CHINA HGS REAL ESTATE INC.
Form 10-K
December 13, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 2013

¨ 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
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 x

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 x

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 x 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). x 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	x
Non-accelerated filer (Do not check if a smaller reporting company)	¨	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 x

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, 2013, the last business day of the Company's second fiscal quarter, as reported by the NASDAQ Stock Market LLC on that date, was approximately $130,407,700. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

As of December 13, 2013, 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, 2013

INDEX

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K (the "Report") and other reports (collectively the "Filings") filed by the registrant from time to time with the Securities and Exchange Commission (the "SEC") contain or may contain forward looking statements and information that are based upon beliefs of, and information currently available to, the registrant's management as well as estimates and assumptions made by the registrant's management. When used in the filings the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan" or the negative of these terms and similar expres as they relate to the registrant or the registrant's management identify forward looking statements. Such statements reflect the current view of the registrant with respect to future events and are subject to risks, uncertainties, assumptions and other factors (including the risks contained in the section of this Report entitled "Risk Factors") relating to the registrant's industry, the registrant's operations and results of operations and any businesses that may be acquired by the registrant. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Although the registrant believes that the expectations reflected in the forward looking statements are reasonable, the registrant cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, the registrant does not intend to update any of the forward-looking statements to conform these statements to actual results. The following discussion should be read in conjunction with the registrant's financial statements and the related notes thereto included in this Report.

In this Report, "we," "our," "us," "China HGS Real Estate Inc. or the "Company" sometimes refers collectively to China HGS and its subsidiaries and affiliated companies.

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 Scienc 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.

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 limited liability 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 2013, China central government continued to implement proactive fiscal policies and stabilizing monetary policies, ensuring that the Chinese economy maintained an overall balance with steady progress in structural optimization and constant delivery of quality improvement through transformation and upgrades. According to the data released by the National Bureau of Statistics, the PRC economy grew by 7.7% in the first nine months of 2013, as the economy recorded 7.7% growth in the first quarter and 7.6% growth in the second quarter.

On March 1, 2013, China's State Council announced five general curbing principles "National Five ( )"to regulate the real estate market, including new initiatives aimed at streamlining the work responsibility system for property prices, controlling speculative property investments, increasing commodity housing and land supply, stepping up construction of affordable housing, as well as tightening controls of the market. The detail measures include a 20 percent tax on profits from selling a home, a capital gains tax that is on the books but has not been widely enforced. Additionally, down payments and mortgage rates would be increased for second homes in certain cities. Cities and local governments were instructed to institute "property control targets and detailed implementation plans" by the end of March 2013. The State Council pointed out that China is in the progress of rapid urbanization and housing supply in major cities will not be able to meet demands in the short term. The State Council will maintain its control on speculative property investment and make efforts to meet the demands of home buyers.

In the first nine months of 2013, despite the implementation of restrictive measures in the property market, such as the "National Five"( ) by the central government, the number of cities with decreasing selling prices of residential properties in the first nine months of 2013 were reduced from 16 in January 2013 to 2 in September 2013, and the number of cities with increasing selling prices of residential properties rose from 53 in January 2013 to 65 in September 2013, according to the statistics released by the National Bureau of Statistics on changes in the prices of residential properties in 70 large and medium-sized cities. Overall, the Chinese property market recorded increases in terms of both price and volume during the first nine months of 2013.

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 3.84 million.

Hanzhong is a key transportation hub connecting China's Middle Economic zone and Western Economic Zone. Since the Xihan express highway was completed in September 2007, the travel time from Xi'an, the provincial capital of Shaanxi province, to Hangzhong takes only about 3 hours. The new airport in Hanzhong is going to be completed and put into service in 2014. The airport is expected to handle 300,000 passengers and 1,300 tons of cargo by 2020. Xicheng, a high-speed railway between Chengdu, the provincial capital of Sichuan province, and Xi'an with a major stop in Hanzhong is under-construction. After its completion, it will take 1 hour from Hanzhong to both Xi'an and Chengdu. The railway passenger's volume is expected to increase from 1.5 million to 6 million by 2020.

4

In accordance with Hanzhong Government's 2012 annual report[1], Hanzhong's GDP reached RMB 77.226 billion (approximately $12.6 billion) by 2012, representing a 19.3% increase from 2011. For the first nine months of 2013, Hanzhong's GDP was RMB 55.243 billion (approximately $9.0 billion)[2], representing a growth of 12.9%. Residents' annual disposable income for 2012 was RMB 19,827 (equivalent to $3,231) in 2012, increasing by 16.5% from 2011. For the first nine months of 2013, residents' disposable income was RMB 15,536 (approximately $2,532) per person, increasing by 11.9% 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 2012 annual report, the number of Hanzhong's migration workers reached 910,600 as of December 31, 2012 (2011 - 836,000), representing an increase of 8.9% from 2011. Total income of migration workers was about RMB 15.04 billion (equivalent to $2.45 billion) in 2012 (2011- RMB 8.9 billion or $1.45 billion), representing an increase of 69.0% from 2011.

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. 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.

---

[1] Hanzhong 2012, 2011, 2010, 2009 and 2008 annual government report http://www.shaanxi.gov.cn/

[2] Shaanxi Information Center Jan September 2013 and 2012 economic report http://www.sxi.cn/

5

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:

a. Registered capital of at least RMB 50 million (approximately $7.9 million);
b. At least five years of experience in real estate development and operation;
c. 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
d. 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.

6

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, 2013 consisted of 69 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. Since 2011, the Company has entered into various significant residential-apartment bulk-purchase agreements with local government and institutional purchasers. In addition, in June 2012, the Company was approved by the Hanzhong local government to construct two municipal roads with a 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 the Hanzhong Ministry of Finance. As of September 30, 2013, an extension plan for these two roads was under discussion between the local government and the Company.

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 Mingzhu Xinju. In Yang County, our project is Yangzhou Pearl Garden and Yangzhou Palace. Most projects are being developed in multiple phases.

Projects located in Hanzhong City

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 were completed by 2012. The unsold property remained in 4 residential buildings with total unsold GFA of 14,859 square meters as of September 30, 2013 (2012-33,389 square meters) .

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 4,289 square meters as of September 30, 2013 (2012 9,043 square meters). The Mingzhou Beiyuan project under development includes 17 high-rise residential buildings with an estimated GFA of 355,321 square meters. The Company started construction in the third quarter of fiscal 2012 and expects to complete the construction in 1-1.5 years.

Mingzhu Xinju

This project is located in the downtown of Hanzhong City. It consists of two residential buildings, with commercial shops located on the first floors. One building was completed as of September 30, 2010 and the other one completed as of September 30, 2011 with remaining unsold GFA of 4,287 square meters as at September 30, 2013 (2012-9,633 square meters).

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 1-1.5 years. It consists of 1 multi-layer residential building and 12 high-rise residential buildings with commercial shops on the first and second floors with an estimated GFA approximately 278,373 square meters.

Projects located in Yang County

Yangzhou Pearl Garden mainly consists of multi-layer residential buildings and sub-high-rise residential buildings with commercial shops on the first floors. Yangzhou Palace mainly consists of high-rise residential buildings and sub-high-rise residential buildings. As of September 30, 2013, 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 42,012 square meters (2012-50,445 square meters). Yangzhou Pearl Garden under development consists of five high-rise residential buildings and one multi-layer residential building, with a total GFA of 64,854 square meters as of September 30, 2013. The Company started planning and development of Yangzhou Palace in the third quarter of fiscal 2013.

Completed Projects

The following table sets forth our completed projects in the year ending September 30, 2013:

Project Name	Location	Type of Buildings	Total GFA(1) square meters completed during the year	Total Number of Units completed during the year	Number of units sold during the year	Number of units left as of September 30, 2013
Yangzhou Pearl Garden	Yang County	Multi-layer residential Sub-high-rise residential	35,749	298	413	485
Mingzhu Garden (Mingzhu Nanyuan)	Hanzhong City	Sub-high-rise residential	-	-	165	151
Mingzhu Garden (Mingzhu Beiyuan)	Hanzhong City	High-rise residential	-	-	39	38
Central Plaza	Hanzhong City	Commercial units	-	-	-	1
NanDajie (Mingzhu Xinjun)	Hanzhong City	High-rise residential	-	-	7	2
Total			35,749	298	624	677

(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, 2013:

Projects under Construction	Location	Type of Projects	Total GFA(1) (square meters)	Total Number of Units	GFA under contract sales
Mingzhu Garden (Mingzhu Beiyuan)	Hanzhong	High-rise residential	355,321	N/A	102,809
Oriental Pearl Garden	Hanzhong	High-rise and multi-layer residential	278,373	N/A	N/A
Shijin Project	Hanzhong	N/A	N/A	N/A	N/A
Yangzhou Pearl Garden	Yang County	High-rise and multi-layer residential	64,584	N/A	16,636
Yangzhou Palace	Yang County	High-rise residential	285,244	N/A	N/A
Total			983,522	N/A	119,445

(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 of 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 as of September 30, 2013.

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 $13.0 million) 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 project was still under construction as of September 30, 2013. The construction of this project is expected to be completed in 1-1.5 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 the Oriental Pearl Garden project. The Company started construction on this property during the third quarter of fiscal 2012. The project was still under construction as of September 30,2013. The construction of this project is expected to be completed in 1-1.5 years.

(b) Land - under planning

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 $19,506,551 (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, 2013, a deposit of $3,259,240 (RMB20,000,000) (2012 - $3,165,058 or RMB 20,000,000) was paid by the Company. The Company currently expects to make payment of the remaining development cost based on the government's current work progress.

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 $7,414,771 (RMB45, 500,000). As of September 30, 2013, the Company has made full payments of $7,414,771 and received the land use right certificate, so the related security deposit balance was reclassified to real estate properties under development Shijin Project.

On November 18, 2011, the Company won two bids for land use rights by auction to obtain two parcels of land in Yang County for total consideration and a bidding commission of $12,972,199 (RMB 79,702,600). As of September 30, 2013, the Company had made full payment and received the land use right certificate, so the related security deposit balance was reclassified to real estate properties under development Yangzhou Palace project.

All land transactions are required to be reported to and authorized by the 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. For the year ended September 30, 2013, five over 10% suppliers accounted aggregately for more than 75% of the total project expenditures. One supplier accounted for 29% of project expenditures for the year ended September 30, 2012.

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 18 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, 2013, 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, 2013, 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	17
Accounting Staff	6
Sales and marketing staff	69
Administrative	24
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 polices 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 7.7% year on year in the third quarter ended September 30, 2013 from 8.1% in the first quarter of 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 7.7% 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 2012 and the recovery of real market is shown in the first nine months of 2013. 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.

This Annual Report includes our Independent Registered Public Accounting Firm's first audit report on internal control over financial reporting. We received a qualified opinion on our internal control over financial reporting from such accounting firm for the fiscal year ended September 30, 2013. The Company's remediation plan is listed in Item 9A. However, we cannot assure you that our current remediation plan can resolve all the significant deficiencies and material weakness in the internal control over financial reporting. 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.

21

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.

22

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 tax 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 2013 and 2012, the Hanzhong City tax 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, 2013 were significantly different 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

Not 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 2013	High Bid	Low Bid
1st Quarter Ended December 31, 2012	$ 4.90	$ 0.24
2nd Quarter Ended March 31,2013	$ 10.94	$ 2.78
3rd Quarter Ended June 30, 2013	$ 12.94	$ 6.30
4th Quarter Ended September 30, 2013	$ 10.18	$ 5.01

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

Holders

According to the records of our transfer agent, China HGS had 287 stockholders of record as of September 30, 2013.

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, 2013 and 2012 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 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. On March 1, 2013, China’s State Council announced five general curbing principles to regulate the real estate market, including new initiatives aimed at streamlining the work responsibility system for property prices, controlling speculative property investments, increasing commodity housing and land supply, stepping up construction of affordable housing, as well as tightening controls of the market. The detailed measures include a 20 percent tax on profits from selling a home, a capital gains tax that is on the books but has not been widely enforced. Additionally, down payments and mortgage rates would be increased for second homes in certain cities. Cities and local governments were instructed to institute "property control targets and detailed implementation plans" by the end of March 2013. The State Council pointed out that China is in the progress of rapid urbanization and housing supply in major cities will not be able to meet demands in the short term. The State Council will maintain its control on speculative property investment and make efforts to meet the demands of home buyers.

The introduction of the cooling measures such as the "National Five" regulations has by far caused a temporary halt in land and property price appreciation. With uncertainties in the PRC government's credit tightening policies, the market for real estate sales in 2013 remained challenging. While the government's broad policy direction is likely to remain unchanged and the restrictive real estate policies have created a "wait-and-see" mentality among real estate buyers, the cumulative downward price adjustment has triggered the partial release of demand, creating a rise in transaction volumes in the 2013. Developers generally have been reducing inventory by adopting more aggressive sales tactics.

For fiscal 2013, our sales volume significantly increased compared to last year. Our total revenue, gross profit and net income for fiscal 2013 were $67,809,073, $26,280,341 and $20,791,565, respectively, representing an approximately 260%, 225% and 302% increase from last year, respectively

In the course of preparing the Company's consolidated financial statements for the year ended September 30, 2013, the Company reviewed its revenue recognition policy with regard to its large high rise residential projects. Upon further research of ASC 360-20-40D "Sale of Condominium Units", the Company concluded to adopt the percentage of completion method to account for real estate sales from these large high rise residential projects with construction periods over 18 -24 months.

We completed and started delivery of 3 new residential buildings with total GFA of 35,749 square meters, compared to 4 new residential buildings with GFA of 64,141 square meters completed in fiscal 2012. Since the end of fiscal 2012, the Company has been focusing on developing large high rise residential projects, including Mingzhu Garden Mingzhu Beiyuan project, Oriental Garden project and certain high rise buildings in Yangzhou Pearl Garden project. The individual residential building in these projects are generally over 20 stories. The construction period for these real estate projects are over 18-24 months. As of September 30, 2013, all these large high rise residential projects are still under construction. In the past, the Company's real estate projects were multi-layer apartment buildings and sub-high-rise apartment buildings, which are generally less than 11 stories and the related construction took around 12 months. If the Company continues to applying full accrual method to account for sales from these large high rise real estate projects, the Company's revenue will show significant fluctuation in the next 2-3 years.

Total revenue recognized under the percentage of completion method for fiscal 2013 was $27,535,834 (2012- $Nil), representing 41% of total revenue for fiscal 2013, the related cost of these real estate sales for fiscal 2013 of $17,803,039 (2012-$Nil), representing 48% of total cost of real estate cost in fiscal 2013, the gross margin from the percentage of completion method was $9,732,795(2012-$Nil), representing 35% of total gross profit for fiscal 2013. The adoption of percentage of completion does not have any impact on the Company's historical annual consolidated financial statements, because the Company just started development of these large high rise residential projects at the end of fiscal 2012 and did not report any revenue from these projects.

The housing prices in Tier 3 and Tier 4 cities and counties are stable from last year. 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 fiscal 2013, our average selling price ("ASP") for real estate completed projects (excluding sales of parking spaces) located in Yang County was approximately $441 per square meter, a slight increase from the ASP of $417 per square meter for the year ended September 30, 2012. The ASP of our Hanzhong real estate projects (excluding sales of parking spaces) was approximately $703 per square meter, a slight decrease from the ASP of $754 per square meter for the year ended September 30, 2012 because more residential units were sold in fiscal 2013. The ASP for the completed real estate projects in Hanzhong and Yang County did not have significant fluctuations in fiscal 2013 and 2012.

Market Outlook

Looking ahead to the short to medium term, the overall property market is likely to be more active, but the rebound in property transaction volumes and prices would tend to be more moderate and rational, as the regulators continue to closely monitor the real estate market and make it more controllable. On the other hand, in addition to the cut in sales price during the difficult time in 2012, further squeezing in sector profitability may be expected. The real estate market is likely to undergo further product refinement and diversification, both geographically and in terms of product type.

The Government's tightening policies should continue in 2014, 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. Our customers 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. In this perspective, the Company is positive about the outlook for the local real estate market, as end-user demand stemming from rising disposable income and ongoing urbanization stays robust.

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 the following large high rise residential projects in Hanzhong city and Yang County:

Oriental Pearl Garden

The project is located in downtown of Hanzhong City. It consists of 1 multi-layer residential building and 12 high-rise residential buildings with commercial shops on the first and second floors with an estimated GFA of 278,373 square meters. The Company started construction in the third quarter of fiscal 2012 and expects to complete the whole construction in 1-1.5 years. The pre-sale license was obtained in November 2013.

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 355,321 square meters. The Company started construction in the third quarter of fiscal 2012 and expect to complete the whole construction in 1-1.5 years. The pre-sale license was obtained in April 2013.

Yangzhou Pearl Garden

The Company is currently constructing 5 high-rise residential buildings and 1 multi-layer residential building with total GFA of 64,854 square meters in Yangzhou Pearl Garden located in Yang County. The related pre-sales licenses were obtained in February 2013. The construction is expected to be completed in 1-1.5 years.

Yangzhou Palace

The Company is currently constructing 9 high-rise residential buildings and 16 sub-high-rise residential and multi-layer residential buildings with total GFA of 285,244 square meters in Yangzhou Palace located in Yang County. The construction started in the fourth quarter of fiscal 2013. The related pre-sales license is expected to be obtained in later half of fiscal 2014. The construction is expected to be completed in 2-3 years.

Road Construction

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 budget for these two municipal roads was approximately $3 million and was approved by Hanzhong Ministry of Finance. The related construction was substantially completed as of September 30, 2013. A further extension on these road construction projects was under discussion between the Company and the Hanzhong local government, and therefore, these two roads have not been delivered to the local government as of September 30, 2013. For these construction projects, the Company recognizes the fee as other revenue using the 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.

Summary of real estate projects completion status

	Actual (estimated) Completion time of construction	Estimated time to sell of the property
Development completed		
Hanzhong City Mingzhu Garden (Mingzhu Nanyuan & Mingzhu Beiyuan)	Majority was completed during the third quarter of fiscal 2012	2014-2015
Hanzhong City Nan Dajie (Mingzhu Xinju)	Phase one completed in 2010 and Phase two completed in 2011	2014
Yang County Yangzhou Pearl Garden	Majority completed in 2011 and 2012	2014-2015
Hanzhong City Central Plaza	Completed prior to 2010	2014

Under development:	Estimated Completion time of construction
Hanzhong City Oriental Pearl Garden	To be completed in 1-1.5 years
Hanzhong City Mingzhu Garden (Mingzhu Nanyuan & Mingzhu Beiyuan)	To be completed in 1-1.5 years
Yang County Yangzhou Pearl Garden	To be completed in 1-1.5 years
Yang County Yangzhou Palace	To be completed in 2-3 year
Shijin Project	Under planning stage
Hanzhong City Mingzhu Road West	To be completed and delivered during fiscal 2014
Hanzhong City Liuhou Road	To be completed and delivered during fiscal 2014

RESULTS OF OPERATIONS

Revenues

The following is a breakdown of revenue for the years ended September 30, 2013 and 2012:

	For the year ended September 30,			
	2013		2012	
Revenue recognized under full accrual method	$	40,273,239	$	18,856,978
Revenue recognized under percentage of completion method	$	27,535,834	$	-
Total	$	67,809,073	$	18,856,978

Adoption of percentage of completion revenue recognition method

Since the end of fiscal 2012, the Company has been focusing on developing large high rise residential projects, including Mingzhu Garden Mingzhu Beiyuan project, Oriental Garden project and certain high rise buildings in Yangzhou Pearl Garden project. The individual residential buildings in these projects are generally over 20 stories. The construction period for these real estate projects are over 18-24 months. As of September 30, 2013, all these large high rise residential projects were still under construction. In the past, the Company's real estate projects were multi-layer apartment buildings and sub-high-rise apartment buildings, which are generally less than 11 stories and the related construction takes around 12 months. If the Company continues to applying full accrual method to account for sales from these large high rise real estate projects, the Company's revenue will show significant fluctuation in the next 2-3 years.

In the course of preparing the Company's consolidated financial statements for the year ended September 30, 2013, the Company reviewed its revenue recognition policy with regard to these large high rise residential projects. Upon further research of ASC 360-20-40D "Sale of Condominium Units", the Company concluded to adopt the percentage of completion method to account for real estate sales from these large high rise residential projects with construction periods over 18 -24 months.

The adoption of percentage of completion method does not have any impact on the Company's historical annual consolidated financial statements, because the Company just started development of these large high rise residential projects at the end of fiscal 2012 and did not report any revenue from these projects in the past.

Percentage of Completion method

Real estate sales for our long term real estate projects are recognized under percentage completion method in accordance with the provisions of ASC 360-20-40D "Sale of Condominium Units". Revenue and profit from the sales of long term development properties is recognized by the percentage of completion method on the sale of individual units when all the following criteria are met:

a. Construction is beyond a preliminary stage.
b. The buyer is committed to the extent of being unable to require a refund except for non-delivery of the unit or interest.
c. Sufficient units have already been sold to assure that the entire property will not revert to rental property.
d. Sales prices are collectible.
e. Aggregate sales proceeds and costs can be reasonably estimated.

If any of the above criteria is not met, proceeds shall be accounted for as deposits until the criteria are met.

Under the percentage of completion method, revenues from condominium units sold and related costs are recognized over the course of the construction period, based on the completion progress of a project. In relation to any project, revenue is determined by calculating the ratio of incurred costs, including land use rights costs and construction costs, to total estimated costs and applying that ratio to the contracted sales amounts. Cost of sales is recognized by determining the ratio of contracted sales during the period to total estimated sales value, and applying that ratio to the incurred costs. Current period amounts are calculated based on the difference between the life-to-date project totals and the previously recognized amounts.

Revenue recognized to date in excess of amounts received from customers is classified as current assets under cost and earnings in excess of billings, whose balance is $2,178,270 as of September 30, 2013 (2012- $Nil). Amounts received from customers in excess of revenue recognized to date are classified as current liabilities under billings in excess of cost and earnings, whose balance is $5,109,758 as of September 30, 2013 (2012-$Nil).

Any changes in significant judgments and/or estimates used in determining construction and development revenue could significantly change the timing or amount of construction and development revenue recognized. Changes in total estimated project costs or losses, if any, are recognized in the period in which they are determined.

Full accrual method

Revenue from the sales of short term development properties, where the construction period is expected to be 18 months or less 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.

Revenue recognized under full accrual method

The following table summarizes revenue recognized under full accrual method from sales of completed real estate projects for the years ended September 30, 2013 and 2012, respectively:

	For the Years Ended September 30,					
	2013		2012			Variance
	Revenue	%	Revenue	%	Variance	%
Projects						
Yangzhou Pearl Garden	$ 19,896,650	49.4 %	$ 15,067,820	79.9 %	$ 4,828,830	32.0 %
Mingzhu Xinju	5,832,713	14.5 %	704,150	3.7 %	5,128,563	728.3 %
Mingzhu Garden (Nanyuan and Beiyuan)	14,543,876	36.1 %	3,063,875	16.3 %	11,480,001	374.7 %
Central Plaza	-	-	21,133	0.1 %	(21,133)	(100) %
Total Revenue	$ 40,273,239	100 %	18,856,978	$ 100 %	$ 21,416,261	113.6 %
Sales Tax	(2,483,235)		(1,180,437)		(1,302,798)	110.4 %
Revenue net of sales tax	$ 37,790,004		$ 17,676,541		20,113,463	113.8 %

The revenues are derived from the sale of the completed residential buildings, commercial front-stores and parking spaces in projects. Revenues before sales tax increased by 113.6% to approximately $40.3 million for the year ended September 30, 2013 from approximately $18.9 million in the last year. The total GFA sold and delivered during fiscal 2013 was 72,811 square meters, representing an increase of 80.2% from 40,397 square meters completed and sold for fiscal 2012. The ASP for fiscal 2013 approximately amounted to $553 per square meter, increasing by 18.4% from the ASP of $467 per square meter in fiscal 2012 due to more commercial units being sold in fiscal 2013.

A significant portion of revenue for fiscal 2013 was from the sales of commercial units in NanDajie Project (Mingzhu Xinju) project. On October 23, 2012, the Company entered into a sales agreement to sell the remaining commercial units in Nan Dajie (Mingzhu Xinju) project with a total GFA of 4,545.88 square meters located in Hanzhong City for a total contract amount of $5,441,450 (RMB33,911,426). The purchaser is related to one of the Company's concrete suppliers for our Hanzhong City Oriental Pearl Garden project and Mingzhu Beiyuan project. The purchaser's payments are guaranteed by third parties. The ownership certificate of the related property was issued to the purchaser on November 22, 2012.

Sales taxes for the years ended September 30, 2013 and 2012 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, 2013 and 2012 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 2013 increased by 110.4% from last year, primarily as a result of the increase in our revenue.

Revenue recognized under percentage completion method

	For the year ended September 30, 2013					
	Total GFA	Average Percentage of Completion[1]		Qualified Contract Sales[2]	Revenue Recognized under Percentage of Completion	Accumulated Revenue recognized under Percentage of completion
Real estate properties under development located in Hanzhong						
Mingzhu Garden Mingzhu Beiyuan	355,321	59	%	$ 40,650,179	$ 23,671,745	$ 23,617,745
Real estate properties under development located in Yang County						
Yangzhou Pearl Garden	64,854	57	%	$ 6,784,363	$ 3,864,089	3,864,089
Total	420,175			47,434,542	27,535,834	27,535,834

(1) Percentage of Completion is calculated by dividing total costs incurred by total estimated costs for the relevant buildings in the each real estate building , estimated as of the time of preparation of our financial statements as of and for the year indicated.

(2) Qualified contract sales only include all contract sales with customer deposits balance as of September 30, 2013 equal or greater than 30% of contract sales amount and related individual of buildings were sold over 20%.

For Mingzhu Garden Mingzhu Beiyua real estate property under development, the total contract sales as of September 30, 2013 was $57,487,864. Total GFA sold under the contract sales was 103,309 square meters. The average unit price was $ 557 per square meters. For the purpose of percentage of completion calculation, the qualified contract sales amount was $40,650,179 for the year ended September 30, 2013 (2012- $Nil).

For Yangzhou Pearl Garden real estate property under development, the total contract sales as of September 30, 2013 was $7,059,729. Total GFA sold under the contract sales was 16,636 square meters. The average unit price was $424 per square meters. For the purpose of percentage of completion calculation, the qualified contract sales amount was $6,784,363 for the year ended September 30, 2013 (2012- $Nil).

Cost of sales

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

	For the Years Ended September 30,		
	2013	2012	
			Variance

	Cost	Percentage	Cost	Percentage	Variance	%
Land use rights	$ 4,780,229	12.8 %	$ 896,532	9.35 %	$ 3,883,697	433.1 %
Construction costs	$ 32,503,859	87.2 %	$ 8,693,477	90.65 %	$ 23,810,382	273.9 %
Total	$ 37,284,088	100 %	$ 9,590,009	100 %	$ 27,694,079	288.8 %

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 $37.3 million for the year ended September 30, 2013 compared to $9.6 million for the year ended September 30, 2012. The $27.7 million increase in cost of sales was mainly attributable to the increase in total GFA sold during fiscal 2013 and approximately $17.8 million cost of sales recognized under percentage of completion method in fiscal 2013.

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, 2013 were around $4.8 million, as compared to $0.9 million for the year ended September 30, 2012, representing an increase of $3.9 million from last year. The increase in costs of land use rights was consistent with the fact that the total GFA sold during for the year ended September 30, 2013 was significantly higher than fiscal 2012 and an additional approximately $2.7 million cost for land use rights was recognized under percentage of completion method in fiscal 2013.

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, 2013 were approximately $32.5 million as compared to approximately $8.7 million for the year ended September 30, 2012, representing an increase of $23.8 million. The increase in construction cost was due to the increase in units sold reflected in the increased revenue recognized and an additional approximately $15.1 million construction cost was recognized under percentage of completion method in fiscal 2013.

The total cost of sales as a percentage of real estate sales before sales tax for the year ended September 30, 2013 increased to 55.0% from 50.9% for the year ended September 30, 2012, because a higher portion of revenue in fiscal 2012 was from commercial property and parking spaces with higher selling price. Most of properties sold during the year ended September 30, 2013 were residential units with lower selling prices.

Gross profits

Gross profit was approximately $26.3 million for the year ended September 30, 2013 as compared to approximately $8.1 million for the year ended September 30, 2012, representing an increase of $18.2 million, which was mainly attributable to the increase in revenue from GFA sold and additional revenue recognized under percentage of completion method for our long term construction projects. The overall gross profit as a percentage of real estate sales before sales tax decreased to 39% for the year ended September 30, 2013 from 43% for the year ended September 30, 2012, mainly due to lower sales of higher margin commercial units in Hanzhong City and Yang County during fiscal 2013. For fiscal 2013, our average selling price ("ASP") for real estate completed projects (excluding sales of parking spaces) located in Yang County was approximately $441 per square meter, slightly increase from the ASP of $423 per square meter for the year end September 30, 2012. The ASP of our Hanzhong real estate projects (excluding sales of parking spaces) was approximately $703 per square meter, a slightly decrease from the ASP of $754 per square meter for the year ended September 30, 2012 because more residential units were sold in fiscal 2013. The ASP for the completed real estate projects in Hanzhong and Yang County did not have significant fluctuation in fiscal 2013 and 2012.

	For the Year Ended September 30						
	2013		2012				
Project	Gross Profit	Gross Margin	Gross Profit	Gross Margin	Variance	Variance %
Yangzhou Pearl Garden	$ 9,790,343	41 %	$ 6,971,605	46 %	$ 2,818,738	40.4 %
Mingzhu Xinju	3,743,522	64 %	164,714	23 %	3,578,808	2172.7 %
Mingzhu Garden (Mingzhu Nanyuan and Beiyuan)	16,991,119	44 %	2,117,018	69 %	14,874,101	702.5 %
Central Plaza	-	-	13,632	65 %	(13,632)	(100) %
Sales Tax	(4,244,644)		(1,180,437)			
Total Gross Profit	$ 26,280,341	39 %	$ 8,086,532	43 %		
Total Revenue	$ 67,809,073		$ 18,856,978			

Operating expenses

Total operating expenses increased by 56% or $1,436,238 to $4,002,651 for the year ended September 30, 2013 from $2,566,413 for the year ended September 30, 2012, as a result of an increase in general and administration expenses of $1,038,046 and an increase in selling and distribution expenses of $398,192.

The increase in selling expenses for fiscal 2013 was primarily attributed to more promotions, sales and marketing activities. The increasing revenue also resulted in higher sales commission expense. The higher general administration expense for fiscal 2013 was attributed to an additional $0.7 million consulting fee incurred for our real estate due diligence analysis and higher executive compensation, bonus, taxes and office expense.

However, as a percentage of total sales, the operating expenses decreased to 6% for fiscal 2013, from 14% for fiscal 2012, reflecting improved operating efficiency as real estate sales grow.

	As of September 30,	
	2013	2012
General and administrative expenses	$ 3,087,434	$ 2,049,388
Selling expenses	915,217	517,025
Total Operating expenses	$ 4,002,651	$ 2,566,413
Percentage of Revenue	6 %	14 %

Interest Income (expense)

Net interest expense was $98,305 for the year ended September 30, 2013, compared to net interest expense of $73,628 for the year ended September 30, 2012. Interest expense for fiscal 2013 and 2012 of $72,400 from the one-year shareholder loan of $1,810,000 with our Chairman and CEO Mr. Xiaojun Zhu. The interest rate for the loan is 4% per annum. The balance in fiscal 2013 was from our bank charges.

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, 2013 and 2012.

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 2013 and 2012, 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 the statutory rate of 25%. As a result, income tax expenses for the year ended September 30, 2013 were $1,398,218. Income taxes increased in fiscal 2013 by 394% as compared to $283,077 for the year ended September 30, 2012 as a result of our significantly higher revenue in fiscal 2013.

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 $20,791,565 in net income for the year ended September 30, 2013, representing a 302% or $15,615,472 increase as compared to $5,176,093 for the year ended September 30, 2012.

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 amounted to $2,634,743 and $862,601 as of September 30, 2013 and 2012, respectively. The balance sheet amounts with the exception of equity at September 30, 2013 were translated at 6.1364 RMB to 1.00 USD as compared to 6.3190RMB to 1.00 USD at September 30, 2012. 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, 2013 and 2012 were 6.2320 RMB to 1.00 USD and 6.3198 RMB to 1.00 USD, respectively.

39

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. In the past, we mainly financed our operations primarily through cash flows from operations and borrowings from our principal shareholder. During the fourth quarter of fiscal 2013, the Company entered into a project finance loan agreement (the "Loan Agreement") with China Construction Bank, Hanzhong Branch (the “Bank") for a working capital loan (the “Loan”). The Loan has a three-year term in the principal amount of $24,444,300 (RMB150,000,000) at an interest rate, which is 5% over the benchmark interest rate, adjustable every twelve months from the date of the loan. The purpose of the loan is for the development of the Company’s Mingzhu Beiyuan project. As of September 30, 2013, the Company received loan proceeds of $16,296,200 (RMB 100,000,000) from the bank. The remaining balance of the loan was received on October 21, 2013.

As of September 30, 2013, the Company had an approximate deficit of $29 million in working capital, a decrease of $36.8 million as compared to $7.7 million as of September 30, 2012. It was mainly due to the fact that most of our real estate projects under construction are high-rise buildings, which generally take over 1- 1.5 years for the construction, so they are included in non-current assets. Our account payable balance significantly increased based on the construction progress.

Our total cash and restricted cash balance increased to approximately $7.2 million as of September 30, 2013, an increase of $5.0 million as compared to approximately $2.2 million as of September 30, 2012. 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 improving during fiscal 2014.

With respect to capital funding requirements, the Company budgeted our capital spending based on ongoing assessments of needs to maintain adequate cash. Due to the long term relationship with our construction suppliers, we were able to effectively manage cash spending on construction. Also our major shareholder Xiaojun Zhu, has agreed to provide his personal funds, if necessary, to support our financial needs through September 30, 2014. In addition, the Company’s cash flows from pre-sales and sales should provide financial support for our current developments and operations.

In order to fully implement our business plan and sustain continued growth, we may also need to raise capital from outside investors. Our expectation, therefore, is that we will seek to access the capital markets in both the U.S. and China to obtain the funds as needed. 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, 2013 and fiscal year ended September 30, 2012, are summarized as follows:

	As of September 30,				
	2013		2012		Variance
Net cash used in operating activities	$	(12,018,488)	$	(7,838,690)	(4,179,798)
Net cash used in investing activities	$	-	$	-	-
Net cash provided by financing activities	$	16,046,213	$	-	16,046,213
Effect of changes of foreign exchange rate on cash	$	745,690	$	105,581	640,109
Net increase (decrease) in cash	$	4,773,415	$	(7,733,109)	12,506,524

Cash, beginning of year	$	1,104,686	$	8,837,795	(7,733,109)
Cash, end of year	$	5,878,101	$	1,104,686	4,773,415

Operating activities

Net cash used in operating activities for the year ended September 30, 2013 was $12.0 million, consisting of net income of $20.0 million, noncash adjustments of $0.1 million and net changes in our operating assets and liabilities, including a decrease in advances to venders of $2.5 million as advances were utilized in the real estate under construction, an increase in real estate property under development of $56.8 million resulting from more progress on our real estate projects, an increase of billings in excess of cost and earnings of $2.1 million offset with the increase of cost and earnings in excess of billings of $5.0 million resulted from using percentage of completion method of revenue recognition, the decrease in real estate property completed of $7.7 million due to increased sales , an increase of income tax payable of $2.1 million and an increase in accounts payable of $18.3 million resulted from more construction progress as well as a decrease of customer deposits of $10.5 million due to more real estate units being sold in fiscal 2013. The negative cash used in operating activities is mainly attributable to the significant spending on our new real estate property under development in Oriental Pearl Garden and Mingzhu Beiyuan projects located in Hanzhong city and Yangzhou Pearl Garden project located in Yang County.

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 venders and loans to outside parties of $6.0 million which were paid to offset these venders' 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.

Financing activities

Net cash flows provided by financing activities amounted to $16,046,213 for the year ended September 30, 2013. During the fourth quarter of fiscal 2013, the Company entered into a project finance loan agreement (the "Loan Agreement") with China Construction Bank, Hanzhong Branch (the "Bank") for a working capital loan (the "Loan"). The Loan has a three-year term in the principal amount of $24,444,300 (RMB150,000,000) at an interest rate, which is 5% over the benchmark interest rate, adjustable every twelve months from the date of the loan. The purpose of the loan is for the development of the Company's Mingzhu Beiyuan project. As of September 30, 2013, the Company received loan proceeds of $16,296,200 (RMB 100,000,000) from the bank. The remaining balance of the loan was received on October 21, 2013.

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.

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.

41

Critical Accounting Policies and Management Estimates

Revenue recognition

Adoption of percentage of completion revenue recognition method

Since the end of fiscal 2012, the Company has been focusing on developing large high rise residential projects, including Mingzhu Garden Mingzhu Beiyuan project, Oriental Garden project and certain high rise buildings in Yangzhou Pearl Garden project. The individual residential building in these projects are generally over 20 stories. The construction period for these real estate projects are over 18-24 months. As of September 30, 2013, all these large high rise residential projects are still under construction. In the past, the Company's real estate projects were multi-layer apartment buildings and sub-high-rise apartment buildings, which are generally less than 11 stories and the related construction takes around 12 months. If the Company continues to applying full accrual method to account for sales from these large high rise real estate projects, the Company's revenue will show significant fluctuation in the next 2-3 years.

In the course of preparing the Company's consolidated financial statements for the year ended September 30, 2013, the Company reviewed its revenue recognition policy with regard to these large high rise residential projects. Upon further research of ASC 360-20-40D "Sale of Condominium Units", the Company concluded to adopt percentage of completion method to account for real estate sales from these large high rise residential projects with construction period over 18 -24 months.

The adoption of percentage of completion method does not have any impact on the Company's historical annual consolidated financial statements, because the Company just started development of these large high rise residential projects at the end of fiscal 2012 and did not report any revenue from these projects in the past.

Percentage of Completion method

Real estate sales for the long term real estate projects are recognized under percentage completion method in accordance with the provisions of ASC 360-20-40D "Sale of Condominium Units". Revenue and profit from the sales of long term development properties is recognized by the percentage of completion method on the sale of individual units when all the following criteria are met:

a. Construction is beyond a preliminary stage.
b. The buyer is committed to the extent of being unable to require a refund except for non-delivery of the unit or interest.
c. Sufficient units have already been sold to assure that the entire property will not revert to rental property.
d. Sales prices are collectible.
e. Aggregate sales proceeds and costs can be reasonably estimated.

If any of the above criteria is not met, proceeds shall be accounted for as deposits until the criteria are met.

Under the percentage of completion method, revenues from condominium units sold and related costs are recognized over the course of the construction period, based on the completion progress of a project. In relation to any project, revenue is determined by calculating the ratio of incurred costs, including land use rights costs and construction costs, to total estimated costs and applying that ratio to the contracted sales amounts. Cost of sales is recognized by determining the ratio of contracted sales during the period to total estimated sales value, and applying that ratio to the incurred costs. Current period amounts are calculated based on the difference between the life-to-date project totals and the previously recognized amounts.

Revenue recognized to date in excess of amounts received from customers is classified as current assets under cost and earnings in excess of billings, whose balance is $2,178,270 as of September 30, 2013 (2012- $Nil). Amounts received from customers in excess of revenue recognized to date are classified as current liabilities under billings in excess of cost and earnings, whose balance is $5,109,758 as of September 30, 2013 (2012-$Nil).

Any changes in significant judgments and/or estimates used in determining construction and development revenue could significantly change the timing or amount of construction and development revenue recognized. Changes in total estimated project costs or losses, if any, are recognized in the period in which they are determined.

Full accrual method

Revenue from the sales of short term development properties, where the construction period is expected to 18 months or less 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 receives 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.

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 assumptions and estimates used by management in recognizing development revenue under the percentage of completion method, 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.

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, construction and security deposits approximate their carrying amounts because the deposits are received in cash. The carrying value of the long term bank loan approximates fair value because it has a variable rate of interest.

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.

Real estate property development completed and real estate property under development are reclassified on the balance sheet into current and non-current portions based on the estimated date of construction completion and sales. The real estate property development completed classification is based on the estimated date that each property is expected to be sold within the Company's normal operating cycle of the business and the Company's sales plan. Real estate property development completed is classified as a current asset if the property is expected to be sold within the normal operating cycle of the business. Otherwise, it is classified as a non-current asset. Real estate property under development is classified as a current asset, if the property is reasonably expected to be completed within the Company's normal operating cycle of the business. Otherwise, it is classified as a non-current asset. The majority of real estate projects the Company has completed in the past were multi-layer or sub-high-rise real estate projects. The

Company considers its normal operating cycle is 12 months.

In accordance with ASC 360, “Property, Plant and Equipment” (“ASC 360”), real estate property development completed and under development are subject to valuation adjustments when the carrying amount exceeds fair value. An impairment loss is 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. The Company reviewed all of its real estate projects for future losses and impairment by comparing the estimated future undiscounted cash flows for each project to the carrying value of such project. For the years ended September 30, 2013 and 2012, the Company did not recognize any impairment for real estate property under development and completed.

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

To the Board of Directors and Stockholders
China HGS Real Estate Inc.

We have audited the accompanying balance sheets of China HGS Real Estate Inc. (the "Company') as of September 30, 2013 and 2012, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended September 30, 2013. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2013 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2013, based on criteria established in the 1992 *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 13, 2013 expressed an adverse opinion.

/s/ Friedman LLP

New York, New York
December 13, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
China HGS Real Estate Inc.

We have audited China HGS Real Estate Inc. (the "Company") internal control over financial reporting as of September 30, 2013, based on criteria established in the 1992 *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting 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; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial 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 management and directors of the company; 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 the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will be prevented or detected on a timely basis. The following material weakness and significant deficiencies have been identified and included in management's assessment as of September 30, 2013:

- Ineffective control environment significant control deficiencies were identified in various components of internal control, which, in aggregate, lead us to conclude that a material weakness exist in the control environment.

- Inadequate controls over the period-end financial reporting process, including control over procedures used to reconcile the differences between the United States and Chinese generally accepted accounting principles ("GAAP").

· Inadequate design of internal controls over the approval procedures for certain material transactions.

The material weakness or significant deficiencies were considered in determining the nature, timing and extent of audit tests applied in our audit of the Company's consolidated financial statements for the year ended September 30, 2013, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, because of the effect of the material weakness describe above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of September 30, 2013, based on criteria established in the 1992 *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related statements of income, comprehensive income, stockholders' equity, and cash flows of the Company, and our report dated December 13, 2013 expressed an unqualified opinion.

/s/ Friedman LLP

New York, NY
December 13, 2013

48

CHINA HGS REAL ESTATE INC.
CONSOLIDATED BALANCE SHEETS

	September 30,			
	2013		2012	
ASSETS				
Current assets:				
Cash	$	5,878,101	$	1,104,686
Restricted cash		1,332,807		1,080,985
Advances to vendors		109,134		2,566,422
Loans to outside parties, net		-		20,957
Cost and earnings in excess of billings		2,178,270		-
Real estate property development completed		11,607,164		19,534,088
Real estate property under development		1,580,670		8,590,275
Other current assets		368,377		171,863
Total current assets		23,054,523		33,069,276
Property, plant and equipment, net		977,739		1,037,080
Real estate property development completed, net of current portion		7,619,811		6,691,813
Security deposits for land use right		3,259,240		22,894,698
Real estate property under development, net of current portion		142,916,601		56,021,787
Total Assets	$	177,827,914	$	119,714,654
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Bank loan current portion	$	4,888,860	$	-
Accounts payable		22,527,686		3,828,880
Other payables		1,863,922		1,213,394
Construction deposits		357,447		301,318
Billings in excess of cost and earnings		5,109,758		-
Customer deposits		6,130,466		11,597,422
Shareholder loan		1,810,000		1,810,000
Accrued expenses		2,896,539		2,305,086
Taxes payable		6,612,707		4,336,458
Total current liabilities		52,197,385		25,392,558
Deferred tax liabilities		650,067		-
Customer deposits, net of current portion		13,410,081		17,743,993
Long-term bank loan, less current portion		11,407,340		-
Construction deposits, net of current portion		1,013,877		864,259
Total liabilities		78,678,750		44,000,810
Commitments and Contingencies				

Stockholders' equity Common stock, $0.001 par value, 100,000,000 shares authorized, 45,050,000 shares issued and outstanding as of September 30, 2013 and 2012	$	45,050	$	45,050
Additional paid-in capital		17,759,349		17,750,337
Statutory surplus		8,977,230		6,549,354
Retained earnings		63,257,918		44,894,229
Accumulated other comprehensive income		9,109,617		6,474,874
Total stockholders' equity		99,149,164		75,713,844
Total Liabilities and Stockholders' Equity	$	177,827,914	$	119,714,654

The accompanying 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,

	2013		2012	
Real estate sales	$	67,809,073	$	18,856,978
Less: Sales tax		4,244,644		1,180,437
Cost of real estate sales		37,284,088		9,590,009
Gross profit		26,280,341		8,086,532
Operating expenses				
Selling and distribution expenses		915,217		517,025
General and administrative expenses		3,087,434		2,049,388
Total operating expenses		4,002,651		2,566,413
Operating income		22,277,690		5,520,119
Interest income (expense) - net		(98,305)		(73,608)
Other income - net		10,398		12,659
Income before income taxes		22,189,783		5,459,170
Provision for income taxes		1,398,218		283,077
Net income		20,791,565		5,176,093
Other comprehensive income				
Foreign currency translation adjustment		2,634,743		862,601
Comprehensive income	$	23,426,308	$	6,038,694
Basic and diluted income per common share				
Basic	$	0.46	$	0.11
Diluted	$	0.46	$	0.11
Weighted average common shares outstanding				
Basic		45,050,000		45,050,000
Diluted		45,124,474		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, 2013 AND 2012

	Common Stock Shares	Par value $0.001 Amount	Additional Paid-in Capital	Statutory Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
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
Stock-based Compensation			9,012				9,012
Appropriation of statutory reserve				2,427,876	(2,427,876)		-
Net income for the year	-				20,791,565		20,791,565
Foreign currency translation adjustments						2,634,743	2,634,743
Balance at September 30, 2013	45,050,000	$ 45,050	$ 17,759,349	$ 8,977,230	$ 63,257,918	$ 9,109,617	$ 99,149,164

The accompanying 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,

		2013		2012
Cash flows from operating activities				
Net income	$	20,791,565	$	5,176,093
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation		88,818		89,363
Stock based compensation		9,012		26,252
Changes in assets and liabilities:				
Restricted cash		(216,286)		(184,604)
Advances to vendors		2,494,790		3,435,815
Loans to outside parties		21,249		2,581,379
Security deposits for land use rights		20,005,071		(16,562,486)
Cost and earnings in excess of billings		(2,144,855)		-
Real estate property development completed		7,659,989		(7,110,766)
Real estate property under development		(76,766,598)		(126,162)
Other current assets		(188,464)		(85,398)
Accounts payables		18,299,774		(3,700,969)
Other payables		604,996		885,072
Customer deposits		(10,510,235)		7,089,879
Construction deposits		168,439		106,436
Billings in excess of cost and earnings		5,031,374		-
Accrued expenses		518,602		277,201
Taxes payable		2,114,271		264,205
Net cash used in operating activities	$	(12,018,488)	$	(7,838,690)
Cash flow from financing activities				
Proceeds from bank loan		16,046,213		-
Proceeds from shareholder loan		-		3,142,332
Repayment of shareholder loan		-		(3,142,332)
Net cash provided by financing activities	$	16,046,213	$	-
Effect of changes of foreign exchange rate on cash		745,690		105,581
Net increase (decrease) in cash		4,773,415		(7,733,109)
Cash, beginning of year		1,104,686		8,837,795
Cash, end of year	$	5,878,101	$	1,104,686
Supplemental disclosures of cash flow information:				
Interest paid	$	55,839	$	-
Income taxes paid	$	780,908	$	129,863

The accompanying 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”) is a corporation organized under the laws the State of Florida.

China HGS does not conduct any substantive operations of its own. Instead, through its subsidiary, Shaanxi HGS Management and Consulting Co., Ltd (“Shaanxi HGS”), in November 2007 it entered into certain exclusive contractual agreements with the management of the Company’s PRC operating subsidiary, Shaanxi Guangsha Investment and Development Group Co., Ltd (“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, 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. 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. The Company has not provided any financial support to Guangsha for the years ended September 30, 2013 and 2012.

The following assets and liabilities of the consolidated VIE are included in the accompanying consolidated financial statements of the Company as of September 30, 2013 and 2012:

	Balance as of September 30, 2013		September 30, 2012	
Current assets	$	23,034,850	$	33,048,548
Non-current assets		154,300,638		86,174,640
Total assets		177,335,488		119,223,188
Current liabilities		50,221,227		24,829,667
Non-current liabilities		26,481,365		18,608,252
Total liabilities	$	76,702,592	$	43,437,919

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.

Revenue recognition

Adoption of percentage of completion revenue recognition method

Since the end of fiscal 2012, the Company has been focusing on developing large high rise residential projects, including Mingzhu Garden Mingzhu Beiyuan project, Oriental Garden project and certain high rise buildings in Yangzhou Pearl Garden project. The individual residential building in these projects are generally over 20 stories. The construction period for these real estate projects are over 18-24 months. As of September 30, 2013, all these large high rise residential projects are still under construction. In the past, the Company's real estate projects were multi-layer apartment buildings and sub-high-rise apartment buildings, which are generally less than 11 stories and the related construction takes around 12 months. If the Company continues to applying full accrual method to account for sales from these large high rise real estate projects, the Company's revenue will show significant fluctuation in the next 2-3 years.

In the course of preparing the Company's consolidated financial statements for the year ended September 30, 2013, the Company reviewed its revenue recognition policy with regard to these large high rise residential projects. Upon further research of ASC 360-20-40D "Sale of Condominium Units", the Company concluded to adopt percentage of completion method to account for real estate sales from these large high rise residential projects with construction period over 18 -24 months.

The adoption of percentage of completion does not have any impact on the Company's consolidated financial statements for the year ended September 30, 2012, because the Company just started development of these large high rise residential projects in the end of fiscal 2012 and did not report any revenue from these projects as of September 30, 2012. However, the adoption had limited impact on the interim consolidated financial statements for the quarter ended June 30, 2013, because one of the residential buildings met the Company's revenue recognition criteria under percentage of completion method. The related impact is disclosed in Note 13.

Percentage of Completion method

Real estate sales for the long term real estate projects are recognized under percentage completion method in accordance with the provisions of ASC 360-20-40D "Sale of Condominium Units". Revenue and profit from the sales of long term development properties is recognized by the percentage of completion method on the sale of individual units when all the following criteria are met:

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Construction is beyond a preliminary stage.
b. The buyer is committed to the extent of being unable to require a refund except for non-delivery of the unit or interest.
c. Sufficient units have already been sold to assure that the entire property will not revert to rental property.
d. Sales prices are collectible.
e. Aggregate sales proceeds and costs can be reasonably estimated.

If any of the above criteria is not met, proceeds shall be accounted for as deposits until the criteria are met.

Under the percentage of completion method, revenues from condominium units sold and related costs are recognized over the course of the construction period, based on the completion progress of a project. In relation to any project, revenue is determined by calculating the ratio of incurred costs, including land use rights costs and construction costs, to total estimated costs and applying that ratio to the contracted sales amounts. Cost of sales is recognized by determining the ratio of contracted sales during the period to total estimated sales value, and applying that ratio to the incurred costs. Current period amounts are calculated based on the difference between the life-to-date project totals and the previously recognized amounts.

Revenue recognized to date in excess of amounts received from customers is classified as current assets under cost and earnings in excess of billings, whose balance is $2,178,270 as of September 30, 2013 (2012- $Nil). Amounts received from customers in excess of revenue recognized to date are classified as current liabilities under billings in excess of cost and earnings, whose balance is $5,109,758 as of September 30, 2013 (2012-$Nil).

Any changes in significant judgments and/or estimates used in determining construction and development revenue could significantly change the timing or amount of construction and development revenue recognized. Changes in total estimated project costs or losses, if any, are recognized in the period in which they are determined.

Full accrual method

Revenue from the sales of short term development properties, where the construction period is expected to 18 months or less 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 receives 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.

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 assumptions and estimates used by management in recognizing development revenue under the percentage of completion method, 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.

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.

56

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, construction and security deposits approximate their carrying amounts because the deposits are received in cash. The carrying value of the long term bank loan approximates fair value because it has a variable rate of interest.

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.

	2013	2012
Year end RMB : USD exchange rate	6.1364	6.3190
Annual average RMB : USD exchange rate	6.2320	6.3198

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, 2013 and 2012, the balances of restricted cash totaled $1,332,807 and $1,080,985, 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, 2013 and 2012, the Company had outstanding balance of advance to vendors in the amount of $109,134 and $2,566,422, respectively.

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, 2013 and 2012, the Company had outstanding balances of loans to outside parties in the amount of $Nil and $20,957, respectively. All these loans were 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 and the deposit held by an unrelated party to transfer its land use rights 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Real estate property development completed and real estate property under development are reclassified on the balance sheet into current and non-current portions based on the estimated date of construction completion and sales. The real estate property development completed classification is based on the estimated date that each property is expected to be sold within the Company's normal operating cycle of the business and the Company's sales plan. Real estate property development completed is classified as a current asset if the property is expected to be sold within the normal operating cycle of the business. Otherwise, it is classified as a non-current asset. Real estate property under development is classified as a current asset, if the property is reasonably expected to be completed within the Company's normal operating cycle of the business. Otherwise, it is classified as a non-current asset. The majority of real estate projects the Company has completed in the past were multi-layer or sub-high-rise real estate projects. The Company considers its normal operating cycle is 12 months.

In accordance with ASC 360, "Property, Plant and Equipment" ("ASC 360"), real estate property development completed and under development are subject to valuation adjustments when the carrying amount exceeds fair value. An impairment loss is 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. The Company reviewed all of its real estate projects for future losses and impairment by comparing the estimated future undiscounted cash flows for each project to the carrying value of such project. For the years ended September 30, 2013 and 2012, the Company did not recognize any impairment for real estate property under development and completed.

Capitalization of Interest

Interest incurred during and directly related to real estate development projects is capitalized to the related real estate property under development during the active development period, which generally commences when borrowings are used to acquire real estate assets and ends when the properties are substantially complete or the property becomes inactive. Interest is capitalized based on the interest rate applicable to specific borrowings or the weighted average of the rates applicable to other borrowings during the period. Interest capitalized to real estate property under development is expensed as a component of cost of real estate sales when related units are sold. All other interest is expensed as incurred.

Property, plant and equipment, net

Property,plant 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, 2013 and 2012.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2013 and 2012, 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2013 and 2012.

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, 2013, and 2012.

As of September 30, 2013, the tax years ended September 30, 2006 through September 30, 2013 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, 2010 through September 30, 2013 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 and Yangzhou Palace are located, requires a tax rate of 0.5%.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2013 and 2012 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.

Advertising expenses

Advertising costs are expensed as incurred. For the years ended September 30, 2013 and 2012, the Company recorded advertising expenses of $150,339 and $99,733, respectively.

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. For the year ended September 30, 2013, five over 10% suppliers accounted aggregately for more than 75% of the total project expenditures. One supplier accounted for 29% of project expenditures for the year ended September 30, 2012. .

NOTE 3. REAL ESTATE PROPERTY COMPLETED AND UNDER DEVELOPMENT

The following summarizes the components of real estate property completed and under development as of September 30, 2013 and 2012:

	Balance as of September 30, 2013		September 30, 2012	
Development completed:				
Hanzhong City Mingzhu Garden (Mingzhu Nanyuan & Mingzhu Beiyuan)	$	5,031,358	$	10,957,861
Hanzhong City Nan Dajie (Mingzhu Xinju)		1,638,775		3,651,828
Yang County Yangzhou Pearl Garden		11,941,367		11,019,854
Hanzhong City Central Plaza		615,475		596,358
Real estate property development completed	$	19,226,975	$	26,225,901
Less: Real estate property completed short-term	$	11,607,164	$	19,534,088
Real estate property completed long-term	$	7,619,811	$	6,691,813
Under development:				
Hanzhong City Oriental Pearl Garden		53,467,802		30,964,847
Hanzhong City Mingzhu Garden Mingzhu Beiyuan (a)		54,727,543		21,102,925
Yang County Yangzhou Pearl Garden (b)		7,637,133		11,620,714
Yang County Yangzhou Palace (note 5)		19,190,615		-
Hanzhong City Shijin Project (note 5)		7,893,522		-
Hanzhong City Mingzhu Road West (c)		1,280,332		732,571
Hanzhong City Liuhou Road (c)		300,323		191,005
Real estate property under development	$	144,497,271	$	64,612,062
Less: Short-term portion	$	1,580,670	$	8,590,275
Real estate property under development long-term	$	142,916,601	$	56,021,787

(a) The Company recognized $15,067,840 of development cost in cost of real estate sales under the percentage of completion method for the year ended September 30, 2013 (2012- $Nil)

(b) The Company recognized $2,735,199 of development cost in cost of real estate sales under the percentage of completion method for the year ended September 30, 2013 (2012- $Nil)

(c) 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 (RMB 18,716,489) which was approved by the Hanzhong Ministry of Finance. The related construction was substantially completed as of September 30, 2013. A further extension on this road construction was under discussion between the Company and the Hanzhong local government and therefore, these two roads have not been delivered to the local government as of September 30, 2013. 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, 2013 and 2012, land use rights included in real estate property under development totaled $52,896,558 and $41,902,111, respectively.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30, 2013 and 2012, property,plant and equipment was as follows:

	As of September 30,			
	2013		2012	
Buildings	$	890,920	$	865,175
Machinery		30,311		29,435
Office equipment		32,998		39,729
Automobiles		460,009		446,716
Total		1,414,238		1,381,055
Less: accumulated depreciation		436,499		343,975
Property, plant and equipment, net	$	977,739	$	1,037,080

Depreciation expense for the years ended September 30, 2013 and 2012 was $88,818 and $89,363, respectively.

NOTE 5. 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 $19,506,551 (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, 2013, a deposit of $3,259,240 (RMB20,000,000) (2012 - $3,165,058 or RMB 20,000,000) was paid by the Company. The Company currently expects to make payment of the remaining development cost based on the government's current work progress.

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 $7,414,771 (RMB45, 500,000). As of September 30, 2013, the Company made full payments and received the land use right certificate, so the related security deposit balance was reclassified to real estate properties under development Shijin Project (See note 3). As of September 30, 2012, the deposit balance was $7,265,390 (RMB45, 910,000).

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 $12,972,199 (RMB79,702,600). As of September 30, 2013, the Company had made full payment and received the land use right certificate, so the related security deposit balance was reclassified to real estate properties under development Yang County Yangzhou Palace project (See note 3). As of September 30, 2012, the deposit balance was $12,464,250 (RMB78, 761,600).

The Company classified the security deposits for land use rights to long term assets based on the Company's development plan.

NOTE 6. BANK LOAN

On August 23, 2013, the Company entered into a project finance loan agreement (the "Loan Agreement") with China Construction Bank, Hanzhong Branch (the “Bank") for a working capital loan (the “Loan”). The Loan has a three-year term in the principal amount of $24,444,300 (RMB150,000,000) at an interest rate (6.46% at September 30, 2013), which is 5% over the benchmark interest rate, adjustable every twelve months from the date of the loan. The loan is for the development of the Company’s Mingzhu Beiyuan project. As of September 30, 2013, the Company received loan proceeds of $16,296,200 (RMB 100,000,000) from the bank. The remaining proceeds of the loan were received on October 21, 2013.

	As of September 30,			
	2013		2012	
China Construction Bank Loan	$	16,296,200	$	-
Less: current maturities of long-term bank loan		4,888,860		-
Bank loan	$	11,407,340	$	-

The weighted average interest rate of the loan was 6.46% as of September 30, 2013. For the year ended September 30, 2013, total loan interest was $55,839, which was capitalized in the development cost of Mingzhu Garden Mingzhu Beiyuan project.

The Company pledged its real estate properties in the Mingzhu Beiyuan project with carrying value of $79,106,642 as of September 30, 2013. The Loan is also subject to certain covenants including current ratio not less than 2 and quick ratio not less than 0.8. The bank treated all the Company’s real estate property including real estate property completed and real estate property under development as current assets. As a result, the Company met the current ratio requirement as of September 30, 2013. The Bank waived the quick ratio requirement for the year ended September 30, 2013 as the Mingzhu Beiyuan project was still under construction as of September 30, 2013.

The repayment of the loan is due and payable based on sales progress on the Mingzhu Beiyuan project and fixed milestone dates as follows:

	Repayment in USD		Repayment in RMB	
May 20, 2014	$	1,629,620	RMB	10,000,000
August 20, 2014	$	3,259,240	RMB	20,000,000
February 20, 2015	$	6,518,480	RMB	40,000,000
August 20, 2015	$	6,518,480	RMB	40,000,000
February 10, 2016	$	4,888,860	RMB	30,000,000
August 20, 2016	$	1,629,620	RMB	10,000,000
Total	$	24,444,300	RMB	150,000,000

NOTE 7. 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, 2013		2012	
Customer deposits by real estate projects				
Mingzhu Garden (Mingzhu Nanyuan and Mingzhu Beiyuan)	$	11,013,061	$	16,900,566
Oriental Pearl Garden		6,617,245		-
Yangzhou Pearl Garden		1,910,241		12,440,849
Total	$	19,540,547	$	29,341,415
Including: Customer deposits -short-term	$	6,130,466	$	11,597,422
Customer deposits - long-term	$	13,410,081	$	17,743,993

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 8. SHAREHOLDER LOAN and RELATED PARTY TRANSACTIONS

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 to make a capital injection into Shaanxi HGS, the Company's subsidiary. The interest rate for the loan is 4% per annum. On July 19, 2012, the term of the loan was extended to June 28, 2013. On July 19, 2013, the Company entered into the second amendment to the USD Loan Agreement to extend the term until June 28, 2014. The Company recorded interest expense of $72,400 for the years ended September 30, 2013 and 2012, respectively. The Company did not pay this interest and it is recorded in accrued expenses in the balance sheets as of September 30, 2013 and 2012.

NOTE 9. 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, 2013 and 2012, 100% and 90% of the option awards have vested, respectively. For the year ended September 30, 2013 and 2012, a total of 24,000 shares and Nil share underlying the 2010 stock Options were forfeited, respectively.

On March 16, 2012, 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 ("2012 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, 2013 and 2012, 100% and 90% of the option awards have vested, respectively. For the year ended September 30, 2013 and 2012, a total of 24,000 shares and Nil share underlying the 2011 stock Options were forfeited, respectively.

On August 22, 2012, the Company's Board of Directors granted stock options to two new independent directors to repurchase up to an aggregate of 120,000 shares of the Company's common stock ("2013 Stock Options). The shares underlying the options become excisable during the following 36 months period at the end of each quarter. The exercise price of the options is $2.37 per share. As of September 30, 2013 and 2012, 33.3% and 8.3% of the option awards have vested, respectively.

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 August 2011	
Risk-free interest rate	0.19	%	1.87	%
Expected life of the options	3 year		5 year	
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 9. 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, 2012	188,000	$ 2.41	2.88	$ 130,147
Granted	-	-	-	-
Forfeited	48,000	2.49	2.61	85,940
Exercised	-	-	-	-
Outstanding, September 30, 2013	140,000	$ 2.39	1.89	$ 44,207
Exercisable, September 30, 2013	60,000	$ 2.41	1.88	$ 38,608

Stock-based compensation expense recognized in the years ended September 30, 2013 and 2012, was $9,012 and $26,252, respectively. As of September 30, 2013 and 2012, there was $Nil and $9,012 of unrecognized compensation cost related to stock option awards that are expected to be recognized, respectively.

NOTE 10. 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, 2013, the Company had business sales tax payable of $5,257,194 (2012- $3,366,130), 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, 2013 and 2012, the Company's assessed income taxes were $1,398,218 and $283,077, 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 10. TAXES (continued)

The following table reconciles the statutory rates to the Company's effective tax rate for the years ended September 30, 2013 and 2012:

	For the years ended September 30,			
	2013		2012	
Chinese statutory tax rate	25.0	%	25.0	%
Exemption rendered by local tax authorities	(18.7)	%	(19.8)	%
Effective tax rate	6.3	%	5.2	%

Income tax expense for the years ended September 30, 2013 and 2012 is summarized as follows:

	For the years ended September 30,	
	2013	2012
Current tax provision	758,123	283,077
Deferred tax provision	640,095	-
Income tax expense	1,398,218	283,077

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 $251,392 and $169,980 as of September 30, 2013 and 2012, respectively, which are available to reduce future years' taxable income. These carry forwards will expire in 2033. 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, 2013 and 2012. The components of deferred taxes as of September 30, 2013 and 2012 consist of the following:

	For the years ended September 30,	
	2013	2012
Deferred tax assets:		
Deferred tax asset from net operating loss carry-forwards for parent company	85,473	57,793
Valuation allowance	(85,473)	(57,793)
Deferred tax assets:	-	-
Deferred tax liability		
Revenue recognized based on percentage of completion	650,067	-
Deferred tax liability long term	650,067	-

The valuation allowance increased $27,680 and $33,541 for the years end September 30, 2013 and 2012, respectively

NOTE 10. TAXES (continued)

(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, 2013, the Company made a prepayment on LAT of $96,232 with respect to completed real estate properties sold up to September 30, 2013. As at September 30, 2012, the outstanding LAT payable balance is $22,650 with respect to completed real estate properties sold up to September 30, 2012.

(D) Taxes payable consisted of the following:

	2013		2012	
CIT	$	764,836	$	765,206
Business tax		5,257,194		3,366,130
Other taxes and fees		590,677		205,122
Total taxes payable	$	6,612,707	$	4,336,458

NOTE 11. 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, 2013 and 2012, 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.

NOTE 11. STOCKHOLDERS' EQUITY (continued)

(b) Statutory surplus reserves

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, 2013 and 2012, the balance of statutory surplus reserve was $8,977,230 and $ 6,549,354, 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, 2013 and 2012.

NOTE 12. 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 $19,506,551 (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, 2013, a deposit of $3,259,240 (RMB20,000,000) (2012 - $3,165,058 or RMB 20,000,000) was paid by the Company. The Company currently expects to make payment of the remaining development cost based on the government's current work progress.

NOTE 13. IMPACT OF NEW REVENUE RECOGNITION POLICY

As disclosed in note 2, the impact of adoption of percentage of completion revenue recognition method on the consolidated financial statements for the three and nine months ended June 30, 2013 as previously reported is summarized below:

	Balance Sheet as of June 30, 2013	
	As previously reported-	Percentage completion method-
Cost and earnings in excess of billings	$ -	$ 9,493
Deferred tax liability	-	16,106
Tax payable	4,890,993	4,955,415
Billings in excess of cost and earnings	$ -	$ 826,540

	For the three months ended June 30, 2013		For the nine months ended June 30, 2013	
	As previously reported-	Percentage completion method-	As previously reported-	Percentage completion method-
Revenue	$ 7,174,974	8,463,417	$ 37,561,349	$ 38,849,792
Cost of sales	(3,549,401)	(4,466,736)	(18,057,656)	(18,974,991)
Sales tax	(489,971)	(554,393)	(2,349,413)	(2,413,835)
Gross profit	3,135,602	3,442,288	17,154,280	17,460,966
Deferred tax provision	-	16,106	-	16,106
Net income	2,262,545	2,553,125	13,538,342	13,828,922
Basic and diluted income per common share				
Basic	0.05	0.06	0.30	0.31
Diluted	0.05	0.06	0.30	0.31

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 and our Chief Financial Officer, we carried out an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in SEC Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on such evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were not effective as of September 30, 2013, because of the material weakness and significant deficiencies in our internal control over financial reporting as described below.

(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;

2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial 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, 2013. 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, 2013 was ineffective for the reasons discussed below.

74

A significant deficiency is a deficiency, or combination of deficiencies in internal control over financial reporting, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management identified the following material weakness and significant deficiencies in its assessment of the effectiveness of internal control over financial reporting as of September 30, 2013:

· Absence of written information technology policies and procedures which could result in: (1) unauthorized system access; (2) application changes being implemented without adequate reliability testing; (3) over reliance on spreadsheet applications without quality control assurances (4) lack of formal data backup policies and procedures.

· Lack of adequate policies and procedures in internal audit function, which could result in: (1) lack of communication between internal audit department and the Audit Committee and the Board of Directors; (2) Insufficient internal audit work to ensure that the Company's policies and procedures have been carried out as planned.

· Lack of segregation of duty in preparing and reviewing of adjustment entries for reconciling differences between US and PRC GAAP and could result in that the financial reporting may not be prepared accurately, consistently and timely.

· Omission of appropriate approval procedures for certain transactions which could result in unauthorized transactions.

These control deficiencies on aggregated basis could result in a material misstatement to our interim or annual financial statements that would not be prevented or detected.

Friedman LLP, our independent registered public accounting firm, has audited our internal control over financial reporting and issued a report on the effectiveness of our internal control over financial reporting.

Remediation Efforts to Address Significant Deficiencies

To remediate the material weakness and significant deficiencies described above and to prevent similar deficiencies in the future, we are currently evaluating additional controls and procedures, which may include:

- Engage a third party IT consulting firm to help formalize the Company's policies and procedures on information technology, analyze the capability and reliability of existing systems, and establish an integrated information technology development plan.

- Provide more U.S. GAAP knowledge and SEC reporting requirement training for the internal audit department and establish formal policies and procedures in internal audit function.

- Recruit qualified professionals with appropriately level of knowledge, experience and training in the application of U.S GAAP standard to prepare adjusting entries and to assist CFO in the financial reporting process.

- Establish written policies and procedures to ensure appropriate and timely review and approval in all transaction process level.

- Implementation of an ongoing initiative and training in the Company to ensure the importance of internal controls and compliance with established policies and procedures are fully understood throughout the organization and plan to provide continuous U.S. GAAP knowledge training to relevant employees involved to ensure the performance of and compliance with those procedures and policies.

Any actions we have taken or may take to remediate these deficiencies are subject to continued management review supported by testing, as well as oversight by the Audit Committee of our Board of Directors. We cannot assure you that these material weakness or significant deficiencies will not occur in the future and that we will be able to remediate such weaknesses or deficiencies in a timely manner, which could impair our ability to accurately and timely report our financial position, results of operations or cash flows. See the Risk Factor entitled "As of September 30, 2013, we identified significant deficiencies in internal control over financial reporting. If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud and as a result, investors may be misled and lose confidence in our financial reporting and disclosures, and the price of our common stock may be negatively affected" in this Annual Report on Form 10-K.

(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.

Except as described above, there has been no change to our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

76

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, 2013, 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	50	Director	2012
John Chen	41	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 Graining 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 2013 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, 2013 and the number of meetings each committee held in fiscal year 2013.

Name of Director	Audit	Compensation	Nominating & Corporate Governance
Christy Young Shue	M	M	C
John Chen	C	M	M
Yuankai Wen	M	C	M
Number of Meetings in Fiscal 2013	4	1	1

M = Member
C = Chair

Executive Officers

Our executive officer and his age as of September 30, 2013 are as follows:

Name	Ages	Position
Xiaojun Zhu *	46	President, Chief Executive Officer and Chairman of the Board of Directors
Wei (Samuel) Shen**	35	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 2013, 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, 2013 and 2012. 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	2013	32,593		-		(2)	32,593
Chairman of the Board (1)	2012	31,647		-		(2)	31,647
Wei (Samuel) Shen, Chief Financial Officer	2013	117,333	(3)	-	-		117,333
	2012	37,976	(3)	-	31,647	(4)	69,623

(1) Mr. Zhu was paid in Renminbi. His annual salary was RMB 200,000 for fiscal 2013 and 2012. The amounts reflected in this column have been converted to U.S. dollars at the exchange rate of RMB6.1364 to the U.S. dollar for fiscal 2013 and RMB6.3198 to the U.S. dollar for fiscal 2012

.

(2) 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.

(3) Samuel Shen became Chief Financial Officer of the Company in May 2012. For the year ended September 30, 2013, he received $117,333 for compensation as CFO pursuant to a contract (as described below) with the Company. For the year ended September 30, 2012, he received $37,976 for compensation as CFO pursuant to a 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 2013 and 2012.

Aggregated Option Exercises and Fiscal Year-End Option Value Table. There were no stock options exercised during fiscal 2013 and 2012 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 2013 and 2012 under any LTIP.

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.

81

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 initial term of the contract was for one year and extended for an indefinite period upon mutual agreement between Mr. Shen and the Company, subject to parties' right to terminate on reasonable notice. Pursuant to the contract, Mr. Shen receives a monthly salary of RMB 60,000 (approximately US$9,778) and a discretional bonus of up to RMB180,000 (approximately US$29,333). 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 and the board's approval. Mr. Shen did not receive the discretional bonus or restricted stock for the year ended September 30, 2013. 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 2013 Year End

None.

Compensation of Directors

The following tables provide information about the actual compensation earned by non-employee directors who served during fiscal 2013.

FISCAL 2013 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 ($)
Yuankai Wen	$ 16,296	-	$ 1,312	-	-	-	$ 17,608
John Chen**	$ 36,000	-	$ 3,850	-	-	-	$ 39,850
Christy Young Shue*	$ 24,000	-	$ 3,850	-	-	-	$ 27,850

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 options). This column represents the compensation expense for fiscal year 2013 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 2013.

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 RMB6.1364 to the U.S. dollar, the average exchange rate during 2013.

Independent Director Agreements

The Company has entered into Independent Director Agreements with Ms. Shue, and 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, in August 2012, the Company has agreed to grant each of Ms. Shue, and Messrs. Chen, two new independent directors, nonstatutory stock options to purchase 60,000 and 60,000 shares of the Company's common stock, respectively, which options shall vest in accordance with the schedule determined as of the date of grant. The Company did not grant stock option to independent directors in 2013. 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, 2013 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 Xinghan 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	%
Yuankai Wen(5)	20,000	*	
Christy Young Shue (5)	20,000	*	
John Chen (5)	20,000	*	
Wei (Samuel) Shen	-	-	
All directors and executive officers as a group (5 persons)	31,540,000	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, 2013 or within 60 days thereafter, 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, 2013. For each named person, this percentage includes Common Stock that the person has the right to acquire either currently or within 60 days of September 30, 2013, 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 20,000 shares of Common Stock exercisable as of September 30, 2013 or within 60 days thereafter.

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, 2013:

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))
Equity compensation plans approved by security holders	120,000	$	2.37	1,880,000
Equity compensation plans not approved by security holders	20,000	$	2.49	-
Total	140,000	$	2.39	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 occurred during the fiscal year ended September 30, 2013:
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. On July 19, 2012, the term of the loan was extended to June 28, 2013. On July 19, 2013, the Company entered into the second amendment to the USD Loan Agreement to extend the term until June 28, 2014. The Company recorded interest of $72,400 for the years ended September 30, 2013 and 2012, respectively. The Company did not pay the interest and it is included in accrued expenses on the balance sheets as of September 30, 2013 and 2012.

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 2013 and 2012. Fees (including reimbursements for out-of-pocket expenses) paid to Friedman LLP for services in fiscal 2013 and 2012 were as follows:

	2013		2012	
Audit Fees		240,000	$	190,000
Audit-Related Fees		-		-
Tax Fees		-		-
All Other Fees		-		-
Total		240,000	$	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 2013.

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)
10.18*	Form of Indemnification Agreement (16)
10.19*	Loan Amendment Agreement by and between China HGS Real Estate Inc. and Mr. Xiaojun Zhu, dated July 19, 2013. (17)
10.20	Loan Agreement by and between Shaanxi Guangxia Investment Development Group Co., Ltd. and China Construction Bank, dated August 23, 2013. (18)

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.
(16) Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed on March 15, 2013.
(17) Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed on July 22, 2013.
(18) Incorporated by reference to Exhibit 10.1 to the current report on Form 8-K filed on October 15, 2013.

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 13, 2013	By:	/s/ Xiaojun Zhu Xiaojun Zhu President, Chief Executive Officer, and Chairman of the Board of Directors
Date: December 13, 2013	By:	/s/Samuel Shen Samuel Shen Chief Financial Officer

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 13, 2013
/s/Samuel Shen Samuel Shen	Chief Financial Officer (Principal Financial and Accounting Officer)	December 13, 2013
/s/ Shenghui Luo Shenghui Luo	Director	December 13, 2013
/s/Christy Young Shue Christy Young Shue	Director	December 13, 2013
/s/John Chen John Chen	Director	December 13, 2013
/s/ Yuankai Wen Yuankai Wen	Director	December 13, 2013