

Haikou Peace Base Industrial Development Co., Ltd

Audit Report

01/01/2013 - 31/12/2013

Security code: 020201485002764666

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

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Audit Report for 01/2013 - 12/2013

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Audit report and Financial reports

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

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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
Contributed by investor	60,000,000.00	8,741.93	0.00	60,008,741.93
At 31 December 2013	<u>60,000,000.00</u>	<u>8,741.93</u>	<u>-1,736,247.58</u>	<u>58,272,494.35</u>

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 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 years	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 investee'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
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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. Calculation: 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 mergee'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. Internal 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. accounting 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

	31/12/2013			
Classification	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

	31/12/2013		
Aging	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
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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	Registrati on 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	Impairmen t	Book value	Impairme nt
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
$S \leq \text{RMB}50,000.00$	$S * 50\%$
$\text{RMB}50,000 \leq S \leq \text{RMB}100,000.00$	$S * 30\%$, but no less than RMB25,000.00
$\text{RMB}100,000 \leq S \leq \text{RMB}300,000.00$	$S * 25\%$, but no less than RMB30,000.00
$\text{RMB}300,000 \leq S \leq \text{RMB}500,000.00$	$S * 20\%$, but no less than RMB75,000.00
$\text{RMB}500,000 \leq S \leq \text{RMB}1,000,000.00$	$S * 15\%$, 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 intended 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

