to the slow sales and the payment of land use right deposits of \$16.6 million. The decrease in cash was partially offset by cash generated from operating income and increased customer deposits.

We classify “real estate completed” and “real estate under development” on our balance sheet into current and non-current portions based on the estimated date of completion and sales. Real estate completed and real estate under development that we expect to sell in the short term is classified as current assets. Due to the slow sales in fiscal 2012 and the buyers’ extended waiting period, as of September 30, 2012, the Company classified approximately 6.7 million of real estate property development completed as a long term asset. The increase of real estate completed from \$18.9 million as of September 30, 2011 to \$19.5 million as of September 30, 2012 was attributed to 4 new residential buildings completed during the year ended September 30, 2012. The balance of the current portion of real estate property under development decreased by \$8.1 million to \$8.6 million as of September 30 2012 from \$16.7 million as of September 30, 2011, due to the completion of 4 new residential buildings in fiscal 2012. In addition, due to the slowdown in real estate development, the Company classified \$22.9 million security deposits for land use rights as long term assets. The comparative number has also been reclassified to conform with this presentation. The decrease in advance to vendors to \$2.6 million as of September 30, 2012 from \$5.9 million as of September 30, 2011 was due to our progress on construction and offsetting the construction payable. The decrease in loans to outside parties to \$0.02 million as of September 30, 2012 from \$2.6 million as of September 30, 2011 was attributed to collection of previous lending to our construction material suppliers.

Total current liabilities as of September 30, 2012 were approximately \$25.4 million, representing a 8.1% decrease compared to \$27.6 million as of September 30, 2011. The decrease in current liabilities was mainly due to the decrease of accounts payable of \$3.6 million because of repayment to our suppliers.

In order to fully implement our business plan, however, we may need to raise capital. Our expectation, therefore, is that we will seek to access the capital markets in both the U.S. and China to obtain the funds we need. At the present time, however, we do not have commitments of funds from any source.

Cash Flow

Comparison of cash flows results for the fiscal year ended September 30, 2012 to the fiscal year ended September 30, 2011, is summarized as follows:

| | As of September 30, | | |
|---------------------------------------|---------------------|-----------------|-------------|
| | 2012 | 2011 | Variance |
| Net cash used in operating activities | \$ (7,838,690) | \$ (5,586,447) | (2,252,243) |

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| | | | |
|--|---------------|----------------|-------------|
| Net cash used in investing activities | \$- | \$(490,755) | 490,755 |
| Net cash provided financing activities | \$- | \$1,810,000 | (1,810,000) |
| Effect of changes of foreign exchange rate on cash | \$105,581 | \$483,152 | (377,571) |
| Net decrease in cash | \$(7,733,109) | \$(3,784,050) | (3,949,059) |
| Cash, beginning of year | \$8,837,795 | \$12,621,845 | (3,784,050) |
| Cash, end of year | \$1,104,686 | \$8,837,795 | (7,733,109) |

Operating activities

Net cash used in operating activities for the year ended September 30, 2012 was \$7.8 million, consisting of net income of \$5.2 million, noncash adjustments of \$0.1 million and net changes in our operating assets and liabilities, including a decrease in advances to vendors and loans to outside parties of \$6.0 million which were paid to offset these vendors' construction payable and repayment from the outside parties, an increase in real estate property development completed of \$7.1 million resulting from our construction progress, an increase in payment of security deposits for land use rights of \$16.6 million, an increase in customer deposits of \$7.1 million resulted from our pre-sale efforts, a decrease in account payable of \$3.7 million as we settled balances with our suppliers and an increase of other payables of \$0.9 million. The additional cash used in operating activities is mainly attributable to the decreased revenue in fiscal 2012, the significant payment on security deposits for land use rights and settlements of account payable with our suppliers.

Net cash used in operating activities during the twelve months ended September 30, 2011 was \$5,586,447, consisting of net income of \$18,719,938, noncash adjustments of \$137,059 and net changes in our operating assets and liabilities due to our expanded operating activities, including a decrease in restricted cash of \$79,523, an increase in advances to vendors and loans to outside parties of \$1,403,056 which were made in order to maintain good relationships with the suppliers, an increase in real estate property completed of \$7,284,509, an increase in real estate property under development of \$24,128,313 due to our expansion into multiple phases of the existing real estate projects during the year, increased security deposits for land use rights of \$6,118,360, increased accounts payable of \$ 6,448,357 due to more progress achieved in multiple real estate projects, increased customer deposits in the amount of \$7,372,965 which we were able to recognize as revenue when all conditions for revenue recognition were met, increased accrued expenses of \$1,023,617 due to unpaid sales commissions and staff compensation, and decreased taxes payable of \$71,217 due to an increase in our net income. The negative cash provided by operating activities is mainly attributable to our significant spending on real estate property under development and deposits for land use rights.

Net cash used in operating activities for the year ended September 30, 2012 was \$7,838,690 compared with a net cash used in operating activities of \$5,586,447 for the year ended September 30, 2011, representing a net increase of \$2,252,243 compared to fiscal 2011.

Investing activities

Net cash flows used in investing activities amounted to \$0 and \$490,755 for the years ended September 30, 2012 and 2011, respectively. The Company purchased a new office floor in fiscal 2011.

Financing activities

Net cash flows provided by financing activities amounted to \$0 for the year ended September 30, 2012, which represents \$3,142,332 proceeds of a short-term loan from a controlling shareholder to finance the land use rights purchase and the Company's full repayment of such loan during the year.

Net cash flows provided by financing activities amounted to \$1,810,000 in the twelve months ended September 30, 2011, which was a loan from our major shareholder.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

Inflation has not had a material impact on our business and we do not expect inflation to have a material impact on our business in the near future.

Critical Accounting Policies and Management Estimates

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The unaudited condensed consolidated financial statements include the financial statements of the Company and its subsidiaries China HGS Investment Inc., Shaanxi Hanguangsha Management and Consultation Limited Company and the variable interest entity Shaanxi Guangsha Investment and Development Group Co., Ltd. ("Guangsha"). All significant inter-company balances and transactions are eliminated in consolidation.

We have continued to determine that we are the primary beneficiary of Guangsha based on ongoing reassessments, taking into consideration our economic control over Guangsha; the existing contractual relationship in which all of Guangsha's activities either involve or are conducted on our behalf, and we have the obligations to absorb Guangsha's expected returns and losses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the condensed consolidated financial statements. Estimates are used for, but not limited to, the selection of the useful lives of property and equipment, collectability of loans, fair value of stock based compensation, revenue recognition, deferred taxes, costs to complete real estate development and other similar charges. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

Fair Value of Financial Instruments

The Company follows the provisions of Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 - Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 - Inputs are unobservable inputs which reflect the reporting entity's own assumptions.

The Company's financial instruments include cash and cash equivalents, loans to outside parties, other current assets, accounts payable, accrued expenses, customer deposits, construction deposits and taxes payable. Management has

estimated that the fair value of these financial instruments approximate their carrying amounts due to the short-term nature. The fair value of the long term customer and construction deposits approximate their carrying amounts because the deposits received is cash.

Revenue recognition

Real estate sales are recognized in accordance with the ASC 360-20 “Real Estate Sales”.

Revenue from the sales of development properties is recognized by the full accrual method at the time of the closing of an individual unit sale. This occurs when title to or possession of the property is transferred to the buyer. A sale is not considered consummated until (a) the parties are bound by the terms of a contract, (b) all consideration has been exchanged, (c) any permanent financing of which the seller is responsible has been arranged, (d) all conditions precedent to closing have been performed, (e) the seller does not have substantial continuing involvement with the property, and (f) the usual risks and rewards of ownership have been transferred to the buyer. Further, the buyer’s initial and continuing investment is adequate to demonstrate a commitment to pay for the property.

For municipal road construction projects, fees are generally recognized by the full accrual method at the time of the projects are completed.

Customer Deposits

Customer deposits consist of amounts received from customers relating to the sale of residential units in the PRC. In the PRC, customers will generally obtain permanent financing for the purchase of their residential unit prior to the completion of the project. The lending institution will provide the funding to the Company upon the completion of the financing rather than the completion of the project. The Company receives these funds and recognizes them as a liability until the revenue can be recognized.

Real Estate Under Development/Real Estate Completed

Real estate property consists of finished residential unit sites, commercial offices and residential unit sites under development. The Company leases the land for the residential unit sites under land use right leases with various terms from the PRC government. The cost of land use rights is included in the development cost and allocated to each project. Real estate property development completed and real estate property under development are stated at the lower of cost or fair value.

Expenditures for land development, including cost of land use rights, deed tax, pre-development costs, and engineering costs, exclusive of depreciation, are capitalized and allocated to development projects by the specific identification method. Costs are allocated to specific units within a project based on the ratio of the sales area of units to the estimated total sales area of the project (or phase of the project) multiplied by the total cost of the project (or phase of the project).

Cost of amenities transferred to buyers is allocated to specific units as a component of total construction cost. The amenity cost includes landscaping, road paving, etc. Once the projects are completed, the amenities are under control of the property management companies. In accordance to GAAP, real estate property development completed and under development are subject to impairment when the carrying amount exceeds fair value. An impairment loss shall be recognized only if the carrying amount of the assets is not recoverable and exceeds fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to be generated by the assets.

Income taxes

The Company utilizes ASC 740, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences

between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC 740-10-25 prescribes a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. It also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, years open for tax examination, accounting for income taxes in interim periods and income tax disclosures. There are no material uncertain tax positions as of September 30, 2012 and 2011.

The Company is a corporation organized under the laws of the State of Florida. However, all of the Company's operations are conducted solely by its subsidiaries in the PRC. No income is earned in the United States and the management does not repatriate any earnings outside the PRC. As a result, the Company did not generate any U.S. taxable income for the years ended September 30, 2012, and 2011.

As of September 30, 2012, the tax years ended September 30, 2006 through September 30, 2012 for the Company's PRC entities remain open for statutory examination by PRC tax authorities. The parent Company China HGS Real Estate Inc.'s tax years ended September 30, 2006 through September 30, 2012 remains open for statutory examination by U.S. tax authorities.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

CHINA HGS REAL ESTATE INC.

TABLE OF CONTENTS

| | |
|--|----|
| Report Of Independent Registered Public Accounting Firm | 41 |
| Consolidated Balance Sheets as of September 30, 2012 and 2011 | 42 |
| Consolidated Statements of Income and Comprehensive Income for the Years Ended September 30, 2012 and 2011 | 43 |
| Consolidated Statements of Stockholders' Equity for the Years Ended September 30, 2012 and 2011 | 44 |
| Consolidated Statements of Cash Flows for the Years Ended September 30, 2012 and 2011 | 45 |
| Notes To Consolidated Financial Statements | 46 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

China HGS Real Estate Inc.

We have audited the accompanying consolidated balance sheets of China HGS Real Estate Inc. (the “Company”) as of September 30, 2012 and 2011, and the related consolidated statements of income and comprehensive income, stockholders’ equity, and cash flows for the years ended September 30, 2012 and 2011. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2012 and 2011, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman, LLP

New York, NY

December [__], 2012

CHINA HGS REAL ESTATE INC.**CONSOLIDATED BALANCE SHEETS**

| | September 30, | |
|--|----------------|----------------|
| | 2012 | 2011 |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 1,104,686 | \$ 8,837,795 |
| Restricted cash | 1,080,985 | 885,678 |
| Advances to vendors | 2,566,422 | 5,931,149 |
| Loans to outside parties, net | 20,957 | 2,571,651 |
| Real estate property development completed | 19,534,088 | 18,886,485 |
| Real estate property under development | 8,590,275 | 16,707,423 |
| Other current assets | 171,863 | 85,423 |
| Total current assets | 33,069,276 | 53,905,604 |
| Property, plant and equipment, net | 1,037,080 | 1,113,032 |
| Real estate property development completed, net of current portion | 6,691,813 | - |
| Security deposits for land use right | 22,894,698 | 6,254,691 |
| Real estate property under development, net of current portion | 56,021,787 | 47,010,098 |
| Total Assets | \$ 119,714,654 | \$ 108,283,425 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,828,880 | \$ 7,440,593 |
| Other payables | 1,213,394 | 324,298 |
| Construction deposits | 301,318 | 469,084 |
| Customer deposits | 11,597,422 | 11,564,868 |
| Shareholder loan | 1,810,000 | 1,810,000 |
| Accrued expenses | 2,305,086 | 2,003,913 |
| Taxes payable | 4,336,458 | 4,023,698 |
| Total current liabilities | 25,392,558 | 27,636,454 |
| Construction deposits, net of current portion | 864,259 | 577,423 |
| Customer deposits, net of current portion | 17,743,993 | 10,420,650 |
| Total liabilities | 44,000,810 | 38,634,527 |
| Commitments and Contingencies | | |

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Stockholders' equity

| | | |
|--|---------------|---------------|
| Common stock, \$0.001 par value, 100,000,000 shares authorized, 45,050,000 shares issued and outstanding as of September 30, 2012 and 2011 | \$45,050 | \$45,050 |
| Additional paid-in capital | 17,750,337 | 17,724,085 |
| Statutory surplus | 6,549,354 | 5,945,384 |
| Retained earnings | 44,894,229 | 40,322,106 |
| Accumulated other comprehensive income | 6,474,874 | 5,612,273 |
| Total stockholders' equity | 75,713,844 | 69,648,898 |
| Total Liabilities and Stockholders' Equity | \$119,714,654 | \$108,283,425 |

The accompany notes are an integral part of these consolidated financial statements

CHINA HGS REAL ESTATE INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED SEPTEMBER 30,

| | 2012 | 2011 |
|--|--------------|--------------|
| Real estate sales | \$18,856,978 | \$56,871,409 |
| Less: Sales tax | 1,180,437 | 3,544,584 |
| Cost of real estate sales | 9,590,009 | 31,477,449 |
| Gross profit | 8,086,532 | 21,849,376 |
| Operating expenses | | |
| Selling and distribution expenses | 517,025 | 657,089 |
| General and administrative expenses | 2,049,388 | 1,372,345 |
| Total operating expenses | 2,566,413 | 2,029,434 |
| Operating income | 5,520,119 | 19,819,942 |
| Interest income (expense) - net | (73,608) | 2,128 |
| Other income - net | 12,659 | 6,152 |
| Income before income taxes | 5,459,170 | 19,828,222 |
| Provision for income taxes | 283,077 | 1,108,284 |
| Net income | 5,176,093 | 18,719,938 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 862,601 | 2,720,280 |
| Comprehensive income | \$6,038,694 | \$21,440,218 |
| Basic and diluted income per common share | | |
| Basic | \$0.11 | \$0.42 |
| Diluted | \$0.11 | \$0.42 |
| Weighted average common shares outstanding | | |
| Basic | 45,050,000 | 45,050,000 |
| Diluted | 45,050,000 | 45,050,000 |

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

CHINA HGS REAL ESTATE INC.**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

| | Common Stock Shares | Par value \$0.001 Amount | Additional Paid-in Capital | Statutory Surplus | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|--|---|--|--|-----------------------------------|-----------------------------------|--|---------------|
| Balance at October 1, 2010 | 45,050,000 | \$ 45,050 | \$ 17,670,927 | \$ 4,065,393 | \$ 23,482,159 | \$ 2,891,993 | \$ 48,155,522 |
| Stock-based Compensation | | | 53,158 | | | | 53,158 |
| Appropriation of statutory reserve | | | | 1,879,991 | (1,879,991) | | - |
| Net income for the year | | | | | 18,719,938 | | 18,719,938 |
| Foreign currency translation adjustments | | | | | | 2,720,280 | 2,720,280 |
| Balance at September 30, 2011 | 45,050,000 | \$ 45,050 | \$ 17,724,085 | \$ 5,945,384 | \$ 40,322,106 | \$ 5,612,273 | \$ 69,648,898 |
| Stock-based Compensation | | | 26,252 | | | | 26,252 |
| Appropriation of statutory reserve | | | | 603,970 | (603,970) | | - |
| Net income for the year | | | | | 5,176,093 | | 5,176,093 |
| Foreign currency translation adjustments | | | | | | 862,601 | 862,601 |
| Balance at September 30, 2012 | 45,050,000 | \$ 45,050 | \$ 17,750,337 | \$ 6,549,354 | \$ 44,894,229 | \$ 6,474,874 | \$ 75,713,844 |

The accompany notes are an integral part of these consolidated financial statements

CHINA HGS REAL ESTATE INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED SEPTEMBER 30,**

| | 2012 | 2011 |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Net income | \$5,176,093 | \$18,719,938 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation | 89,363 | 83,901 |
| Stock based compensation | 26,252 | 53,158 |
| Provision for losses on loans to outside parties | - | 7,506 |
| Changes in assets and liabilities: | | |
| Restricted cash | (184,604) | 79,523 |
| Advances to vendors | 3,435,815 | (5,801,870) |
| Loans to outside parties | 2,581,379 | 4,391,308 |
| Security deposits for land use rights | (16,562,486) | (6,118,360) |
| Real estate property development completed | (7,110,766) | (7,284,509) |
| Real estate property under development | (126,162) | (24,128,313) |
| Other current assets | (85,398) | (70,820) |
| Accounts payables | (3,700,969) | 6,448,357 |
| Other payables | 885,072 | (770,545) |
| Customer deposits | 7,089,879 | 7,372,965 |
| Construction deposits | 106,436 | 478,914 |
| Accrued expenses | 277,201 | 1,023,617 |
| Taxes payable | 264,205 | (71,217) |
| Net cash used in operating activities | \$(7,838,690) | \$(5,586,447) |
| Cash flow from investing activities | | |
| Purchase of property and equipment | - | (490,755) |
| Net cash used in investing activities | \$- | \$(490,755) |
| Cash flow from financing activities | | |
| Proceeds from shareholder loan | 3,142,332 | 6,704,688 |
| Repayment of shareholder loan | (3,142,332) | (4,894,688) |
| Net cash provided by financing activities | \$- | \$1,810,000 |
| Effect of changes of foreign exchange rate on cash | 105,581 | 483,152 |
| Net decrease in cash | (7,733,109) | (3,784,050) |
| Cash, beginning of year | 8,837,795 | 12,621,845 |
| Cash, end of year | \$1,104,686 | \$8,837,795 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | \$- | \$- |
| Income taxes paid | \$129,863 | \$1,133,005 |

The accompany notes are an integral part of these consolidated financial statements

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

China HGS Real Estate Inc. (the “Company” or “China HGS” or “we”, “our”, “us”), formerly known as China Agro Sciences Corp., is a corporation organized under the laws of the State of Florida.

On August 21, 2009, a Share Exchange Agreement (“Share Exchange”) was entered into by and among the Company, Rising Pilot, Inc., a British Virgin Islands company (the “HGS Shareholder”), and China HGS Investment Inc., a Delaware corporation and wholly-owned subsidiary of the HGS Shareholder (“HGS Investment”).

Pursuant to the Share Exchange Agreement, the HGS Shareholder transferred and assigned to the Company all of the issued and outstanding capital stock of HGS Investment in exchange for 14,000,000 shares of the Company’s common stock. The closing of the Share Exchange transaction occurred on August 31, 2009. As a result of the Share Exchange, HGS Investment became a wholly-owned subsidiary of the Company. After the consummation of the Share Exchange transaction, the Company changed its name to China HGS Real Estate, Inc.

In addition, as a part of the Share Exchange transaction, the Company entered into an entrusted management agreement (the “Entrusted Management Agreement”) with the management of the Company’s PRC operating subsidiary, Shaanxi Guangsha Investment and Development Group Co., Ltd. (“Guangsha”) and issued to Mr. Zhu Xiaojun, the CEO of Guangsha and his management team an aggregate of 25,000,000 shares of the Company’s common stock.

Prior to and in conjunction with the consummation of the Share Exchange, the Company entered into a purchase and sale agreement with Mr. Zhengquan Wang, the Company’s former CEO, pursuant to which, Mr. Wang returned 14,000,000 shares of the Company’s common stock to the Company in exchange for the business and assets of Dalian Holding Corp., a Florida corporation and wholly-owned subsidiary of the Company. In addition, Mr. Wang assumed all the liabilities of Dalian Holding and released the Company from any and all claims, known or unknown, with regard to such liabilities.

As a result of the Share Exchange transaction, the shareholders of Guangsha acquired the majority of the equity in the Company. In addition, the original officers and directors of the Company resigned from their positions and new directors and officers affiliated with Guangsha were appointed ten days after the notice pursuant to Rule 14f-1 was mailed to the Company’s shareholders of record.

The transaction has been accounted for as a reverse merger under the purchase method of accounting. Accordingly, HGS Investment and its subsidiaries are treated as the continuing entity for accounting purposes.

HGS Investment is a Delaware corporation and owns 100% of the equity interest in Shaanxi HGS Management and Consulting Co., Ltd. (“Shaanxi HGS”), a wholly owned foreign entity incorporated under the laws of the People’s Republic of China (“PRC” or “China”) on June 3, 2009.

China HGS does not conduct any substantive operations of its own. Instead, through its subsidiary, Shaanxi HGS, in November 2007 it entered into certain exclusive contractual agreements with Guangsha. Pursuant to these agreements, Shaanxi HGS is obligated to absorb a majority of the risk of loss from Guangsha’s activities and entitles Shaanxi HGS to receive a majority of Guangsha’s expected residual returns. In addition, Guangsha’s shareholders have pledged their equity interest in Guangsha to Shaanxi HGS, irrevocably granted Shaanxi HGS an exclusive option to purchase, to the extent permitted under PRC Law, all or part of the equity interests in Guangsha and agreed to entrust all the rights to exercise their voting power to the person(s) appointed by Shaanxi HGS.

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Based on these contractual arrangements, management believes that Guangsha should be considered a “Variable Interest Entity” (“VIE”) under ASC 810 “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51”, because the equity investors in Guangsha no longer have the characteristics of a controlling financial interest, and the Company, through Shaanxi HGS, is the primary beneficiary of Guangsha and its operations. Accordingly, Guangsha has been consolidated under ASC 810.

The Company, through its subsidiaries and VIE, engages in real estate development, in the construction and sale of residential apartments, parking lots and commercial properties. Total assets and liabilities presented on the consolidated balance sheet and sales, cost of sales, net income presented on Consolidated Statement of Income and Comprehensive Income as well as the cash flow from operation, investing and financing activities presented on the Consolidated Statement of Cash Flows are substantially the financial position, operation and cash flow of Guangsha, because the Company, HGS Investment and Shaanxi HGS are holding companies resulting from the reorganization and do not have active operations since inception. The Company has not provided any financial support to Guangsha for the years ended September 30, 2012 and 2011.

The following assets and liabilities of the consolidated VIE were included in the accompanying consolidated financial statements of the Company as of September 30, 2012 and 2011:

| | Balance as of | |
|-------------------------|---------------|--------------|
| | September | September |
| | 30, | 30, |
| | 2012 | 2011 |
| Current assets | \$33,048,548 | \$53,884,449 |
| Non-current assets | 86,174,640 | 53,900,371 |
| Total assets | 119,223,188 | 107,784,820 |
| Current liabilities | 24,829,667 | 27,799,621 |
| Non-current liabilities | 18,608,252 | 10,998,073 |
| Total liabilities | \$43,437,919 | \$38,797,694 |

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Principles of consolidation**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The consolidated financial statements include the financial statements of China HGS Real Estate Inc. (the "Company" or "China HGS"), China HGS Investment Inc. ("HGS Investment"), Shaanxi HGS Management and Consulting Co., Ltd. ("Shaanxi HGS") and its variable interest entity ("VIE"), Shaanxi Guangsha Investment and Development Group Co., Ltd. ("Guangsha"). All inter-company transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates are used for, but not limited to, the selection of the useful lives of property and equipment, provision necessary for contingent liabilities, fair values, revenue recognition, taxes, budgeted costs and other similar charges. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The Company follows the provisions of Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosures. It clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity’s own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the accompanying consolidated balance sheets for cash, restricted cash, advances to vendors, loans to outside parties, security deposits for land use rights, other current assets, accounts payable, other payables, customer deposits, accrued expenses and taxes payable approximate their fair value based on the short-term maturity of these instruments. The fair value of the long term customer and construction deposits approximate their carrying amounts because the deposits are received in cash.

Revenue recognition

Real estate sales are recognized in accordance with the ASC 360-20 “Real Estate Sales”.

Revenue from the sales of development properties is recognized by the full accrual method at the time of the closing of an individual unit sale. This occurs when title to or possession of the property is transferred to the buyer. A sale is

not considered consummated until (a) the parties are bound by the terms of a contract, (b) all consideration has been exchanged, (c) any permanent financing for which the seller is responsible has been arranged, (d) all conditions precedent to closing have been performed, (e) the seller does not have substantial continuing involvement with the property, and (f) the usual risks and rewards of ownership have been transferred to the buyer. Further, the buyer's initial and continuing investment is adequate to demonstrate a commitment to pay for the property.

The Company provides "mortgage loan guarantees" only with respect to buyers who make down-payments of 30%-50% of the total purchase price of the property. The period of the mortgage loan guarantee begins on the date the bank approves the buyer's mortgage and we receive the loan proceeds in our bank account and ends on the date the "Certificate of Ownership" evidencing that title to the property has been transferred to the buyer. The procedures to obtain the Certificate of Ownership take six to twelve months (the "Mortgage Loan Guarantee Period"). If, after investigation of the buyer's income and other relevant factors, the bank decides not to grant the mortgage loan, our mortgage-loan based sales contract terminates and there will be no guarantee obligation. If, during the Mortgage Loan Guarantee Period, the buyer defaults on his or her monthly mortgage payment for three consecutive months, we are required to refund the loan proceeds back to the bank, although we have the right to keep the customer's deposit and resell the property to a third party. Once the Certificate of Property has been issued by the relevant government authority, our loan guarantee terminates. If the buyer then defaults on his or her mortgage loan, the bank has the right to take the property back and sell it and use the proceeds to pay off the loan. The Company is not liable for any shortfall that the bank may incur in this event. To date, no buyer has defaulted on his or her mortgage payments during the Mortgage Loan Guarantee Period and the Company has not had to refund any loan proceeds pursuant to its mortgage loan guarantees.

For municipal road construction projects, fees are generally recognized by the full accrual method at the time of the projects are completed.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Foreign currency translation**

The Company's financial information is presented in U.S. dollars. The functional currency of the Company's operating subsidiaries is Renminbi ("RMB"), the currency of the PRC. The consolidated financial statements of the Company have been translated into U.S. dollars in accordance with ASC 830-30 "Translation of Financial Statements". The financial information is first prepared in RMB and then is translated into U.S. dollars at year-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in stockholders' equity.

| | 2012 | 2011 |
|--|--------|--------|
| Year end RMB : USD exchange rate | 6.3190 | 6.3952 |
| Annual average RMB : USD exchange rate | 6.3198 | 6.5377 |

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at the rates used in translation.

Cash

Cash includes cash on hand and demand deposits in accounts maintained with commercial banks within the PRC. The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. The Company maintains bank accounts in the PRC. Cash balances in bank accounts in PRC are not insured by the Federal Deposit Insurance Corporation or other programs.

Restricted Cash

The restricted cash is required by the banks as collateral for mortgage loans given to the home buyers before obtaining the certificates of ownership of the properties as collateral. In order to provide the banks with the certificates of ownership, the Company is required to complete certain procedures with the Chinese Government, which normally takes six to twelve months. Because the banks provide the loan proceeds to the Company without obtaining

certificates of ownership as loan collateral during this six to twelve months' period, the mortgage banks require the Company to maintain, as restricted cash, 5% to 10% of the mortgage proceeds as security for the Company's obligations under such guarantees. The restricted cash is released by the banks once they receive the certificates of ownership. As of September 30, 2012 and 2011, the balances of restricted cash totaled \$1,080,985 and \$885,678, respectively. These deposits are not covered by insurance. The Company has not experienced any losses in such accounts and management believes its restricted cash account is not exposed to any risks.

Advances to vendors

Advances to vendors consist of balances paid to contractors and vendors for services and materials that have not been provided or received and generally relate to the development and construction of residential and commercial units in the PRC. Advances to vendors are reviewed periodically to determine whether their carrying value has become impaired. Historically, the Company has not experienced any losses as a result of these advances. As of September 30, 2012 and 2011, the Company had outstanding balance of advance to vendors in the amount of \$2,566,422 and \$5,931,149, respectively.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans to outside parties

Loans to outside parties consist of various cash advances to unrelated companies and individuals with which the Company has business relationships. Loans to outside parties are reviewed periodically as to whether their carrying value has become impaired. These loans bear no interest and they are due on demand. The Company considers the assets to be impaired if the collectability of the balances becomes doubtful. As of September 30, 2012 and 2011, the Company had outstanding balances of loans to outside parties in the amount of \$20,957 and \$2,571,651, respectively. All these loans are considered collectible based on the Company's past experience.

Security deposits for land use rights

Security deposits for land use rights consist of the deposit held by the PRC government for the purchase of land use rights in Hanzhong City and the deposit held by an unrelated party to transfer its land use rights in Hanzhong City to the Company. The deposits will be reclassified to real estate property under development upon the transfers of legal title.

Real estate property development completed and under development

Real estate property consists of finished residential unit sites, commercial offices and residential unit sites under development. The Company leases the land for the residential unit sites under land use right leases with various terms from the PRC government. The cost of land use rights is included in the development cost and allocated to each project. Real estate property development completed and real estate property under development are stated at the lower of cost or fair value.

Expenditures for land development, including cost of land use rights, deed tax, pre-development costs, and engineering costs, exclusive of depreciation, are capitalized and allocated to development projects by the specific identification method. Costs are allocated to specific units within a project based on the ratio of the sales area of units to the estimated total sales area of the project (or phase of the project) multiplied by the total cost of the project (or phase of the project).

Cost of amenities transferred to buyers is allocated to specific units as a component of total construction cost. The amenity cost includes landscaping, road paving, etc. Once the projects are completed, the amenities are under control of the property management companies. In accordance to GAAP, real estate property development completed and under development are subject to impairment when the carrying amount exceeds fair value. An impairment loss shall be recognized only if the carrying amount of the assets is not recoverable and exceeds fair value. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to be generated by the assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment, net

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally expensed in the year in which it is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, less any estimated residual value. Estimated useful lives of the assets are as follows:

| | |
|--------------------------------|------------|
| Buildings | 39 years |
| Machinery and office equipment | 5-10 years |
| Vehicles | 8 years |

Any gain or loss on disposal or retirement of a fixed asset is recognized in the profit and loss account and is the difference between the net sales proceeds and the net carrying amount of the asset. When property and equipment are retired or otherwise disposed of, the asset and accumulated depreciation are removed from the accounts and the resulting profit or loss is reflected in income.

Maintenance, repairs and minor renewals are charged directly to expense as incurred unless such expenditures extend the useful life or represent a betterment, in which case they are capitalized.

Impairment of long-lived assets

In accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company is required to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

The Company tests long-lived assets, including property, plant and equipment and other assets, for recoverability when events or circumstances indicate that the net carrying amount is greater than its fair value. Assets are grouped and evaluated at the lowest level for their identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the future estimated cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is generally determined by using the asset's expected future discounted cash flows or market value. The Company estimates fair value of the assets based on certain assumptions such as budgets, internal projections, and other available information as considered necessary. There is no impairment of long-lived assets during the years ended September 30, 2012 and 2011.

Customer deposits

Customer deposits consist of amounts received from customers relating to the sale of residential units in the PRC. In the PRC, customers will generally obtain permanent financing for the purchase of their residential unit prior to the completion of the project. The lending institution will provide the funding to the Company upon the completion of the financing rather than the completion of the project. The Company receives these funds and recognizes them as a liability until the revenue can be recognized.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property warranty

The Company provides its customers with warranties which cover major defects of building structure and certain fittings and facilities of properties sold. The warranty period varies from two years to five years, depending on different property components the warranty covers. The Company constantly estimates potential costs for materials and labor with regard to warranty-type claims expected to be incurred subsequent to the delivery of a property. Reserves are determined based on historical data and trends with respect to similar property types and geographical areas. The Company constantly monitors the warranty reserve and makes adjustments to its pre-existing warranties, if any, in order to reflect changes in trends and historical data as information becomes available. The Company may seek further recourse against its contractors or any related third parties if it can be proved that the faults are caused by them. In addition, the Company also withholds up to 2% of the contract cost from sub-contractors for periods of two to five years. These amounts are included in construction deposits, and are only paid to the extent that there has been no warranty claim against the Company relating to the work performed or materials supplied by the subcontractors. For the years ended September 30, 2012 and 2011, the Company had not recognized any warranty liability or incurred any warranty costs in excess of the amount retained from subcontractors.

Construction Deposits

Construction deposits are the warranty deposits the real estate contractors provide to the Company upon signing the construction contracts. The Company can use such deposits to reimburse customers in the event of customer claims due to construction defects. The remaining balance of the deposits are returned to the contractors when the terms of the after-sale property warranty expires, which normally occurs within two to five years after the date of the deposit.

Stock-based compensation

The Company accounted for share-based compensation in accordance with ASC Topic 718, Compensation - Stock compensation, which requires that share-based payment transactions be measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expense over the requisite service period, or vesting period.

ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in the subsequent period if actual forfeitures differ from initial estimates. Forfeiture rate is estimated based on historical and future expectation of

employee turnover rate and are adjusted to reflect future change in circumstances and facts, if any. Share-based compensation expense is recorded net of estimated forfeitures such that expense was recorded only for those stock options and common stock awards that are expected to vest.

Income taxes

The Company utilizes ASC 740, "Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC 740-10-25 prescribes a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. It also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, years open for tax examination, accounting for income taxes in interim periods and income tax disclosures. There are no material uncertain tax positions as of September 30, 2012 and 2011.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

The Company is a corporation organized under the laws of the State of Florida. However, all of the Company's operations are conducted solely by its subsidiaries in the PRC. No income is earned in the United States and the management does not repatriate any earnings outside the PRC. As a result, the Company did not generate any U.S. taxable income for the years ended September 30, 2012, and 2011.

As of September 30, 2012, the tax years ended September 30, 2006 through September 30, 2012 for the Company's PRC entities remain open for statutory examination by PRC tax authorities. The parent Company China HGS Real Estate Inc.'s tax years ended September 30, 2006 through September 30, 2012 remains open for statutory examination by U.S. tax authorities.

Land appreciation tax ("LAT")

In accordance with the relevant taxation laws in the PRC, the Company is subject to LAT based on progressive rates ranging from 30% to 60% on the appreciation of land value, which is calculated as the proceeds of sales of properties less deductible expenditures including borrowing costs and all property development expenditures. LAT is exempted if the appreciation values do not exceed certain thresholds specified in the relevant tax laws.

The whole project must be completed before the LAT obligation can be assessed. Accordingly, the Company should record the liability and the total related expense at the completion of a project unless the tax authorities impose an assessment at an earlier date. The methods to implement this tax law vary among different geographic areas. Hanzhong, where the project Mingzhu Garden, NanDajie and Central Plaza are located, implements this tax rule by requiring real estate companies prepay the LAT based upon customer deposits received. The tax rate in Hanzhong is 1%. Yang County, where the project Yangzhou Pearl Garden is located, requires a tax rate of 0.5%.

Comprehensive income

In accordance with ASC 220-10-55, comprehensive income is defined as all changes in equity except those resulting from investments by owners and distributions to owners. The Company's only components of comprehensive income during the years ended September 30, 2012 and 2011 were net income and foreign currency translation adjustments.

Basic and diluted earnings per share

The Company computes earnings per share ("EPS") in accordance with the ASC 260, "Earnings per share", which requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. All stock options were excluded from the calculation of diluted EPS because they would be anti-dilutive as of September 30, 2012 and 2011.

Advertising expenses

Advertising costs are expensed as incurred. For the years ended September 30, 2012 and 2011, the Company recorded advertising expenses of \$99,733 and \$25,446, respectively.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration risk

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. All of the Company's cash is maintained with state-owned banks within the People's Republic of China of which no deposits are covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.

The Company is dependent on third-party sub-contractors, manufacturers, and distributors for all construction services and supply of construction materials. One supplier accounted for 29% and 20% of project expenditures for the years ended September 30, 2012 and 2011, respectively.

NOTE 3. SECURITY DEPOSITS FOR LAND USE RIGHTS

In May 2011, the Company entered into a development agreement with the local government. Pursuant to the agreement, the Company will prepay the development cost of \$18,942,871 (RMB119,700,000) and the Company has the right to acquire the land use rights through public bidding. The prepaid development cost will be deducted from the final purchase price of the land use rights. As of September 30, 2012, a deposit of \$3,165,058 (RMB20,000,000) (2011 - \$3,127,345 or RMB 20,000,000) was paid by the Company. The Company currently expects to make payment of the remaining development cost within the next twelve months based on government's current work in process.

In August 2011, the Company entered into a land transfer agreement with Hanzhong Shijin Real Estate Development Limited ("Shijin"). Pursuant to the agreement, Shijin agreed to transfer certain land use rights to the Company for the total price of \$7,200,506 (RMB45,500,000). As of September 30, 2012, a deposit of \$7,265,390 (the full contract amount of RMB45,500,000 including a commission of RMB 410,000) was paid by the Company. The Company is in the process of applying for the land use rights certificate. As of September 30, 2011, the deposit balance was \$3,127,346 (RMB20,000,000).

On November 18, 2011, the Company won two bids for the land use rights by auction to obtain two parcels of land in Yang county for total consideration and the bidding commission of \$12,597,918 (RMB 79,606,242). As of September 30, 2012, the Company has paid \$12,464,250 (RMB78, 761,600). The remaining balance of \$133,667 was expected to be paid by March 31, 2013 when the Company receives the land use rights certificate.

The Company reclassified the security deposits for land use rights to long term assets due to a slowdown in the real estate development. The comparative figure has been reclassified to conform this presentation.

NOTE 4. REAL ESTATE PROPERTY COMPLETED AND UNDER DEVELOPMENT

The following summarizes the components of real estate property completed and under development as of September 30, 2012 and 2011:

| | Balance as of September 30, 2012 | September 30, 2011 |
|--|---|-----------------------|
| Development completed | | |
| Hanzhong City Mingzhu Garden (Mingzhu Nanyuan & Mingzhu Beiyuan) | \$ 10,957,861 | \$ 2,950,520 |
| Hanzhong City Nan Dajie (Mingzhu Xijiu) | 3,651,828 | 4,048,911 |
| Yang County Yangzhou Pearl Garden | 11,019,854 | 11,290,390 |
| Hanzhong City Central Plaza | 596,358 | 596,664 |
| Real estate property development completed | \$ 26,225,901 | \$ 18,886,485 |
| Less: Real estate property completed –short-term | \$ 19,534,088 | \$ 18,886,485 |
| Real estate property completed –long-term | \$ 6,691,813 | \$ - |
| Under development: | | |
| Hanzhong City Oriental Pearl Garden | 30,964,847 | 28,717,247 |
| Hanzhong City Mingzhu Garden (Mingzhu Nanyuan & Mingzhu Beiyuan) | 21,102,925 | 25,403,633 |
| Yang County Yangzhou Pearl Garden | 11,620,714 | 9,596,641 |
| Hanzhong City Mingzhu Road West (a) | 732,571 | - |
| Hanzhong City Liuhou Road (a) | 191,005 | - |
| Real estate property under development | \$ 64,612,062 | \$ 63,717,521 |
| Less: Short-term portion | \$ 8,590,275 | \$ 16,707,423 |
| Real estate property under development –long-term | \$ 56,021,787 | \$ 47,010,098 |

In June 2012, the Company was approved by Hanzhong local government to construct two municipal roads with total length of 1,064.09 meters. The budgeted price for these two municipal roads is approximately \$3.0 million (a)(RMB 18,716,489) which was approved by Hanzhong Ministry of Finance. The related construction is expected to be completed by December 31, 2012. For these construction projects, the Company recognizes the fee as other revenue using the full accrual method when the project is completed.

As of September 30, 2012 and 2011, land use rights included in real estate property under development totaled \$41,902,111 and \$46,793,742, respectively.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30, 2012 and 2011, the detail of property and equipment was as follows:

| | As of September 30, | |
|------------------------------------|---------------------|-------------|
| | 2012 | 2011 |
| Buildings | \$865,175 | \$854,866 |
| Machinery | 29,435 | 31,821 |
| Office equipment | 39,729 | 41,390 |
| Automobiles | 446,716 | 441,394 |
| Total | 1,381,055 | 1,369,471 |
| Less: accumulated depreciation | 343,975 | 256,439 |
| Property, plant and equipment, net | \$1,037,080 | \$1,113,032 |

Depreciation expense for the years ended September 30, 2012 and 2011 was \$89,363 and \$83,901, respectively.

NOTE 6. CUSTOMER DEPOSITS

Customer deposits consist of amounts received from customers for the pre-sale of residential units in the PRC. The details of customer deposits are as follows:

| | As of September 30, | |
|--|---------------------|---------------|
| | 2012 | 2011 |
| Customer deposits by real estate projects | | |
| Mingzhu Garden (Mingzhu Nanyuan and Mingzhu Beiyuan) | \$ 16,900,566 | \$ 12,860,399 |
| Yangzhou Pearl Garden | 12,440,849 | 9,125,119 |
| Total | \$ 29,341,415 | \$ 21,985,518 |
| Including: Customer deposits -short-term | \$ 11,597,422 | \$ 11,564,868 |
| Customer deposits - long-term | \$ 17,743,993 | \$ 10,420,650 |

Customer deposits are typically 10%-20% of the unit price for those customers who purchase properties in cash and 30%-50% of the unit price for those customers who purchase properties with mortgages. Buyers with mortgage loans pay customer deposits. The banks provide the balance of the funding to the Company upon consummation of the sales. The banks hold the properties as collateral for customers' mortgage loans. If the customers default, the bank will repossess the collateral properties. Except during the Mortgage Loan Guarantee Period of approximately six to twelve months, the banks have no recourse to the Company for customers' defaults.

NOTE 7. SHAREHOLDER LOAN and RELATED PARTY TRANSACTIONS

On March 16, 2011, the Company entered into a land transfer agreement with Hanzhong Guangsha Real Estate Development Limited ("Hanzhong"), an entity controlled by Mr. Xiaojun Zhu, for land use rights covering GFA 44,000 square meters. Pursuant to the agreement, Hanzhong agreed to transfer certain land use right for a total (A) price of \$12,509,380 (RMB80, 000,000) based on an independent valuation report. The Company paid the purchase price in full.

(B) On June 16, 2011, Guangsha entered into a one-month RMB loan agreement ("RMB Loan Agreement") with Mr. Xiaojun Zhu, the majority shareholder and Chairman of the Board of Directors. Pursuant to the RMB Loan Agreement, Guangsha borrowed \$4,950,878 (RMB32, 000,000) from Mr. Xiaojun Zhu to partially fund a deposit for a land use rights bid. The loan was interest-free for the first month and had an annual interest rate of 15%

thereafter. As the Company did not acquire the land use right, the bid deposit was fully refunded to the Company in July 2011. In July and August, 2011, the Company fully repaid the RMB32,000,000 (\$4,950,878) owed to Mr. Xiaojun Zhu under the RMB Loan Agreement with accrued interest expense of \$59,641 owed to Mr. Xiaojun Zhu.

(C) On June 28, 2011, the Company entered into a one-year loan agreement (“USD Loan Agreement”) with Mr. Xiaojun Zhu, pursuant to which the Company borrowed \$1,810,000 from Mr. Xiaojun Zhu to make a capital injection into Shaanxi HGS, the Company’s subsidiary. The interest rate for the loan is 4% per annum. The Company recorded an interest expense of \$72,400 for the year ended September 30, 2012 (2011 - \$18,100). On July 19, 2012, the Company entered into an amendment to the USD Loan Agreement to extend the term for an additional one year or until June 28, 2013.

(D) In connection with the land use rights auctions, the Company borrowed an additional \$3,165,058 (RMB 20,000,000) from Mr. Xiaojun Zhu on November 14, 2011 to fund the deposits for the land use rights bids. The shareholder loan was interest-free for the first month and had an annual interest rate of 15% thereafter. The Company repaid the full amount to Mr. Xiaojun Zhou on December 7, 2011.

NOTE 8. STOCK OPTIONS

Under the fair value recognition provisions of ASC Topic 718, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized on a straight-line basis as expense over the vesting period. Additionally, the Company is required to use judgment in estimating the amount of stock-based awards that are expected to be forfeited. If actual forfeitures differ significantly from the original estimate, stock-based compensation expense and the results of operations could be impacted.

In January 2010, the Company's Board of Directors granted stock options to three newly appointed independent directors to purchase up to 34,000 shares of the Company's common stock ("2010 Stock Options). 20% of the shares underlying the options were exercisable on the grant date and the remaining 80% of the shares underlying the options become exercisable over the next eight quarters at the rate of 10% at the end of every quarter. The exercise price of the options is \$2.60 per share and the options expire on January 6, 2015. As of September 30, 2012 and 2011, 100% and 90% of the option awards have vested, respectively.

On March 16, 2011, the Company's Board of Directors granted stock options to three independent directors to purchase up to an aggregate of 34,000 shares of the Company's common stock ("2011 Stock Options). Twenty percent (20%) of the shares underlying the options were exercisable on the grant date and the remaining 80% of the shares underlying the options become vested over the next eight quarters at the rate of 10% at the end of every quarter. The exercise price of the options is \$2.37 per share and the options expire on March 16, 2016. As of September 30, 2012 and 2011, 90% and 50% of the option awards have vested, respectively.

On August 22, 2012, the Company's Board of Directors granted stock options to two new independent directors to purchase up to an aggregate of 120,000 shares of the Company's common stock ("2012 Stock Options). The shares underlying the options become vested during the following 12 months period at the end of each quarter. The exercise price of the options is \$2.37 per share. As of September 30, 2012, 8.3% of the option awards have vested.

The assumptions used in calculating the fair value of options granted using the Black-Scholes option pricing model are as follows:

| | Options granted in August 2012 | | Options granted in March 2011 | |
|------------------------------|--------------------------------------|---|-------------------------------------|---|
| Risk-free interest rate | 0.19 | % | 1.87 | % |
| Expected life of the options | 1 year | | 5 years | |
| Expected volatility | 148 | % | 65 | % |

| | | | | |
|-------------------------|----------|---|-----------|---|
| Expected dividend yield | 0 | % | 0 | % |
| Fair value | \$ 8,400 | | \$ 44,590 | |

The Company uses the Black-Scholes option-pricing model, which incorporates various assumptions including volatility, expected life and interest rates to determine fair value. The Company's expected volatility assumption is based on the historical volatility of Company's stock. The expected life assumption is primarily based on the simplified method due to the Company's limited option exercise behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

NOTE 8. STOCK OPTIONS (continued)

The following table summarizes the stock option activities of the Company:

| | Number of options | Weighted Average Exercise Price | Weighted Average Remaining Life in Years | Grant Date Fair Value |
|---------------------------------|----------------------|---------------------------------------|---|--------------------------|
| Outstanding, September 30, 2010 | 34,000 | \$ 2.60 | 5 | \$ 77,157 |
| Granted | 34,000 | 2.37 | - | 44,590 |
| Forfeited | - | - | - | - |
| Exercised | - | - | - | - |
| Outstanding, September 30, 2011 | 68,000 | \$ 2.49 | 3.87 | \$ 121,747 |
| Granted | 120,000 | 2.37 | - | 8,400 |
| Forfeited | - | - | - | - |
| Exercised | - | - | - | - |
| Outstanding, September 30, 2012 | 188,000 | \$ 2.41 | 1.60 | \$ 130,147 |
| Exercisable, September 30, 2012 | 74,600 | \$ 2.47 | 2.57 | \$ 117,989 |

Total stock-based compensation expense recognized in the period ended September 30, 2012 and 2011, was \$26,252 and \$53,158, respectively. As of September 30, 2012 and 2011, there was \$9,012 and \$30,011 of unrecognized compensation cost related to stock option awards that are expected to be recognized, respectively.

NOTE 9. TAXES**(A) Business sales tax**

The Company is subject to a 5% business sales tax on revenue. It is the Company's continuing practice to recognize the 5% business sales tax based on revenue as a cost of sales as the revenue is recognized. As of September 30, 2012, the Company had business sales tax payable of \$3,366,130 (2011- \$3,333,941), which is expected to be paid when the projects are completed and assessed by the local tax authority.

(B) Corporate income taxes ("CIT")

The Company's PRC subsidiaries and VIE are governed by the Income Tax Law of the People's Republic of China concerning the privately run enterprises, which are generally subject to income tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments.

However, as approved by the local tax authority of Hanzhong City, the Company's CIT was assessed annually at a pre-determined fixed rate as an incentive to stimulate the local economy and encourage entrepreneurship. The local income tax rate in Hanzhong is 2.5% and in Yang County is 1.25% on revenue. For the years ended September 30, 2012 and 2011, the Company's assessed income taxes were \$283,077 and \$1,108,284, respectively.

Although the possibility exists for reinterpretation of the application of the tax regulations by higher tax authorities in the PRC, potentially overturning the decision made by the local tax authority, the Company has not experienced any reevaluation of the income taxes for prior years. The PRC tax rules are different from the local tax rules and the Company is required to comply with local tax rules. The difference between the two tax rules will not be a liability of the Company. There will be no further tax payments for the difference.

NOTE 9. TAXES (continued)

The following table reconciles the statutory rates to the Company's effective tax rate for the years ended September 30, 2012 and 2011:

| | For the years ended September 30, | | | |
|---|-----------------------------------|----|-------|----|
| | 2012 | | 2011 | |
| Chinese statutory tax rate | 25.0 | % | 25.0 | % |
| Exemption rendered by local tax authorities | (19.8 |)% | (19.1 |)% |
| Effective tax rate | 5.2 | % | 5.9 | % |

The parent Company China HGS Real Estate Inc. is incorporated in the United States. Net operating loss carry forwards for United States income tax purposes amounted to \$169,980 and \$71,328 as of September 30, 2012 and 2011, respectively, which are available to reduce future years' taxable income. These carry forwards will expire in 2032. However, the change in control resulting from the reverse merger in 2009 limits the amount of loss to be utilized each year. Management doesn't expect to remit any of its net income back to the United States in the foreseeable future. Accordingly, the Company recorded a full valuation allowance as of September 30, 2012. The components of deferred taxes as of September 30, 2012 and 2011 consist of the following:

| | As of September 30, 2012 | September 30, 2011 |
|--|-----------------------------------|-----------------------|
| Deferred tax asset from net operating loss carry-forwards for parent company | \$57,793 | \$ 24,252 |
| Valuation allowance | (57,793) | (24,252) |
| Net deferred tax asset | \$- | \$ - |

The valuation allowance increased \$33,541 and \$11,135 for the years end September 30, 2012 and 2011, respectively

(C) Land appreciation tax ("LAT")

Since January 1, 1994, LAT has been applicable at progressive tax rates ranging from 30% to 60% on the appreciation of land values, with an exemption provided for the sales of ordinary residential properties if the appreciation values do not exceed certain thresholds specified in the relevant tax laws. However, the Company's local tax authority in

Hanzhong City has not imposed the regulation on real estate companies in its area of administration. Instead, the local tax authority has levied the LAT at the rate of 0.5% in Yang County and 1.0% in Hanzhong against total cash receipts from sales of real estate properties, rather than according to the progressive rates.

As at September 30, 2012, the outstanding LAT payable balance is \$22,650 with respect to properties sold up to September 30, 2012. As at September 30, 2011, the outstanding LAT payable balance is \$148,463 with respect to properties sold up to September 30, 2011.

NOTE 12. TAXES - Continued

(D) Taxes payable consisted of the following:

| | 2012 | 2011 |
|----------------------|-------------|-------------|
| CIT | \$765,206 | \$604,665 |
| Business tax | 3,366,130 | 3,333,941 |
| Other taxes and fees | 205,122 | 85,092 |
| Total taxes payable | \$4,336,458 | \$4,023,698 |

NOTE 10. STOCKHOLDERS' EQUITY

(a) Common stock

Prior to the Share Exchange, the Company had 20,050,000 shares of common stock issued and outstanding. Before the closing of the Share Exchange transaction, the Company retired 14,000,000 shares of common stock in connection with the spin-off of Dalian Holding. In connection with the Share Exchange consummated on August 31, 2009, the Company issued 14,000,000 shares of its common stock to the HGS Shareholder and an additional 25,000,000 shares to the management team of Guangsha. As of September 30, 2012 and 2011, the Company has a total of 45,050,000 shares of common stock issued and outstanding.

(b) Statutory surplus reserves

The Company is required to make appropriations to reserve funds, comprising the statutory surplus reserve and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC ("PRC GAAP").

Appropriations to the statutory surplus reserve is required to be at least 10% of the after tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entities' registered capital. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

The statutory surplus reserve fund is non-discretionary other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of shares currently held by them, provided that the remaining statutory surplus reserve balance after such issue is not less than 25% of the registered capital before the conversion.

Pursuant to the Company's articles of incorporation, the Company is to appropriate 10% of its net profits as statutory surplus reserve. As of September 30, 2012 and 2011, the balance of statutory surplus reserve was \$6,549,354 and \$ 5,945,384, respectively.

The discretionary surplus reserve may be used to acquire fixed assets or to increase the working capital to expend on production and operation of the business. The Company's Board of Directors decided not to make an appropriation to this reserve for the years ended September 30, 2012 and 2011.

NOTE 11. CONTINGENCY AND COMMITMENTS

As an industry practice, the Company provides guarantees to PRC banks with respect to loans procured by the purchasers of the Company's real estate properties for the total mortgage loan amount until the completion of obtaining the "Certificate of Ownership" of the properties from the government, which generally takes six to twelve months. Because the banks provide loan proceeds without getting the "Certificate of Ownership" as loan collateral during this six to twelve months' period, the mortgage banks require the Company to maintain, as restricted cash, 5% to 10% of the mortgage proceeds as security for the Company's obligations under such guarantees. If a purchaser defaults on its payment obligations, the mortgage bank may deduct the delinquent mortgage payment from the security deposit and require the Company to pay the excess amount if the delinquent mortgage payments exceed the security deposit. The Company has made necessary reserves in its restricted cash account to cover any potential mortgage defaults as required by the mortgage lenders. The Company has not experienced any losses related to this guarantee and believes that such reserves are sufficient.

In May 2011, the Company entered into a development agreement with the local government. Pursuant to the agreement, the Company will prepay the development cost of \$18,942,871 (RMB119,700,000) and the Company has the right to acquire the land use rights through public bidding unless another company wins the bidding. The prepaid development cost will be deducted from the final purchase price of the land use rights or refunded to the Company plus profit earned if the Company does not win the bidding. As of September 30, 2012, a deposit of \$3,165,058 (RMB20,000,000) was paid by the Company. The Company currently expects to make payment of the remaining development cost within the next twelve months based on the government's current work in process.

NOTE 11. CONTINGENCY AND COMMITMENTS (continued)

On November 18, 2011, the Company won two bids for the land use rights by auction to obtain two parcels of land in Yang county for total consideration and the bidding commission of \$12,597,918 (RMB 79,606,242). As of September 30, 2012, the Company has paid \$12,464,250 (RMB78, 761,600). The remaining balance of \$133,667 is expected to be paid by March 31, 2013 when the Company received the land use rights certificate.

On May 28, 2012, the Company engaged a new Chief Financial Officer (“CFO”). The term of his contract is for one year. The CFO will receive an annual bonus up to RMB180,000 (approximately US\$28,000) and is also entitled to 100,000 shares of restricted common stock of the Company at the end of the term. The restricted stock bonus is subject to the board’s approval.

NOTE 12. SUBSEQUENT EVENTS

On October 23, 2012, the Company entered into a sales agreement to sell the remaining commercial units in Nan Dajie (Mingzhu Xijiu) project located in Hanzhong City with a total contract amount of RMB 33,911,426 (equivalent to \$5.4 million) with a total GFA of 4,545.88 square meters. The average selling price for these commercial units is RMB 7,459.82 per square meter (equivalent to \$1,180 per square meter).

Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls And Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and others, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Annual Report on Form 10-K (the “Evaluation Date”).

The purpose of this evaluation is to determine if, as of the Evaluation Date, our disclosure controls and procedures are effective such that the information required to be disclosed in our Securities and Exchange Commission (“SEC”) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our chief executive officer and our chief financial officer. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of September 30, 2012.

(b) Management’s Report on Internal Control over Financial Reporting

The Company’s management is responsible for establishing and maintaining internal controls over financial reporting. Internal Control Over Financial Reporting is a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial
2. statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of its management and board of directors; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements;

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our chief executive officer and chief financial officer, has conducted an self-assessment, including attestation of the design and operational effectiveness of the Company's internal controls over financial reporting as of September 30, 2012. In making its assessment, management adopted the criteria in "Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission" and generated the assessment report and working paper under the standardized testing procedures. Based on this evaluation, our management concluded that our internal control over financial reporting as of September 30, 2012 was not effective. The material weakness identified was mainly related to the fact that the Company lacked the internal audit function.

This report set forth above does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. The management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report herein.

(c) Changes in Internal Controls over Financial Reporting

The management is committed to improving the internal controls over financial reporting and will undertake the consistent improvements or enhancements on an ongoing basis.

Subsequent to the identification of the material weakness in our construction cost allocation in our fiscal 2011 annual report, we instituted a new review procedure in which the general nature construction cost allocation shall be reviewed and approved by the project construction manager and our PRC accounting manager, to remediate the related internal control weakness.

On May 28, 2012, the Company appointed Samuel Shen as a new Chief Financial Officer. Prior to joining the Company, Mr. Shen was a Director at Bluehill Investment Advisory Group, a North America-PRC based consulting firm, where he helped several U.S. and Canadian listed Chinese companies with their financial reporting, internal control implementation, and SOX compliance training. Mr. Shen is experienced with financial reporting under U.S. GAAP and IFRS.

To remediate the weakness in lack of internal audit function, the Company has recently employed an internal auditor to reinforce the function of the internal audit department. Currently, the internal audit department has two staffs. With the assistance of the independent SOX consulting firm the Company has engaged, the internal audit department will perform the management self-assessment of the internal controls over financial reporting in 2013. Moreover, the internal audit function will be conducted by the internal audit department.

The Company continued to engage the existing independent professional consulting firm to assist the Company's Internal Control Evaluation Committee in evaluating the internal control effectiveness in fiscal 2013.

The remedial measures being undertaken may not be fully effectuated or may be insufficient to address the significant deficiencies we identified, and there can be no assurance that significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified or occur in the future. If additional significant deficiencies (or if material weaknesses) in our internal controls are discovered or occur in the future, among other

similar or related effects: (i) the Company may fail to meet future reporting obligations on a timely basis, (ii) the Company's consolidated financial statements may contain material misstatements, and (iii) the Company's business and operating results may be harmed.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors

The Board of Directors is presently composed of five (5) members: Xiaojun Zhu, Shenghui Luo, Christy Young Shue, John Chen, and Yuankai Wen. Mr. Zhu serves as Chairman of the Board of Directors. The Board of Directors has determined that Christy Young Shue, John Chen, and Yuankai Wen are independent directors within the meaning set forth in the NASDAQ listing rules and as required by the rules and regulations of the SEC, as currently in effect.

Below you will find a tabular summary of our entire Board, their age as of September 30, 2012, the year they were each elected, and the year in which their term ends.

| Name | Age | Position | Director Since |
|--------------------|-----|---|----------------|
| Xiaojun Zhu | 46 | President, Chief Executive Officer and Chairman of the Board of Directors | 2009 |
| Shenghui Luo | 44 | Director | 2010 |
| Christy Young Shue | 49 | Director | 2012 |
| John Chen | 40 | Director | 2012 |
| Yuankai Wen | 66 | Director | 2010 |

The following paragraphs provide information about each director, including all positions he or she holds, his or her principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he or she currently serves as a director or has served as a director during the past five years.

Xiaojun Zhu, the President, Chief Executive Officer, and Chairman of the Board of Directors of China HGS, began his entrepreneurial career in 1995 by creating a privately-run real estate company in Hanzhong, Shaanxi Province. With more than 20 years' experience, Mr. Zhu is considered to be one of China's most influential business leaders in the real estate industry. In October 2005, Mr. Zhu received the "Top 100 Management Elites in China's Building Industry 2005" award by the Chinese Academy of Management Science. Mr. Zhu also received the "Innovative Shaanxi - Person of the Year 2007" award and the "Outstanding Socialism Builder of Shaanxi Province in 2008" award. In August 2009, Mr. Zhu joined China Agro as Chairman and Chief Executive Officer. In 2007, before joining China Agro, Mr. Zhu served as the Chairman and General Manager of Shaanxi Guangsha Investment and Development

Group Co., Ltd. From 1995 to 2007, Mr. Zhu was the Chairman and General Manager of Hanzhong Guangsha Real Estate Development Co, Ltd., a real estate development company. From 1992 to 1995, prior to starting his own business, Mr. Zhu served as a Vice General Manager in the real estate-based subsidiary of Hanjiang Building Material Group Corporation. From 1985 to 1988, Mr. Zhu studied at Shaanxi Metallurgy College. As the founder of the Company, Mr. Zhu is acknowledged to be one of China's leading business executives in the real estate industry and is able to provide the Board with an understanding of the Company's business as well as provide expert perspective on industry trends and opportunities. Mr. Zhu's experience with the Company from its founding also offers the Board insight to the evolution of the Company, including from execution, cultural, operational, competitive and industry points of view.

Christy Young Shue has served as a director since August 2012. Ms. Shue served as Executive Vice President, Finance and Investor Relations and Corporate Secretary of Harbin Electric, Inc. (NASDAQ: HRBN) from 2007 through April 2012, when Harbin went private as a result of a management buyout transaction. From 2006 through 2007, Ms. Shue was a Vice President, a Senior Investor Relations Consultant at Christensen, an Investor Relations advisory firm. From 2003 through 2006, Ms. Shue served as Investor Relations Manager at International Paper (NYSE: IP). Ms. Shue received her MBA degree in finance/international business from Stern School of Business, New York University, a Ph.D. in Chemistry from Purdue University, and a Bachelor of Science degree in Chemistry from Sichuan University. Ms. Shue's previous experience as an officer and Investor Relations manager for public companies has given her insights into various challenges that public companies experience, as well as extensive knowledge and understanding of capital market related issues such as corporate governance and financial reporting.

John Chen has served as a director since August 2012. Mr. Chen is a California Certified Public Accountant. Mr. Chen has been the Chief Financial Officer of General Steel Holdings Inc. (NYSE: GSI) since May 2004. From 1997 to 2003, Mr. Chen was a Senior Accountant at Moore Stephens Frazer and Torbet. Mr. Chen received his Bachelor of Science degree in Business Administration, Accounting from California State Polytechnic University. Mr. Chen's experience as a California Certified Public Accountant and his experience as a chief financial officer of a public company have provided him with broad experience in finance including accounting and financial reporting. This experience has led our Board of Directors to determine that he is an "audit committee financial expert" as that term is defined in Item 407(d)(5) of Regulation S-K under the 1934 Act.

Yuankai Wen has served as a director since January 2010. Since 1998, Mr. Wen has served as the Chairman of Beijing Neolinde Management Training Center. From 1997 to 1998, he was also the Chairman of Beijing Neolinde Management Consulting Co. From 1994 through 1997, Mr. Wen was a Vice President of Roosevelt China Investment Co., an investment firm. Mr. Wen received his Bachelor's degree in Chemistry from Nanjing University. He was also a visiting scholar of Physical and Chemical Biology Institute, University of Paris in France. Mr. Wen's experience as Chairman of the Beijing Neolinde Management Training Center and as Chairman of the Beijing Neolinde Management Consulting Co. has provided him with broad leadership and executive experience. Moreover, his management experience in China provides him with a perspective on Chinese business operations.

Shenghui Luo has served as a director since January 2010. Ms. Luo joined Shaanxi Guangsha Investment and Development Group Co., Ltd., the Company's subsidiary, in 1997. From 2000 through March 2009, Ms. Luo served as Vice Director of the Finance Department of Shaanxi Guangsha Investment and Development Group Co., Ltd. In March 2009, Ms. Luo was appointed a Manager of the Finance Department of Shaanxi Guangsha Investment and Development Group Co., Ltd. Ms. Luo received her Bachelor's degree in Accounting from Shaanxi Finance College. As a result of Ms. Luo's service as a member of the Company's finance department, she developed an extensive understanding of the Company's business. In addition, her knowledge and experience in finance and accounting provides her with a broad understanding of the Company's financial reporting under both PRC and US GAAP.

Family Relationships

No family relationships exist among our directors, executive officers, or persons nominated or chosen by us to become directors or executive officers.

All directors hold office until the next annual stockholders' meeting or until their death, resignation, retirement, removal, disqualification, or until their successors have been elected and are qualified. Our officers serve at the will of the Board of Directors.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our directors or executive officers have been convicted in a criminal proceeding, excluding traffic violations or similar misdemeanors, or has been a party to any judicial or administrative proceeding during the past five years that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws, except for matters that were dismissed without sanction or settlement. Except as set forth in our discussion below in “Certain Relationships and Related Transactions,” none of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

Code of ethics

On January 22, 2010, the Board of Directors adopted a Code of Conduct which sets forth the standards by which the Company's employees, officers and directors should conduct themselves. The Company will disclose any amendment to the Code of Conduct or waiver of a provision of the Code of Conduct that applies to the Company's Chief Executive Officer, Chief Financial Officer and any other principal financial officer, and any other person performing similar functions and relates to certain elements of the Code of Conduct, including the name of the officer to whom the waiver was granted.

Committees of the Board of Directors

The Board of Directors has the following standing committees: Audit, Compensation, and Nominating and Corporate Governance. The Board of Directors has adopted written charters for each of these committees. All members of the committees appointed by the Board of Directors are non-employee directors and the Board of Directors has determined that all such members are independent under the applicable rules and regulations of NASDAQ and the SEC, as currently in effect. In addition, all directors who served on a committee during any portion of fiscal year 2011 were independent under the applicable rules and regulations of NASDAQ and the SEC during such director's period of service.

The following chart details the membership of each standing committee as of September 30, 2012 and the number of meetings each committee held in fiscal year 2012.

| Name of Director | Audit | Compensation | Nominating & Corporate Governance |
|-----------------------------------|-------|--------------|--|
| Gordon H. Silver* | M | M | C |
| H. David Sherman** | C | M | M |
| Yuankai Wen | M | C | M |
| Number of Meetings in Fiscal 2012 | 4 | 1 | 1 |

M = Member

C = Chair

*On August 22, 2012, Mr. Gordon H. Silver resigned from the Board. The Board of Directors appointed Christy Young Shue to each of the Audit, Compensation and Nominating and Corporate Governance Committees.

**On August 22, 2012, Mr. H. David Sherman resigned from the Board. The Board of Directors appointed John Chen to each of the Audit, Compensation and Nominating and Corporate Governance Committees.

Executive Officers

Our executive officer and his age as of September 30, 2012 are as follows:

| Name | Ages | Position |
|---------------------|------|---|
| Xiaojun Zhu * | 45 | President, Chief Executive Officer and Chairman of the Board of Directors |
| Wei (Samuel) Shen** | 34 | Chief Financial Officer |

*Mr. Zhu's background and business experience is described above under " — Directors"

**Wei (Samuel) Shen has been the Chief Financial Officer of the Company since May 2012. Mr. Shen is a Director at Bluehill Investment Advisory Group, a North America-PRC based consulting firm, where he helped several U.S. and Canadian listed Chinese companies with their financial reporting, internal control implementation, and SOX compliance training. From 2006 to 2011, Mr. Shen served as an Audit Assurance Manager at MSCM LLP, Toronto, where he managed audit engagements for U.S. and Canadian public companies in real estate, health care, manufacturing, and IT industries. Mr. Shen holds both Chartered Accountant and Certified Public Accountant designations and is experienced with financial reporting under US GAAP and IFRS. Mr. Shen holds a Master of Management and Public Accounting from the Rotman School of Management, University of Toronto.

Audit Committee

The Audit Committee oversees our accounting, financial reporting and audit processes; appoints, determines the compensation of, and oversees, the independent registered public accountants; pre-approves audit and non-audit services provided by the independent registered public accountants; reviews the results and scope of audit and other services provided by the independent registered public accountants; reviews the accounting principles and practices and procedures used in preparing our financial statements; oversees the Company's internal audit function; and reviews our internal controls.

The Audit Committee works closely with management and our independent registered public accountants. The Audit Committee also meets with our independent registered public accountants without members of management present, on a quarterly basis, following completion of our independent registered public accountants' quarterly reviews and annual audit and prior to our earnings announcements, to review the results of their work. The Audit Committee also meets with our independent registered public accountants to approve the annual scope and fees for the audit services to be performed.

The Board of Directors has determined that John Chen is an "audit committee financial expert" as defined by SEC rules, as currently in effect.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the executive officers and directors of the Company and every person who is directly or indirectly the beneficial owner of more than 10% of any class of security of the Company to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Such persons also are required to furnish our company with copies of all Section 16(a) forms they file.

Based solely on our review of copies of such forms received by us, we believe that during the fiscal year 2012, the executive officers and directors of the Company and every person who is directly or indirectly the beneficial owner of more than 10% of any class of security of the Company complied with the filing requirements of Section 16(a) of the Exchange Act.

Item 11. Executive Compensation

Compensation of Executive Officers

The following identified persons (the “Named Executive Officers”) of the Company received compensation in the amounts set forth in the chart below for the fiscal years ended September 30, 2012 and 2011. All compensation listed is in US dollars. No other item of compensation was paid to any officer or director of the Company other than reimbursement of expenses.

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | All Other Compensation (\$) | Totals (\$) |
|--|------|-------------|-------------|-----------------------------|-------------|
| Xiaojun Zhu, Chief Executive Officer and Chairman of the Board (1) | 2012 | 31,647 | - | (3) | 31,647 |
| | 2011 | 16,772 | 300,000 (2) | (3) | 316,772 |
| Wei (Samuel) Shen, Chief Financial Officer | 2012 | 37,976 (4) | - | 31,647 | (4) 69,623 |
| | 2011 | - | - | - | - |

- (1) Mr. Zhu was paid in Renminbi. His annual salary was RMB 200,000 for fiscal 2012 (consisting of RMB143,333 paid and RMB56,667 earned) and RMB109,653 for fiscal 2011. The amounts reflected in this column have been converted to U.S. dollars at the exchange rate of RMB6.3198 to the U.S. dollar for fiscal 2012 and RMB6.5377 to the U.S. dollar for fiscal 2011.

- (2) Earned in fiscal 2011, although payment has been deferred and not paid as at September 30, 2012.
- (3) The Company owns a motor vehicle which is available for Mr. Zhu's use for business purposes. The value of this perquisite is less than \$10,000.
- Samuel Shen became Chief Financial Officer of the Company in May 2012. For the year ended September 30, 2012, he received \$37,976 for compensation as CFO pursuant to an employment contract (as described below) with the Company. Additional compensation in the amount of \$31,647 was paid to Mr. Shen in connection with his role as a VP Finance of the Company prior to May 2012.

Option Grants Table. There were no individual grants of stock options to purchase our common stock made to the executive officers named in the Summary Compensation Table in fiscal 2012 and 2011.

Aggregated Option Exercises and Fiscal Year-End Option Value Table. There were no stock options exercised during fiscal 2012 and 2011 by the executive officer named in the Summary Compensation Table.

Long-Term Incentive Plan ("LTIP") Awards Table. There were no awards made to a named executive officer in fiscal 2012 and 2011 under any LTIP.

During each of the last two fiscal years, none of our other executive officer had total compensation greater than \$100,000. Our executive officers are reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of such expenses by anyone other than our board of directors, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged.

Employment Contracts and Termination of Employment

The following agreement was entered into by China HGS and the following executive officers:

Wei (Samuel) Shen

On May 28, 2012, the Company entered into a contract with Mr. Samuel Shen to serve as Chief Financial Officer of the Company. The term of the contract is for one year and will expire on May 27, 2013. Upon expiration of the contract, the parties may agree on the renewal and enter into a new contract. Pursuant to the contract, Mr. Shen will receive a monthly salary of RMB60,000 (approximately US\$9,500) and an annual discretionary bonus up to

RMB180,000 (approximately US\$28,000). Mr. Shen is also entitled to 100,000 shares of restricted common stock of the Company at the end of the term, subject to his continuing employment with the Company. According to the contract, the Company may terminate the contract with Mr. Shen for causes defined in the contract with thirty days' advance written notice. Under certain circumstances provided in the contract, the Company may elect to pay an additional month's salary to replace its written notice advancement obligation. Mr. Shen may terminate the contract with the Company by giving a ninety-day advance written notice to the Company. The contract also contains covenants regarding non-competition and confidentiality.

Outstanding Equity Awards at Fiscal 2012 Year End

None.

Compensation of Directors

The following tables provide information about the actual compensation earned by non-employee directors who served during fiscal 2012.

FISCAL 2012 DIRECTOR COMPENSATION

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---------------------|----------------------------------|-------------------|--------------------|---|--|-----------------------------|------------|
| Gordon* H. Silver | \$ 18,000 | - | \$ 9,018 | - | - | - | \$ 27,018 |
| H. David Sherman** | \$ 27,000 | - | \$ 9,018 | - | - | - | \$ 36,018 |
| Yuankai Wen | \$ 15,296 | - | \$ 7,515 | - | - | - | \$ 22,811 |
| John Chen** | 3,000 | - | \$ 350 | - | - | - | \$ 3,350 |
| Christy Young Shue* | 2,000 | - | \$ 350 | - | - | - | \$ 2,350 |

*On August 22, 2012, Gordon H. Silver resigned from the Board. The Board of Directors appointed Christy Young Shue to each of the Audit, Compensation and Nominating and Corporate Governance Committees.

** On August 22, 2012, H. David Sherman resigned from the Board. The Board of Directors appointed John Chen to each of the Audit, Compensation and Nominating and Corporate Governance Committees.

These amounts reflect the value determined by the Company for accounting purposes for these awards and do not reflect whether the recipient has actually realized a financial benefit from the award (such as by exercising stock (1) options). This column represents the compensation expense for fiscal year 2012 for stock options. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. No stock option awards were forfeited by any of our non-employee directors in fiscal year 2012.

(2) Mr. Wen receives annual compensation in the amount of RMB 100,000. The amount set forth in this column is based on an exchange rate of RMB 6.5377 to the U.S. dollar, the average exchange rate during 2012.

Independent Director Agreements

The Company has entered into Independent Director Agreements with Ms. Shue, Messrs. Chen and Wen pursuant to which the Company has agreed to pay each of these directors annual cash compensation in the amount of \$24,000, \$36,000 and RMB 100,000, respectively. In addition, the Company has agreed to grant each of these directors, annually, nonstatutory stock options to purchase 60,000, 60,000 and 10,000 shares of the Company's common stock, respectively, which options shall vest in accordance with the schedule determined as of the date of grant. In addition, the Company has agreed to reimburse each director for all reasonable, out-of-pocket expenses, subject to the advance approval of the Company incurred in connection with the performance of Director's duties.

Board Leadership Structure and Role in Risk Oversight

One person currently holds the positions of principal executive officer and chairman of the Board of Company. The Board does not have a policy on whether or not the roles of the Chief Executive Officer and Chairman should be separate. Instead, the Company's By-Laws provide that the directors may designate a Chairman of the Board from among any of the directors. Accordingly, the Board reserves the right to vest the responsibilities of the Chief Executive Officer and Chairman in the same person or in two different individuals depending on what it believes is in the best interest of the Company. The Board has determined that the consolidation of these roles is appropriate because it allows Mr. Zhu to bring a wider perspective to the deliberations of the Board on matters of corporate strategy and policy. The Board believes that there is no single Board leadership structure that would be most effective in all circumstances and therefore retains the authority to modify this structure to best address the Company's and the Board's then current circumstances as and when appropriate.

The Company's management is responsible for identifying, assessing and managing the material risks facing the business. The Board and, in particular, the Audit Committee are responsible for overseeing the Company's processes for assessing and managing risk. Each of the Chief Executive Officer and Chief Financial Officer, with input as appropriate from other appropriate management members, report and provide relevant information directly to either the Board and/or the Audit Committee on various types of identified material financial, reputational, legal, operational, environmental and business risks to which the Company is or may be subject, as well as mitigation strategies for certain salient risks. In accordance with NASDAQ requirements and as set forth in its charter, the Audit Committee periodically reviews and discusses the Company's business and financial risk management and risk assessment policies and procedures with senior management, the Company's independent auditor. The Audit Committee reports its risk assessment function to the Board. The roles of the Board and the Audit Committee in the risk oversight process have not affected the Board leadership structure. Although the board has not formally designated a lead independent director, Mr. Sherman, the chairman of the audit committee, has led the meetings of the audit committee which include at least a majority of the independent directors and at which matters appropriate for consideration at executive sessions of the board of directors were discussed.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the beneficial ownership of our Common Stock as of September 30, 2012 as to (i) each person who is known by us to own beneficially more than 5% of our outstanding Common Stock, (ii) each of the executive officers and other persons named in the Summary Compensation Table, (iii) each director and nominee for director, and (iv) all directors and executive officers as a group. Except as otherwise indicated in the footnotes, all information with respect to share ownership and voting and investment power has been furnished to us by the persons listed. Except as otherwise indicated in the footnotes, each person listed has sole voting power with respect to the shares shown as beneficially owned. Unless otherwise indicated, the address of each listed shareholder is c/o China HGS Real Estate Inc., 6 Xingnan Road, 19th Floor, Hanzhong City, Shaanxi Province, PRC 723000.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership(1) | Percent of Class (2) | |
|---|---|----------------------------|---|
| 5% Holders | | | |
| Rising Pilot, Inc. (a British Virgin Islands company)(3) | 14,000,000 | 31.1 | % |
| Directors and Officers | | | |
| Mr. Xiaojun Zhu(4) | 29,800,000 | 66.1 | % |
| Shenghui Luo | 1,680,000 | 3.7 | % |
| Gordon H. Silver(5) | 22,800 | * | |
| H. David Sherman(6) | 22,800 | * | |
| Yuankai Wen(7) | 19,000 | * | |
| Wei (Samuel) Shen | - | - | |
| All directors and executive officers as a group (6 persons) | 31,544,600 | 70.0 | % |

* less than 1%

(1) Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock owned by such person. The number of shares beneficially owned includes Common Stock that such individual has the right to acquire as of September 30, 2012 as including through the exercise of stock options.

(2) Percentage of beneficial ownership is based upon 45,050,000 shares of Common Stock outstanding as of September 30, 2012. For each named person, this percentage includes Common Stock that the person has the right to acquire as of September 30, 2012, including through the exercise of an option; however, such Common Stock is not deemed outstanding for the purpose of computing the percentage owned by any other person.

(3) Mr. Xiaojin Zhu has voting and dispositive control over securities held by Rising Pilot, Inc.

(4) Includes 15,800,000 shares of Common Stock owned by Mr. Zhu directly and 14,000,000 shares owned through Rising Pilot, Inc.

(5) Includes stock options to purchase 22,800 shares of Common Stock exercisable as of September 30, 2012.

(6) Includes stock options to purchase 22,800 shares of Common Stock exercisable as of September 30, 2012.

(7) Includes stock options to purchase 19,000 shares of Common Stock exercisable as of September 30, 2012.

Securities Authorized for Issuance Under Equity Compensation Plans

On September 25, 2012, our shareholders approved the Company's 2012 Omnibus Securities and Incentive Plan (the "2012 Plan"). The 2012 Plan provides for the grant of awards which are distribution equivalent rights, incentive stock options, non-qualified stock options, performance shares, performance units, restricted shares of common stock, restricted stock units, stock appreciation rights ("SARs"), tandem stock appreciation rights, unrestricted shares of common stock or any combination of the foregoing, to key management employees and nonemployee directors of, and nonemployee consultants of, the Company or any of its subsidiaries (each a "participant"). We have reserved a total of 2,000,000 shares of common stock for issuance as or under awards to be made under the 2012 Plan. The number of shares of common stock for which awards which are options or SARs may be granted to a participant under the 2012 Plan during any calendar year is limited to 1,000,000.

The following table summarizes information with respect to shares of the Company's common stock that may be issued under the Company's existing equity compensation plans as of September 30, 2012:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 120,000 | \$ 2.37 | 1,880,000 |
| Equity compensation plans not approved by security holders | 68,000 | \$ 2.49 | - |
| Total | 188,000 | \$ 2.41 | 1,880,000 |

Changes in Control

There are no arrangements known to us, including any pledge by any person of our securities, the operation of which may at a subsequent date result in a change in control of the Company.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

The Audit Committee is responsible for reviewing, approving or ratifying all material transactions between us and any related person. Related persons can include any of our directors or executive officers, certain of our shareholders, and any of their immediate family members. This obligation is set forth in our Audit and Finance Committee Charter. Although we do not have a formal written policy with respect to our Audit Committee's policies and procedures for reviewing related party transactions, in evaluating such transactions, the Audit Committee members apply the same standards of good faith and fiduciary duty they apply to their general responsibilities as a committee of the board and as individual directors. In any transaction involving a related party, our Audit Committee considers all available material facts and circumstances of the transaction, including: (i) the direct and indirect interests of the related party; (ii) if the related party is a director (or immediate family member of a director or an entity with which a director is affiliated), the impact such transaction would have on the director's independence; (iii) the risks, costs and benefits to us; and (iv) whether any alternative transactions for comparable purposes are available. Our Audit Committee then makes a determination as to whether the proposed terms of the transaction are in the best interests of the Company and otherwise consistent with arm's length dealings with unrelated third-parties.

The following related party transactions were incurred in the fiscal year ended September 30, 2012:

On June 28, 2011, the Company entered into a one-year loan agreement ("USD Loan Agreement") with Mr. Xiaojun Zhu, pursuant to which the Company borrowed \$1,810,000 from Mr. Xiaojun Zhu to make a capital injection into Shaanxi HGS, the Company's subsidiary. The interest rate for the loan is 4% per annum. The Company recorded an interest expense of \$72,400 for the year ended September 30, 2012 (2011 - \$18,100). On July 19, 2012, the Company entered into an amendment to the USD Loan Agreement to extend the term for an additional one year or until June 28, 2013.

Director Independence

The Board of Directors has determined that Christy Young Shue, John Chen, and Yuankai Wen are independent directors within the meaning set forth in the NASDAQ listing rules, as currently in effect.

Item 14. Principal Accountant Fees and Services

Friedman LLP served as the Company's independent registered public accounting firm for fiscal year 2012 and 2011. Fees (including reimbursements for out-of-pocket expenses) paid to Friedman LLP for services in fiscal 2012 and 2011 were as follows:

| | 2012 | 2011 |
|--------------------|------------|------------|
| Audit Fees | \$ 190,000 | \$ 190,000 |
| Audit-Related Fees | | |
| Tax Fees | - | - |
| All Other Fees | | |
| Total | \$ 190,000 | \$ 190,000 |

"Audit Fees" consisted of fees for the audit of our annual financial statements, review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the independent registered public accountants in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements, statutory audits required by non-U.S. jurisdiction, the preparation of an annual "management letter" on internal control matters and assurance services provided in connection with the assessment and testing of internal controls with respect to Section 404 of the Sarbanes-Oxley Act of 2002.

"Audit-Related Fees" consisted of assurance and related services by Friedman LLP that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under "Audit Fees."

"Tax Fees" consisted of professional services rendered by Friedman LLP for tax compliance and tax planning. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

The above amounts relate to services provided in the indicated fiscal years, irrespective of when they were billed. The Audit Committee considered the compatibility of non-audit services by Friedman LLP with the maintenance of that firm's independence and determined, in each case, that at all times, Friedman LLP remained independent.

The Audit Committee Charter establishes a policy governing our use of Friedman LLP for audit and non-audit services. Under the Charter, the Audit Committee is required to pre-approve all audit and non-audit services performed by the Company's independent registered public accountants in order to ensure that the provision of such services does not impair the public accountants' independence. The Audit Committee pre-approves certain audit and

audit-related services, subject to certain fee levels. Any proposed services that are not a type of service that has been pre-approved or that exceed pre-approval cost levels require specific approval by the Audit Committee in advance. The Audit Committee has approved all audit and audit-related services to be performed by Friedman LLP in 2012.

Part IV

ITEM 15 Exhibits and Financial Statement Schedules

Exhibit

| No. | Title of Document |
|--------|--|
| 3.1 | Articles of Incorporation (1) |
| 3.2 | Articles of incorporation of the registrant as amended with the Secretary of State of Florida on October 8, 2009(2) |
| 3.3 | Bylaws (1) |
| 10.1 | Share Exchange Agreement by and between the Company, China HGS Investment, Inc., and Rising Pilot, Inc. dated August 21, 2009 (3) |
| 10.2* | Entrusted Management Agreement, dated as of September 18, 2009, by and among the Company, Mr. Xiaojun Zhu and his management staff (English translation) (4) |
| 10.3* | Independent Director Agreement between China HGS Real Estate Inc. and H. David Sherman (2) |
| 10.4* | Independent Director Agreement between China HGS Real Estate Inc. and Gordon Silver (2) |
| 10.5* | Independent Director Agreement between China HGS Real Estate Inc. and Yuankai Wen (2) |
| 10.6* | Form of Indemnification Agreement (2) |
| 10.7* | Form of Nonstatutory Stock Option Agreement (5) |
| 10.8 | Residential Apartment Bulk Purchasing Agreement dated May 28, 2011 between Hanzhong Municipal Public Security Bureau and Shaanxi Guangsha Investment and Development Group Co., Ltd. (English translation) (6) |
| 10.9 | Residential Apartment Bulk Purchasing Agreement dated June 8, 2011 between Hanzhong Municipal Bureau of Justice and Shaanxi Guangsha Investment and Development Group Co., Ltd. (English translation) (7) |
| 10.10* | RMB Shareholder Loan Agreement by and between Shaanxi Guangsha Investment and Development Group Co., Ltd. and Mr. Xiaojin Zhu, dated June 16, 2011, as extended on July 16, 2011 (English translation) (8) |
| 10.11* | USD Shareholder Loan Agreement by and between the Company and Mr. Xiaojun Zhu dated July 28, 2011(English translation) (8) |
| 10.12* | Land Use Rights Transfer Agreement between Shaanxi Guangsha Investment and Development Group Co., Ltd. and Hanzhong Guangxia Real Estate Development Limited dated March 16, 2011 (English translation) (9) |
| 10.13* | Loan Agreement by and between Shaanxi Guangsha Investment and Development Group Co. and Mr. Xiaojun Zhu dated November 14, 2011 (English translation) (9) |
| 10.14* | Loan Amendment Agreement by and between China HGS Real Estate Inc. and Mr. Xiaojun Zhu dated July 19, 2012 (12) |
| 10.15* | Independent Director Agreement by and between China HGS Real Estate Inc. and John Chen, dated August 22, 2012. (13) |
| 10.16* | Independent Director Agreement by and between China HGS Real Estate Inc. and Christy Young Shue, dated August 22, 2012. (14) |
| 10.17* | Labor Contract by and between Shaanxi Guangsha Investment and Development Group Co., Ltd. and Wei (Samuel) Shen, dated May 28, 2012. (15) |
| 14 | Code of Conduct (10) |
| 21 | List of subsidiaries of the Registrant (11) |

- 31.1** Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2** Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1** Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
- 101.** XBRL Instance Document

* Represents management contract or compensatory plan or arrangement.

** Filed herewith

- (1) Incorporated herein by reference to the SB-2 Registration Statement filed on August 31, 2001.
- (2) Incorporated by reference to Exhibit 3.2 to registrant's quarterly report on Form 10-Q filed on August 16, 2010.
- (3) Incorporated herein by reference to the current report on Form 8-K filed on August 21, 2009.
- (4) Incorporated herein by reference to the current report on Form 8-K filed on September 18, 2009.
- (5) Incorporated herein by reference to Exhibit 10.1 to the current report on Form 8-K filed on March 17, 2011.
- (6) Incorporated herein by reference to Exhibit 10.1 to the current report on Form 8-K filed on June 3, 2011.
- (7) Incorporated herein by reference to Exhibit 10.1 to the current report on Form 8-K filed on June 14, 2011.
- (8) Incorporated by reference to registrant's quarterly report on Form 10-Q filed on August 15, 2011.
- (9) Incorporated herein by reference to the current report on Form 8-K filed on December 23, 2011.
- (10) Incorporated herein by reference to the current report on Form 8-K filed on January 22, 2010.
- (11) Incorporated by reference to Exhibit 21 to registrant's annual report on Form 10-K filed on December 29, 2010.
- (12) Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed on July 24, 2012.
- (13) Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed on August 22, 2012.
- (14) Incorporated by reference to Exhibit 10.2 to the current report on Form 8-K filed on August 22, 2012.
- (15) Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed on May 29, 2012.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China HGS Real Estate Inc.

Date: December 24, 2012 By: /s/ Xiaojun Zhu
Xiaojun Zhu
President, Chief Executive Officer,

and Chairman of the Board

of Directors

Date: December 24, 2012 By: /s/ Samuel Shen
Samuel Shen
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Xiaojun Zhu, his and her true and lawful attorneys-in-fact, each with full power of substitution, for him and her, in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--------------------------------|---|-------------------|
| /s/ Xiaojun Zhu Xiaojun Zhu | President, Chief Executive Officer, and Chairman of the Board of Directors (Principal Executive Officer) | December 24, 2012 |

| | | |
|---|---|-------------------|
| /s/Samuel Shen Samuel Shen | Chief Financial Officer (Principal Financial and Accounting Officer) | December 24, 2012 |
| /s/ Shenghui Luo Shenghui Luo | Director | December 24, 2012 |
| /s/Christy Young Shue Christy Young Shue | Director | December 24, 2012 |
| /s/John Chen John Chen | Director | December 24, 2012 |
| /s/ Yuankai Wen Yuankai Wen | Director | December 24, 2012 |