ACTUAL WINNER LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31ST DECEMBER, 2013

CONTENTS

ACTUAL WINNER LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and the audited financial statements for the period from 29th June, 2012 (Date of incorporation) to 31st December, 2013.

PRINCIPAL ACTIVITIES

The company has not yet commenced its business during this period.

FINANCIAL STATEMENTS

The state of affairs of the company at 31st December, 2013 and the results of the company for the period ended on that date are set out in the annexed financial statements.

DIVIDENDS

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the company during the period are set out in note 5 to the financial statements.

FIXED ASSETS

No fixed assets acquire by the company during the period.

SHARE CAPITAL

Details of share capital of the company are set out in note 4 to the financial statements.

DIRECTORS

The directors who held offices during the period and at the date of this report was :

Mr.	CHING, Chung	(resigned on 11.02.2014)
Mr.	SOO, Tuck Yoon	(appointed on 13.08.2012)
Mr.	TANG, Dashun	(appointed on 11.02.2014)

In accordance with the company's Articles of Association, all the directors should continue in office for the ensuing period.

Continued / …………

…………… / Continued

DIRECTORS' INTERESTS

No contracts of significance to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

At no time during the period was the company a party to any arrangement to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

OTHER MATTERS

At the date of this report the directors are not aware of any circumstances not otherwise dealt with in this report or the attached financial statements which would render any amount stated therein misleading.

AUDITORS

Messrs. K.T. Chan & Co., Certified Public Accountants, retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. K.T. Chan & Co. as Auditors of the company is to be proposed at the forthcoming Annual General Meeting.

For and on behalf of the board

____

Chairman

Hong Kong, 28th day of April, 2014.

K. T. Chan & Co. Certified Public Accountants
Flat N, 16/F., International Industrial Centre,
2-8 Kwei Tei Street, Fo Tan, Shatin,
N.T., Hong Kong.

陳錦添會計師事務所
新界沙田火炭桂地街二至八號
國際工業中心十六樓N室

REPORT OF THE AUDITORS
TO THE SHAREHOLDERS OF
ACTUAL WINNER LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Actual Winner Limited set out on pages 5 to 11, which comprise the balance sheet as at 31st December, 2013, and the income statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibilities for the financial statements

Directors of the Company are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In addition, Section 141D of the Hong Kong Companies Ordinance requires that the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to that Ordinance.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141D of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liabilities to any other person for the contents of the report. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Continued /........

K.T. Chan & Co. Certified Public Accountants
Flat N, 16/F., International Industrial Centre,
2-8 Kwei Tei Street, Fo Tan, Shatin,
N.T., Hong Kong.

陳錦添會計師事務所
新界沙田火炭桂地街二至八號
國際工業中心十六樓N室

REPORT OF THE AUDITORS
TO THE SHAREHOLDERS OF
ACTUAL WINNER LIMITED
(incorporated in Hong Kong with limited liability)

……../ *Continued*

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

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

Opinion

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the SME-FRS. In addition, in our opinion the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of the Company's affair as at 31st December, 2013 according to the best of our information and explanations given to us, and as shown by the books of the Company.

Report on other matters under Section 141D of the Hong Kong Companies Ordinance

We report that we have obtained all the information and explanations which we have required.

K.T. Chan & Co
Certified Public Accountants (Practising)
Hong Kong
28th April, 2014

ACTUAL WINNER LIMITED

BALANCE SHEET AS AT 31ST DECEMBER, 2013

(EXPRESSED IN HONG KONG DOLLARS)

		Note	31.12.2013
NON-CURRENT ASSETS	非流動資產		
Other investment	其他投資款	6	22,535,191.00
CURRENT LIABILITIES	流動負債		
Accounts payable	應付款		22,575,296.00
Accrued expenses	應付未付費用		10,000.00
			22,585,296.00
Net current liabilities	純流動負債		(50,105.00)
Total assets less current liabilities	總資產減流動負債		(50,105.00)
LONG TERM LIABILITIES	長期負債		-
NET (LIABILITIES)	純(負債)		(50,105.00)
EQUITY	資本及儲備		
Share capital	資本額	4	10,000.00
Reserves	儲備	5	(60,105.00)
			(50,105.00)

The financial statements were duly approved by the Board of Directors on 28th day of April, 2014.

Director

Director

The annexed notes form an integral part of these accounts.

ACTUAL WINNER LIMITED

INCOME STATEMENT

FOR THE PERIOD FROM 29TH JUNE, 2012
(DATE OF INCORPORATION) TO 31ST DECEMBER, 2013

(EXPRESSED IN HONG KONG DOLLARS)

		Note	29.06.2012 - 31.12.2013
Turnover	營業額	2b & 3	-
Cost of incomes	收入成本		-
Gross profit	毛利		-
Other revenues	其他收入		-
Other operating expenses	其他經營費用		(60,105.00)
Operating (loss)	經營(虧損)	7	(60,105.00)
Finance costs	財務成本		-
(Loss) before taxation	除稅前(虧損)		(60,105.00)
Income tax paid	本年稅款	9	-
(Loss) after taxation	除稅後(虧損)		(60,105.00)
(Loss) for the period	本期(虧損)	5	(60,105.00)

The annexed notes form an integral part of these accounts.

ACTUAL WINNER LIMITED

NOTES TO THE FINANCIAL STATEMENT

FOR THE PERIOD FROM 29TH JUNE, 2012
(DATE OF INCORPORATION) TO 31ST DECEMBER, 2013

(EXPRESSED IN HONG KONG DOLLARS)

(1) GENERAL INFORMATION

Actual Winner Limited is a company incorporated in Hong Kong with limited liability. The company's registered office is located at Unit D, 12th Floor, No. 8 Hart Avenue, Tsimshatsui, Kowloon, Hong Kong. The company is not yet commenced during this period

(2) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The company qualifies under the Hong Kong Companies Ordinance to prepare and present its financial statements in accordance with section 141D of that Ordinance. The company's shareholders have unanimously agreed in writing to apply section 141D with respect to the company's financial statements for the period ended 31st December, 2013.

These financial statements comply with the Small and Medium-sized Entity Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants and have been prepared under the accrual basis of accounting and on the basis that the company is a going concern.

The measurement base adopted is the historical cost convention.

The following set out the effect of adopting SME-FRS on these financial statements :

Deferred taxation

Under the Small and Medium-sized Entity Financial Reporting Framework ("SME-FRF") and SME-FRS, deferred tax asset/liability is to be derecognized and dealt with as a change of accounting policy under the SME-FRS.

In prior years, under SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Continued / ....

………. / Continued

(2) SIGNIFICANT ACCOUNTING POLICIES *(to be continued)*

b) Revenue recognition
Revenue is recognized when it is probable that the economic benefits will flow to the company and when the revenue can be measure reliably.

c) Taxation
Income tax expense represents current tax expense. The income tax payable represents the amounts expected to be paid to the taxation authority, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is not provided.

d) Impairment of assets
An assessment is made at each balance sheet date to determine whether there is any indication of impairment or reversal of previous impairment, including items of furniture and equipment, intangible assets and long-term investments. In the event that an asset's carrying amount exceeds its recoverable amount, the carrying amount is reduced to recoverable amount and an impairment loss is recognized as an expense in the income statement. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not an amount higher than the carrying amount that would have been determined (net of amortisation of depreciation), had no impairment losses been recognized for the asset in prior years.

(3) TURNOVER
The company is not yet commenced its busines during this period.

Continued / ……….

(EXPRESSED IN HONG KONG DOLLARS)

………. / Continued

(4) SHARE CAPITAL

	Authorised Ordinary shares of HK$1.00 each No. of shares	 HK$
As at beginning of period	-	-
Created during period	1,000,000	1,000,000.00
As at end of period	1,000,000	1,000,000.00

	Issued and fully paid Ordinary shares of HK$1.00 each No. of shares	 HK$
As at beginning of period	-	-
Alloted during period	10,000	10,000.00
As at end of period	10,000	10,000.00

The Company was incorporated with an authorized capital of HK$1,000,000 divided into 1,000,000 ordinary shares of HK$1.00 each of which one subscriber's share was issued at par for cash amounting to HK$1.00.

On 13th August, 2012, the Company's issued share capital was increased from HK$1.00 to HK$10,000.00 by issued of 9,999 ordinary shares of HK$1.00 each, ranking pari passu with the existing shares of the Company.

Continued / ……….

(EXPRESSED IN HONG KONG DOLLARS)

………. / Continued

(5) CHANGES IN EQUITY

	Share capital HK$	Accumulated profits / (losses) HK$	Total HK$
As at 29th June, 2012	-	-	-
Allotment of share	10,000.00	-	10,000.00
(Loss) for the period	-	(60,105.00)	(60,105.00)
As at 31st December, 2013	10,000.00	(60,105.00)	(50,105.00)

(6) OTHER INVESTMENTS

	HK$
Unlisted investments	
Equity shares, at cost	
- 海口安基實業發展有限公司	
At 31.12.2013 (RMB18,000,000.00)	22,534,957.00
- Radiant Pearl Investments Limited 明珠投資有限公司	
At 31.12.2013 (USD30.00)	234.00
Diminution in net assets	
At 31.12.2013	-
Total value	
At 31.12.2013	22,535,191.00

Name	Class of share held	% of share holding	Principal activities
海口安基實業發展有限公司	Ordinary	30%	Investment
Radiant Pearl Investments Limited 明珠投資有限公司	Ordinary	30%	Investment

Continued / ……….

………. / Continued

(7) OPERATING (LOSS) BEFORE TAXATION

Operating (loss) before taxation is arrived at after charging / (crediting) : -

	29.06.2012 - 31.12.2013 HK$
Auditors' remuneration	6,000.00
Bank interest received	-
Depreciation on fixed assets	-
Staff costs	-
Bank loan interest	-

(8) DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Companies Ordinance is as follows : -

	29.06.2012 - 31.12.2013 HK$
Directors' remuneration	
- fees	-
- other emoluments	-
	-

(9) INCOME TAX EXPENSE

No provision of Hong Kong profits tax has been made in the accounts as the company has not commenced it's business during this period.

(FOR MANAGEMENT PURPOSES ONLY)

ACTUAL WINNER LIMITED

DETAILED INCOME STATEMENT

FOR THE PERIOD FROM 29TH JUNE, 2012 (DATE OF INCORPORATION) TO 31ST DECEMBER, 2013

(EXPRESSED IN HONG KONG DOLLARS)

		29.06.2012 -31.12.2013
INCOME	收入	-
ADMINISTRATION AND MANAGEMENT EXPENSES	行政及管理費用	
Accountancy fee	會計費	4,000.00
Auditors' remuneration	核數費	6,000.00
Business registration fee	商業登記費	900.00
Incorporation fee	成立費	7,200.00
Legal and professional fees	專業費	4,000.00
Notarization fee	公証費	26,000.00
Secretarial fee	秘書費	11,900.00
Sundry expenses	雜費	105.00
		60,105.00
(LOSS) FOR THE PERIOD	本期(虧損)	(60,105.00)

Client Name : Actual Winner Limited
Subject : Accounting Records from 29.06.2012 (Date of Incorporation) to 31.12.2013
Prepared Date : 25.04.2014

Date	Incorporation fee	Notarization fee	Secretarial fee	Legal & Professional fees	BR fee	Accountancy fee	Audit fee	Investment	C/A- Cheng Yik Shing	A/C Payable	Accrued Exp.	Share Cpaital
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$		HK$	HK$	HK$
14.08.2012	7,200.00		1,700.00	2,000.00	450.00				(11,350.00)			
16.08.2012			3,500.00						(3,500.00)			
22.01.2013		13,000.00							(13,000.00)			
29.05.2013			1,700.00	2,105.00	450.00				(4,255.00)			
25.11.2013			5,000.00						(5,000.00)			
08.08.2013		13,000.00							(13,000.00)			
29.06.2012									10,000.00			(10,000.00)
31.12.2013						4,000.00	6,000.00				(10,000.00)	
31.12.2013								22,534,957.00	(7,511,652.00)	(15,023,305.00)		
31.12.2013								234.00	(234.00)			
	7,200.00	26,000.00	11,900.00	4,105.00	900.00	4,000.00	6,000.00	22,535,191.00	(7,551,991.00)	(15,023,305.00)	(10,000.00)	(10,000.00)
	-								(22,575,296.00)			

Actual Winner Limited
Income statement
31 December 2014

	Total HK$
Other loss	
Others	-
Administrative expenses	
Accountancy fee	8,500
Business registration fee	2,250
Legal & professional fee	41,600
Secretarial fee	3,805
	56,155
Profit before tax	56,155
Retained earnings	60,105
Retained earnings	116,260

Actual Winner Limited
Income statement
31 December 2014

	Total HK$
Other loss	
Others	-
Administrative expenses	
Accountancy fee	8,500
Business registration fee	2,250
Legal & professional fee	41,600
Secretarial fee	3,805
	56,155
Profit before tax	56,155
Retained earnings b/f	60,105
Retained earnings	116,260

EXPRESS LINKER LIMITED

REPORTS AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31ST DECEMBER, 2013

CONTENTS PAGE(S)

EXPRESS LINKER LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and the audited financial statements for the period from 28th September, 2012 (Date of incorporation) to 31st December, 2013.

PRINCIPAL ACTIVITIES

The company has not yet commenced its business during this period.

FINANCIAL STATEMENTS

The state of affairs of the company at 31st December, 2013 and the results of the company for the period ended on that date are set out in the annexed financial statements.

DIVIDENDS

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the company during the period are set out in note 5 to the financial statements.

FIXED ASSETS

No fixed assets acquire by the company during the period.

SHARE CAPITAL

Details of share capital of the company are set out in note 4 to the financial statements.

DIRECTORS

The directors who held offices during the period and at the date of this report was :

Mr.	CHING, Chung	(resigned on 11.02.2014)
Mr.	CHENG, Yik Shing	(appointed on 05.12.2012)
Ms.	MO, Sue	(appointed on 11.02.2014)

In accordance with the company's Articles of Association, all the directors should continue in office for the ensuing period.

Continued / …………

…………… / *Continued*

DIRECTORS' INTERESTS

No contracts of significance to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

At no time during the period was the company a party to any arrangement to enable the directors to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

OTHER MATTERS

At the date of this report the directors are not aware of any circumstances not otherwise dealt with in this report or the attached financial statements which would render any amount stated therein misleading.

AUDITORS

Messrs. K.T. Chan & Co., Certified Public Accountants, retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs. K.T. Chan & Co. as Auditors of the company is to be proposed at the forthcoming Annual General Meeting.

For and on behalf of the board

Chairman

Hong Kong, 28th day of April, 2014.

K. T. Chan & Co. Certified Public Accountants
Flat N, 16/F., International Industrial Centre,
2-8 Kwei Tei Street, Fo Tan, Shatin,
N.T., Hong Kong.

陳錦添會計師事務所
新界沙田火炭桂地街二至八號
國際工業中心十六樓N室

REPORT OF THE AUDITORS
TO THE SHAREHOLDERS OF
EXPRESS LINKER LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements of Express Linker Limited set out on pages 5 to 11, which comprise the balance sheet as at 31st December, 2013, and the income statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibilities for the financial statements

Directors of the Company are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In addition, Section 141D of the Hong Kong Companies Ordinance requires that the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to that Ordinance.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141D of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liabilities to any other person for the contents of the report. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) "Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Continued /........

K. T. Chan & Co. Certified Public Accountants
Flat N, 16/F., International Industrial Centre,
2-8 Kwei Tei Street, Fo Tan, Shatin,
N.T., Hong Kong.

陳錦添會計師事務所
新界沙田火炭桂地街二至八號
國際工業中心十六樓N室

REPORT OF THE AUDITORS
TO THE SHAREHOLDERS OF
EXPRESS LINKER LIMITED
(incorporated in Hong Kong with limited liability)

……./ *Continued*

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

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

Opinion

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the SME-FRS. In addition, in our opinion the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of the Company's affair as at 31st December, 2013 according to the best of our information and explanations given to us, and as shown by the books of the Company.

Report on other matters under Section 141D of the Hong Kong Companies Ordinance

We report that we have obtained all the information and explanations which we have required.

K.T. Chan & Co
Certified Public Accountants (Practising)
Hong Kong
28th April, 2014

EXPRESS LINKER LIMITED

BALANCE SHEET AS AT 31ST DECEMBER, 2013

(EXPRESSED IN HONG KONG DOLLARS)

		Note	31.12.2013
NON-CURRENT ASSETS	非流動資產		
Other investment	其他投資款	6	22,535,191.00
CURRENT LIABILITIES	流動負債		
Amount due to a director	應付董事款	9	7,567,991.00
Accounts payable	應付款		15,023,305.00
Accrued expenses	應付未付費用		10,000.00
			22,601,296.00
Net current liabilities	純流動負債		(66,105.00)
Total assets less current liabilities	總資產減流動負債		(66,105.00)
LONG TERM LIABILITIES	長期負債		-
NET (LIABILITIES)	純(負債)		(66,105.00)
EQUITY	資本及儲備		
Share capital	資本額	4	10,000.00
Reserves	儲備	5	(76,105.00)
			(66,105.00)

The financial statements were duly approved by the Board of Directors on 28th day of April, 2014.

Director

Director

The annexed notes form an integral part of these accounts.

EXPRESS LINKER LIMITED

INCOME STATEMENT

FOR THE PERIOD FROM 28TH SEPTEMBER, 2012
(DATE OF INCORPORATION) TO 31ST DECEMBER, 2013

(EXPRESSED IN HONG KONG DOLLARS)

		Note	28.09.2012 - 31.12.2013
Turnover	營業額	2b & 3	-
Cost of incomes	收入成本		-
Gross profit	毛利		-
Other revenues	其他收入		-
Other operating expenses	其他經營費用		(76,105.00)
Operating (loss)	經營(虧損)	7	(76,105.00)
Finance costs	財務成本		-
(Loss) before taxation	除稅前(虧損)		(76,105.00)
Income tax paid	本年稅款	9	-
(Loss) after taxation	除稅後(虧損)		(76,105.00)
(Loss) for the period	本期(虧損)	5	(76,105.00)

The annexed notes form an integral part of these accounts.

(1) GENERAL INFORMATION

Express Linker Limited is a company incorporated in Hong Kong with limited liability. The company's registered office is located at Unit D, 12th Floor, No. 8 Hart Avenue, Tsimshatsui, Kowloon, Hong Kong. The company is not yet commenced during this period

(2) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The company qualifies under the Hong Kong Companies Ordinance to prepare and present its financial statements in accordance with section 141D of that Ordinance. The company's shareholders have unanimously agreed in writing to apply section 141D with respect to the company's financial statements for the period ended 31st December, 2013.

These financial statements comply with the Small and Medium-sized Entity Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants and have been prepared under the accrual basis of accounting and on the basis that the company is a going concern.

The measurement base adopted is the historical cost convention.

The following set out the effect of adopting SME-FRS on these financial statements :

Deferred taxation

Under the Small and Medium-sized Entity Financial Reporting Framework ("SME-FRF") and SME-FRS, deferred tax asset/liability is to be derecognized and dealt with as a change of accounting policy under the SME-FRS.

In prior years, under SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Continued / ....

………. / Continued

(2) SIGNIFICANT ACCOUNTING POLICIES *(to be continued)*

b) Revenue recognition
Revenue is recognized when it is probable that the economic benefits will flow to the company and when the revenue can be measure reliably.

c) Taxation
Income tax expense represents current tax expense. The income tax payable represents the amounts expected to be paid to the taxation authority, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is not provided.

d) Impairment of assets
An assessment is made at each balance sheet date to determine whether there is any indication of impairment or reversal of previous impairment, including items of furniture and equipment, intangible assets and long-term investments. In the event that an asset's carrying amount exceeds its recoverable amount, the carrying amount is reduced to recoverable amount and an impairment loss is recognized as an expense in the income statement. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not an amount higher than the carrying amount that would have been determined (net of amortisation of depreciation), had no impairment losses been recognized for the asset in prior years.

(3) TURNOVER
The company is not yet commenced its busines during this period.

Continued / ……….

(EXPRESSED IN HONG KONG DOLLARS)

………. / Continued

(4) SHARE CAPITAL

	Authorised Ordinary shares of HK$1.00 each	
	No. of shares	HK$
As at beginning of period	-	-
Created during period	1,000,000	1,000,000.00
As at end of period	1,000,000	1,000,000.00

	Issued and fully paid Ordinary shares of HK$1.00 each	
	No. of shares	HK$
As at beginning of period	-	-
Alloted during period	10,000	10,000.00
As at end of period	10,000	10,000.00

The Company was incorporated with an authorized capital of HK$1,000,000 divided into 1,000,000 ordinary shares of HK$1.00 each of which one subscriber's share was issued at par for cash amounting to HK$1.00.

On 5th December, 2012, the Company's issued share capital was increased from HK$1.00 to HK$10,000.00 by issued of 9,999 ordinary shares of HK$1.00 each, ranking pari passu with the existing shares of the Company.

Continued / ……….

(EXPRESSED IN HONG KONG DOLLARS)

………. / Continued

(5) CHANGES IN EQUITY

	Share capital HK$	Accumulated profits / (losses) HK$	Total HK$
As at 28th September, 2012	-	-	-
Allotment of share	10,000.00	-	10,000.00
(Loss) for the period	-	(76,105.00)	(76,105.00)
As at 31st December, 2013	10,000.00	(76,105.00)	(66,105.00)

(6) OTHER INVESTMENTS

	HK$
Unlisted investments	
Equity shares, at cost	
- 海口安基實業發展有限公司	
At 31.12.2013 (RMB18,000,000.00)	22,534,957.00
- Radiant Pearl Investments Limited 明珠投資有限公司	
At 31.12.2013 (USD30.00)	234.00
Diminution in net assets	
At 31.12.2013	-
Total value	
At 31.12.2013	22,535,191.00

Name	Class of share held	% of share holding	Principal activities
海口安基實業發展有限公司	Ordinary	30%	Investment
Radiant Pearl Investments Limited 明珠投資有限公司	Ordinary	30%	Investment

Continued / ……….

………. / Continued

(7) OPERATING (LOSS) BEFORE TAXATION

Operating (loss) before taxation is arrived at after charging / (crediting) : -

	28.09.2012 - 31.12.2013 HK$
Auditors' remuneration	6,000.00
Bank interest received	-
Depreciation on fixed assets	-
Staff costs	-
Bank loan interest	-

(8) DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Companies Ordinance is as follows : -

	28.09.2012 - 31.12.2013 HK$
Directors' remuneration	
- fees	-
- other emoluments	-
	-

(9) AMOUNT DUE TO A DIRECTOR

The amount deu to a director of the company is unsecured, interest-free and have no fixed repayment terms.

(10) INCOME TAX EXPENSE

No provision of Hong Kong profits tax has been made in the accounts as the company has not commenced it's business during this period.

(FOR MANAGEMENT PURPOSES ONLY)

EXPRESS LINKER LIMITED

DETAILED INCOME STATEMENT

FOR THE PERIOD FROM 28TH SEPTEMBER, 2012
(DATE OF INCORPORATION) TO 31ST DECEMBER, 2013

(EXPRESSED IN HONG KONG DOLLARS)

		28.09.2012 -31.12.2013
INCOME	收入	-
ADMINISTRATION AND MANAGEMENT EXPENSES	行政及管理費用	
Accountancy fee	會計費	4,000.00
Auditors' remuneration	核數費	6,000.00
Business registration fee	商業登記費	700.00
Incorporation fee	成立費	7,200.00
Legal and professional fees	專業費	10,700.00
Notarization fee	公証費	39,000.00
Secretarial fee	秘書費	8,400.00
Sundry expenses	雜費	105.00
		76,105.00
(LOSS) FOR THE PERIOD	本期(虧損)	(76,105.00)

Client Name : Express Linker Limited
Subject : Accounting Records from 28.09.2012 (Date of Incorporation) to 31.12.2013
Prepared Date : 25.04.2014

Date	Incorporation fee	Notarization fee	Secretarial fee	Legal & Professional fees	BR fee	Accountancy fee	Audit fee	Investment	C/A- Cheng Yik Shing	A/C Payable	Accrued Exp.	Share Cpaital
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$		HK$	HK$	HK$
06.12.2012	7,200.00		1,700.00	2,000.00	450.00				(11,350.00)			
22.01.2013		13,000.00							(13,000.00)			
22.04.2013				6,700.00					(6,700.00)			
08.08.2013		13,000.00							(13,000.00)			
25.11.2013			1,700.00	2,105.00	250.00				(4,055.00)			
25.11.2015			5,000.00						(5,000.00)			
11.02.2014		13,000.00							(13,000.00)			
05.12.2012									10,000.00			(10,000.00)
31.12.2013						4,000.00	6,000.00				(10,000.00)	
31.12.2013								22,534,957.00	(7,511,652.00)	(15,023,305.00)		
								234.00	(234.00)			
	7,200.00	39,000.00	8,400.00	10,805.00	700.00	4,000.00	6,000.00	22,535,191.00	(7,567,991.00)	(15,023,305.00)	(10,000.00)	(10,000.00)

-

Express Linker Limited
Statement of Financial Position
31 December 2014

	Total HK$
CURRENT ASSETS	
Account Receivable	13,485,000
Total Current Assets	**13,485,000**
NON-CURRENT ASSETS	
Other Investment	22,535,191
Total Non-Current Assets	**22,535,191**
Total Assets	**36,020,191**
CURRENT LIABILITIES	
Account payables	(36,144,251)
Accruals	(3,000)
Total Current Liabilities	**(36,147,251)**
Total Liabilities	**(36,147,251)**
NET (LIABILITIES)	**(127,060)**
EQUITY	
Issued capital	(10,000)
Retained earnings	137,060
Total Equity	**127,060**
TOTAL EQUITY	**127,060**

Express Linker Limited
Income statement
31 December 2014

	Total HK$
Other loss	
Others	-
Administrative expenses	
Accountancy fee	8,500
Business registration fee	2,250
Legal & professional fee	46,400
Secretarial fee	3,805
	60,955
Profit before tax	60,955
Retained earnings b/f	76,105
Retained earnings	137,060

Rayport Limited
Statement of Financial Position
31 December 2013

	Total HK$
NON-CURRENT ASSETS	
Other Investment	10,000
Total Non-Current Assets	**10,000**
Total Assets	**10,000**
CURRENT LIABILITIES	
Other liabilities	(19,992)
Total Current Liabilities	**(19,992)**
Total Liabilities	**(19,992)**
NET (LIABILITIES)	**(9,992)**
EQUITY	
Issued capital	(8)
Reserves	392
Retained earnings	9,608
Total Equity	**9,992**
TOTAL EQUITY	**9,992**

Rayport Limited
Income statement
31 December 2013

	Total HK$
Other revenue	-
Other gains and losses	
Reversal of provision made	(392)
	(392)
Administrative expenses	
Legal & professional fee	10,000
	10,000
Profit before tax	9,608
Retained earnings	9,608

Rayport Limited
Statement of Financial Position
31 December 2014

	Total HK$
NON-CURRENT ASSETS	
Other investment	10,000
Loan recievable	23,400,000
Total Non-Current Assets	**23,410,000**
Total Assets	**23,410,000**
CURRENT LIABILITIES	
Loan payable	(23,432,906)
Total Current Liabilities	**(23,432,906)**
Total Liabilities	**(23,432,906)**
NET (LIABILITIES)	**(22,906)**
EQUITY	
Issued capital	(8)
Reserves	(43)
Retained earnings	22,957
Total Equity	**22,906**
TOTAL EQUITY	**22,906**

Rayport Limited
Income statement
31 December 2014

	Total HK$
Other revenue	-
Other gains and losses	
Net foreign exchange gains/ losses	435
	435
Administrative expenses	
Legal & professional fee	8,000
Other expenses	4,914
	12,914
Profit before tax	13,349
Retained earnings b/f	9,608
Retained earnings	22,957

Peace Base Holdings Limited
Statement of Financial Position
31 December 2013

	Total HK$
CURRENT ASSETS	
Cash and cash equivalents	208,969
Other receivables	10,000
Total Current Assets	**218,969**
NON-CURRENT ASSETS	
Other Investment	51,228,196
Total Non-Current Assets	**51,228,196**
Total Assets	**51,447,165**
CURRENT LIABILITIES	
Other liabilities	(50,555,677)
Total Current Liabilities	**(50,555,677)**
Total Liabilities	**(50,555,677)**
NET (LIABILITIES)	**891,488**
EQUITY	
Issued capital	(10,000)
Reserves	3,126
Retained earnings	(884,614)
Total Equity	**(891,488)**
TOTAL EQUITY	**(891,488)**

Peace Base Holdings Limited
Income statement
31 December 2013

	Total HK$
Other revenue	(11,542)
Other gains and losses	
Reversal of provision made	(877,507)
Net foreign exchange gains/ losses	(248,087)
	(1,125,594)
Administrative expenses	
Admin & Office expenses	412
Legal & professional fee	250,000
Bank charges	2,110
	252,522
Profit before tax	(884,614)
Retained earnings	(884,614)

Peace Base Holdings Limited
Statement of Financial Position
31 December 2014

	Total HK$
CURRENT ASSETS	
Cash and cash equivalents	125,320
Loan receivable	23,400,000
Total Current Assets	**23,525,320**
NON-CURRENT ASSETS	
Other Investment	47,934,330
Total Non-Current Assets	**47,934,330**
Total Assets	**71,459,650**
CURRENT LIABILITIES	
Accruals	(7,000)
Loan payable	(23,400,000)
Total Current Liabilities	**(23,407,000)**
NON-CURRENT LIABILITIES	
Other liabilities	(50,555,677)
Total Current Liabilities	**(50,555,677)**
Total Liabilities	**(73,962,677)**
NET (LIABILITIES)	**(2,503,027)**
EQUITY	
Issued capital	(10,000)
Reserves	(977,480)
Retained earnings	3,490,507
Total Equity	**2,503,027**
TOTAL EQUITY	**2,503,027**

Peace Base Holdings Limited
Income statement
31 December 2014

	Total HK$
Other revenue	(141)
Other gains and losses	
Reversal of provision made	1,324,236
Net foreign exchange gains/ losse	(71,156)
	1,253,080
Administrative expenses	
Other expenses	90,505
	90,505
Profit before tax	1,343,444
Share of profits	
Associates	1,927,613
Retained earnings b/f (restated)	219,450
Retained earnings	3,490,507

Haikou Peace Base Industrial Development Co., Ltd

Audit Report

01/01/2013 – 31/12/2013

Security code: 0202014850027646666

Document number: [2014]40380

Client: Haikou Peace Base Industrial Development Co., Ltd

Practice firm: BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch

Report date: 25/04/2014

Reports generate time: 29/08/2014 14:18

Client location: Haikou,China

China Certified Public Accountant: Weicheng Huang

Xinhang Li

Haikou Peace Base Industrial Development Co., Ltd

Audit Report for 01/2013 - 12/2013

Practice firm: BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch

Telephone: +86-20 -38396233

Fax: +86-20-38396216

Address: 11/F, Suite B, China Shine Plaza, 9 Linhe Road West, Guangzhou/Guangdong/P.R.C

Email: newsalicpa@bdo-gd.com

Website: www.bdo-gd.com

If you have any concerns, please contact Guangdong Provincial Institute of Certified Public Accountants (GDICPA)

Telephone: +86-020-83063583, 83063578

Website: http://www.gdicpa.org.cn

Audit report and Financial reports

For the period from 01/01/2013 to 31/12/2013

Content

立信会计师事务所(特殊普通合伙)广东分所
地址：广州市天河区林和西路9号耀中广场B栋11楼
邮编：510610
电话：86-20-38396233
传真：86-20-38396216

SHU LUN PAN Certified Public Accountants LLP Guangdong Branch
Address: 11/F, Suite B, China Shine Plaza, 9 Linhe Road West, Guangzhou/Guangdong/P.R.C.
Postcode: 510610
Telephone: 86-20-38396233
Facsimile: 86-20-38396216

INDEPENDENT AUDITOR'S REPORT

Documentation number: [2014]40380

To the members of Haikou Peace Base Industrial Development Co., Ltd

Report on the Financial Report

We have audited the accompanying financial report of Haikou Peace Base Industrial Development Co., Ltd, which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Management's Responsibility for the Financial Report

The management of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Accounting Standards for Business Enterprises and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with *Auditing Standards for the Chinese Certified Public Accountants*. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Haikou Peace Base Industrial Development Co., Ltd as of 31 December 2013, and of its financial performance and its cash flows for the period then ended in accordance with the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises.

BDO China Shu Lun Pan Certified Public Accountants LLP Guangdong Branch

China Certified Public Accountant: Weicheng Huang

China Certified Public Accountant: Xinhang Li

Guangzhou, China

25 April 2014

Statement of Financial Position
As at 31 December 2013

Currency: RMB

	31-Dec-13
Cash & cash equivalent	3,893,976.09
Other receivable	38,910,209.28
Total current assets	42,804,185.37
Property, Plant and Equipment	48,981.49
Construction in Progress	1,013,044.19
Intangible asset	14,073,275.31
Deferred tax asset	563,877.86
Total non-current assets	15,699,178.85
Total assets	58,503,364.22
Salaries payable	40,973.25
Tax payable	36,384.19
Other payable	153,512.43
Total current liabilities	230,869.87
Total liabilities	230,869.87
Net assets	58,272,494.35
Share capital	60,000,000.00
Capital surplus reserve	8,741.93
Accumulated losses	-1,736,247.58
Total equity	58,272,494.35

Statement of Profit or Loss and Other Comprehensive Income
For the period ended 31 December 2013
Currency: RMB

	31-Dec-13
Revenue	0.00
Administration expense	-2,245,511.44
Impairment loss	-10,000.00
Other expense	-44,614.00
Total profit/(loss) before income tax	-2,300,125.44
Income tax (expense)/benefit	563,877.86
Total profit/(loss) before income tax	-1,736,247.58
Other comprehensive income	0.00
Total comprehensive loss	-1,736,247.58

Statement of Cash Flows
For the period ended 31 December 2013

Currency: RMB

	31-Dec-13
Cash flows from operating activities	
Proceeds from other operating activities	0.00
Payments for other operating activities	-36,820,000.00
Net cash outflow from operating activities	-36,820,000.00
Cash flows from investing activities	
Proceeds from other investing activities	30,953.36
Payments for fixed assets and intangible assets	-15,191,202.27
Payments to other investing activities	-4,134,516.93
Net cash outflow from investing activities	-19,294,765.84
Cash flows from financing activities	
Proceeds from investors	60,008,741.93
Net cash inflow from financing activities	60,008,741.93
Net increase in cash and cash equivalents	3,893,976.09
Cash and cash equivalents at the beginning of the year	0.00
Cash and cash equivalents at the end of the year	3,893,976.09

Statement of Change in Equity
For the period ended 31
December 2013

	Share capital	**Capital surplus reserve**	**Accumulated losses**	**Total equity**
At 22 March 2013	0.00	0.00	0.00	0.00
Loss for the year	0.00	0.00	-1,736,247.58	-1,736,247.58
Constributed by investor	60,000,000.00	8,741.93	0.00	60,008,741.93
At 31 December 2013	60,000,000.00	8,741.93	-1,736,247.58	58,272,494.35

Notes to the financial statements

I. Company introduction

Review of Operation

Haikou Peace Base Industrial Development Co., Ltd (‘the Company’) was founded upon the agreement of 2013.No.1 ‘Sino-foreign joint venture of Haikou Peace Base Industrial Development Co., Ltd Contract’, which was signed by Haikou Comprehensive Bonded Zone Management Committee on 22 March 2013. The company is a Sino-foreign joint venture founded by Peace Base Holding Limited, HaiNan BaiNa Investment, MinDe Capital Investment (Shanghai), Express Linker Limited, Actual Winner Limited. Register capital is RMB 60 million (60% from foreign companies), among which, Peace Base Holding Limited contributed RMB 24 million (equivalent HKD, 40%); MinDe Capital Investment (Shanghai) contributed RMB 12 million (20%); Express Linker Limited contributed RMB 6 million (equivalent HKD, 10%); Actual Winner Limited contributed RMB 6 million (equivalent HKD, 10%).

On 28 March 2013, the company received *Business License of the Enterprise Legal Person* from Haikou Comprehensive Bonded Zone Management Committee. Registration number: 460100400005043, registered capital RMB 60 million. Legal representative is Junbao Zhang, operation period is long-term.

On 17 September 2013, Haikou Comprehensive Bonded Zone Management Committee signed 2013 No.3 document ‘Haikou Peace Base Industrial Development Co., Ltd Share transfer Agreement’. Per this agreement, HaiNan BaiNa Investment transferred RMB12mil shares to Actual Winner; and MinDe Capital Investment (Shanghai) transferred RMB12mil shares to Express linker. After the share transfer, the company changed from Sino-foreign JV to solely foreign-owned enterprise. Registered capital is RMB 60 million, among which Peace Base Holding Limited contributed RMB 24 million (equivalent HKD, 40%); Actual Winner Limited contributed RMB 18 million (equivalent HKD, 30%); Express Linker Limited contributed RMB 18 million (equivalent HKD, 30%);

On 23 September 2013, Haikou Comprehensive Bonded Zone Management Committee signed 2013 No.4 document ‘Agreement of Haikou Peace Base Industrial Development Co., Ltd Change Operating term’. Per this agreement, the company’s operating period changed from long-term to thirty years, which is from 28 March 2013 to 28 March 2043.

The registered capital was verified by the capital verification report issued by Hainan Mingzhi Accounting Firm: document 2013 No.006B104, 2013 No. 007B099, and 2013 No. 009B043. It was verified up till 09 September 2013 the company has received RMB 60 million registered capital from shareholders. The difference of RMB 8,741.93 from foreign exchange is recorded under capital surplus reserve.

On 25 November 2013, the company got the Business License after the above changes.

The registry authority: Hainan Province Haikou Administration Office for Industry and Commerce

Registration number: 460100400005043

Name: Haikou Peace Base Industrial Development Co., Ltd

Address: Land No. 003 in Haikou Comprehensive Bonded Zone. 69 South Yihuan Road, Old Town Economic Development Zone. Chengmai, Hainan.

Legal representative: Junbao Zhang

Register capital: RMB 60,000,000

Share capital: RMB 60,000,000

Company type: Corporation Limited (Hongkong, Macao and Taiwan Funded)

Business scope: Investment management, investment consultation, packaging, domestic and international logistics, warehousing service (excluding dangerous chemicals), goods bonded exhibition, importing and exporting goods, processing and sales of diamond and gold jewelry, golf facilities, skating boards, watches and other luxuries processing and sales; sales of electronic appliances, furniture, electronic devices, clothing processing and sales, culture communication (the above is operated within Haikou Comprehensive Bonded Zone, excluding any illegitimate activities).

II. Basis of Preparation

These financial statements for the period ended 31 December 2013 have been prepared in accordance with *Accounting Standards for Business Enterprises – General standards* (issued by the Ministry of Finance on 15/02/2006); 38 Specific Accounting Standards and the Accounting Standards for enterprises application guide (*Business Enterprises Accounting Standards*).

III. Compliance with Business Enterprises Accounting Standards

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The company compliance with Business Enterprises Accounting Standards, giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance for the period ended on that date, and its cash flow statements.

IV. 4. Summary of significant accounting policies and accounting estimates

1. Financial year: from each 01 January to 31 December.

2. The financial statements are presented in RMB (Chinese Yuan), which is the Company's functional and presentation currency.

3. Cash and cash equivalents:

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

4.. Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive Income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at historical cost are translated using the exchange rates at the transaction day. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Transaction difference on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

5. Balances on financial reports

Assets and liabilities are are translated into the functional currency using the exchange rates prevailing at the balance sheet date; Owners equity items are translated at spot rate on the transaction day, except for 'retained earnings'. Revenue and expenses in income statement are translated at spot rate on the transaction day. Foreign exchange gains and losses resulting from such transactions are recognized in statement of financial position under owner's equity.

On disposal of a foreign operation, transfer the difference of foreign currency listed under the owner's equity in the balance sheet to profit or loss; partial disposal of a foreign operation, transfer the foreign currency difference based on disposal proportionate into profit or loss.

6.. Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments

1. Classification
   Financial instruments are classified into: financial assets or financial liabilities measured at fair value and recorded in profit or loss, which includes trading financial assets or financial liabilities (deemed fair value and recorded through profit or loss in the income statements); held to maturity investment, account receivable, available for sale financial assets, other financial liabilities.

2. Reorganisation and measurement
   (1) Measurement of financial assets or financial liabilities upon initial recognition must be at fair value. The interest or cash received during holding the financial assets will be recognised as gains on investments and recorded through profit or loss at period end. A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.
   (2) Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. After initial recognition, held to maturity investment shall be measured at amortised cost using the effective interest method. Effective rate of interest is recognised at initial recognition and remains constant within expected duration.
   At maturity, the difference between proceeds and carrying amount is recognised in profit or loss.
   (3) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method, less any impairment.
   Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current.
   (4) Available-for-sale financial assets are measured at fair value (including direct transaction costs). Gains and losses on available-for-sale financial assets are recognized in equity, except for impairment losses and foreign exchange movements. When the financial asset is derecognized, the cumulative gain or loss is transferred from equity to profit or loss.
   (5) Other financial liabilities are measured at fair value (including direct transaction costs); subsequent measurement is by amortising costs.

3 Reorganisation of Financial assets transfer and measurements.
When there is a transfer of financial asset, if most of the risks and rewards are transferred to the transferrer, it is recognised as financial asset; if most of the risks and rewards are retained with the transferee, it is not recognised as financial asset. The company divides financial assets transfer into whole transfer and partial transfer.
On derecognition of a financial asset in its entirety, the difference between the below two shall be recognised in profit or loss.

(a) the carrying amount; and

(b) the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income ;

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts on the date of the transfer. For this purpose, a retained servicing asset shall be treated as a part that continues to be recognised. The difference between the below two shall be recognised in profit or loss:

(a) the carrying amount allocated to the part derecognised; and

(b) the sum of the consideration received for the part derecognised (including any new asset obtained less any new liability assumed) and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income

4. Derecognition of Financial liability

A financial liability (or part of it) is derecognised when the obligation (or part of it) is extinguished either due to the obligation being discharged, expired or cancelled. When an existing financial liability is modified substantially or renegotiated with substantially different terms, this is to be accounted for as an extinguishment of the original financial liability and recognition of a new financial liability

The difference between the carrying amount of the financial liability extinguished and the consideration paid is recognised in profit or loss.

If an entity repurchases a part of a financial liability, the entity shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying amount allocated to the part derecognised and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in profit or loss.

5. Fair value of financial assets and financial liability.

The company uses quoted prices in an active market provide the best evidence of fair value of all the financial assets or liabilities

6. Impairment of financial assets (excludes trade receivables)

Other than those financial assets recorded in profit or loss at fair value, the company evaluates the carrying amount of financial assets at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

(1) Available-for-Sale Financial Assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of the cumulative loss that is reclassified from equity to profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

(2) Impairment of Hold to maturity refers to the method for trade receivable impairment.

7. Provision for doubtful trade receivable

1. Impairment of single significant trade receivable: refer to those single carrying amount above 1 million (including related party): the company assesses the impairment of allowance for doubtful trade receivable at reporting date.

At period end, assess note receivable, prepayments; significant amount accounts receivables and other receivable by specific identification method, to see if there is any indication of impairment. If there is objective evidence showing impairment, when the discounted future cash flows of receivables (excluding future credit losses that have not been incurred) is lower than its book value, the book value of the receivables is to be written down to the present value, the amount of reduction is recognized as an impairment loss of assets, record provision for bad debts.

For those un-impaired individual significant accounts receivable; other receivables; non-significant accounts receivable and other receivables, a combination should be used to assess its impairment loss. This is divided by similar credit risk characteristics, then calculate percentage of these accounts receivable and other receivables portfolio based on closing balance to determine the impairment loss. This ratio reflects potential impairment losses may occur in the future, which is book value of the portfolio is higher than present value of its future cash flow. Note receivable, prepayments, and impaired individual significant accounts receivable are not included in this test.

2. Combination to calculate provision for doubtful trade receivable

- Receivables with same aging and similar credit risk characteristics;

- Aging analysis

The company does not recognise provision for doubtful debts if it has been assessed as no risk of recoverability.

Aging	Percentage of trade receivable provision (%)	Percentage of other receivable provision (%)
Within 1 year	10.00	10.00
1-2 years	30.00	30.00
2-3 yeaars	50.00	50.00
3 years+	100.00	100.00

3. Impairment of single non-significant trade receivable: to those single carrying amount above 1 million (including related party), overseas trade receivable and domestic trade receivable over 3 years (excluding related party). A provision for impairment of trade receivables is raised when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

8. Inventory

(1). Classification of inventory

Inventory is classified as raw material, low value consumables, WIP and finished goods.

(2). Measurement of inventory

Purchased raw material, low value consumables are recognised at actual costs, raw material and finished goods are recognised at the lower of cost and net realisable value.

(3) Net realisable value
After the end of period assessment of inventories, the provision of impairment is based on the lower of cost or net realisable value. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets shall not be carried in excess of amounts expected to be realised from their sale or use.
A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value.
(4) Stock take method: Perpetual inventory(stock) system
(5) Amortisation of low value consumables: one-off amortisation method.

9. Long term equity investment

1. Measurement of investment cost

(1) Long-term investment from business combination

Business combination under common control: the company obtains control of one or more businesses in a variety of ways, for example: by transferring cash, cash equivalents or other assets (including net assets that constitute a business); by incurring liabilities; by issuing equity interests, the carrying amount of share equity of the acquiree at the acquisition date is recorded as the initial investment cost. The difference between the initial investment cost of long-term equity investments and the consideration paid is recorded in capital stock premium. Undercapitalized balance of the share premium shall be adjusted to retained earnings. The direct costs associated with the merger, such as the audit fee, valuation fees, legal fees are recorded in profit or loss.

Under non-identical control business combination: the company record the cost of business combination at acquisition date as the initial of cost long-term equity investment. The cost of business combination is the fair value paid by the acquirer at acquisition date, to obtain control of the acquiree's assets, which includes cash, cash equivalents, incurred liabilities; issued equities. The direct costs associated with the merger, such as the audit fee, valuation fees, legal fees are recorded in profit or loss. The transaction costs in issuing equity security or debt security is recorded in recorded the initial cost of equity security or debt security. For business combination under uncommon control taken several transactions, the initial investment cost is carrying amount of acquiree’s share capital and additional investment cost. The Company agree in the merger agreement to record the fair value of contingent consideration at acquisition date as part of the consideration, under business combination cost.

(2). Long-term equity investment acquired by other methods

Long-term equity investment acquired by cash payment, recognize the actual payment of the purchase price as the initial investment cost.

Long-term equity investment by issuing equity securities, recognize the fair value of the equity securities issued as the initial investment cost

Long-term equity investment, recognize the investment value of the contract or agreement (net of declared but not yet paid cash dividends or profits) as the initial investment costs, excluding the non-fair value agreement.

In the non-monetary assets exchange that has commercial substance and the exchanged assets can be reliably measured at its fair value, initial investment costs is the fair value of the assets exchanged-out, unless there is conclusive evidence that the fair value of asset exchanged-in is more reliable. For those not satisfy the above conditions, the initial investment cost is carrying amount of the assets exchanged-out and related taxes payable.

2. Subsequent measurement and income confirmation

(1) Subsequent measurement

The company uses cost accounting method to calculate Long-term equity investment, using equity method to adjust balance when preparing the consolidated financial statements. Cost method of accounting is used when the company does not have joint control or significant influence in the investee, or when there is no quoted price in an active market, or the fair value of long-term equity investments cannot be reliably measured. Equity method is used when the company has joint control or significant influence in the investee.

The initial investment cost is greater than the fair value of the investee's identifiable net assets; the difference is not adjusted in the initial investment cost of long-term equity investment; when the initial investment cost is less than the fair value of the investee's identifiable net assets, the difference is recorded in profit or loss. Owners' equity in the investee other than net profit or loss: when shareholding ratio remains unchanged, the company calculated the incurred portion according to the shareholding ratio, adjusting of carrying amount of long-term equity investment, and increase or decrease the capital reserve (other capital reserve)

(2) Confirm income

Under the cost method, other than the price actually paid, or cash dividends or profits included declared in consideration but not yet paid, the company was recognized investment income in accordance with the cash dividends or profits the investee declares.

Under the equity method, considering the carrying amount of investee's net profits: if accounting policy or accounting period of investee is inconsistent with the company, adjustment is made according to the company's accounting policy or accounting period, so as to calculate the effect of impairment, depreciation expense, amortization expenses on intvestee's profit or loss.

The net profit or loss of the investee is measured after eliminating the unrealised inter-company transactions between company and its associated or joint ventures.

When the company confirmed losses of the investee, the following procedures should be taken: First, reduce the carrying value of long-term equity investment. Secondly, the book value of long-term equity investment is not sufficient to offset, the additional investment loss is to net off long-term receivables. Finally, after the above process, there are still additional obligations per investment contract; it is recorded as estimated liability under current investment loss. When the investee starts to make profit, the procedure is reverse order of the above treatment.

During the holding of investment, if the investee can provide consolidated financial statements, the company would base its consolidation on the investee's financial statements and net income and other changes in equity

3. Joint control and significant influence

Joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. When the company and other parties jointly control the investee, the investee is a jointly controlled entity.

Significant influence is the power to participate in the financial and operating policy decisions of an economic activity but is not control or joint control over those policies. When the company exert significant influence on the investee, the investee is an associate.

4. Impairment test and impairment provision

If the long-term equity investment is under significant influence, not quoted in an active market and the fair value of cannot be reliably measured, the impairment loss is difference of its carrying amount and the prevailing market rate of return for a similar financial asset's discounted future cash flows.

Other long-term equity investments other than goodwill arising from business combination, if the recoverable value is lower than it carrying amount; the difference will be recognized as an impairment loss.

The impairment loss of long-term equity investments cannot be reserved.

10. Investment real estate property

Investment property refers to property held to earn rentals or for capital appreciation or both, hold, including the right to use the leased land held for appreciation after the transfer of land use rights have been leased buildings (after the self-construction or development activities, including the completion of a building for rent as well as being constructed or developed for future use in the process of building rental).

The company uses cost model to calculate existing investment property. According to the cost model for investment property – rental buildings follows the same depreciation policy as fixed assets of the company, land leased follows the same amortization policy as intangible assets

When there is sign for impairment, the estimated recoverable amount less than its carrying value, is recognized as impairment loss.

The impairment loss of real estate property cannot be reserved.

11. Property, plant and equipment

1. Recognition:

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period. It is recognised when it can bring potential economic benefits to the company and it can be reliably measured.

2. Depreciation method

PPE depreciated by straight line method provision, based on type, estimated useful life and estimated residual value. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

PPE subject to finance, if it is reasonable to determine that the company will obtain ownership of the leased asset at the expiry of the lease term, the leased assets are depreciated over the remaining useful life; otherwise, it is depreciated over the shorter of lease term or remaining useful life.

Type	Depreciation years	Residual rate	Annual depreciation rate

Type	Depreciation years	Residual rate	Annual depreciation rate
Building	25	3	3.88
Machinery and equipment	10	3	9.70
Office equipment	5	3	19.40
Transportation	4	3	24.25
Electronic equipment	3	3	32.33

3. PPE Impairment

The company assess signs of possible impairment at each financial year end. If there is any indication of impairment, the recoverable amount will be estimated. The recoverable amount the higher of fair value of PPE less disposal expense, or expected future cash flows.

When the recoverable amount of PPE is lower than carrying amount, the book value is written down to its recoverable amount. The write-off amount is recognized as an impairment loss and recorded in profit or loss, while record provision for PPE impairment.

After the PPE impairment loss, depreciation expense of the impaired PPE will be adjusted in future periods. The carrying amount of the PPE will be depreciated over the remaining useful life (less estimated residual value).

Once PPE impairment loss is recognized, it cannot be reversed in subsequent periods.

If there is impairment indication, the company estimates the recoverable amount by individual unit. If individual unit is hard to measure, the company will estimate the recoverable value based on the asset group.

V. Recognition and measurement of PPE subject to finance lease

Lease agreement signed between the company and the leasing party specified in the terms of one of the following conditions shall be recognized as a finance lease assets:
(1) the ownership of the lease transferred to the company at lease expiration date;

(2) The Company has the option to purchase the assets, the purchase price is far lower than the fair value of the asset;
(3) The lease term is the majority of the leased asset useful life;
(4) there is not much difference between the present value of the minimum lease payment at lease start date, and the fair value of the asset.
On the lease start date, the lower of fair value of the leased asset and the present value of the minimum lease payments, is recorded as the book value of leased assets. The minimum lease payments are recorded as long-term payables, the difference is as unconfirmed financing costs.

12. Construction in progress

1. Classification: classified by proposed projects

2. Standards of CIP transferred to PPE

All expenditures incurred prior to its ready-to-use status are recorded as PPE.

WIP that has reached its intended use, but yet finally settled, the estimated value based on project budget, cost or actual cost, is recorded under PPE. And depreciate according to the company's depreciation policy. After final settlement, adjusted actual cost to the estimated value, but not adjust the depreciation amount.

3. Impairment

The company assesses CIP to determine signs of possible impairment at the end of each financial period.

If there is impairment indication, the company estimates the recoverable amount by individual CIP. If that value is hard to measure, the company will estimate the recoverable value based on the asset group. The recoverable amount the higher of fair value of WIP less disposal expense, or expected future cash flows.

When the recoverable amount of CIP is lower than carrying amount, the book value is written down to its recoverable amount. The write-off amount is recognized as an impairment loss and recorded in profit or loss, while record provision for CIP impairment.

Once CIP impairment loss is recognized, it cannot be reversed in subsequent periods.

13. Borrowing cost

1. Capitalization of borrowing costs recognized principles

Borrowing costs include interest on borrowings, amortization of discounts or premiums, ancillary expenses and exchange differences on foreign currency borrowings.

Borrowing cost incurred can be directly attributable to the acquisition or construction of assets is eligible to be capitalized and included in cost of relevant assets; other borrowing costs is recognized as an expense and included profit or loss.

Assets eligible for capitalization refers to those assets (PPE, Investment real estate property, Inventory) required quite a long time of acquisition, construction or production activities in order to achieve its intended use or sale.

Borrowing costs can start capitalization when following conditions are met:

(1) Capital expenditures have occurred, which includes capital expenditures for the acquisition, construction or production via cash, transfer of non-cash assets or interest bearing debts expenses.

(2) Borrowing cost occurred

(3) Acquisition, construction or production activity, which to bring to intended use or sale has occurred.

2. Borrowing costs capitalisation period

Capitalization period, measured from the point of borrowing costs capitalized till cessation of capitalization, suspension period is not included.

When the acquired, constructed asset is ready to use, the capitalization of borrowing costs ceases.

As part of the acquisition, construction or production of assets eligible for capitalization projects were completed and can be used alone, this part of the assets of the borrowing costs stopped.

Acquisition, construction or production of the assets are completed separately, capitalization of borrowing costs cease when the asset is completed entirely

3. When the acquisition or production of capitalised asset is interrupted abnormally and the interruption lasts more than three months, the capitalization of borrowing costs shall be suspended; If the interruption is a necessary procedures, the borrowing costs continue to be capitalized. During the break, borrowing costs are recognized as profit or loss, until the construction of assets or production activities continue to re-start the capitalization of borrowing costs

4. Calcluation: use the actual borrowing that is for acquisition or production of capitalised asset, minus the interest income of unused borrowing funds in the bank or invest in temporary investments

For general borrowing that is for acquisition or production of capitalised asset, use the weighted average to calculate the exceeded amount, multiplying the occupancy of the capitalization rate.

Where there is any discount or premium, use effective interest method to determine each accounting period’s amount of discounts or premiums and adjust interest expense for each period.

14. Intangible

1. Measurement of intangible

(1) initial measurement at cost when first acquire intangibles

The cost of purchased intangible assets, including the purchase price, relevant taxes and other expenses occurred directly attributable to bringing the asset to its intended use.

The purchase price of intangible assets beyond normal credit terms and paid by deferred payments is financing in nature. The cost should be the present value of the intangible assets. Intangible assets acquired from debt restructuring, cost is its fair value.

In the non-monetary assets exchange that has commercial substance, and fair value of the assets can be reliably measured, the asset exchanged-in is measured at the fair value of that of exchanged-out, unless there is solid evidence showing the fair value of the asset exchanged-in is more reliable; other than the above, record at the carrying amount of asset exchanged-out and relevant tax as cost of assets, not recognized gains and losses.

Business combination under common control, the intangible asset is recorded at the mergree’s carrying amount; Business combination not under common control, record at fair value.

Internally developed intangible assets, the costs include: materials consumed during development of intangible assets, amortization of labor costs, registration fees, use other patent rights and capitalized interest expense and other direct costs incurred prior to the intended use.

(2) Subsequent measurement

Determine intangible assets' useful life at acquisition.

For intangible assets with limited useful life, use straight-line basis to amortise the economic benefits over the period; economic benefits is unexpected, deemed intangible assets with indefinite useful life and not amortize

2. Intangible asset useful life

Account	Estimated useful life	Evidence
Land right	29 years 4 months	The lower of business license and land usage right.
Software	3 years	

Reassess the useful life and amortization method of intangible assets at each financial period end.

3. Up till balance sheet date, the company does not have any intangible assets with uncertain useful life.

4. Impairment:

For the intangible assets with certain useful life, if there are obvious signs of impairment, impair at the end of financial period. For those with uncertain useful life, impair at each financial period end.

If there is impairment indication, the company estimates the recoverable amount by individual intangible asset. If that value is hard to measure, the company will estimate the recoverable value based on the asset group. The recoverable amount the higher of fair value of intangible asset less disposal expense, or expected future cash flows.

When the recoverable amount of intangible asset is lower than carrying amount, the book value is written down to its recoverable amount. The write-off amount is recognized as an impairment loss and recorded in profit or loss, while record provision for intangible asset impairment.

Once intangible assets impairment loss is recognized, it cannot be reversed in subsequent periods.

5. Ineternal research Phases and development stage

Internal research is divided into research expenditures and development expenditures.

Research stage: to acquire and understand new scientific or technical knowledge and the creative and planned investigation stage research activities.

Development stage: Before commercial production or use of research findings or other knowledge to a certain plan or design for the production of new or materials, devices, products and other activities have substantially improved the stage

6. Capitalisation during development stage

Expenditure in internal research and development projects are recognized as intangible assets when the following conditions are satisfied

(1) has technically feasible to complete for use or sale

(2) has the intention to complete this intangible asset for use or sale

(3) has future economic benefit, external potential market and internal usefulness

(4) has ample technical and financial support to complete and bring to use or sale

(5) related expenses can be reliably measured.

15. Long-term prepaid expenses

Long-term prepaid expense (more than one year's fees) is that already incurred but should be amortized in the current and future periods.

(1) Amortise use average method during benefit periods.

16. Accrued liabilities

The company involved in litigation, debt guarantees, loss of contracts, reorganization items, such as these matters are likely to trigger future to compensate of assets or provision of services, the Recognition:

When the obligation of contingencies satisfy the following conditions, the Company recognize it as accrued liabilities:
(1) the obligation is a current obligation of the Company;
(2) the fulfillment of the obligation is likely to cause outflow of the Company;
(3) the amount of the obligation can be measured reliably

2. Measurement of accrued liability

The company estimates the accrued liability based on the expense occurred to fulfill the current obligation.

In determining the best estimate, the company consider risk of contingency, uncertainty and time value of money and other factors. For the time value of money is material, use discounted future cash flow as best estimate.

Circumstances of best estimates:

There is a continuous range of expenditure required (or range), and the same likelihood of occurrence within the range of various outcomes, the best estimate of the range according to the median average of the lower limit on the amount that is determined.

Expenditures required there is not a continuous range (or section), or although there is a continuous range but the possibility of various outcomes within the range are not the same, the best estimate is the most likely to occur; i.e. contingency involves multiple projects, the best estimate calculated and determined by a variety of possible outcomes and associated probabilities.

When all or part compensation estimated liabilities expenditure required to settle by a third party, if the compensation can be received, it is separately recognized as an asset, the amount of compensation does not exceed the carrying value of estimated liabilities.

17. Revenue

1. Revenue recognition

Revenue arising from the sale of goods or the disposal of other assets must be recognised when, and only when, all the following conditions have been satisfied: the entity has passed control of the goods or other assets to the buyer; it is probable that the economic benefits comprising the consideration will flow to the entity; the amount of revenue can be measured reliably.

2. Confirm revenue from transfer of right to use assets

The economic benefits associated with the transaction are likely to flow into the enterprise, amount of revenue can be measured reliably. The following conditions are to use :

(1) Interest income, calculated at the time and effective rate when others use the company's funds.

(2) Royalty revenue, based on specific agreements.

18. Government grant

1. Government grant is obtained free from the government's monetary assets and non-monetary assets. It can be divided into: asset-related government subsidies and income-related government subsidies.
2.accoutning method: those government subsidies related to acquisition of fixed assets, intangible assets and other long-term assets are recognized as deferred income, recorded as non-operating income;
Government grants related to income, to compensate subsequent period losses, is recognized as deferred income when received, recorded as non-operating income when confirming relevant costs; compensation for related expenses incurred to the enterprise or loss, directly included in the current operating income when acquired.

19. Deferred tax assets and deferred tax liabilities

For the deferred tax assets that can offset deductible temporary differences, the limit is the probably future period's taxable income.
For taxable temporary differences, except in special circumstances, be recognized as the deferred tax liabilities.
For those special circumstances not recognize as deferred tax assets or deferred tax liabilities include: the initial recognition of goodwill); other transactions or events when a business combination occurs, affects neither the accounting profit nor taxable income (or deductible loss.
When has the legal right to offset and intends to netting or acquire assets and settle the liability simultaneously, record the net amount after net-off income tax and current tax liabilities. When having the legal right to offset current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities are the same taxation authority on the same taxable income tax levied by the relevant body or different taxable entities, However, in each future period in which significant amounts of deferred tax assets and liabilities are reversed, the tax payer's intention to offset current tax assets and liabilities or simultaneously acquire the asset and settle liabilities, the Company nets off deferred tax assets and deferred tax liabilities.

20. Operating lease and finance lease

- 1. Operating lease

(1) The rental fees, without deducting the rent-free period, amortised by straight-line method include in profit or loss; Initial direct costs related to lease transactions paid by the Company include in profit or loss. Lessor bear any costs related to the lease shall be borne by the Company; the Company shall deduct it from the total rent cost, the rest amortized during lease period, included in profit or loss.

(2) The rental income without deducting the rent-free period, amortised by straight-line method include in revenue. Initial direct costs related to lease transactions paid by the Company, included in the current expenses; if it is a large amount, and then capitalized over the entire lease term.

The company bears the rental fee should be born by the lessee deduct it from the total rental income; assign the rest over lease term.

- 2. Finance lease

(1) finance lease expense: since lease starting date, the lower of fair value of the leased asset and the present value of the minimum lease payments, is recorded as book value of the leased asset, the minimum lease payments is the book value of long-term payables, the difference is unrealized financing profit. The company amortize the unconfirmed financing costs during the period by effective interest rate. Initial direct costs incurred, included in the leased asset.

(2) Finance lease assets income: since lease start date, the difference between finance lease receivable, unsecured residual value and its present value is recognised as unearned finance income. It shall be recognized in the future as rental income. Initial direct costs associated with the rental company transactions occurred, included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

21. Related party

One party control, joint control or exercise significant influence over the other party, as well as two or more parties under the same party control, joint control; these all make up related parties. Only subject to state control without the presence of other enterprises related party relationships, does not constitute the Company's related parties

The Company's related parties include, but are not limited to:
(1) The Company's parent company;
(2) a subsidiary of the Company;
(3) other companies controlled by the same parent company;
(4) the party has joint control;
(5) the investor has significant influence on the company;
(6) The Company's joint ventures, including joint venture subsidiary;
(7) The Company's associates, including subsidiaries associates;

(8) key investors of the Company and their close family members;
(9) The key management personnel of the Company or its parent company and their close family members;
(10) key investors, key management personnel or their close family members, where they control or joint control other companies

5-1. There is no changes in main accounting policies in this period.

5-2. There is no changes in main accounting estimates in this period.

5-3. There is no correction regarding prior accounting period.

6.Tax

Type	Description	Rate
Value-added tax	Based on revenue	3%
Business tax	Based on revenue	5%
Urban maintenance and construction tax	Based on actual payment of the sales tax, value added tax and consumption tax levied	5%
Income tax	Based on taxable income	25%
Education tax surcharge	Based on actual payment of the business tax, value added tax and consumption tax levied	3%
Local education tax surcharge	Based on actual payment of the business tax, value added tax and consumption tax levied	2%

The company is small-scale VAT taxpayer at this stage. It is applying for being general taxpayer

7. Notes to major accounts in financials:

1. Cash: no restrictions on cash.

Accounts	31/12/2013		
	Original Currency	FX Rate	Translated to RMB
Total Cash on hand			
RMB	3,144.37	1.0000	3,144.37
HKD	0.00	0.00	0.00
USD	13,320.00	6.0969	81,210.71
Total	--	--	84,355.08
Total Cash at bank			
RMB	1,155,622.23	1.0000	1,155,622.23
HKD	3,375,729.81	0.7862	2,653,998.78
USD	0.00	0.00	0.00
Total	--	--	3,809,621.01
Total	--	--	3,893,976.09

2. Other receivable

- Aging receivable

Aging	31/12/2013			
	Balance		Provision for Doubtful Debts	
	Amount: RMB	%	Amount: RMB	%

Within 1 year	38,920,209.28	100	10,000.00	0.03
Total	38,920,209.28	100	10,000.00	--

- Classification of other receivables

Classification	31/12/2013			
	Balance		Provision for Doubtful Debts	
	Amount: RMB	%	Amount: RMB	%
Single significant amount	38,720,000.00	99.49	0.00	0.00
Impairment				
Combination 1	100,000.00	0.26	10,000.00	10.00
Total	100,000.00	0.26	10,000.00	10.00
Single non-significant amount	100,209.28	0.26	0.00	0.00
Total	38,920,209.28	100.00	10,000.00	--

- Provision for bad debts

Aging	31/12/2013		
	Balance		Provision for bad debts
	Amount: RMB	%	
Within 1 year	100,000.00	100.00	10,000.00
Total	100,000.00	100.00	10,000.00

- As at 31/12/2013 Single significant amount:

Other debtors	Balance	Provision for doubtful debts	Provision %	Reason for provision
Beijing Yunzhong Investment Consulting Pty Ltd	36,720,000.00	0.00	0.00	Received post year end. No risk in recoverability
Haikou Comprehensive Bonded Zone Management Committee	2,000,000.00	0.00	0.00	Land security deposit, no recoverability risk
Total	38,720,000.00			

As at 31/12/2013, there is no shareholders holding more than 5% (including 5%) voting shares listed in other receivables.

Single significant amount

Name	Relationship	Balance	Aging	%	Description
Beijing Yunzhong Investment Consulting Pty Ltd		36,720,000.00	Within 1 year	94.35	Transactions
Haikou Comprehensive Bonded Zone Management Committee		2,000,000.00	Within 1 year	5.14	Land security deposit
Shanghai Waigaoqiao Free Trade Zone Development Co., Ltd		100,000.00	Within 1 year	0.26	Lease security deposit
Total		38,820,000.00		99.74	

Related party receivable

Name	Relationship	Balance	%
Baojun Zhang	Legal representative	91,222.90	0.23
Total		91,222.90	0.23

3. PPE: there is no fully depreciated but still in usage PPE as period end

Account	Opening	Addition		Disposal	Closing
Opening net book value		51,523.00			51,523.00
Including:					
Building					
Machinery					
Office equipment		6,550.00			6,550.00
Transportation equipment					
Electronic equipment		44,973.00			44,973.00
		Additions	Depreciation		
Depreciation charge:			2,541.51		2,541.51
Building					
Machinery					

Account	Opening	Addition		Disposal	Closing
Office equipment			219.87		219.87
Transportation equipment					
Electronic equipment			2,321.64		2,321.64
PPE NBV:					48,981.49
Building					
Machinery					
Office equipment					6,330.13
Transportation equipment					
Electronic equipment					42,651.36
Impairment loss:					
Building					
Machinery					
Office equipment					
Transportation equipment					
Electronic equipment					
Closing net book value					48,981.49
Including:					
Building					
Machinery					
Office equipment					6,330.13
Transportation equipment					
Electronic equipment					42,651.36

4. Construction in progress

Account	31/12/2013		
	Closing balance	Provision for impairment	Carrying amount
HaiKou Peace Base diamond and jewellery processing and sales centre	1,013,044.19		1,013,044.19
Total	1,013,044.19		1,013,044.19

Project	Budget	Opening bal	Addition	Percentage of budget	Closing bal
HaiKou Peace Base diamond and jewellery processing and sales centre	120 million	-	1,013,044.19	0.84%	1,013,044.19
Total		-	1,013,044.19		1,013,044.19

5. Intangible assets

Account	Opening bal	Addition	Disposal	Closing bal
Original cost		14,115,410.69		14,115,410.69
Land ownership		14,076,810.69		14,076,810.69
software		38,600.00		38,600.00
Accumulated amortisation		42,135.38		42,135.38
Land ownership		39,990.94		39,990.94
software		2,144.44		2,144.44
Impairment				
Land ownership				
software				
Closing balance				14,073,275.31
Land ownership				14,036,819.75
software				36,455.56

Note: According to the certificate of land use (No. LCGY[2013]1488) issued by the People's Government of Chengmai County, Haikou, the usage of land by the Company is for warehousing for mining activities.

6. Deferred tax asset and deferred tax liability

Account	31/12/2013	
	Deferred tax asset	Deductible temporary difference
Deferred tax asset		
Provision for impairment	2,500.00	10,000.00

Account	31/12/2013	
	Deferred tax asset	Deductible temporary difference
Start-up costs	561,377.86	2,245,511.44
Total	563,877.86	2,255,511.44

7. Salary payable

Account	Opening	Addition	Payment made	Closing
Salary, bonus, subsidies		117,018.85	76,045.60	40,973.25
Fringe benefit		328.00	328.00	
Social security		1,808.53	1,808.53	
General medicare		600.84	600.84	
Supplementary medicare				
Superannuation		1,051.47	1,051.47	
Supplementary superannuation				
Unemployment		90.12	90.12	
Work compensation		30.04	30.04	
Maternity		36.06	36.06	
Housing				
Education				
Total		119,155.38	78,182.13	40,973.25

8. Tax payable

Tax	Rate	31/12/2013
VAT	3%	
Income tax	25%	
Individual income tax	Progressive rate	
Property tax	1.20%	
Stamp duty		36,384.19
total	--	36,384.19

9. Other payable

Aging	31/12/2013
Within 1 year	153,512.43
Total	153,512.43

10. Share capital

Investors	Opening	Increase	Decrease	Closing	Closing
PEACE BASE HOLDINGS LIMITED（Note）		24,000,000.00		24,000,000.00	40.00
MinDe Capital Investment (Shanghai)		12,000,000.00	12,000,000.00		
HaiNan BaiNa Investment		12,000,000.00	12,000,000.00		
EXPRESS LINKER LIMITED		18,000,000.00		18,000,000.00	30.00
ACTUAL WINNER LIMITED		18,000,000.00		18,000,000.00	30.00
Total		84,000,000.00	24,000,000.00	60,000,000.00	100.00

Note: The registered capital was verified by the capital verification report issued by Hainan Mingzhi Accounting Firm: document 2013 No.006B104, 2013 No. 007B099, and 2013 No. 009B043. It was verified up till 09 September 2013 the company has received RMB 60 million registered capital from shareholders. The difference of RMB 8,741.93 from foreign exchange is recorded under capital surplus reserve.

11. Capital reserve

Account	Opening	Increase	Decrease	Closing
Capital (equity) premium		8,741.93		8,741.93
Total		8,741.93		8,741.93

12. Accumulated loss

Account	Amount	%
Opening accumulated loss		
+: net loss in current year	-1,736,247.58	
-: reserve fund		
Enterprise Development Fund		
Other		
Closing accumulated loss	-1,736,247.58	

13. Administration expense

Account	Closing balance	Opening balance
Start-up cost	2,245,511.44	
Total	2,245,511.44	

14. Assets impairment

Accounts	Closing balance	Opening balance
Provision for bad debts	10,000.00	
Total	10,000.00	

15. Other expense

Accounts	Closing balance	Opening balance
Other expense	44,614.00	
Total	44,614.00	

16. Income tax expense

Accounts	Closing balance	Opening balance
Current income tax		
Deferred tax adjustment	-563,877.86	
Other		
Total	-563,877.86	

17. Cash flow notes

Account	Amount
Borrowing from other parties	36,720,000.00
Land security	100,000.00
Total	36,820,000.00
Interest income from other investing activities	30,953.36
Total	30,953.36

Account	Amount
Preparation expenditure	4,089,902.93
Tax fines	44,614.00

Total	4,134,516.93

18. Cash flow statement supplementary information: current year other expense included administration expense of RMB 2,245,511.44, and other expenses RMB 44,614.00

	Closing balance	Opening balance
1. Reconciliation of net cash flows from operating activities:		
Net loss:	-1,736,247.58	
+: asset impairment	10,000.00	
PPE depreciation		
Intangible amortisation		
Amortisation of long-term prepayments		
Disposal of PPE, intangible and prepayments		
Loss on PPE disposal		
Financial cost		
Investment loss		
Decrease in deferred tax assets	-563,877.86	
Decrease in inventory		
Decrease in operating activity	-36,820,000.00	
Operating payable increase		
Other	2,290,125.44	
Net cash outflow from operating activities	-36,820,000.00	
2. Significant non-cash investing and financing activities		
Capitalised debt		
Convertible bonds due in the year		
Finance leased PPE		
3. Change in cash and cash equivalent：		
Cash closing balance	3,893,976.09	
-: cash opening balance		

	Closing balance	Opening balance
+: cash equivalent closing balance		
-: cash equivalent opening balance		
Net increase in cash and cash equivalent	3,893,976.09	

Cash and cash equivalent:

Account	Closing balance	Opening balance
Cash:	3,893,976.09	
Cash on hand	84,355.08	
Cash at bank	3,809,621.01	
Cash at bank –other currency		
Cash at bank – HQ		
Cash equivalent		
Bond investments due within three months		
Cash and cash equivalent closing balance	3,893,976.09	

8. No contingency to be disclosed.

9. Subsequent events:

January 18, 2014, the Company and DOUBLE EAST LIMITED (Cheng East Ltd.) signed a lease agreement plant, The company leases out Land 003 factory C to Heng Mei (entire building, in progress), which located at No. 69 Chengmai County, Hainan, Haikou Comprehensive Bonded Zone, Old City Economic Development Zone. Construction area of 6300 square meters is expected (final area of state-owned land to the Housing Bureau measurement date). Leasing plant use for the production, processing and diamond jewelry, lease term for three decades, since the rented premises until the completion of the fifth day after the thirtieth anniversary of the Commencement Date, and within ten months from the Commencement Date as rent-free periods, rent-free period, Cheng Dong Co., Ltd. do not have to pay rent, but it should pay strata fee.

Year	Monthly rent	Strata fee
The first five-year	RMB 136,400.00	RMB 25,000.00
The second five-year	RMB 150,040.00	To be confirmed
The third five-year	RMB 165,044.00	To be confirmed
The forth five-year	RMB 181,536.00	To be confirmed

The last decade of the lease rent, property service charges and other lease terms, conditions to be agreed by both parties in accordance with the then market conditions.

10. Related party transaction

Parent company	Registered in	Business nature	Register capital	Shareholding in HPB	Voting right
PEACE BASE HOLDINGS LIMITED	Hongkong			40%	40%

Other related parties:

Name	Realtion	Registration No.
EXPRESS LINKER LIMITED	shareholder	
ACTUAL WINNER LIMITED	shareholder	
MinDe Capital Investment (Shanghai)	former- shareholder (within a year)	
HaiNan BaiNa Investment	former- shareholder (within a year)	
Baojun Zhang	Legal representative	

Related party transaction during the reporting period:

- There is no related party sale or purchase.
- There is no related party guarantee.
- There is no related party receivable and payable.

Account	Related party	Closing balance		Opening balance	
		Book value	Impairment	Book value	Impairment
Other receivable					
	Baojun Zhang	91,222.90			

11. Commitments

On March 7, 2013, one of shareholders Hong Kong Peace Base Holdings Limited (hereinafter referred to as Party B) and Haikou Comprehensive Free Trade Zone Management Committee (hereinafter referred to as Party A) signed an investment agreement. Per this agreement, Party A provided land, planning a total construction area of about 55,000 square meters (80 acres) (the actual land area of 44,002 square meters, 66 acres). Land use age applies from the date Party B received land title to 22 September 2060. The nature of the land is for mining warehousing; the project company set up by the Party B, set up Diamond and jewelry processing and sales center construction project’ under investment project, within Haikou comprehensive Free Trade Zone, exempt urban infrastructure costs Party B commitments strength of not less than RMB 3 million per acre, with total investment of no less than RMB 240 million, construction area of floor area ratio is greater than 1; land can only be used for the project. It is agreed to finish planning, design, and construction within eight months since sign-up date, to ensure that construction start in the next month.

Build trade show hall and put into use within 16 months since getting "construction project license". Within 24 months, complete the project and put into operation. Without Party approval, Party B may not transfer, exchange, gift the land or change of land use, without the approval of the Party A. Punish of breach is RMB 850,000 per acre.

The stated timely completion of the project and put into operation, performance bond of RMB 2 million (Paid), this will be refunded at the completion of the project.

April 15, 2013, the Company (hereinafter referred to as Party C) signed a "Project Supplemental Agreement" with Party A and Party B. per this agreement, Party C unconditionally accept and fulfill the obligation of Party B in the previous agreement.

October 8, 2013, the company received No. 2013-8 "Project planning permit."

October 14, 2013, the company received [2013] No. 87 "project started to apply for approval."

2. December 26, 2013, the Company and Guangzhou City Construction Development Co., Ltd. signed Haikou Peace Base diamond jewelry processing exhibition center construction contract. Construction scale includes four bonded warehouses, three processing plants, an exhibition center, a building office building composed of floor area of approximately 85,695.58 square meters. Total investment is about RMB 240 million.

First progress payment is made after completion of the work, by 85% the amount of the actual completion of the project. Each progress payments afterwards is 85% of monthly workload. Balance due until project completion acceptance and audit results came out. 5% is a warranty, if there are no quality problems after the warranty expires, the Employer to pay the Contractor within 20 days of interest-free warranty payments.

Workers planned start date of December 26, 2013, planned completion date of August 26, 2014.

3. August 26, 2013, the Company and Haikou City Planning and Design Institute signed a KCK-2013-122 No. ‘Construction Survey Contract (1)’. The Institute is to process detailed geotechnical investigation task on Haikou Peace Base Diamond Jewelry Exhibition Center. Survey work is planned to start on August 27, 2013, submit survey results data on October 7, 2013. The survey costs RMB 200,000. Three days after signing the contract, the company to pay RMB 50,000 as a deposit (after the performance of the contract, the deposit would turn to investigation costs). The Company shall pay the full cost of the project within 10 days of survey results. As of May 31, 2014, the Company has paid RMB 200,000 project costs.

December 20, 2013, the Company and Haikou City Planning and Design Institute signed a KCK-2013-122 No. "Construction Survey contracts (a) of the Supplemental Agreement, the construction program adjustments due to increased 16 drilling, both sides agreed to increased exploration costs by RMB 30,000. As of May 31, 2014, the company has fully paid this RMB 30,000.

4. December 16, 2013, the Company and Haikou City Planning and Design Institute signed KCJ-14 built (1) No. -03 "construction design contract (a)", The Institute is to design the Haikou Peace Base Diamond Jewelry Exhibition Center, for a useful life of 50 years. The design fee of RMB 2,768,900. The payment schedule is as follows.

	Percentage of total payment	Amount	Schedule
1st	20	553,780	Seven working days after sign
2nd	20	553,780	Seven working days after Design plan approved
3rd	35	969,110	Seven working days after construction plan drafted
4th	20	553,780	Seven working days after construction plan approved
5th	5	138,450	Seven working days after construction completed
Total		2,768,900	
Notes： 1.Payment: design documents submitted at the same time of each stage payment 2. The company has paid RMB300,000 as first design fee.			

As of May 31, 2014, the company has paid the first payment, the actual paid RMB 553,780.00.

5. December 16, 2013, the Company and Haikou and Longxing Design Consulting Co., Ltd. signed the "construction consulting services contract". Longxing is to provide consulting services on Haikou Peace Base Diamond Jewelry Exhibition Center. Consultation fees RMB 941,000 the payment schedule is as follows:

	Percentage of total payment	Amount	Schedule
1st	20	188,320	Seven working days after sign
2nd	20	188,320	Seven working days after Design plan approved
3rd	35	329,560	Seven working days after construction plan drafted
4th	20	188,320	Seven working days after construction plan approved
5th	5	47,080	Seven working days after construction

			completed
Total		941,000	

As of May 31, 2014, the company has paid the first payment, the actual paid RMB 188,320.00

6. December 27, 2013, the Company and Shenzhen Jianxing Project Management Consultants Ltd. signed a construction supervision contract. Jianxing is to provide supervision on Haikou Peace Base Diamond Jewelry Exhibition Center. Supervision fee is 0.8% of total construction, tentatively scheduled at RMB 1.6 million. Supervision period is from 27/12/2013 to 30/03/2015.Due to typhoon "Ramasun", both parties intend to postpone the completion date of the consultation

7. October 2013, the company and HENG MEI ENTERPRISES COMPANY LIMITED signed a factory lease agreement. The company leases out Land 003 factory C to Heng Mei (entire building, in progress), which located at No. 69 Chengmai County, Hainan, Haikou Comprehensive Bonded Zone, Old City Economic Development Zone.
The plant is used for producing and processing diamond jewelry. The lease term is for three decades, from the fifth day after completion till the thirtieth anniversary. Rent-free period is the first ten months. During the rent-free period, Hengmei does not have to pay rent, but it should pay strata fee as follows (RMB)

	Monthly rental	Monthly strata fee
The first five-year	RMB 138,000.00	RMB 25,000.00
The second five-year	RMB 152,460.00	TBA
The third five-year	RMB 167,706.00	TBA
The forth five-year	RMB 184,464.00	TBA

8. October 2013, the company and HANG MEI ENTERPRISES COMPANY LIMITED (DDB Enterprises Ltd.) signed a lease contract. The company leases out Land 003 factory C to Heng Mei (entire building, in progress), which located at No. 69 Chengmai County, Hainan, Haikou Comprehensive Bonded Zone, Old City Economic Development Zone. Lease area is estimated at 20,000 square meters. Lease term of 30 years, the rent payments as follows:

Monthly income from leased plant	Rent
S≤RMB50,000.00	S*50%
RMB50,000≤S≤RMB100,000.00	S*30%, but no less than RMB25,000.00
RMB100,000≤S≤RMB300,000.00	S*25%, but no less than RMB30,000.00
RMB300,000≤S≤RMB500,000.00	S*20%, but no less than RMB75,000.00
RMB500,000≤S≤RMB1,000,000.00	S*15%, but no less than RMB100,000.00

First and second year of the lease, Hengmei to pay a monthly rent based on a percentage of turnovers generated by leasing the property, but does not have to be paid service charges. Lease terms and rent after the third year will be based on agreements and market conditions.
Date of commencement of the contract, Hengmei shall pay the company RMB500,000 as a lease deposit (excluding interest). As of May 31, 2014, the Company has not yet received a rental deposit.

9. October 24, 2013, the Company and China Logistics Infrastructure (Holdings) Co., Ltd. signed the warehouse lease contract, the company Land 003 plots (under construction) located in Haikou Comprehensive Bonded Zone.The lease area is no less than 20,000 meters, the lease term is 10

years, from just 1 March 2015 until February 28, 2025. Rent-free period is two months. Rents for 1.33 RMB / square meter / day, property management fee is 0.166 RMB / square meter / day, after the beginning of the lease term rentals and property costs in the first two years as the base rents increased by 5% from the first three years of rent, when the parties under market conditions otherwise mutually agreed.
Rental deposit of RMB2.4 million, the other party shall pay part of the rental deposit RMB 400,000, the balance will be a one-time payment to the company before February 20, 2015. As of May 31, 2014, the Company has not yet received the rental deposit.
The company has issued reminder notice to the above two companies.

12. Other significant matters

1. November 23, 2013, the Company and Shanghai Waigaoqiao Free Trade Zone Development Co., Ltd. signed "Sunlan retail shops leasing intention letter". The intented lease is the second floor at 628 Qifan Rd,Pudong New Area. The company is to rent shop 201,202, as diamonds, jewelry business premises, lease area is about of 543 square meters. Lease term is six years from the date of delivery of the shops. Rent from the opening day of the first annual rent of 4 RMB / square meter / day, the second to the third year of 5 RMB / square meter / day, and the fourth to the fifth year of 6 RMB / square meter / day, the sixth annual rent for 7 RMB / square meter / day, management fee is 52 RMB per square meter per month. Free period of six months from the date of opening for the project, the project is tentatively scheduled for opening time December 22, 2013. The Company shall pay deposit of 100,000 RMB (paid) within 10 days of signing of the letter of intent.

As of the reporting date, the company has withdrawal the lease intention, but the deposit is yet to be refunded.

2. In October 2013, the company lent Beijing Yunzhong Investment Consulting Pty Ltd RMB 33,000,000. In November 2013, the company further lent RMB 3,720,000. Up to balance date, a total of RMB 36,720,000 is outstanding. February 2014, it repaid RMB 18,360,000; in March 2014, the other company borrowed RMB 6,149,000. April 18, 2014, it made repayment of loans RMB 24,509,000. All the loan has been received.

3. Corporate business license business for a period of March 28, 2013 to March 28, 2043. The company and DOUBLE EAST LIMITED signed a factory lease agreement, companies and HANG MEI ENTERPRISES COMPANY LIMITED signed a factory lease agreement, companies and HANG MEI ENTERPRISES COMPANY LIMITED signed exhibition Center lease contract, agreed to a term of 30 years. Since the company Haikou Kay diamond jewelry processing exhibition center built inception of the lease, the lease contract is longer than the company's operating period. At the end of the business period, the company will apply to the Business Administration Department to extend operating period.

4. The company’s start-up period is from 27 December 2013 to 30 March 2015.

5. The company is small-scale VAT taxpayer at this stage. It is applying for being general taxpayer.

13. Authorisation of the financial report
The financial statements have been approved by the General Management on 25 April, 2014.

Haikou Peace Base Industrial Development Co., Ltd

25 April 2014

Haikou Peace Base Industry Development Co. Limited.

Audit Report and Financial Statement

2014

Anti-counterfeiting barcode:

Anti-counterfeiting no.: 0202015035006154271

Report reference no.: XHSYBZ [2015] No.40057

The Client: Haikou Peace Base Industry Development Co. Limited

Office Name: SHU LUN PAN Certified Public Accountants LLP Guangdong Branch

Report Date: March 06, 2015

Filing Time: at 16:37, March 20, 2015

Audited Unit Location: Hainan

Sign CPA: Huang Weicheng, Tian Lei

Haikou Peace Base Industry Development Co. Limited

Annual Audit Report 2014

Office Name: SHU LUN PAN Certified Public Accountants LLP Guangdong Branch

Tel.: 38396233

Fax: 38396216

Address: 12/F, Suite B, China Shine Plaza, 9 Linhe Road West, Tianhe District

E-mail: Newsailcpa@bdo-gd.com

Website: www.bdo-gd.com

If you have any question on the above information, please contact Guangdong Institute of Certified Public Accountants.

Anti-counterfeiting query phone number: 020-83063583, 83063578

Anti-counterfeiting query website: http://www.gdicpa.org.cn

Haikou Peace Base Industry Development Co. Limited

Audit Report and Financial Statements

(January 1, 2014 - December 31, 2014)

	Contents	Page

BDO 立信

立信会计师事务所(特殊普通合伙)广东分所
地址：广州市天河区林和西路9号耀中广场B栋11楼
邮编：510610
电话：86-20-38396233
传真：86-20-38396216

SHU LUN PAN Certified Public Accountants LLP Guangdong Branch
Address: 11/F, Suite B, China Shine Plaza, 9 Linhe Road West, Guangzhou/Guangdong/P.R.C.
Postcode: 510610
Telephone: 86-20-38396233
Facsimile: 86-20-38396216

Audit Report

Correspondence No.: XHSYBZ [2015] No. 40057

Filing No.: 0202015035006154271

Haikou Peace Base Industry Development Co. Limited:

We have audited the attached financial statements of Haikou Peace Base Industry Development Co. Limited (hereinafter referred to as your company), including the Balance Sheet of December 31, 2014, the Profit Statement, Cash Flow Statement and Statement of Changes in Equity of 2014, as well as the notes to financial statements.

I. Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements. These responsibilities include: (1) preparing the financial statements in accordance with the provisions specified in the Accounting Standards for Business Enterprises, and making them fairly present; (2) designing, implementing and maintaining the necessary internal control, so as to avoid the material misstatement in financial statements due to fraud or error.

II. Responsibility of Certified Public Accountants

Our responsibility is to express an audit opinion on financial statements based on our audit. We conduct our audit in accordance with the *Standard on Auditing for Chinese Certified Public Accountants*. The Standard requires that we shall comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from the material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

III. Audit Opinion

We think that the financial statements of your company is serious prepared according to the regulations of the *Accounting Standards for Business Enterprises* in all significant aspects. It just and soundly reflects the financial conditions as of December 31, 2014 and the business performance and cash flow in 2014.

SHU LUN PAN Certified Public Accountants LLP Guangdong Branch

广东分所

Chinese Certified Public Accountant: Huang Weicheng

Chinese Certified Public Accountant: Tian Lei

田 磊

中國註冊會計師

田 磊

310000060670

Guangzhou, China

March 6, 2015

Haikou Peace Base Industry Development Co. Limited

Balance Sheet

December 31, 2014

(Unless otherwise specified, the monetary unit is RMB)

Asset	Note	Ending balance	Beginning balance
Current assets			
Currency fund	VII (I)	4,221,804.20	3,893,976.09
Trading financial assets			
Notes receivable			
Accounts receivable			
Advance payment			
Interest receivable			
Dividends receivable			
Other receivable	VII (II)	12,737,461.79	38,910,209.28
Inventory			
Non-current assets matured within a year			
Other current assets			
Total current assets		16,959,265.99	42,804,185.37
Non-current assets			
Financial assets available for sale			
Held-to-maturity investment			
Long-term receivables			
Long-term equity investments			
Investment properties			
Fixed asset	VII (III)	584,791.69	48,981.49
Project under construction	VII (IV)	51,829,157.42	1,013,044.19
Project material			
Disposal of fixed assets			
Capitalized biological assets			
Oil-and-gas assets			
Intangible asset	VII(V)	13,518,514.49	14,073,275.31
Development expenditure			
Goodwill			
Long-term unamortized expenses			
Deferred income tax assets	VII(VI)	1,587,863.54	563,877.86
Other non-current assets			
Total non-current assets		67,520,327.14	15,699,178.85
Total assets		84,479,593.13	58,503,364.22

The attached notes form a constituent part of the financial statements.

Company legal representative: Accounting personnel in charge: Person in charge of the accounting body:

Haikou Peace Base Industry Development Co. Limited

Balance Sheet (Continued)

December 31, 2014

(Unless otherwise specified, the monetary unit is RMB)

Liabilities and owners' equity (or stockholders' equity)	Note	Ending balance	Beginning balance
Current liabilities			
Short-term borrowing			
Trading financial liabilities			
Notes payable			
Accounts payable			
Advance receipt			
Employee pay payable	VII (VII)	137,869.58	40,973.25
Tax payable	VII (VIII)	-104,463.08	36,384.19
Interest payable			
Dividends payable			
Other payable	VII (IX)	29,201,035.31	153,512.43
Non-current liabilities matured within a year			
Other current liabilities			
Total current liabilities		29,234,441.81	230,869.87
Non-current liabilities:			
Long-term loan			
Bonds payable			
Long-term account payable			
Special accounts payable			
Anticipation liabilities			
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities			
Total liabilities		29,234,441.81	230,869.87
Owner's equity (or stockholder's equity)			
Paid-in capital (or capital stock)	VII (X)	60,000,000.00	60,000,000.00
Other equity instruments			
Preference shares			
Continue bonds forever			
Capital surplus	VII (XI)	8,741.93	8,741.93
Subtraction: Treasury stock			

Special reserve			
Earned surplus			
General risk preparatio			
Undistributed profits	VII (XII)	-4,763,590.61	-1,736,247.58
Total owner's equity (or stockholder's equity)		55,245,151.32	58,272,494.35
Total liabilities and owner's equity (or stockholder's equity)		84,479,593.13	58,503,364.22

The attached notes form a constituent part of the financial statements.

Company legal representative: Accounting personnel in charge: Person in charge of the accounting body:

Haikou Peace Base Industry Development Co. Limited

Profit Statement

2014

(Unless otherwise specified, the monetary unit is RMB)

Item	Note	Current Amount	Last Term Amount
I. Operating income			
Subtract: operating costs			
Tax and associate charge			
Selling expenses			
Administration expense	VII (XIII)	3,959,143.91	2,245,511.44
Financial cost			
Loss from asset devaluation	VII (XIV)		10,000.00
Plus: Gains on the fair value changes (losses to fill in "-")			
Investment income (losses to fill in "-")			
Thereinto: Investment income in associated companies and joint ventures			
II. Operating profit(losses to fill in "-")		-3,959,143.91	-2,255,511.44
Plus: non-business income	VII (XV)	1,823.00	
Thereinto: disposal profits on non-current liability			
Subtract: non-business expenditure	VII (XVI)	94,007.80	44,614.00
Thereinto: disposal loss on non-current liability			
III. Total profit (losses to fill in "-")		-4,051,328.71	-2,300,125.44
Subtract: income tax expense	VII (XVII)	-1,023,985.68	-563,877.86
IV. Net profit (losses to fill in "-")		-3,027,343.03	-1,736,247.58
V. Net amount of the other comprehensive benefits after tax		-	-
(i) Other comprehensive income that cannot be re-classified into profits and losses afterwards		-	-
1. Changes in re-calculation of net assets and net liabilities of defined benefit plans			
2. Shares enjoyed in other comprehensive income that cannot be re-classified in profits and losses of the invested entity under the equity method			

(ii) Other comprehensive income that will be re-classified into profits and losses		-	-
1. Shares enjoyed in other comprehensive income that will be re-classified in profits and losses of the invested entity under the equity method			
2. Profits and losses of available-for-sale financial assets from fair value change			
3. Held-to-maturity investment re-classified into profits and losses of available-for-sale financial assets			
4. Valid part of profits and losses of cash flow hedge			
5. Translation difference of foreign currency financial statement			
6. Other			
VI. Total comprehensive benefits		-3,027,343.03	-1,736,247.58
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

The attached notes form a constituent part of the financial statements.

Company legal representative: Accounting personnel in charge: Person in charge of the accounting body:

Haikou Peace Base Industry Development Co. Limited

Cash Flow Statement

2014

(Unless otherwise specified, the monetary unit is RMB)

Item	Current amount	Last term amount
I. Cash flows from business activities		
Cash received from sale of goods or rendering of services		
Cash received from tax refunds		
Other cash received relating to operating activities	36,720,000.00	
Sub-total of cash inflows of operating activities	36,720,000.00	
Cash paid for goods and services		
Cash paid to and on behalf of employees		
Payments of all types of taxes		
Other cash paid relating to operating activities	9,954,327.80	36,820,000.00
Sub-total of cash outflows	9,954,327.80	36,820,000.00
Net cash flows from operating activities of operating activities	26,765,672.20	-36,820,000.00
II. Cash flows from investing activities		
Cash received from recouping investments		
Cash received from investment income obtained		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		
Net cash received from disposal of subsidiary companies and other operating units		
Other cash received relating to investing activities	12,583,297.01	30,953.36
Sub-total of cash inflows of investing activities	12,583,297.01	30,953.36
Cash paid to acquire fixed assets, intangible assets and other long-term assets bank and interbank amounts	52,432,869.68	15,191,202.27
Cash paid to acquire investments		
Net cashes paid to acquire subsidiary companies and other operating units		
Other cash payments relating to investing activities	2,916,647.51	4,134,516.93
Sub-total of investing activities cash outflows	55,349,517.19	19,325,719.2

Net cash flows from investing activities	-42,766,220.18	-19,294,765.84
III. Cash flows from financing activities		
Cash received from capital contribution		60,008,741.93
Cash received from borrowings	22,301,400.00	
Cash received from issuing bonds		
Other cash received relating to financing activities		
Sub-total of cash inflows of financing activities	22,301,400.00	60,008,741.93
Cash repayments of amounts borrowed	5,692,000.00	
Cash payments for interest expenses and distribution of dividends or profit	281,023.91	
Other cash payments relating to financing activities		
Sub-total of cash outflows of financing activities	5,973,023.91	
Net cash flows from financing activities	16,328,376.09	60,008,741.93
IV. Effect of foreign exchange rate changes on cash and cash equivalents		
V. Net increase in cash and cash equivalents	327,828.11	3,893,976.09
Plus: cash and cash equivalents balance at the beginning of the period	3,893,976.09	
VI. cash and cash equivalents balance at the end of the period	4,221,804.20	3,893,976.09

The attached notes form a constituent part of the financial statements.

Company legal representative: Accounting personnel in charge: Person in charge of the accounting body:

Haikou Peace Base Industry Development Co. Limited

Statement of Changes in Equity

2014

(Unless otherwise specified, the monetary unit is RMB)

Item	Current Amount							
	Capital stock	Capital reserve	Subtract: treasury stock	Special reserves	Surplus reserves	General risk reserve	Undistributed profits	Total owners' equities
I. Year-end balance of last year	60,000,000.00				8,741.93		-1,736,247.58	58,272,494.35
Add: changes in accounting policies								
Error correction in the prior periods								
Others								
II. Balance at beginning of year	60,000,000.00				8,741.93		-1,736,247.58	58,272,494.35
III. Increase or decrease amount of this year (decrease amount represented by a "-" sign)							-3,027,343.03	-3,027,343.03
(I) net profit							-3,027,343.03	-3,027,343.03
(II) other comprehensive income								
Subtotal of (I) and (II)								
(III) Capitals invested and reduced by owners								
1. Capitals invested by owners								
2. Share-based payment amount recorded into owners' equity								
3. Others								
(IV) Profit distribution								
1. Withdrawal surplus reserves								
2. Withdrawal General risk reserve								
3. Distribution to the owners (or stockholders)								
4. Others								
(V) Interior carry-over of owners' equity								
1. Capital surplus converted into capital (or capital stock)								
2. Surplus reserves converted into capital (or capital stock)								
3. Surplus reserves cover the losses								
4. Others								
(VI) Special reserves								
1. Extraction of special reserves								
2. Use of special reserves								
(VI) Others								
IV. Balances at the end of the year	60,000,000.00				8,741.93		-4,763,590.61	55,245,151.32

Haikou Peace Base Industry Development Co. Limited
Statement of Changes in Equity (Continued)
2014

(Unless otherwise specified, the monetary unit is RMB)

Item	Same period amount of last year							
	Capital stock	Capital surplus	Subtract: treasury stock	Special reserves	Surplus reserves	General risk reserve	Undistributed profits	Total owners' equities
I. Year-end balance of last year								
Add: changes in accounting policies								
Error correction in the prior periods								
Others								
II. Balance at beginning of year								
III. Increase or decrease amount of this year (decrease amount represented by a "-" sign)	60,000,000.00			8,741.93			-1,736,247.58	58,272,494.35
(I) net profit							-1,736,247.58	-1,736,247.58
(II) other comprehensive income	60,000,000.00			8,741.93				60,008,741.93
Subtotal of (I) and (II)	60,000,000.00			8,741.93				60,008,741.93
(III) Capitals invested and reduced by owners								
1. Capitals invested by owners								
2. Share-based payment amount recorded into owners' equity								
3. Others								
(IV) Profit distribution								
1. Withdrawal surplus reserves								
2. Withdrawal general risk reserve								
3. Distribution to the owners (or stockholders)								
4. Others								
(V) Interior carry-over of owners' equity								f .
1. Capital surpluss converted into capital (or capital stock)								
2. Surplus reserves converted into capital (or capital stock)								
3. Surplus reserves cover the losses								
4. Others								
(VI) Special reserves								
1. Extraction of special reserves								
2. Use of special reserves								
(VII) Others								
IV. Balances at the end of the year	60,000,000.00			8,741.93			-1,736,247.58	58,272,494.35

The attached notes form a constituent part of the financial statements.

Company legal representative: Accounting personnel in charge: Person in charge of the accounting body:

Haikou Peace Base Industry Development Co. Limited

Notes to Financial Statements 2013

I. Basic condition of the company

(I) Historical development

Haikou Peace Base Industry Development Co. Limited (hereinafter referred to as "Company" or "the Company") is a Sino-foreign joint venture with the registered capital of RMB 60 million (60% of which is the foreign capital contribution) established by Peace Base Holdings Limited, Hainan Baina Investment Limited, Mingde (Shanghai) Equity Investment and Management Limited, Actual Winner Limited, and Express Linker Limited, and the establishment was approved by HZBPZ [2013] No. 1 file *The Reply to Contract and Articles of Association of Sino-foreign Joint Venture Haikou Peace Base Industry Development Co. Limited*, issued by the administration committee of Haikou Integrated Free Trade Zone on March 22, 2013. Among which: Peace Base Holdings Limited contributed RMB 24 million (Equivalent amount of HKD), accounting for 40% of the amount of contribution; Hainan Baina Investment Limited contributed RMB 12 million, accounting for 20% of the amount of contribution; Mingde (Shanghai) Equity Investment and Management Limited contributed RMB 12 million, accounting for 20% of the amount of contribution; Actual Winner Limited contributed RMB 6 million, accounting for 10% of the amount of contribution; and Express Linker Limited contributed RMB 6 million (Equivalent amount of HKD), accounting for 10% of the amount of contribution.

The Company obtained the Corporate Business License authorized by the Industrial & Commercial Administration Bureau of Haikou City, Hainan Province, on March 28, 2013. The registration number is 460100400005043, the registered capital is RMB 60 million, the legal representative is Zhang Baojun, and the operation period is long-term operation.

On September 17, 2013, under the HZBPZ [2013] No. 3 file *The Reply to the Agreement on Equity Transfer of Haikou Peace Base Industry Development Co. Limited* issued by the administration committee of Haikou Integrated Free Trade Zone, it was agreed that the Chinese shareholder Hainan Baina Investment Limited could transfer its 20% of the stock to Actual Winner Limited; and the Chinese shareholder Mingde (Shanghai) Equity Investment and Management Limited could transfer its 20% of the stock to Express Linker Limited. After the equity investment, the Company was transferred from a Sino-foreign joint venture into an exclusively foreign-owned enterprise with the registered capital of RMB 60 million, among which: Peace Base Holdings Limited contributed RMB 24 million (Equivalent amount of HKD), accounting for 40% of the amount of contribution; Actual Winner Limited contributed RMB 18 million (Equivalent amount of HKD), accounting for 30% of the amount of contribution; and Express Linker Limited contributed RMB 18 million (Equivalent amount of HKD), accounting for 30% of the amount of contribution.

In accordance with the HZBPZ [2013] No. 4 file *The Reply to the Agreement on Change in Operation Period of Haikou Peace Base Industry Development Co. Limited* issued by the administration committee of Haikou Integrated Free Trade Zone on September 23, 2013, it was agreed that the operation period of the Company could be changed to thirty years. Namely the operation period is: March 28, 2013 to March 28, 2043.

The registered capital of the Company was verified by the capital verification reports of MZYZ (2013) No. 006B104, MZYZ (2013) No. 007B099, and MZYZ (2013) No. 009B043 made by Hainan Mingzhi Accounting Firm. As of September 9, 2013, Hainan Mingzhi Accounting Firm had verified the situation of three times of paid-in capital applied by the Company; after verification, the Company had accumulatively received the registered capital contributed by shareholders of RMB 60 million; the balance of RMB 8741.93 from the HKD was included in capital surplus.

On November 25, 2013, the Company obtained the changed business license:

Registration authority: Industrial & Commercial Administration Bureau of Haikou City, Hainan Province

Registration Number: 460100400005043

Name: Haikou Peace Base Industry Development Co. Limited

Address: No. 003, Haikou Integrated Free Trade Zone, South Ring One 69, Old City Economic Development Zone, Chengmai County, Hainan Province

Legal representative: Zhang Baojun

Registered capital: RMB 60 million

Paid-in capital: RMB 60 million

Company type: Limited Liability Company (joint-ventured by Taiwan, Hong Kong, and Macao parties)

Business scope: Investment management; investment consultation: Economic and trade consultation; Goods packaging; domestic cargo transport agent; international cargo transport agent; public bonded warehouse and other warehouse services (Do not contain dangerous chemicals); goods bonded exhibition; goods import and export; import and export agent; processing and sales of jewelry, diamond, and gold ornaments; golf equipments; skateboards; processing and sales of watches and other luxury goods; household appliances; processing and sales of furniture, electronic products, and textiles; the organization of cultural and artistic exchanges. (The above-mentioned items shall be operated in Haikou Integrated Free Trade Zone; the items involving administrative licensing shall be operated in accordance with the license, excluding the items in special industries and those restricted and prohibited by the state).

II. Basis for the Preparation of Financial Statements

The Company prepared financial statements based on going concern, the actual trades and matters, and recognition and measurement made in accordance with the Accounting Standard of P.R.C for Business Enterprise- Basic Standard issued by Ministry of Finance, each specific accounting standard and application guidance of the accounting standards for Business Enterprise, interpretation of the accounting standards for Business Enterprise and other relevant regulations (hereafter referred as "Accounting Standard for Business Enterprise") and the *No. 15, Information Disclosure Rules of the Company Publically Issuing Bonds- General Rules of Financial Reports issued by China Securities Regulatory Commission*.

III. Statement of Complying with Accounting Standards for Business Enterprise

The financial statements prepared by the Company meet the requirements of the enterprise accounting standards, and truly and completely reflect the financial conditions, operation result, and cash flow, etc of the Company.

IV. The Major Accounting Policies and Accounting Estimate

(I) Fiscal year

The fiscal year of the Company is the solar calendar year, which is from January 1 to December 31.

(2) Recording currency

Recording currency is RMB.

(3) Confirmation standard for cash and cash equivalents

In preparing the Cash Flow Statement, the cash on hand and the deposit that can be used to pay at any time are determined as cash, and the cash equivalents of the Company include the investments with short period (it usually expires within three months from the purchase date), characteristics of high liquidity, easy conversion to certain amount of cash and little risk of value change.

(IV) Transaction of foreign currencies

Foreign currency transactions are converted into RMB for recording purpose at the exchange rate on the first day of the period when the transaction occurs. The balance of monetary items of foreign currencies is converted at the exchange rate on the date of the preparation of the Balance Sheet, the arising translation differences would be accrued to the current profits and losses, excluding the translation differences caused by foreign currency special borrowings being related to the assets meeting the capitalization conditions, for they would be dealt with according to the principle of borrowing expenses capitalization. The foreign currency non-monetary items measured based on the historical cost are converted at the exchange rate on the date when the transaction occurs, and the amount of the recording currency would not be changed. The foreign currency non-monetary items measured at fair value are converted at the exchange rate on the date when the fair value is determined, and the arising exchange differences would be accrued to the current profits and losses, or capital surplus.

(V) Foreign currency financial statements conversion

Assets and liabilities items in the Balance Sheet are converted at the spot exchange rate on the date of the Balance Sheet; items of the owner's equity, except for the item of the "undistributed profit", are converted at the spot exchange rate on the date when they occur. The items of income and cost in the Profit Statement are converted at the spot exchange rate of the transaction day. The translation balance arising from the above conversions is separately presented below the item of owner's equity in the Balance Sheet.

Upon the disposal of the foreign operation, the difference of the conversion related to the foreign operation listed in the owners' equity item in the Balance Sheet, is transferred into the current disposal loss/gain from the owners' equity item; as for the part disposal of the foreign operation, the difference of the conversion is measured on the disposal proportion, and then transferred into the current loss/gain.

VI) Financial instruments

Financial instruments include the financial assets, financial liabilities and equity instruments.

1. Classification of financial assets or financial liabilities

Based on the purpose of obtaining the financial assets and assuming the liabilities, financial assets or financial liabilities may be classified into: the financial assets or financial liabilities that are calculated in the fair values and whose changes are accrued to current profit and loss, including the trading financial assets or financial liabilities(and those which are directly specified as financial assets or financial liability measured at fair value and of which changes are recorded into current gains and losses); the held-to-maturity investments; receivables; available-for-sale financial assets; and other financial liabilities, etc.

2. Confirmation and measurement of financial assets or financial liabilities

(1) The financial assets (financial liabilities) that are calculated in the fair values and whose changes are accrued to current profit and loss

The fair values (excluding cash dividends that have been declared but have not been distributed and bond interests that have exceeded the expiry dates but have not been drawn) are deemed as the initial confirmation amount on acquisition. Relevant transaction expenses are charged to profit and loss of the period.

The interests or cash dividends obtained during the holding period are recognized as investment income. Change of fair values is charged to profit and loss of the period at the end of the period.

Difference between the fair value and initial book value is recognized as investment income upon disposal. Adjustment is made to gain or loss from changes in fair values.

(2) Held-to-maturity investments

The sum of fair values (excluding bond interests that have exceeded the expiry dates and have not been drawn) and relevant transaction expenses are deemed as the initial confirmation amount.

Confirm the interest income by the calculation of amortized costs and effective interest rate and record it into the investment income. The effective interest rate shall be confirmed in the period of acquisition and shall remain unchanged in the expected holding period or a shorter period, if applicable.

Difference between the amount received and book value of the investment is charged to investment income of the period upon disposal.

(3) Receivables

For the receivables from sales of goods or rendering of services and other debt instruments of other corporations except for those quoted in active market held by the Company, including: accounts receivable and other receivables, etc., the prices specified in the contracts or agreements with the purchasers are deemed as the initial confirmation amount. For the receivables with financing characters, their present values are deemed as the initial confirmation amount.

Difference between the amount received and book value of the receivables is charged to profit or loss of the period upon recovery or disposal.

(4) Available-for-sale financial assets

The sum of fair values (excluding cash dividends that have been declared but have not been distributed and bond interests that have exceeded the expiry dates but have not been drawn) and relevant transaction expenses is deemed as the initial confirmation amount.

The interests and cash dividends generated during the holding period are accrued to investment income. At the end of the period, available-for-sale financial assets are calculated in the fair values and the changes in fair values are accrued to the capital reserves (other capital reserves).

Difference between the amount received and the book value of the financial assets is recognized as investment gain or loss upon disposal. At the same time, the accumulated changes in fair value previously recognized in the owners' equity are transferred into investment gain or loss.

(5) Other financial liabilities

The sum of fair values and relevant transaction expenses is deemed as the initial confirmation amount. The subsequent calculation adopts the amortized cost method.

3. Confirmation and measurement of transform of financial assets

The Company should terminate recognizing these financial assets when the transform occurs and almost all risk and return of the financial assets ownership have been transferred to the transferee; The Company should not terminate recognizing this financial assets if almost all risk and return of the financial assets ownership have been remained.

Essence is more important than form when judging whether the transform meets the requirements of the financial assets termination recognition conditions mentioned above. The Company divides the transform of financial assets into entire transfer and partial transfer. If the transfer of an entire financial asset satisfies the conditions for stopping recognition, the difference between the amounts of the following two items shall be recorded in the profit and loss of the current period:

(1) The book value of the transferred financial asset;

(2) The sum of consideration received from the transfer, and the accumulative amount of the changes in the fair values originally recorded in the owners' equities (in the case that the financial asset involved in the transfer is an available-for-sale financial asset).

For partial transfers of financial assets that meet the recognition conditions of termination in recognition, the book value of the whole financial assets are spitted into the terminated portion and the exterminated portion according to their respective relative fair values (under this situation, the retained service assets are deemed as a part of the exterminated financial assets), and the difference between the following two items shall be recorded in the profit and loss of the current period:

(1) Book value of the terminated portion;

(2) The sum of the consideration of the terminated portion and the accumulated changes in fair value previously recognized in the owners' equity related to the terminated portion (in the case that the assets transferred are available-for-sale financial assets).

For transfers of financial assets that do not meet the conditions of termination in recognition, the financial assets remain recognition and the consideration received is recognized as financial liabilities.

4. Conditions of termination in recognition for financial liability

If the current obligation of the financial liability is relieved entirely or partially, the financial liability or part of it shall be derecognized; the existing financial liability shall be derecognized with new financial liability recognized at the same time if the Company has entered an agreement with the creditor to replace the existing financial liability by assuming new financial liability and if the contract terms of the new financial liability is different from that of the existing financial liability by nature.

If a material alteration is made to the entire or part of the contract terms regarding to the existing financial liability, the financial liability or part of it shall be derecognized and the financial liability of altered terms shall be confirmed as a new financial liability. If the financial liability or part of it is derecognized, the difference between the book value of the financial liability being derecognized and the paid consideration (including non-cash assets transferred out or the new financial liability to be assumed) shall be recorded in the profit and loss of the current period. If part of the financial liability is recovered by the Company, the overall book value of the financial liability shall be distributed based on the relative fair value between the portion continuing to be recognized and the portion whose recognition has been stopped upon recovery. The difference between the book value distributed to the portion whose recognition has been stopped and the consideration paid (including non-cash assets transferred out or the new financial liability to be assumed) shall be recorded in the profit and loss of the current period.

5. Confirmation of fair values of financial assets and financial liabilities

For the active financial assets or financial liabilities in the market, the Company will use the quotations as their fair values.

6. Impairment loss on financial assets (excluding receivables)

Apart from the financial assets calculated in the fair values and whose changes are accrued to current profit and loss, the Company shall check the book value of the financial assets upon the date of preparing balance sheet; if objective evidences prove impairment loss on certain financial assets, provision for diminution in value shall be made.

(1) Impairment of available-for-sale financial assets

If at the end of the period the fair values of the available-for-sale financial assets decline significantly, or the trend of the decline is expected to be non-temporary after consideration of all relevant factors, the assets are deemed impaired and impairment loss is recognized together with the amount transferred from the accumulated decreases in fair values previously recognized in the owners' equity. The originally recognized impairment loss shall be transferred back to be recorded into the current gains and losses for the available-for-sale debt instruments whose impairment loss has been recognized with the fair value has increased in the following accounting period and objectively concerning with the matters occurred after the reorganization of impairment loss.

For the impairment loss of the investment of available-for-sale equity instrument, it is not allowed to be transferred back by profit and loss.

(2) Impairment of held-to-maturity financial assets:

The treatment of impairment loss on held-to-maturity investments is in line with the impairment loss of the receivables.

(VII) Bad-debt provision of accounts receivable

1. Recording method of provision for significant amount of individual accounts receivable:

Judgment basis and standard of amount for significant amount of individual financial assets:

Receivables of significant amount of individual financial assets indicate the receivables of individual financial assets whose amounts exceed 1, 000, 000 RMB (including the related party)

Recording method of bad-debt provision of significant amount of receivables:

At the end of the period, receivables and others receivables except for the notes receivable and advance payment (for example) and the individually significant accounts receivable, the specific identification method shall be used to assess impairment losses on assets with impairment test conducted separately; if there are objective evidences to prove the impairment, the book value of the receivables shall be written down to the present value when the estimated future cash flows (excluding the future credit losses that have not yet occurred) of the receivables is discounted to the present value lower than its book value; the write-down amount is confirmed as assets impairment loss with provision for bad debts made to record it in the current gains and losses.

As for the receivables and other receivables with individually significant accounts which is not decreased in value after individual test and the receivables and other receivables whose individual amount is not material, a portfolio method shall be adopted to evaluate the impairment losses of the receivable and other receivables; based on the similar credit risk features, the Company divide them into several risk portfolios and assigns a certain percentage of the end of the period balance of the receivable groups to determine the impairment loss and provide for bad debts. This percentage reflects the impairment losses of each item that may occur in the future, namely, the amount of book value of each portfolio exceeding their future cash flow. Receivables and others receivables except for the notes receivable and advance payment (for example) and the receivables whose individual assets impairment loss has been confirmed as significant, impairment test shall not be conducted in the receivable portfolios with similar credit risk feature.

2. Accounts receivables based on portfolios provision for bad debts

Basis for confirmation of portfolios	
Portfolio 1	Receivables with the same account age have similar credit risk feature
Recording method based on the portfolio bad debts provision (the analysis of the account age, the percentage of balance and other methods)	
Portfolio 1	The analysis of the account age

The Company shall not prepare for bad debts for the amount without recovery risk after individual test and the receivable and payables of related parties.

For those applying the analysis of the account age to prepare bad debts in the portfolio:

Account age	Appropriation proportion of the accounts receivable	Appropriation proportion of other accounts receivable
Within 1 year	10.00	10.00
1 to 2 years	30.00	30.00
2 to 3 years	50.00	50.00
Over 3 years	100.00	100.00

3. Accounts receivables whose individual amount is not material but needs provision for bad debts

Reasons for provision of bad debts for individual amount

Except for the receivables whose individual amount exceeding 1, 000, 000 RMB (including the related parties), receivables from abroad and the domestic receivables over 3 years (excluding the related parties), if there are evidences to prove impairment of receivables at the end of the period, its book value shall be written down to the recoverable amounts and the write-down amounts shall be confirmed as the assets impairment loss to be recorded into the current gains and losses.

Recording method for bad debts provision

The recoverable amounts are confirmed by discounting the future cash flow at the original actual interest rate with consideration to the value of relevant collaterals (deducting the estimated disposing fees). The original actual interest rate is the actual interest rate when the receivables are initially confirmed. If the receivables are financial assets with floating interest rate, the current real interest rates specified in the contract can be applied as the discount rate during the calculation of recoverable amounts.

(VIII) Inventory

1. Inventory classification

Inventory is classified as: Raw materials, low value and easily worn-out articles, goods in process and finished goods.

2. Calculation of issued inventory

Purchased raw materials and low value and easily worn-out articles shall be recorded into the account based on the actual cost and cost of raw materials and finished goods when issued shall be accounted by adopting the method of specific identification.

3. Determination basis of net realizable value of inventory and the recording method of provision for inventory devaluation

At the end of the period, after overall check of the inventory, draw or adjust provision for inventory devaluation according to the lower of the cost of inventory and net realizable values of inventory.

In normal operation process, net realizable values of commodities inventories for direct sales including finished goods, commodities and materials for sales are determined by the estimated selling prices minus the estimated selling expenses and relevant taxes and fees; In normal operation process, net realizable values of materials that need further processing are determined by the estimated selling prices of the finished goods minus estimated cost to completion, estimated selling expenses and relevant taxes. For the inventory held to implement sales contract or work contract, its net realizable value is calculated on the basis of contract price. For the balance of inventory beyond the amount of the sales contract, its net realizable value is calculated on the basis of general selling price. Provision for inventory devaluation is provided for based on individual inventory item at the end of the period. For inventory that has large quantity and low unit price, the provision for inventory devaluation is provided for based on categories of the inventory. For inventory related to the products manufactured and sold in the same district, with same or similar use or purpose, and difficult to account for separately from other items, the provision for inventory devaluation is provided for on a consolidated basis.

When the factors that influence the decreased bookkeeping of inventory value have disappeared, switch back from the provision for inventory devaluation amount that previously appropriated and the amount that switched back is charged to profit and loss of current period.

4. Inventory system

Perpetual inventory system shall be applied.

5. Amortization method for low value and easily worn-out articles

(1) One-off amortization method shall be applied for low value and easily worn-out articles

(IX) Long-term equity investment

1. Determination of investment cost

(1) Long-term equity investment formed by business combination

Business combination under the same control: if the Company pays in cash, transfers non-cash assets or bears its debts, and issues equity securities as the merger consideration, obtain the share of the merged party equity book value as the initial cost of long-term investment in the merging date. If there is difference between the initial cost of long-term investment and payment of merger consideration, adjust the balance of the share premium; if the share premium of capital reserve is insufficient, adjust the retained earnings. Merge each direct relevant cost, including audit fees, valuation fees, legal service fees paid for the merger and calculate them into current profit and loss when they occurred.

Business combination under the different control: the Company takes the merger cost confirmed in the acquisition date as the initial cost of long-term equity investment. The merger cost refers to the property that acquirer paid the acquiree in order to obtain its control right in the acquisition date, the liabilities incurred or assumed and the fair value issued by equity securities. The audit, legal service, evaluation consulting and other intermediary, expenses and other relevant administrative expenses that acquirer paid for the business merger shall be calculated into current profit and loss when they occurred; the transaction fees of equity securities or debt securities issued by the acquirer for the merger consideration shall be calculated into the initial recognition amounts of equity securities or debt securities. For the business combination under the different control achieved in stages by multiple transactions, take the equity investment book value held by the acquiree before the acquisition date and the new added investments cost in the acquisition date as the initial investment cost of the investment. The Company will calculate the contingent consideration specified in the merger agreement into the business merger cost according to its fair value in the acquisition date as a part of business merger and transfer consideration.

(2) Long-term equity investment acquired by other methods

For the long-term equity investment acquired by paying in cash, take the actual payment of the purchase price as the initial investment cost.

For the long-term equity investment acquired by issuing equity securities, take the fair value of issued equity securities as the initial investment cost.

Take the long-term equity investment of investor as the initial investment cost according to the value specified in the investment contract or agreement (net of declared but not yet distributed cash dividends or profits) excluding the unfair value specified in the contract or agreement.

If the non-monetary property exchange possesses the commercial substance and the fair value of property received or surrendered can be measured reliably, confirm the initial investment cost by the fair value of property surrendered by the long-term equity vestment received by non-monetary property exchange, unless there is conclusive evidence that the fair value of the property is more reliable; for the situation that does not meet the non-monetary property exchange mentioned above, take the book value of the property received and the related paid taxes as the initial investment cost of the long-term equity investment.

For the long-term equity investment acquired by debt reorganization, confirm the initial investment cost according to the fair value.

2. Subsequent measurement and income confirmation

(1) Subsequent measurement

The Company adjusts the long-term equity investment of the subsidiary according to the equity method when accounting, consolidating the finance statements in cost method.

Account for the long-term equity investment under the cost method which has no joint control or significant influence to the invested units and has no quotation available on the active market and the fair value of the investment cannot be reliably measured.

Account for the long-term equity investment under the equity method which has joint control or significant influence to the invested units. When the initial investment cost is in excess of the investment, the Company shall share the balance of the recognizable fair value of the invested unit and the initial investment cost of the long-term equity investment shall remain; When the initial investment cost is less than the investment, the Company shall share the balance of the recognizable fair value of the invested unit and calculate the balance into the current profit and loss.

Processing for other equity changes of invested unit except the net profit and loss: for the other equity changes of invested unit except the net profit and loss, the Company shall calculate the parts to be obtained or shared according to the share proportion, adjust the book value of long-term equity investment and increase or decrease the capital reserve (other capital reserve) at the same time under the situation that the share proportion remains unchanged.

(2) Profit and loss confirmation

Under the cost method, except the actual payment during the investment or the cash dividends or profits included in the consideration which are already declared but not yet distributed, the Company recognizes the investment income according to sharing the cash dividends or profits declared and distributed by the invested unit.

Under the equity method, considering on the basis of the net book profits of invested unit: if the accounting policies and accounting periods adopted by the invested unit and the Company are different, adjust the financial statements of the invested unit according to the Company's accounting policy and period; in order to obtain the influence to the invested unit's net profit from the amount of depreciation or amortization based on the fair value of invested unit's fixed property and intangible property, the relevant provision amount of property impairment; after appropriate adjustment of offsetting the unrealized transactions and other terms occurred between the Company and associated and joint ventures, confirm to obtain or share the net profit or loss of the invested unit. Recognition of share of losses of the invested unit is treated in the following steps: First, reduce the book value of the long-term equity investment. Second, when the book value is insufficient to cover the share of losses, investment losses are recognized up to a limit of book values of other long-term equity which form net investment in substance by reducing the book value of long term receivables. Finally, after all the above treatments, if the Company is still responsible for any additional liabilities in accordance with the provisions stipulated in the investment contract or agreement, estimated liabilities are recognized and charged into current investment loss according to the liabilities estimated. If the invested unit achieves profit in subsequent periods, the treatment is in the reversed steps described above after deduction of any unrecognized investment losses, i.e., reduce book value of estimated liabilities recognized, restore book values of other long-term equity which form net investment in substance, and in long-term equity investment, and recognize investment income at the same time.

During the holding investment, if the invested unit provides the consolidated financial statements, the accounting shall be carried out based on the net profit and other equity changes in the statements.

3. Recognition criteria of joint control and significant influence to the invested unit

The joint control is the common control for a certain economic activity in accordance with provisions in the contract but only existing when the investors unanimously agrees whose control rights of the strategic financial and operating decisions relating to the activity need to be shared. If the invested unit is jointly controlled by the investment company and other parties, then the invested unit becomes their joint venture. Significant influence, refers to the authority of the financial and operating policies of a company, but cannot control or with other parties jointly control these policies. If the investment company can exert significant influence on the invested unit, then the invested unit becomes its associate venture.

4. Methods of impairment test and impairment provision test

For the long-term equity investment which are under the significant influence, not quoted in the active market and whose fair values cannot be reliably calculated, the depreciation loss will be determined based on the difference between the book values and current values determined by the discounting of future cash flow in line with the current market return rate of similar financial property.

In addition to the other long-term equity investments which impairment exists not because of the goodwill arising from the business combination, in the case the calculation results of receivable amounts indicates that the receivable amount of this long-term equity investment is less that their book values, the difference will be confirmed as the property depreciation losses.

Once the depreciation loss of long-term equity investment is confirmed, it will not be reversed.

(X) Investment property

Investment property refers to the property for the rentals or capital appreciation or for the both, including the rented land usage right, land usage right which is held for transfer after appreciation, rented buildings (including the buildings by self-constructed, for the rental after the development activities and the buildings which are constructing or developing for future rentals).

The Company accounts for the investment property under the cost method. For the investment property-buildings for rent accounting under the cost method, the Company adopts the depreciation policies which are the same with the policies for fixed property and executes the amortization policies for the renting the land usage right which are the same with the policies for intangible property.

If there is an indication of impairment in the Company, estimate the recoverable amount. If the recoverable amount is lower than its book value, confirm the relevant depreciation loss.

Once the depreciation loss of the investment property is confirmed, it will not be reversed.

(XI) Fixed property

1. Recognition criterion of fixed property

Fixed property is tangible property that is held for use in the production or supply of services, for rental to others, or for administrative purposes; they have useful lives over one fiscal year. And they shall be recognized only when bothe of the following conditions are satisfied:

(1) It is probable that economic benefits associated with the property will flow to the enterprise;

(2) The cost of the fixed property can be measured reliably.

2. Depreciation method for the fixed property by categories

Depreciation of fixed property is provided for on age average accrued method. The depreciation rate is recognized in accordance with category, estimated useful life and estimated residual rate of fixed property. If the each component of the fixed property has different useful life or provides economic benefits to the Company in different ways, then depreciate them in different depreciation rates or methods. If the Company insures that it can reasonably achieve the rental property ownership of the fixed property by finance lease, then depreciate it within the useful life. If it cannot be insured that the Company can reasonably achieve the rental property ownership of the fixed, compare the lease term and remaining useful life and depreciate it in the shorter period.

Estimated useful life and annual depreciation rate of fixed property by categories are as follows:

Category	Estimated useful life (year)	Estimated net residual value rate (%)	Annual depreciation rate (%)
Buildings and constructions	25	3	3.88
Machinery equipment	10	3	9.70
Office equipment	5	3	19.40
Transportation equipment	4	3	24.25
Electronic equipment	3	3	32.33

3. Methods of impairment test and impairment provision for fixed property

The Company judges whether the possible impairment exists or not of the fixed property in each end of the period.

If the impairment of the fixed property exists, estimate the recoverable amount. The recoverable amount is basic on the net amount of the fixed property fair value deducting the disposal costs or the present value of the estimated future cash flow of the fixed property, which is subject to the higher amount.

When the recoverable amount of the fixed property is less than its book value, reduce the book value of the fixed property to the recoverable amount and the amount reduced shall be confirmed as the impairment loss of the fixed property and accounted into the current income. At the same time, account and record the relevant impairment provision.

After the confirmation of the fixed property impairment loss, the depreciation of it shall be adjusted accordingly in the future period in order to this fixed property amortize the adjusted book value systematically during the remaining useful life (deduct the estimated residual value).

Once the impairment loss of the fixed property is confirmed, it will not be reversed in the following fiscal period.

If there are indications shows that the fixed property impairment may occur, the enterprise shall estimate its recoverable amount based on the single fixed property. If it is hard to estimate the recoverable amount for the enterprise, then estimate the recoverable amount based on the fixed property group.

4. Recognition criterion of finance leased fixed property and pricing method

Meeting any one term of the following conditions in the rental agreement signed by the Company and the lease party shall be recognized to lease the property:

(1) The rental property ownership belongs to the Company after the expiry of the lease;
(2) The Company has an option to purchase the property and the purchase price is far lower than the fair value of the property when exerting the usage right;
(3) The lease period hold the most part of the useful life of the rental property.
(4) The minimum present value of the lease payments at the beginning date shall not differ much from the fair value of the property.

On the lease beginning date, the Company accounts the lower amount among the rental property fair value and the minimum present value of the lease payments as the book value. Take the minimum lease payments as the book value of the long-term payables and the balance as the unconfirmed financing charges.

（12）Construction in progress

1. Category of construction in progress

Construction in progress is calculated in terms of the category of the project approved.

2. Standards and conversion date of transfer to fixed assets

The book value of construction in progress is accounted into fixed assets at all the expenses occurred before the build-up of such assets available for intended use. After available for intended use but before the final settlement, the built-up fixed assets are accounted at estimated value and accrued under the depreciation policy of fixed assets based on constructions budget, cost or real cost. After the settlement, the Company should adjust the provisional estimate by real cost, but not the accrued.

3. Impairment test method and impairment reserve withdrawal method of construction in progress

The company judges whether there is sign of depreciation of construction in progress at the end of each period.

If there is evidence that indicates the existence of impairment of the construction in progress, recoverable value is estimated. If there is evidence that indicates the possible existence of impairment of a construction in progress, the enterprise estimate the recoverable amount based on the single construction in progress. If the enterprise is difficult to estimate the recoverable amount of the construction in progress, the recoverable amount of the asset set shall be determined based on the set the construction in progress belongs to.

The recoverable value is the higher of fair value of construction in progress less disposal expenses and the present value of future cash inflow of the construction in progress.

When the recoverable amount of the construction in progress is less than the book value, the carrying value of construction in progress is written down to the recoverable value and the amount that the carrying amount of the construction in progress exceeding the recoverable value is recognized as an impairment loss, which is charged to profit or loss while the impairment reserve of the construction in progress shall be withdrawn.

The impairment loss of construction in progress cannot be reversed upon recognition.

(13) Borrowing expenses

1．Principle for recognition of capitalization of borrowing costs

The borrowing costs shall include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange balance on foreign currency borrowings.

Where the borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

The term "assets eligible for capitalization" shall refer to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale. The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

(1)The asset disbursements have already incurred, which shall include the cash, transferred non-cash assets or interest bearing debts paid for the acquisition and construction or production activities for preparing assets eligible for capitalization;

(2)The borrowing costs has already incurred; and

(3) The acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.

2. Capitalization period of borrowing costs

The capitalization period represents the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

When the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs is ceased.

Where each part of a qualified asset under acquisition and construction or production is completed separately and is ready for use, the capitalization of the borrowing costs in relation to this part of asset is ceased, otherwise the capitalization is ceased upon the all separate parts of the asset are completed.

3. Suspension of Capitalization

Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended, unless the cessation is a necessary procedure to bring the asset to the status of available for use or for sale. In the suspension period, the borrowing costs are recognized as current gains and losses and the capitalization cannot start until the construction or production activities of assets restart.

4. Calculation of Borrowing Costs

As for specifically borrowed loans for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment. Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

Where there is any discount or premium, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined by the real interest rate method, and an adjustment shall be made to the amount of interests in each period.

7. Intangible assets

1. Measurement of intangible assets

(1) The company conducts initial measurement with cost at the time of acquiring intangible assets;

The purchase cost of an intangible asset comprises purchase cost, relevant tax expenses and other direct attributable expenditures to bring the asset into intended use. Where the payment of purchase price is beyond the amount under normal credit payment term, which is virtually treated as finance, the cost of intangible assets shall be determined as the present value of the purchase price. The book value of the intangible assets acquired as debt assets through the debt restructuring shall be accounted on basis of the fair value of the intangible assets, and the difference between the book value of recombined liabilities and the fair value of debt assets should be accounted into current profits and losses.

Under the conditions that the exchange of non-monetary assets is characterized with business essence, and the fair value of the assets received or surrendered can be accounted in a reliable way, the book value of assets received is defined on basis of the fair value of assets surrendered, except there are conclusive evidences for the stronger reliability of the fair value of assets received. For the exchange of those non-monetary assets not meeting the above premises, the book value of assets surrendered and related taxes should be accounted as cost of assets received and the profits and losses shouldn’t be concluded.

The book value of the intangible assets acquired through merger of enterprises under the same control should be accounted at the book value of the merged enterprise. The book value of the intangible assets acquired through merger of enterprise not under the same control should be accounted at the fair value of the acquired assets.

The cost of intangible assets developed internally includes: material and labor expenses, register fee, amortization of other patent and franchise fee, interest expense eligible for capitalization during development process, and other direct expenses for making the intangible assets available to its intended use.

（2) Subsequent measurement

Useful life is estimated upon acquisition.

The intangible assets with definite useful life are amortized using straight-line method over the beneficial periods. If the future benefits of an intangible asset are unforeseen, its useful life will be perceived as uncertain and the asset will not be amortized.

2. Estimation of assets with definite useful lives:

–

Item	Anticipated	Basis
Land use right	29 years and	The shorter one between
Software	3 years	

The useful life and amortization method of intangible assets with definite useful lives shall be checked at the end of each period.

3. Basis for judgment of assets with indefinite lives

As of the balance sheet date, the company has no assets with indefinite lives.

4. Withdrawal of impairment reserves of intangible assets

For assets with finite useful lives, impairment test is performed if there is strong evidence to indicate that impairment exists. For assets with indefinite useful lives, impairment test is performed at each period end.

The recoverable value is estimated when the impairment test is performed. Where there is sign of possible deprecation of an intangible asset the company estimates the recoverable amount based on the single item intangible assets. If the company is difficult to estimate the recoverable amount of the single item, it determines the recoverable amount of the intangible assets based on the set the intangible asset belongs to.

The recoverable value is the higher of fair value less disposal expenses and the present value of future cash inflow of the intangible asset.

The carrying value of an asset is written down to the recoverable value and the amount that the carrying amount of an asset exceeding the recoverable value is recognized as an impairment loss, which is charged to profit or loss.

Upon the impairment loss is recognized, the amortization is adjusted accordingly in future period, so that such adjustment is systematically spread over the remaining useful life of the asset (after deduction of anticipated net residual value).

The impairment cannot be reversed upon recognition.

5. Definition of research stage and development stage for internal R&D

The expenses of the internal R & D projects are classified into expenses for research phase and those for development phase.

Research stage represents the stage during which the Company undertakes specific well-planned investigation and study to attain and understand new scientific and technical knowledge.

Development stage represents the stage during which the Company applies its outputs or other knowledge to certain plan or design before mass-commercial production or use, to produce materials, equipment or products which are new or of virtual improvement.

6. Criterion for capitalization in development stage

The R&D cost of internal projects, during development stage, is defined as intangible assets when satisfying the following conditions:

1) The completion of such intangible assets for use or sale is technically feasible;

2) The Company has the intention to use or sell the intangible assets after their completion;

3) The method in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilization;

4) The Company has sufficient technological, financial and other resources to complete the R&D of the intangible assets and the ability to make them available for use or sale.

5) The Company can measure in reliable way the expense of such intangible assets during the development stage.

The expenses in development stage which cannot meet above conditions will be included in current gains and loss at the time of occurrence. The expenses in research stage will be included in current gains and losses at the time of occurrence.

(15) Long-term deferred expenses

Long-term deferred expenses are various expenses incurred and to be amortized in current and future periods with amortization period longer than one year

1. Amortization method

Long-term deferred expenses are amortized evenly in benefiting period.

(16) Contingent liabilities

When the company involves in lawsuit, debt guarantee, loss contract or reconstructing event, if such matter may require future assets delivery or service provision whose amount is reliably measurable, the contingent liabilities are recognized.

1. Determination standard for contingent liabilities

The company should recognize the related obligation of a contingency as a liabi1ity when the obligation meets the fol1owing conditions:

(1)the obligation is a present obligation of the enterprise;

(2) it is probable that an outflow of economic benefits from the enterprise will be required to settle the obligation; and

(3) a reliable estimate can be made of the amount of the obligation.

2 Measurement of contingent liabilities

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. 6To determine the best estimate, the company shall take into full consideration of the risks, uncertainty, time value of money, and other factors pertinent to the Contingencies. If the time value of money is of great significance, the best estimate shall be determined after discounting the relevant future outflow of cash.

The best estimate shall be treated respectively in following circumstances:

If there is a sequent range (interval) for the necessary expenses and if all the outcomes within this range are equally likely to occur, the best estimate shall be determined in accordance with the middle estimate within the range or the average of the upper limit and lower limit.

If there is not a sequent range (interval) for the necessary expenses or if there is a sequent range while the possibility of different result may be different, and if the contingencies involve single item, the best estimate shall be determined with the most possible amount; if the best estimate involves multiple items, the best estimate shall be determined according to various possible result and relevant probability.

If all or partial expenditures for settlement of contingent liabilities by the company is anticipated to be compensated by third party, the compensation shall be recognized as assets when receiving is sure basically and the recognized amount of the compensation shall not exceed the book value of the contingent liabilities.

(17) Revenue

1. Judgment standard for time of recognition of venues from sale of goods

Revenue from sale of goods is recognized when all of following conditions are satisfied: The significant risks and rewards of ownership of goods have been transferred to the buyer; and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue from the sale of goods is measured reliably; relevant economic benefit may flow into the enterprise; relevant incurred or to-be-incurred cost may be measured reliably.

2. Basis for recognition incomes from transfer of asset use right

Revenue is recognized when the rewards are probable flow into the Company and the amounts can be reliably estimated. The amount of incomes from transfer of asset use right shall be recognized as below in following circumstances:

(1)Interest income is recognized on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

(2) Royalty income from assets is determined according to the period and method of charging as stipulated in the relevant contract or agreements.

(18) Governmental grant

1. Type

A government grant means the monetary or non-monetary assets obtained free by the Company from the government. Government grants consist of the government subsidies pertinent to assets and government subsidies pertinent to income.

2. Accounting treatment

The government grant related to purchase or construction of long-term assets like fixed assets and intangible assets is recognized initially as deferred income and included in non-operating incomes in terms in useful life of the assets;

The revenue –related grant that compensates the company for expenses or losses to be incurred in the subsequent periods is recognized initially as deferred income at the time of acquirement and recognized in current non-operating incomes in the same periods in which the expenses are recognized. A grant that compensates the Company for expenses or losses incurred is directly included in current non-operating incomes.

(19) Deferred tax assets and deferred tax liabilities

Company shall recognize the deferred income tax assets arising from a deductible temporary difference to the extent of the amount of the taxable income which it is most likely to obtain and which can be deducted from the deductible temporary difference.

The company shall recognize the deferred tax liabilities for taxable temporary difference except in special circumstances.

The special circumstances where the deferred tax assets and deferred tax liabilities are not recognized include: initial recognition of goodwill, other transaction or matter whose occurrence can neither affect accounting profit nor affect taxable income (or deductible loss) other than merger of enterprises.

When the company owns legal right to settle with net amount and is intentioned to settle with net amount or receive assets and settle liabilities at the same time, the current income tax assets and income tax liabilities of the company are presented with net amounts after writing off.

When the company owns the legal right to settle current income tax assets and liabilities with net amounts and deferred income tax assets and liabilities imposed by the same one tax authority on the same or different tax bodies, however, during the period while each of important deferred income tax assets and liabilities is transferred back in the future, and involved tax body is intentioned to settle current income tax assets and liabilities with net amount or receive assets and settle liabilities at the same time, the deferred income tax assets liabilities of the company are presented with net amounts after writing off.

(20) Operating lease and financing lease

1 Accounting treatment of operating lease

(1) The rent paid for leasing assets are amortized with straight-line method in whole lease term without deduction of free term and included in current expenses.

When assets leaser bears lease-related expenses which should be borne by the company, the company will deduct such part from total rental and amortize the lease-related expenses after deduction in lease term and include in current expenses.

(2) The rental from leasing assets shall be amortized with straight-line method in the period including rent-free term and recognized as lease incomes. The lease-related initial direct expenses paid by the company shall be capitalized if it is in large sum and included in current incomes in terms on the basis for recognition of lease incomes.

When company bears the lease-related expenses which should be borne by tenant, the company will deduct such part from total rental and the lease-related expenses after deudciton shall be amortized in lease term.

2. Accounting treatment of financing lease

(1) Assets under financing lease: at the commencement date of the lease, the company takes the lower one between the fair value of the leased assets and the present value of lowest rental as the book value of the leased assets, treats the lowest rent paid as the book value of long-term payables and takes the difference as unrecognized financing expenses. the company recognizes financing expenses with actual interest rate method and amortizes the expenses in asset lease term and then includes in financial expenses. The initial direct expenses incurred by the company are included in the value of the assets.

(2) Assets leased out under financing lease: at the commencement date of the lease, the company takes the difference between the unsecured amount of the receivable rental under financing lease and the present value as the unrealized financing incomes and recognizes as lease incomes in each period receiving the rental. The initial direct expenses incurred by the company in connection with the lease transaction shall be included in initial measurement of receivable rental under financing lease while the income recognized in the lease term shall be

reduced.

(21) Related parties

When a party controls, jointly controls or exercises significant influence over another party, or when two or more parties are under the control, joint control or significant influence of the same party, the affiliated party relationships are constituted. The related party may be individual or enterprise. The enterprise under the control of the same country shall not constitute the related party of the company.

The related parties of the company include, but without limitation of,

(1) The parent company thereof;

(2) The subsidiaries thereof;

(3)Other enterprises under the control of the same parent company thereof;

(4) The investors having joint control over the enterprise;

(5) The investors having significant influence thereon;

(6) The joint ventures thereof, including the subsidiaries of the joint ventures;

(7) The associated enterprises thereof including the subsidiaries of the associated enterprises;

(8) The main individual investors and the close family members thereof

(9) Key managerial personnel of the enterprise or of its parent company and the close family members thereof.

(10) Other enterprises the main individual investors, key managerial personnel, or close family members of such individuals control, jointly control or have significant influence over.

V. Explanations on change of accounting policies and estimates

(1) Change of accounting policies

Standards revised and released by the Ministry of Finance in 2014.

The company has implemented following accounting standards for business enterprises revised and released by the Ministry of Finance in 2014.

“Accounting Standards for Business Enterprises-Basic Standard” (Revision) .

“Accounting Standards for Business Enterprises No.2- Long-term Equity Investment” (Revision) .

“Accounting Standards for Business Enterprises No.9- Employees’ Salaries” (Revision) .

“Accounting Standards for Business Enterprises No.30- Presentation of Financial Statements” (Revision) .

“Accounting Standards for Business Enterprises No.33-Conslidated Financial Statements” (Revision) .

“Accounting Standards for Business Enterprises No.37-Presentation of Financial Instruments” (Revision) .

“Accounting Standards for Business Enterprises No.39- Measurement of Fair Value “

“Accounting Standards for Business Enterprises No.40- Arrangement of Joint Venture”

“Accounting Standards for Business Enterprises No.41- Disclosure of Equity in Other Main

Bodies”

Company’s implementation of above Accounting Standards for Business Enterprises has no impact on current and previous financial statements.

2 Change of accounting estimates

There is no change of main accounting estimates of the company during the period

(3) Correction of significant accounting errors in previous period

There is no correction of significant accounting errors in previous period in report period.

VI Taxes:

Main taxes varieties and tax rates applicable to the company

Tax variety	Tax basis	Tax rate
VAT	VAT is output tax calculated based on incomes from good sale and service provision calculated under tax law after deduction of deductible input tax in current period	17%(Note1)
VAT	Total taxable incomes exccluding tax	3%(Note2)
Sale tax	Taxable turnover	5%
Urban maintenance and construction tax	Paid sale tax, VAT and consumption tax	5%
Enterprise income tax	Taxable incomes	25%
Educational surtax	Paid sale tax, VAT and consumption tax	3%
Local educational surtax	Paid sale tax, VAT and consumption tax	2%

Note 1: the company has been recognized as general taxpayer by Haikou National Taxation Bureau on May 4, 2014.

Note 2: the company was a small-scale taxpayer during January –April, 2014.

7. Notes to main items of financial statements:

(1) Monetary capital:

Item	Period-end amount			Period-beginning amount		
	Amount in foreign currency	Conversion rate	Amount in RMB	Amount in foreign currency	Conversion rate	Amount in RMB
Cash						
RMB	5,410.47	1.0000	5,410.47	3,144.37	1.0000	3,144.37
HK dollar	0.00	0.00	0.00	0.00	0.00	0.00
USD	0.00	0.00	0.00	13,320.00	6.0969	81,210.71
Subtotal			5,410.47			84.355.08
Bank deposit						

Item	Period-end amount			Period-beginning amount		
	Amount in foreign currency	Conversion rate	Amount in RMB	Amount in foreign currency	Conversion rate	Amount in RMB
RMB	2,157,330.29	1.0000	2,157,330.29	1’155,622.23	1.0000	1,155,622.23
HK dollar	2,410,192.17	0.7889	1,901,328.30	3,375,729.81	0.7862	2,653,998.78
USD	25,777.93	6.1190	157,735.15	0.00	0.00	0.00
Subtotal			4,216,393.74			3,809,621.01
Total	..	..	4,221,804.20	-	-	3,893,976.09

There is no restricted monetary capital.

(2) Other receivables:

1. Analysis on other receivables Account age

Account age	Period-end amount				Period-beginning amount			
	Book balance		Bad debt reserve		Book balance		Bad debt reserve	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (含 1 年)	12,737,461.79	100.00	0.00	0.00	38,920,209.28	100.00	10,000.00	0.03
Total	12,737,461.79	100.00	0.00	-!38,920,209.28		100	10,000.00	-

2. Disclosure of other receivables by category：

Category	Period-end amount				Period-beginning amount			
	Book balance		Bad debt reserve		Book balance		Bad debt reserve	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
Other receivables with significant individual amount for which bad debt reserve is withdrawn individually	12,700,320.00	99.71	0.00	0.00	38,720,000.00	99.49	0.00	0.00
Other receivables for which bad debt reserve is withdrawn with combination								
Combination 1					100,000.00	0.26	10,000.00	10.00
Total combination					100,000.00	0.26	10,000.00	10.00

Other receivables with insignificant individual amount for which bad debt reserve is withdrawn individually	37,141.79	0.29	0.00	0.00	100,209.28	0.26	0.00	0.00
Total	12,737,461.79	100.00	0.00	,,	38,920,209.28	100.00	10,000.00	-

Among combinations, other receivables for which bad debt reserve is withdrawn with account age method:

Account age	Period-end amount			Period-beginning amount		
	Book balance		Bad debt reserve	Book balance		Bad debt reserve
	Amount	Proportion (%)		Amount	Proportion (%)	
Within 1 year				100,000.00	100.00	10,000.00
Total				100,000.00	100.00	10,000.00

Other receivables with significant individual amount for which bad debt reserve is withdrawn individually on December 31, 2014.

Other receivables 内容	Book balance	Bad debt reserve	Proportion of withdrawal	Reason for withdrawal
Haikou Comprehensive Bonded Zone Management Committee	2,750,000.00	0.00	0.00	Land security, no risk of recovery
Shenzhen Hengyuxingye Trade Co., ltd.	6,350,320.00	0.00	0.00	Current account without risk of recovery
Yunnan Jiuzhou Construction Group Co., Ltd. Guangzhou Branch	3,600,000.00	0.00	0.00	Current account without risk of recovery
Total	12,700,320.00			

3. As of December 31, 2014, the company has no debt of shareholder holding no less than 5% of voting shares in other receivables.

4 Conditions of units involved in large-sum receivables

Name of unit	Relationship with company	Book balance	Account age	Proportion in total other receivables (%)	Nature or content
Haikou Comprehensive Bonded Zone Management Committee	Non-related	2,750,000.00	Within 1 year	21.59	Land security
Shenzhen Hengyuxingye Trade Co., ltd.	Non-related	6,350,320.00	Within 1 year	49.86	Current account
Yunnan Jiuzhou Construction Group Co., Ltd. Guangzhou Branch	Non-related party	3,600,000.00	Within 1 year	28.26	Current account
Total		12,700,320.00		99.71	

5.There is no receivable from related parties at the end of the period.

(3) Fixed assets:

Item	Period-beginning	Increase in current period	Decrease in	Period-end amount
I. Total original book value :	51.523.00	671,962.62	26,439.00	697,046.62
Including: houses and buildings				.
Machines and equipment				_
Office devices	6,550.00	67,522.33	26,439.00	47,633.33

Item	Period-beginning amount Increase in current period			Decrease in current period ! Period-end amount	
Transport equipment		525,021.00			525,021.00
Electronic devices	44,973.00	79,419.29			124,392.29
		Increase in current period	Accrual in current period		
II. Total accmulated	2,541.51		113,114.79	3,401.37	112,254.93
Including: houses and buildings					
Machines and equipment					
Office devices	219.87		7,293.06	3,401.37	4,111.56
Transport equipment			76,565.58		76,565.58
Electronic devices	2,321.64		29,256.15		31,577.79
III. Net book value of fixed assetsTotal	48,981.49				584,791.69
Including: houses and buildings					
Machines and equipment					
Office devices	6,330.13				43,521.77
Transport equipment					448,455.42
Electronic devices	42,651.36				92,814.50
IV. Total depreciation					
Including: houses and					
Machines and equipment					
Office devices					
Transport equipment					
Electronic devices					
5. Total book value of fixed assets	48,981.49				584,791.69
Including: houses and buildings					
Machines and equipment					

Office devices	6,330.13			43,521.77
Transport equipment				448,455.42
Electronic devices	42,651.36			92,814.50

There is no fixed asset whose depreciation has been withdrawn in full but still in use at the end of the period.

（4）Construction in progress:

1. Conditions of construction in progress

Item		Period-end amount			Period-beginning amount	
	Book balance	Depreciation	Book value	Book balance	Depreciation	Book value
Haikou Peace Base Diamond & Jewelry	51,829,157.42		51,829,157.42	1,013,044.19		1,013,044.19
Total	51,829,157.42		51,829,157.42	1,013,044.19		1,013,044.19

2014 年议财务报表附注

2. Changes of significant constructions in progress

Project name	Budget	Year-beginning balance	Increase in current period	Transferred to fixed assets	Other decrease	Proportion of project input in budget (%)	Progress	Accmulated interest capitalization	Including: current interest capitalization	Current interest capitalization rate (%)	Fund source	Period-end balance
Haikou Peace Base Diamond & Jewelry Processing & Exhibition Center	RMN 240 M	1,013,044.19	50,816,113.23			68.51		281,023.91	281,023.91			51,829,157.42
Total		1,013,04	50,816,11					281,023.	281,023			51,829,157.42

(5) Intangible assets:

Item	Year-beginning balance	Increase in current period	Decrease in current period	Period-end balance
I. Total original price	14,115,410.69	0	0	14,115,410.69
Including: land use right	14,076,810.69	0	0	14,076,810.69
Software	38,600.00	0	0	38,600.00
II. Total accumulated amortization	42,135.38	554,760.82		596,896.20
Including: land use right	39,990.94	542,394.14	0	582,385.08
Software	2,144.44	12,366.67	0	14,511.11
III. Total depreciation reserves of intangible assets				
Including: land use right				
Software				
IV. Total book value	14,073,275.31			13,518,514.49
Including: land use right	14,036,819.75			13,494,425.61
Software	36,455.56			24_.088.89

Note: The land of the company is for the purpose of industrial and mining storage land according to the land use certificate (Lao Cheng Guo Yong (2013) No. 1448) issued by Haikou Chengmai People's Government on December 5, 2013.

(6) Deferred tax assets

Item	Period-end amount		Period-beginning amount	
	Deferred tax assets	Deducible temporary difference	Deferred tax assets	Deducible temporary difference
Defferred tax assets				
assets depreciation			2,500.00	10,000.00
Written off bad debt	25,000.00	100,000.00		
Deducible loss	11,699.70	46,798.80		
Organization costs	1,551,163.84	6,204,655.35	561,377.86	2,245,511.44
Total	1,587,863.54	6,351,454.15	563,877.86	2,255,511.44

(7) Employees' salaries payable:

Item	Period-beginning amount	Increase in current period	Decrease in current period	Period-end amount
I. Salaries, bonus, allowances and subsidy	40,973.25	1.496,638.65	1,399,742.32	137,869.58
II. Employees' welfare		7,770.00	7,770.00	
III. Social insurances		66,203.92	66,203.92	

Including: 1. Basic medical insurance				

Item	Period-beginning amount	Increase in current period	Decrease in current period	Period-end amount
1. Supplementary medical insurance				
2. Basic endowment insurance				
4.Annuity contribution (supplementary endowment insurance)				
5.Unemployment insurance				
6.Injury insurance				
7. Maturity insurance				
IV. Housing fund				
V.Trade union outlay and employee education outlay				
Total	40.973.25	1,570,612.57	1.473,716.24	137,869.58

(8) Taxes payable:

Tax variety	Tax Rate	Period-end balance	Year-beginning balance
VAT	17%	-126,494.05	
Income tax	25%		
individual income tax	excess progressive tax rate	0.67	
Real estate tax	1.20%		
Land use tax		22,010.30	
Others		20.00	36,384.19
Total	-	-104,463.08	36,384.19

(9)Other payables:

Account age	Period-end amount	Period-beginning amount
Within 1 year	29,201,035.31	153,512.43
Total	29,201,035.31	153,512.43

(10) Paid-in capital:

	Period-beginning amount				Period-end amount	
Investor	Investment	Proportion	Increase in	Decrease	Investment amount	Proportion (%)
PEACEBASEHOLDINGSLIMIT	24,000,000.00	40.00			24,000,000.00	40.00
EXPRESSLINKERLIMITED(注	18,000,000.00	30.00			18,000,000.00	30.00
ACTUALWINNERLIMITED(注	18,000,000.00	30.00			18,000,000.00	30.00
Total	60,000,000.00	100.00			60,000,000.00	100.00

Note 1:PEACEBASEHOLDINGSLIMITED;

Note 2:EXPRESSLINKERLIMITED;

Note 3:ACTUALWINNERLIMITED.

Note 4: Company's registered capital has been verified by Hainan Mingzhi Accountant Firm with verification reports (Ming Zhi Yan Zi (2013) 006B104, 0078099 and 009B043). As of September 9, 2013, Hainan Mingzhi Accountant Firm has verified the paid-in capital of three capital contributions for application for incorporation. Through verification, the company has accumulatively received registered capital for RMB 60 M from shareholders. Besides, the difference for 8, 741.93 form converting of foreign –currency capital input by Hong Kong investor into RMB has been included in capital reserve.

(11) Capital reserves:

Item	Period-beginning amount	Increase in current period	Decrease in current period	Period-end amount
1. Premium of capital (stock capital)	8,741.93			8,741.93
Total	8,741.93			8,741.93

(12)Undistributed profits :

Item	Amount	Proportion of withdrawal or distribution
Year-beginning undistributed profits	-1.736,247.58	
Plus: Curent net profits	-3,027,343.03	
Minus: Reserve fund		
Corporate development fund		
Others		
Period-end undistributed profits	-4,763,590.61	

(13) Admin expenses:

Item	Amount in current period	Amount in previous period
Organization costs	3,959,143.91	2,245,511.44
Total	3,959,143.91	2,245,511.44

(14) Loss of assets impairment:

Item	Amount in current period	Amount in previous period
Bad debt reserve	0.00	10,000.00
Total	0.00	10,000.00

(15) Non-operating expenses：

Item	Amount in current period	Amount in previous period
Others	1,823.00	
Total	1,823.00	

(16) Non-operating expenses

Item	Amount in current period	Amount in previous
Writing off of bad debt	90,000.00	
Others	4,007.80	44,614.00
Total	94,007.80	44,614.00

(17) Income tax expenses:

Item	Amount in current period	Amount in previous
Current income tax calcuated with tax law and		
Adjustment of deferred income tax	-1,023,985.68	-563,877.86
Others		
Total	-1,023,985.68	-563,877.86

(18) Notes to items of cash flow statements

Note 1. Received other cash related to operating activities

Item	Amount in current period
Current account	36,720,000.00
Total	36,720,000.00

2. Other paid cash related to operating activities

Item	Amount in current period
Current borrowing	9,950,320.00
Others	4,007.80
Total	9,954,327.80

3. Other received cash related to investment activities

Item	Amount in current period
Interest incomes in preparation period	38,018.88
Current accounts	12,545,278.13
Total	12,583,297.01

4. Other paid cash related to investment activities	v
Item	Amount in current period
Expenditures in preparation period	2,916,647.51
Total	2,916,647.51

(19)Cash flow statement:

Supplementary materials of cash flow statement :

Supplementary materials	Amount in current period	Amount in previous period
1.Adjust net profit into cash flow for operating activities:		
Net profits	-3,027,343.03	-1.736,247.58
Plus: assets depreciation reserves (accrued assets depreciation reserves)	0.00	10,000.00
Fixed assets depreciation		
Intangible assets depreciation		
Amortization of long-term deferred expenses		
Loss for disposal of fixed assets, intangibles assets and other long-term assets (income listed with “-”)		
Loss for rejection of fixed assets(income listed with “-”)		
Financial expenses (income listed with “-”)		
Investment losses (income listed with “-”)		
Decrease of deferred tax assets (increase listed with “-”) (credit of deferred assets (debit listed with “-’’))	-1,023,985.68	-563,877.86
Decrease of inventory(increase listed with “-”)		
Decrease of operating receivables(increase listed with “-”)	26,208,513.41	-36,820,000.00
Increase of operating payables (decrease listed with “-”)		
Others	4,608,487.50	2,290,125.44
Net cash flow for operating activities	26,765,672.20	-36,820,000.00
2.Significiant investment and financing activities not involving cash incomes and expenditures :		
Debt converted into capital		
Convertible corporate bond mature in one year		
Fixed assets leased for financing		
3.Net change of cash and cash equivalents:		
period-end balance of cash	4,221,804.20	3,893,976.09
Minus: year-beginning balance of cash	3,893,976.09	

Supplementary materials	Amount in current period	Amount in previous period
Plus: period-end balance of cash equivalents		
Minus: year-beginning balance of cash equivalents		
Net increase of cash and cash equivalents	327,828.11	3,893,976.09

Note: Others items in this period are expenditures for preparation period.

2. Composition of cash and cash equivalents:

Item	Balance in current	Amount in previous
I. Cash	4,221,804.20	3,893,976.09
Including: cash in hand	5,410.47	84,355.08
Bank deposit available for payment	4,216,393.74	3,809,621.01
Other monetary capital available for payment		
Deposit in central bank available for payment		
Deposits in other banks		
Loans to other banks		
III. Cash equivalents		
Including: bond investment mature in three months		
III. Year-end balance of cash and cash equivalens	4,221,804.20	3,893,976.09

VIII. Contingencies

The company has no contingency to be disclosed.

IX. Events after balance sheet date

The company has no event after balance sheet date to be disclosed.

X. Related party relationship and related transactions

(1) Parent company:

Parent company	Registering place	Nature of business	Registered capital	Proportion of shareholding	Proportion of voting right of
PEACEBASE HOLDINGS LIMITED	Hong Kong, China			40%	40%

(2) Conditions of other related parties of the company:

Other related parties	Relationship between other related parties with
EXPRESSLINKERLIMITED	Shareholder of company
ACTUALWINNERLIMITED	Shareholder of company
Mingde Equity Investment Management (Shanghai) Co.,	Former shareholder of company (in one year)
Hainan Baina Investment Co., Ltd.	Former shareholder of company (in one year)
Zhang Baojun	Legal representative of company

（3) Related transactions:

（1）Related transactions:

(1)There is no sale or purchase involving related parties in this year.

(2)Guarantee for related party:

There is no guarantee for related parties in report period.

(1) Receivables from related parties

Item	Related party	Period-end balance		Period-beginning balance	
		Book balance	Baddebt reserve	Book balance	Bad debt reserve
Other					
	Zhang Baojun			91,222.90	
Other payables					
	Hainan Baina Investment Co., Ltd.	16,673,875.55			
	Peace Base Holdings Co., ltd	12,480,802.58			

VI. Commitment Matters

1. 1 On March 7, 2013, an investment agreement was entered by company's shareholder Hang Kong Peace Base Holding Co., Ltd (Party B) and Haikou Comprehensive Bonded Zone Management Committee (Party A). according to the agreement, Party A shall provide a construction land with total planned construction area for RMB 55000 around (80 acres) (actual used land of 44002 m2, 66 acre); the land use right is the commencement date indicated in the land use certificate issued to Party B until September 22, 2060. The land nature is industry and mining warehouse land; Party B shall establish a project company and invest in Diamond & Jewelry Processing and Exhibition Project and provide Party B with building in the enclosure of the Haikou Comprehensive Bonded Zone for this project free of urban infrastructure fee. Party B committees that the investment strength shall be no less than RMB 3 M/acre and total investment shall be no less than RMB 240 M, the building plot ratio is above 1. The land can only be used for construction of Diamond and Jewelry Processing and Exhibition project. The works like planning, design and approval shall be completed in 8 months since the contract is signed and the project construction shall start in one month thereafter. After the exhibition and trading hall shall be completed and put into use since date of issuing "Construction Project Permission" and the project shall be completed and put into use as a whole in 24 months since the day of issuing the permission; without Party A's approval, Party B cannot transfer, exchange or present all or partial parcel in remaining period. If Party B transfer land or change purpose of the land under the agreement without Party A's approval, it shall pay a penalty to Party a in terms of RMB 850,000/acre.

To ensure the completion and production of project on schedule, Party A receives a performance security for RMB 2 M (which has been paid) and will returned after the project is completed and put into use by Party B within the time limit in the agreement.

On April 15, 2013, “Supplementary Agreement for Diamond & Jewelry Processing & Exhibition Project” entered by and among company (Party C) and Party A and Party B. According to the agreement, Party C unconditionally accepts and performs liabilities and obligations under of Party B under “Agreement for Diamond & Jewelry Processing & Exhibition Project” between Party A and Party B , and Party B commits that it will unconditionally assume several and joint liability for breach arising out performance of the

investment agreement.

On October 8, 2013, the company received the “Construction Project Permission” (Jian Zi Di Hai Bao 2013-8).

On October 14, 2013, the company received “Construction Approval Reply” (Hai Zong Bao Han 【2013】87).

2.On December 26, 2013, the company has entered into a project construction contract for Haikou Peace Base Diamond & Jewelry Processing & Exhibition Center with Guangzhou Housing Construction Development Co., Ltd. the construction project consists of four bonded warehouses, three processing plants, one exhibition center and on general office building with total construction area of 85695.58 m2 and esimtated total investment of the project is about RMB 240 M.

As to project payment method, the first payment shall be paid for 85% of completed work when (±0.000) of project has been completed and the following progress payments shall be paid for 85% of completed work every month. As to the final payment, 95% shall be paid when the project passed through the final acceptance and when the audit department has approved the project settlement plan, and remaining 5% shall be used as deposit for warranty term. The owner shall pay the deposit to contractor free of interest in 20 days if there is no quality dispute upon warranty term.

The scheduled commencement date of the project is December 26, 2013 and the planned completion date is August 26, 2014. Both parties are to negotiate on the postponement of the completion date for force majeure of Typhoon Ramasoon in July, 2014.

3.On August 26, 2013, the company has entered into “Construction Project Surveying Contact (1)” (KCK-2013-122) with Haikou Research Institute for Urban Planning and Design. According to the contact, another party shall be responsible for detailed geotechnical survey for Haikou Peace Base Diamond & Jewelry Processing & Exhibition Center. The surveying work was scheduled to start on August 27, 2013 and the surveying outcomes and materials were scheduled to be submitted on October 7, 2013. The surveying fee is RMB 200,000 (liability for breach in the contract). In three days since the contract is entered, our company pay another party for RMB 50000 as earnest money (as surveying fee after the performance of the contract). In 10 days since the surveying outcomes and materials have been submitted, our company has paid off all engineering costs. As of the report date, the company has paid engineering costs for RMB 200,000.

On December 20, 2013, the company entered into a supplementary agreement for “Construction Project Surveying Contact (1)” (KCK-2013-122) with Haikou Research Institute for Urban Planning and Design. Due to plan adjustment, additional 16 drilling holes were required. Both parties agree to increase surveying fee for RMB 30,000. As of the report date the company has paid off the additional engineering cost for RMB 30,000.

On December 16, 2013, the company entered into a “Construction Project Design Contract (1)” (KCJ-14 Jian (1)-03) with Haikou Research Institute for Urban Planning and Design. According to the contract, the institute is responsible for design of engineering of Haikou Peace Base Diamond & Jewelry Processing & Exhibition Center and the reasonable designed service life is 50 years. The design fee is RMB 2.7689 M (liability for breach agreed in the contract). The payment schedule is as below:

Payment term	Proportion in total design fee (%)	Payment amount (RMB 10,000)	Payment time (subject to submission of design document)

Payment term	Proportion in total design fee (%)	Payment amount (RMB 10,000)	Payment time (subject to submission of design document)
First payment	20	55.378	In 7 business days since execution of contract
Second payment	20	55.378	In 7 business days since the approval of construction application
Third payment	35	96.911	In 7 business days since completion of construction drawing design
Fourth payment	20	55.378	In 7 business days since approval of construction drawing
Fifth payment	5	13.845	In 7 business days since capping of main body
Total		276.89	
Notes: 1. Payment method: pay staged design fee upon submission of each stage; 2. After execution of this contract, our company has paid an earnest money for RMB 300,000 as the first payment of design fee.			

5. On December 16, 2013, the company entered into "Construction Project Consulting Service Contract" with Haikou Zhenglongxing Design Consulting Co., Ltd. to entrust it with providing early-stage research and picture & literature design consulting for Haikou Peace Base Diamond & Jewelry Processing & Exhibition Center and the plant consulting fee is RMB 941600(liability for breach agreed in the contract). The payment schedule is as below:

Payment term	Proportion in total design fee (%)	Payment amount (RMB 10,000)	Payment time (subject to submission of design document)
First payment	20	18.832	In 7 business days since execution of contract
Second payment	20	18.832	In 7 business days since the approval of construction application
Third payment	35	32.956	In 7 business days since completion of construction drawing design
Fourth payment	20	18.832	In 7 business days since approval of construction drawing
Fifth payment	5	4.708	In 7 business days since capping of main body
Total		94.16	

6. On December 27, 2013, the company has entered into a construction project supervision contract with Shenzhen Jianxing Project Management Consulting Co., Ltd. According to the contract, another party provides company with supervision service for company's Haikou Peace Base Diamond & Jewelry Processing & Exhibition Center. The contracted supervision fee is 0.8% of total project price, RMB 1. 6 M temporarily. The supervision term is from December 27, 2013 until March 30, 2015.

7 In October, 2013, the company entered into a plant lease contract with Hangmei Enterprises Company Limited. According to the contract, the company leased the plant C (in entire, a construction in progress) in parcel 003 in Haikou Comprehensive Bonded Zone in Nanyihuan Road 69, Laocheng Economic Development Zone, Haikou, with construction area approx 6300 m2 (subject to the measurement of National Land & Housing Bureau) to Hangmei Enterprises Company Limited for the purpose of production and processing of diamond and jewelry in 30

years since the 5th day of the completion date of the leased plant until the 30th anniversary of the commencement date of the lease; the 10 month since the fifth day of the completion date of the plant until the 30th anniversary of the commencement date. The 10 month since the commencement date is rent free term. During the term, Hangmei Enterprises Company Limited shall not pay for rent, but it must pay for property service fee.

During the lease term the standards for rent and property service fee are as below (Unit: RMB-yuan):

	Monthly rent	Monthly property service fee
First five years	RMB138,000.00	RMB25,000.00
Second five years	RMB152,460.00	TBD
Third five years	RMB167,706.00	TBD
Fourth five years	RMB184,464.00	TBD

The rent and property service fee and other lease term and conditions for the last ten years shall be negotiated by both parties separately according to then market conditions.

8. On October, 2013 the company entered into an exhibition center lease contract with Hangmei Enterprises Company Limited, the company leased the exhibition center (in entire, a construction in progress) in parcel 003 in Haikou Comprehensive Bonded Zone in Nanyihuan Road 69, Laocheng Economic Development Zone, Haikou to another party with total construction area approx 20000 and lease term in 30 years. The rental payment is as below:

Monthly turnover from leased property	Rental
S<RMB50,000.00	S*50%
RMB50,000<S<RMB100,000.00	S*30%, no less than RMB25, 000.00
RMB100,000<S<RMB300,000.00	S*25°/. , no less than RMB30, 000.00
RMB300,000<S<RMB500,000.00	S*20%, no less than RMB75, 000.00
RMB500,000<S<RMB1,000,000.00	S*15%, no less than RMB〗00, 000.00

At the first and the second years of the lease term, another party pays rental to company monthly in proportion to the turnover from leased property, however, it shall not pay property service fee separately. Rental and property service fee since the third year shall be determined by both parties separately according to market conditions prior to the expiry date of the second year of the lease term.

At the effective date of the company, another party shall pay RMB 500,000.00 to company as lease security (free of interest) for the contract performance. As of the report date, the company has not received the lease security paid by another party.

9. On October 24, 2013, the company entered into a plant lease contract with China Logistics Infrastructure (Holdings) Co., Ltd. According to the contract, the company leases the plant or warehouse (in progress) at parcel 003, Kaikou Comprehensive Bonded Zone with lease area no less than 20000 m2 and lease term in 10 years from March 1, 2015 until Feburary 28, 2025, including a rent-free term for 2 months. The rental standard is RMB 1.33/m2/day and property management fee is RMB 0.166/m2/day. After effective date of the lease contract, the rental and property fee will increase 5% per two years based on the rental standard. Since the third year the rental shall be negotiated by both parties separately according to market conditions. The Lease security is RMB 2. 4M. before the contract execution, another party shall pay partial lease security for RMB 400,000 and paid off the reaming amount in one time to the company prior to February 20, 2015. As of the report date, the company has not received another party's payment for lease security.

The company has sent payment notice to above two companies respectively.

XII. Notes to other important matters

1. On November 23, 2013, the company entered into "Letter of Intent for Store Lease of Senlanshangdu" with Shanghai Waigaoqiao Bonded Zone Development Co., Ltd. According to the letter of intent, both parties enter into intention to the lease of another party's some stores in 2F of Shenlanshangdu Project in Qifan Road 628 (temporary), Pudong New Area, Shanghai. The company will leases Stores 201 and 202 of 2F of the project as bonded exhibition and operation place for imported diamonds and jewelries with a warehouse at the rear. The leased area is approx 543 m2 and the lease term is 6 years since the delivery date of the store. The rental standard is RMB 4/m2/day for the first year since opening, RMB 5/m2/day for the second and third year, RMB 6/m2/day for the fourth and the fifth years and RMB 7/m2/day for the six years. the management fee is RMB 52/m2/month. The rent free term is six months since the opening day of the project which is scheduled at December 22, 2013. The company shall pay another party an intent security for RMB 100,000 (which has been paid) in 10 days since the

execution date of the letter.

As of the report date, our company has taken initiatives to release the intent to the lease, but the security is still not recovered.

2. The business term of the business license of the company is from March 28, 2013 until March 28, 2043. The company has entered into following agreement with above companies: the company has entered into a plant lease agreement with Double East Limited, a plant lease agreement with Hangmei Enterprises Company Limited and an exhibition center lease contract with Hangmei Enterprises Company Limited and the lease term of each of them is 30 years. The lease term starts from the completion of the Haikou Peace Base Diamond & Jewelry Processing & Exhibition Center and thus the lease term of above contract is beyond the business term of the company. After the business term expires, the company will apply for alteration with the administration for industry and commerce to extend the business term.

3. The company is in preparation period which is expected to be completed during December 27, 2013 until March 30, 2015. The company is negotiating with related parties to change the ending date of the preparation period due to impact of Typhoon Ramasoon.

4. According to “Monthly Supervision Report” provided by Haikou Peace Base Diamond & Jewelry Processing & Exhibition Center Project Department of Shenzhen Jianxing Project Management Consulting Co., Ltd., as of December 31, 2014，the third and fourth floors of warehouses A，B，C and D have been completed and the basement construction of warehouses A-C has been completed; the brick work of the comprehensive building has been completed, and the structural capping and the brick work has been completed as to the exhibition center.

XIII. Approval on Financial Statements:

The GM Office Meeting has approved the release of these financial statements on March 6, 2015.

Haikou Peace Base Industry Development Co. Limited（official seal)

March 6, 2015