GOLD HORSE INTERNATIONAL, INC.
Form 10-Q
May 10, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE OF 1934
For the quarterly period ended March 31, 2012

or

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE OF 1934
For the transition period from _______ to _________

Commission file number: 000-30311

GOLD HORSE INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Florida	22-3719165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

No. 31 Tongdao South Road, Hohhot, Inner Mongolia, China	010030
(Address of principal executive offices)	(Zip Code)

86 (471) 339 7999
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months(or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company:

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 2,195,033 shares at May 10, 2012.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
FORM 10-Q
QUARTERLY PERIOD ENDED MARCH 31, 2012

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, the amount of funds owed us by the Jin Ma Companies, the enforceability of our contractual arrangements with the Jin Ma Companies, the risk of doing business in the People’s Republic of China (“PRC”), our ability to implement our strategic initiatives, our access to sufficient capital, our ability to satisfy our obligations as they become due, economic, political and market conditions and fluctuations, PRC government regulations and economic policies, industry regulation, competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control.

You should consider the areas of risk described in connection with any forward-looking statements that may be made in our report as filed with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this quarterly report and our annual report on Form 10-K for the year ended June 30, 2011, including the risks described in Item 1A. - Risk Factors, in their entirety. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this quarterly report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

OTHER PERTINENT INFORMATION

Our web site is www.goldhorseinternational.com. The information which appears on our web site is not part of this report.

All share and per share information in this report gives effect to the 40:1 reverse stock split of our common stock which was effective on September 8, 2010.

Our business is conducted in China, using Renminbi (“RMB”), the currency of China, and our financial statements are presented in United States dollars. In this report, we refer to assets, obligations, commitments and liabilities in our financial statements in United States dollars. These dollar references are based on the exchange rate of RMB to United States dollars, determined as of a specific date. Changes in the exchange rate will affect the amount of our obligations and the value of our assets in terms of United States dollars which may result in an increase or decrease in the amount of our obligations (expressed in dollars) and the value of our assets, including accounts receivable (expressed in dollars).

Unless specifically set forth to the contrary, when used in this quarter report the terms:

- "Gold Horse International," the "Company, "we," "us," "ours," and similar terms refers to Gold Horse International, Inc., a Florida corporation,
- "Gold Horse Nevada" refers to Gold Horse International, Inc., a Nevada corporation and wholly-owned subsidiary of Gold Horse International,
- "Global Rise" refers to Global Rise International, Limited, a Cayman Islands corporation and wholly-owned subsidiary of Gold Horse Nevada,
- "IMTD" refers to Inner Mongolia (Cayman) Technology & Development Ltd., a Chinese company and wholly-owned subsidiary of Global Rise,
- "Jin Ma Real Estate" refers to Inner Mongolia Jin Ma Real Estate Development Co., Ltd., a Chinese company,
- "Jin Ma Construction” refers to Inner Mongolia Jin Ma Construction Co., Ltd., a Chinese company,
- “Jin Ma Hotel” refers to Inner Mongolia Jin Ma Hotel Co., Ltd., a Chinese company,
- “Jin Ma Companies” collectively refers to Jin Ma Real Estate, Jin Ma Construction and Jin Ma Hotel, which are variable interest entities under contractual arrangements with us and whose financial statements are consolidated with ours, unless the context specifically states or implies otherwise; and
- “first quarter of 2012” refers to the three months ended September 30, 2011 and, “first quarter of 2011” refers to the three months ended September 30, 2010, unless the context otherwise defines.
- “second quarter of 2012” refers to the three months ended December 31, 2011 and, “second quarter of 2011” refers to the three months ended December 31, 2010, unless the context otherwise defines.
- “third quarter of 2012” refers to the three months ended March 31, 2012 and, “third quarter of 2011” refers to the three months ended March 31, 2011, unless the context otherwise defines.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(AMOUNTS EXPRESSED IN US DOLLAR)

	As of	
	March 31, 2012 (UNAUDITED)	June 30, 2011
ASSETS		
Cash and cash equivalents	$376,686	$242,238
Restricted cash	20,997	20,458
Accounts receivable, net	16,362,420	7,938,821
Notes receivable on sales type lease - current portion	1,318,691	572,039
Inventories	102,969	73,201
Prepaid expenses	36,057	28,427
Other receivables, net	151,397	114,403
Cost and estimated earnings in excess of billings	66,915	130,928
Deferred tax assets	186,528	225,519
Total Current Assets	18,622,660	9,346,034
Property and equipment, net	8,080,798	8,542,010
Construction in progress	26,150,006	25,148,978
Notes receivable on sales type lease - net of current portion	15,282,978	15,844,259
Total Assets	$68,136,442	$58,881,281
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Loans payable - current portion	$648,888	$549,196
Accounts payable	6,092,264	2,703,281
Due to related parties	629,222	13,518
Accrued liabilities	473,612	403,130
Taxes payable	689,778	114,775
Derivative liability	42,340	84,713
Total Current Liabilities	8,576,104	3,868,613
Loans payable - net of current portion	4,589,697	4,610,149
Total Liabilities	13,165,801	8,478,762
Commitments (Note 17)	-	-
Stockholders' Equity:		
Preferred stock ($0.0001 par value; 20,000,000 shares authorized; none issued and outstanding)	-	-

Common stock ($0.0001 par value; 300,000,000 shares authorized; 2,195,033 and 2,158,244 shares issued and outstanding at March 31, 2012 and June 30, 2011, respectively)	220	216
Additional paid-in capital	7,488,664	7,464,917
Non-controlling interest in variable interest entities	7,642,344	7,642,344
Retained earnings	30,651,780	27,343,397
Statutory reserve	3,116,020	3,066,583
Accumulated other comprehensive income	6,071,613	4,885,062
Total Stockholders' Equity	54,970,641	50,402,519
Total Liabilities and Stockholders' Equity	$68,136,442	$58,881,281

See accompanying notes to unaudited condensed consolidated financial statements.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(AMOUNTS EXPRESSED IN US DOLLAR)
(UNAUDITED)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2012	2011	2012	2011
NET REVENUES				
Construction	$10,183,420	$7,994,860	$35,777,658	$32,986,009
Hotel	612,507	739,027	1,658,044	2,304,502
Real estate	-	193,661	192,429	907,030
Total Revenues	10,795,927	8,927,548	37,628,131	36,197,541
COST OF REVENUES				
Construction	8,725,881	6,851,787	30,654,157	28,289,607
Hotel	327,722	414,640	834,191	1,323,695
Real estate	-	130,334	202,291	670,548
Total Cost of Revenues	9,053,603	7,396,761	31,690,639	30,283,850
GROSS PROFIT	1,742,324	1,530,787	5,937,492	5,913,691
OPERATING EXPENSES:				
Other hotel operating expenses	14,424	15,156	41,438	47,116
Bad debt recovery	(3,455)	(1,291)	(175,510)	(196,903)
Salaries and employee benefits	181,288	293,197	521,294	711,807
Depreciation	219,983	200,224	654,500	592,661
Selling, general and administrative	41,710	97,549	272,511	565,283
Total Operating Expenses	453,950	604,835	1,314,233	1,719,964
INCOME FROM OPERATIONS	1,288,374	925,952	4,623,259	4,193,727
OTHER (EXPENSES) INCOME:				
Other income	-	(38)	-	6,804
Gain on change in fair value of derivative liabilities	10,154	304,837	42,373	461,929
Interest income	2,404	54,462	562,298	705,322
Interest expense	(249,439)	(125,722)	(669,351)	(377,728)
Total Other (Expenses) Income	(236,881)	233,539	(64,680)	796,327
INCOME BEFORE PROVISION FOR INCOME TAX	1,051,493	1,159,491	4,558,579	4,990,054
PROVISION FOR INCOME TAXES	271,318	288,058	1,200,759	1,308,526

NET INCOME	$780,175	$871,433	$3,357,820	$3,681,528
COMPREHENSIVE INCOME:				
Net income	$780,175	$871,433	$3,357,820	$3,681,528
OTHER COMPREHENSIVE INCOME:				
Unrealized foreign currency translation gain	335,815	252,349	1,186,551	1,407,022
COMPREHENSIVE INCOME	$1,115,990	$1,123,782	$4,544,371	$5,088,550
NET INCOME PER COMMON SHARE:				
Basic	$0.36	$0.44	$1.54	$1.88
Diluted	$0.36	$0.44	$1.54	$1.86
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	2,195,033	1,989,459	2,179,623	1,957,237
Diluted	2,195,710	1,989,459	2,180,327	1,977,994

See accompanying notes to unaudited condensed consolidated financial statements.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS EXPRESSED IN US DOLLAR)
(UNAUDITED)

	For the Nine Months Ended March 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$3,357,820	$3,681,528
Adjustments to reconcile net income to net cash		
used in operating activities:		
Depreciation	654,500	592,661
Stock-based compensation and fee	11,250	116,716
Bad debt recovery	(175,510)	(196,903)
Warrants issued for service	-	31,188
Gain on change in fair value of derivative liabilities	(42,373)	(461,929)
Changes in assets and liabilities:		
Restricted cash	(67)	-
Accounts receivable	(8,008,158)	(2,638,012)
Notes receivable	191,322	388,573
Inventories	(27,888)	(5,072)
Prepaid expenses	(6,945)	208,882
Other receivables	(34,122)	(77,655)
Costs and estimated earnings in excess of billings	66,563	5,986
Real estate held for sale	-	223,351
Construction in progress	(418,983)	(19,447,318)
Accounts payable and accrued liabilities	3,377,708	18,121,600
Taxes payable	612,271	(854,777)
Advances from customers	-	50,901
Billings in excess of costs and estimated earnings	-	(91,225)
NET CASH USED IN OPERATING ACTIVITIES	(442,612)	(351,505)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,147)	(41,304)
NET CASH USED IN INVESTING ACTIVITIES	(1,147)	(41,304)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loans payable	(39,292)	(37,428)
Proceeds from related parties	611,127	472,976
NET CASH PROVIDED BY FINANCING ACTIVITIES	571,835	435,548
EFFECT OF EXCHANGE RATE ON CASH	6,372	11,312
NET INCREASE IN CASH AND CASH EQUIVALENTS	134,448	54,051
CASH AND CASH EQUIVALENTS - beginning of period	242,238	309,996

CASH AND CASH EQUIVALENTS - end of period	$376,686	$364,047
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$621,257	$320,314
Income taxes	$891,857	$1,682,059

See accompanying notes to unaudited condensed consolidated financial statements.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Gold Horse International, Inc. (the “Company”, “we”, “us”, “our”) was incorporated on March 21, 2000 under the laws of the State of New Jersey under its former name “Segway III”. Prior to June 29, 2007, the Company was a development stage company attempting to implement its business plan to become a fully integrated online provider that links the supply and demand sides of the ground trucking industry. In November 2007, the Company filed a Certificate of Domestication in the State of Florida whereby the Company domesticated as a Florida corporation under the name Gold Horse International, Inc.

On June 29, 2007, the Company executed a Share Exchange Agreement (“Share Exchange Agreement”) with Gold Horse International, Inc. (“Gold Horse Nevada”), a Nevada corporation, whereby the Company acquired all of the outstanding common stock of Gold Horse Nevada from its stockholders in exchange for newly-issued stock of the Company. Gold Horse Nevada was incorporated on August 14, 2006 in the State of Nevada.

Under the Share Exchange Agreement, on June 29, 2007, the Company issued 1,212,500 shares of its common stock to the Gold Horse Nevada Stockholders and their assignees in exchange for 100% of the common stock of Gold Horse Nevada. Additionally, the Company’s prior President, CEO and sole director, cancelled 241,376 of the Company’s common stock he owned immediately prior to the closing. After giving effect to the cancellation of shares, the Company had a total of 37,500 shares of common stock outstanding immediately prior to Closing. After the Closing, the Company had a total of 1,250,000 shares of common stock outstanding, with the Gold Horse Nevada Stockholders and their assignees owning 97% of the total issued and outstanding shares of the Company’s common stock.

Gold Horse Nevada became a wholly-owned subsidiary of the Company and Gold Horse Nevada’s former shareholders own the majority of the Company’s voting stock.

Gold Horse Nevada owns 100% of Global Rise International, Limited (“Global Rise”), a Cayman Islands corporation incorporated on May 9, 2007. Through Global Rise, Gold Horse Nevada operates, controls and beneficially owns construction, hotel and real estate development businesses in China under a series of contractual arrangements (the “Contractual Arrangements”) with Inner Mongolia Jin Ma Real Estate Development Co., Ltd. (“Jin Ma Real Estate”), Inner Mongolia Jin Ma Construction Co., Ltd. (“Jin Ma Construction”) and Inner Mongolia Jin Ma Hotel Co., Ltd. (“Jin Ma Hotel”), (collectively referred to as the “Jin Ma Companies”). Other than the Contractual Arrangements with the Jin Ma Companies, neither the Company, Gold Horse Nevada nor Global Rise have any business or operations. The Contractual Arrangements are discussed below.

On October 10, 2007, the Company established Inner Mongolia (Cayman) Technology & Development Ltd. (“IMTD”), a wholly-foreign owned enterprise incorporated in the PRC and wholly-owned subsidiary of Global Rise.

The relationship among the above companies is as follows:

As a result of these Contractual Arrangements, the acquisition of Gold Horse Nevada and the Jin Ma Companies by the Company was accounted for as a reverse merger because on a post-merger basis, the former shareholders of Gold Horse Nevada held a majority of the outstanding common stock of the Company on a voting and fully-diluted basis. As a result, Gold Horse Nevada is deemed to be the acquirer for accounting purposes. Accordingly, the consolidated financial statement data presented are those of the Jin Ma Companies for all periods prior to the Company’s acquisition of Gold Horse Nevada on June 29, 2007, and the financial statements of the consolidated companies from the acquisition date forward.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PRC law currently places certain limitations on foreign ownership of Chinese companies. To comply with these foreign ownership restrictions, the Company, through its wholly-owned subsidiary, Global Rise, operates its business in China through the Jin Ma Companies, each of which is a limited liability company headquartered in Hohhot, the capital city of the Autonomous Region of Inner Mongolia in China, and organized under PRC laws. Each of the Jin Ma Companies has the relevant licenses and approvals necessary to operate its business in China and none of them is exposed to liabilities incurred by the other party. Global Rise has Contractual Arrangements with each of the Jin Ma Companies and their shareholders (collectively, the "Jin Ma Companies Shareholders") pursuant to which Global Rise provides business consulting and other general business operation services to the Jin Ma Companies. Through these Contractual Arrangements, Global Rise also has the ability to control the daily operations and financial affairs of the Jin Ma Companies, appoint each of their senior executives and approve all matters requiring shareholder approval. As a result of these Contractual Arrangements, which enable Global Rise to control the Jin Ma Companies, the Company is considered the primary beneficiary of the Jin Ma Companies. Accordingly, the Company consolidates the Jin Ma Companies' results, assets and liabilities in its financial statements.

The Contractual Arrangements are comprised of a series of agreements, including a Consulting Services Agreement and an Operating Agreement, through which Global Rise has the right to advise, consult, manage and operate each of the Jin Ma Companies, and collect and own all of their respective net profits. Additionally, under a Shareholders' Voting Rights Proxy Agreement, the Jin Ma Companies Shareholders have vested their voting control over the Jin Ma Companies to Global Rise. In order to further reinforce the Company's rights to control and operate the Jin Ma Companies, these companies and their shareholders have granted Global Rise, under an Option Agreement, the exclusive right and option to acquire all of their equity interests in the Jin Ma Companies or, alternatively, all of the assets of the Jin Ma Companies. Further the Jin Ma Companies Shareholders have pledged all of their rights, titles and interests in the Jin Ma Companies to Global Rise under an Equity Pledge Agreement.

Gold Horse Nevada entered into the Contractual Arrangements with each of the Jin Ma Companies and their respective shareholders on August 31, 2006. On June 29, 2007, concurrently with the closing of the Share Exchange Transaction, the Contractual Arrangements were amended and restated by and among Gold Horse Nevada and Global Rise, the Company's wholly-owned subsidiary, and the Company on the one hand, and each of the Jin Ma Companies and their respective shareholders on the other hand, pursuant to which the Company was made a party to the Contractual Arrangements.

Inner Mongolia Jin Ma Construction Company Ltd.

Jin Ma Construction is an engineering and construction company that offers general contracting, construction management and building design services primarily in Hohhot City, the Autonomous Region of Inner Mongolia in China. In operation since 1980, Jin Ma Construction was formally registered as a limited liability company in Hohhot City in March 2002.

Inner Mongolia Jin Ma Real Estate Development Co. Ltd.

Jin Ma Real Estate, established in 1999, was formally registered as a limited liability company in Hohhot City in February 2004. Jin Ma Real Estate develops residential and commercial properties in the competitive and growing real estate market in Hohhot.

Inner Mongolia Jin Ma Hotel Co. Ltd.

Jin Ma Hotel was founded in 1999 and formally registered in April 2004 as a limited liability company in Hohhot City. Jin Ma Hotel presently owns, operates and manages the Inner Mongolia Jin Ma Hotel (the “Hotel”), a 22-room full service hotel with a restaurant and banquet facilities situated in Hohhot City approximately 15 kilometers from the Hohhot Baita Airport.

Inner Mongolia (Cayman) Technology & Development Ltd.

IMTD, a wholly foreign owned enterprise incorporated in PRC, provides administrative support services to the Jin Ma Companies.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation

Basis of preparation

These interim condensed consolidated financial statements are unaudited. In the opinion of management, all adjustments and disclosures necessary for a fair presentation of these interim condensed consolidated financial statements, which are of a normal and recurring nature, have been included. The results reported in the condensed consolidated financial statements for any interim periods are not necessarily indicative of the results that may be reported for the entire year. The (a) condensed consolidated balance sheet as of June 30, 2011, which was derived from audited financial statements, and (b) the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes of the Company for the year ended June 30, 2011.

Principle of consolidation

Pursuant to the Financial Accounting Standards Board Accounting Codification (ASC) Topic 810, the Company is required to include in its consolidated financial statements the financial statements of its variable interest entities ("VIEs"). ASC Topic 810 requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss for the VIE or is entitled to receive a majority of the VIE's residual returns. VIEs are those entities in which the Company, through contractual arrangements, bears the risk of, and enjoy the rewards normally associated with ownership of the entity, and therefore the Company is the primary beneficiary of the entity.

The Jin Ma Companies are considered VIEs, and the Company is the primary beneficiary. On June 29, 2007, the Company entered into the Contractual Arrangements with the Jin Ma Companies pursuant to which the Company is to receive 100% of the Jin Ma Companies net income. In accordance with these agreements, the Jin Ma Companies are to pay consulting fees equal to 100% of their net income to the Company's wholly-owned subsidiary, Global Rise, and Global Rise shall supply the technology and administrative services needed to service the Jin Ma Companies.

The accounts of the Jin Ma Companies are consolidated in the accompanying financial statements pursuant to ASC Topic 810. As a VIE, the Jin Ma Companies net revenues are included in the Company's total net revenues, their income from operations is consolidated with the Company's, and the Company's net income includes all of the Jin Ma Companies net income. There is no non-controlling interest in net income and accordingly, no net income is subtracted in calculating the net income attributable to the Company. Because of the contractual arrangements, the Company has a pecuniary interest in the Jin Ma Companies that requires consolidation of the Jin Ma Companies financial statements with its financial statements.

These condensed consolidated financial statements include the financial statements of Gold Horse, its subsidiaries and variable interest entities. All significant inter-company balances or transactions have been eliminated on consolidation.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of income. For stock-based derivative financial instruments, the Company uses the Black-Scholes-Merton option-pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheets as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date. As of March 31, 2012 and June 30, 2011, the Company had $42,340 and $84,713, respectively, of warrants liability on the balance sheets.

The accounting standard governing financial instruments adopted by the Company on July 1, 2008, defines financial instruments and requires fair value disclosures about those instruments. It defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. Cash and cash equivalents, restricted cash, receivables, payables, loans payable and derivative liability all qualify as financial instruments. Management concluded the carrying amounts of cash and cash equivalents, restricted cash, receivables, payables and loans payables-current portion approximate their fair values because of the short period of time between the origination of such instruments and their expected realization and, if applicable, their stated rates of interest are equivalent to rates currently available.

The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under the FASB's accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Depending on the product and the terms of the transaction, the fair value of derivative liability was modeled using a series of techniques, including closed-form analytic formula, such as the Black-Scholes option-pricing model.

The following table presents a reconciliation of the derivative liability measured at fair value on a recurring basis using significant unobservable input (Level 3) for the nine months ended March 31, 2012:

	Warrant liability
Balance at June 30, 2011	$ 84,713
Change in fair value included in earnings	(42,373)

Balance at March 31, 2012	$	42,340

The Company did not identify any other non-recurring assets and liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with the relevant accounting standards.

See Note 10 for more information on these financial instruments.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable, notes receivable and other receivables

The Company has a policy of reserving for uncollectible accounts based on its best estimate of the amount of probable credit losses in its existing receivables. The Company periodically reviews its receivables to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

At March 31, 2012 and June 30, 2011, the Company has established, based on a review of its outstanding accounts receivable balances, an allowance for doubtful accounts in the amount of $687,990 and $845,261, respectively, on its total accounts receivable. Management believes that the notes receivable are fully collectable. Therefore, no allowance for doubtful accounts is deemed to be required on its notes receivable at March 31, 2012 and June 30, 2011.

Other receivables are primarily related to advances made to various vendors and other parties in the normal course of business and an allowance was established when those parties are deemed to be unlikely to repay the amounts. At March 31, 2012 and June 30, 2011, the Company has established, based on a review of its outstanding other receivables balances, an allowance for doubtful accounts in the amount of $28,513 and $27,871, respectively. At such time as management exhausts all collection efforts, the other receivables balance will be netted against the allowance account. The activities in the allowance for doubtful accounts for accounts receivable and other receivables for the nine months ended March 31, 2012 were as follows:

	Allowance for doubtful accounts for accounts receivable	Allowance for doubtful accounts for other receivable	Total
Balance – June 30, 2011	$ 845,261	$ 27,871	$ 873,132
Reduction in allowance	(175,510)	-	(175,510)
Foreign currency translation adjustments	18,239	642	18,881
Balance – March 31, 2012	$ 687,990	$ 28,513	$ 716,503

Inventories

Inventories, consisting of consumable goods related to the Company's hotel operations are stated at the lower of cost or market utilizing the first-in, first-out method.

Construction in progress

Properties currently under development are accounted for as construction in progress. Construction in progress is recorded at acquisition cost, including land use rights cost, development expenditure, professional fees and the interest expense capitalized during the course of construction for the purpose of financing the project. Upon completion and readiness for use of the project, the cost of construction in progress is to be transferred to an appropriate asset such as real estate held for sale. Construction in progress is valued at the lower of cost or market. Management evaluates the market value of its properties on a periodic basis for impairment. Construction in progress is classified in the balance sheets as current or non-current based on whether or not the sale of units of respective projects are expected to take place within 12 months of the balance sheets date. As of March 31, 2012 and June 30, 2011, construction in progress amounted to $26,150,006 and $25,148,978, respectively, and was included in long-term assets.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

The Company follows the guidance of ASC Topic 605 and Topic 360 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The Company incurs business taxes and surcharges in connection with its business and they are included in cost of revenues. The following policies reflect specific criteria for the various revenue streams:

Real estate sales which primarily involve the sale of multi-family units and community environments are reported in accordance with the provisions of ASC Topic 360. Generally, profits from the sale of development properties, less 5% business tax, are recognized by the full accrual method when the sale is consummated. A sale is not considered consummated until (1) the parties are bound by the terms of a contract, (2) all consideration has been exchanged, (3) any permanent financing of which the seller is responsible has been arranged, (4) all conditions precedent to closing have been performed, (5) the seller does not have substantial continuing involvement with the property, and (6) the usual risks and rewards of ownership have been transferred to the buyer.

In 2007 and 2008, Jin Ma Real Estate entered into agreements to construct new dormitories as follows:

(a) In November 2007, Jin Ma Real Estate entered into an agreement to construct new dormitories for the Inner Mongolia Electrical Vocational Technical School (the “Vocational School”). Pursuant to the terms of the agreement, Jin Ma Real Estate constructed the buildings and, upon completion, pursuant to a sales-type capital lease, leased the buildings to the Vocational School and will receive payments for a period of 26 years at an amount of RMB4,800,000 or approximately $760,000 per annum. In November 2008, Jin Ma Real Estate completed the construction. Since the agreement did not have a stated interest rate, the Company used an imputed interest rate of 6.12% and are reflecting payments due under the agreement as a note receivable on the accompanying balance sheets. The property sold had an imputed sales value of RMB61,691,138 (approximately $9,764,000). The deferred gain on the sale of the property was approximately $55,000 of which $1,106 and $993 was recognized in the nine months ended March 31, 2012 and 2011, respectively, and nil and nil in the three months ended March 31, 2012 and 2011, respectively, pursuant to the installment method and was reflected in the accompanying statements of income.

(b) In 2008, Jin Ma Real Estate and Inner Mongolia Chemistry School entered an oral agreement and on September 29, 2009, formalized a written agreement for the construction of student apartments for the Inner Mongolia Chemistry College (the “Chemistry School”) situated in Inner Mongolia University City, a compound where many higher education institutions are located. Jin Ma Construction began developing the 51,037 square-meter project in July 2008 and completed the construction in October 2009. Jin Ma Real Estate leased the buildings to the Chemistry School for a period of 20 years. The annual lease payments are RMB10.62 million (approximately $1.68 million) for five years (from fiscal 2010 to fiscal 2014), and the annual lease payment is RMB5.42 million (approximately $0.86 million) for 15 years (from fiscal 2015 to fiscal 2029). Since the agreement did not have a stated interest rate, the Company used an imputed interest rate of 5.94% and are reflecting payments due under the agreement as a note receivable on the accompanying balance sheets. The property sold had an imputed sales value of RMB84,196,104 (approximately $13 million). The deferred gain on the sale of the property was approximately $4,159,000 of which nil and $100,122 was recognized in the nine months ended March 31, 2012 and 2011, respectively, and nil and $31,935 in the three months ended March 31, 2012 and 2011, respectively, pursuant to the installment method and was reflected in the accompanying statements of income.

In accordance with ASC Topic 360, the initial gains from the sales of the Vocational School and Chemistry School were deferred because the minimum initial investment by the buyer was less than the required 20% initial investment expressed as a percentage of the sales value (ASC Topic 360). Therefore the gains are being recognized into income as payments are received using the installment method. The installment method apportions each cash receipt and principal payment by the buyer between cost recovered and profit. The apportionment is in the same ratio as total cost and total profit bear to the sales value. Accordingly, revenues and cost of sales are recognized based on the apportionments, and the Company recognized imputed interest income on the accompanying consolidated statements of income as summarized below.

As of March 31, 2012, the remaining deferred gains for Vocational School and Chemistry School leases of $52,029 and $3,509,513, respectively, is reflected as a discount of notes receivable in the accompanying balance sheet. As of June 30, 2011, the remaining deferred gains for Vocational School and Chemistry School leases of $51,946 and $3,430,517, respectively, is reflected as a discount of notes receivable in the accompanying balance sheet. The recorded imputed interest discount will be realized as the balances due are collected. In the event of early liquidation, interest is recognized on the simple interest method.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

The deferred gains were recognized pursuant to the installment method and are reflected in the accompanying consolidated statements of income as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2012	2011	2012	2011
Net revenues	$ -	$ 102,210	$ 192,429	$ 489,688
Cost of sales	-	70,275	191,323	388,573
Gross profit recognized	$ -	$ 31,935	$ 1,106	$ 101,115

Jin Ma Real Estate receives annual payments of principal and the related imputed interest from the Vocational School and Chemistry School. During the three and nine months ended March 31, 2012 and 2011, the Company allocated the payments received as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2012	2011	2012	2011
Amount applied to principal balance of notes receivable	$ -	$ 102,210	$ 192,429	$ 489,688
Interest income recognized on consolidated statement of income	-	54,354	561,980	705,102
Total payment received	$ -	$ 156,564	$ 754,409	$ 1,194,790

Revenue from the performance of general contracting, construction management and design-building services is recognized upon completion of the service.

Revenue primarily derived from hotel operations, including the rental of rooms and food and beverage sales, is recognized when rooms are occupied and services have been rendered.

In accounting for long-term engineering and construction-type contracts, the Company follows the provisions of ASC Topic 605. The Company recognizes revenues using the percentage of completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. Contract price and cost estimates are reviewed periodically as work progresses and adjustments proportionate to the percentage of completion are reflected in contract revenues and gross profit in the reporting period when such estimates are revised. This method of revenue recognition requires us to prepare estimates of costs to complete contracts in progress. In making such estimates, judgments are required to evaluate contingencies such as potential variances in schedule, the cost of materials and labor, and productivity, and the impact of change orders, liability claims, contract disputes, and achievement of contractual performance standards which may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The asset, costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed. The liability, billings in excess of costs and estimated earnings," represents billings in excess of revenues recognized.

Warranty policy

In accordance with ASC Topic 450, the Company estimates liabilities for construction defect, product liability and related warranty claims based on the possible claim amounts resulting from injury or damage caused by construction defects and expected material and labor costs to provide warranty replacement products. The methodology used in determining the liability is based upon historical information and experience. Based on historical experience, claims made for construction defects and the warranty service calls and any related labor material costs have been minimal. As such, the warranty provision amounts for the three months and nine months ended March 31, 2012 and 2011 were immaterial.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

Advertising is expensed as incurred. Advertising expenses for the three months and nine months ended March 31, 2012 and 2011 were deemed not material.

Concentrations of credit risk

The Company's operations through the Jin Ma Companies are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. Substantially all of the Company's cash is maintained with state-owned banks within the PRC, and no deposits are covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts. A significant portion of the Company's sales are credit sales which are primarily to customers whose ability to pay is dependent upon the industry economics prevailing in these areas; however, concentrations of credit risk with respect to trade accounts receivables are limited due to generally short payment terms. The Company also performs ongoing credit evaluations of its customers to help further reduce credit risk.

At March 31, 2012 and June 30, 2011, the Company's bank deposits by geographic area were as follows:

	March 31, 2012		June 30, 2011	
United States	$ 1,372	0.4 %	$ 1,886	0.8 %
China	375,314	99.6 %	240,352	99.2 %
	$ 376,686	100.0 %	$ 242,238	100.0 %

Net income per common share

The following table presents a reconciliation of basic and diluted net income per common share:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Net income used for basic and diluted net income per common share	$ 780,175	$ 871,433	$ 3,357,820	$ 3,681,528
Weighted average common shares outstanding - basic	2,195,033	1,989,459	2,179,623	1,957,237

Effect of dilutive securities:								
Restricted stocks		677		—		704		—
Unexercised warrants		—		—		—		20,757
Weighted average common shares outstanding - diluted		2,195,710		1,989,459		2,180,327		1,977,994
Net income per common share - basic	$	0.36	$	0.44	$	1.54	$	1.88
Net income per common share - diluted	$	0.36	$	0.44	$	1.54	$	1.86

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net income per common share (Continued)

The diluted earnings per share calculation for the three and nine months ended March 31, 2012 and 2011 did not include the warrants to purchase up to 204,945 and 204,945 shares of common stock, respectively, because their effect was anti-dilutive.

Foreign currency translation and comprehensive income

The reporting currency of the Company is the U.S. dollar. The functional currency of the parent company is the U.S. dollar and the functional currency of the Company's operating subsidiaries and variable interest entities is the RMB. For the subsidiaries and variable interest entities whose functional currencies are the RMB, results of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the unified exchange rate at the end of the period, and equity is translated at historical exchange rates. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive income. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. All of the Company's revenue transactions are transacted in the functional currency. The Company does not enter any material transaction in foreign currencies and accordingly, transaction gains or losses have not had, and are not expected to have, a material effect on the results of operations of the Company.

Asset and liability accounts at March 31, 2012 and June 30, 2011 were translated at RMB6.3185 to USD1.00 and at RMB6.4640 to USD1.00, respectively. The average translation rates applied to income statements for the nine months ended March 31, 2012 and 2011 were RMB6.3626 and RMB6.6796 to USD1.00, respectively. In accordance with ASC Topic 230, cash flows from the Company's operations are calculated based upon the local currencies using the average translation rate. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheets.

Recent accounting pronouncements

In May 2011, the FASB issued ASU No. 2011-04 – Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S.GAAP and IFRSs. The amendments in this update intend to converge requirements for how to measure fair value and for disclosing information about fair value measurements in US GAAP with International Financial Reporting Standards. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2011. The adoption of the provisions in ASU 2011-04 did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05 – Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments in this update require (i) that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements (the current option to present components of other comprehensive income ("OCI") as part of the statement of changes in stockholders' equity is eliminated); and (ii) presentation of reclassification adjustments from OCI to net income on the face of the financial statements. For public entities, the amendments in this ASU are effective for years, and interim periods within those years, beginning after December 15, 2011. The amendments in this update should be applied retrospectively. Early adoption is permitted. The adoption of the provisions in ASU 2011-05 did not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08 —Intangibles —Goodwill and Other (Topic 350). The amendments in this update will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of the provisions in this update did not have a significant impact on the Company's consolidated financial statements.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements (Continued)

In December 2011, the FASB issued ASU No. 2011-11—Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in this update require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of the provisions in ASU 2011-05 will have no material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-12 —Comprehensive Income (Topic 220). The amendments in this update supersede certain pending paragraphs in ASU No. 2011-05, to effectively defer only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities. The amendments in this update are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of the provisions in this update did not have a significant impact on the Company's consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

NOTE 2 –RECEIVABLES

ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	March 31, 2012	June 30, 2011
Accounts receivable	$ 17,050,410	$ 8,784,082
Less: Allowance for doubtful debts	(687,990)	(845,261)
Accounts receivable, net	16,362,420	7,938,821

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 2 –RECEIVABLES (CONTINUED)

NOTES RECEIVABLE ON SALES TYPE LEASE

Notes receivable, which are attributable to the leasing of the Inner Mongolia Electrical Vocational Technical School (the “Vocational School”) and the Inner Mongolia Chemistry College (the “Chemistry School”) pursuant to a sales-type capital leases, is accounted for using the installment method of accounting as well as original note value. In accordance with ASC Topic 360, a gain was deferred on notes not meeting the minimum initial 20% investment by the buyer expressed as a percentage of the sales value. At March 31, 2012 and June 30, 2011, notes receivable consisted of the following:

Due in 12-month periods ending March 31 and June 30, respectively	March 31, 2012	June 30, 2011
2012	$ 3,409,000	$ 1,689,320
2013	2,440,453	2,385,520
2014	1,617,473	2,385,520
2015	1,617,473	1,581,064
2016	1,617,473	1,581,064
Thereafter	23,208,038	24,266,708
Notes receivable - gross	$ 33,909,910	$ 33,889,196
Less: discount on notes receivable	(13,746,699)	(13,990,435)
Less: deferred gain on sale	(3,561,542)	(3,482,463)
	16,601,669	16,416,298
Notes receivable - current portion	(1,318,691)	(572,039)
Notes receivable – non-current portion	$ 15,282,978	$ 15,844,259

OTHER RECEIVABLES

Others receivables consisted of the following:

	March 31, 2012	June 30, 2011
Other receivables	$ 179,910	$ 142,274
Less: Allowance for doubtful debts	(28,513)	(27,871)
Other receivables, net	151,397	114,403

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 3 - INVENTORIES

At March 31, 2012 and June 30, 2011, inventories consisted of the following:

	March 31, 2012	June 30, 2011
Consumable goods	$ 102,969	$ 73,201

NOTE 4 – COSTS AND ESTIMATED EARNINGS IN EXCESS OF BILLINGS

Costs and estimated earnings in excess of billings at March 31, 2012 and June 30, 2011 consisted of:

	March 31, 2012	June 30, 2011
Costs incurred on uncompleted contracts	$ 50,597,012	$ 20,857,673
Estimated earnings	11,691,475	4,815,489
	62,288,487	25,673,162
Less: billings to date	(62,221,572)	(25,542,234)
	$ 66,915	$ 130,928

Amounts are included in the accompanying consolidated balance sheets under the following captions:

	March 31, 2012	June 30, 2011
Costs and estimated earnings in excess of billings	$ 66,915	$ 130,928
Billings in excess of costs and estimated earnings	-	-
	66,915	130,928

NOTE 5 - PROPERTY AND EQUIPMENT

At March 31, 2012 and June 30, 2011, property and equipment consist of the following:

	Useful Life	March 31, 2012	June 30, 2011
Office equipment	5-8 Years	$ 629,295	$ 614,001
Machinery and equipment	5-15 Years	7,811,873	7,636,033
Vehicles	10 Years	563,461	550,778
Building and building improvements	20 – 50 Years	4,256,619	4,160,806
		13,261,248	12,961,618
Less: accumulated depreciation		(5,180,450)	(4,419,608)
		$ 8,080,798	$ 8,542,010

Depreciation of property and equipment is provided using the straight-line method. For the three months ended March 31, 2012 and 2011, depreciation expense amounted to $219,983 and $200,224, respectively. For the nine months ended March 31, 2012 and 2011, depreciation expense amounted to $654,500 and $592,661, respectively.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 6 – CONSTRUCTION IN PROGRESS

At March 31, 2012 and June 30, 2011, construction in progress consists of the following:

		March 31, 2012		June 30, 2011
Prepaid land use rights and buildings built for Procuratorate Housing Estates (located in Yuquan District, Hohhot City, Inner Mongolia)	$	1,376,277	$	932,888
Prepaid land use rights for Wusutu Village land – JinWu project		2,616,572		2,557,675
Prepaid land use rights for Fu Xing Ying land – Beiyuan project		10,287,251		10,055,692
Prepaid land use rights for East Wusutu Village land for future development (a)		11,869,906		11,602,723
	$	26,150,006	$	25,148,978

Construction in progress are classified in the balance sheets as non-current based on that the sale of units of respective projects are expected to take place after 12 months of the balance sheets date.

(a) During the year ended June 30, 2011, the Company acquired from a local authority a piece of land in East Wusutu Village for a total cash consideration of $11,602,723, which was fully paid before June 30, 2011. As of March 31, 2012, the relevant formalities had not been completed and no land use right certificate had been issued. Management estimated that the relevant formalities will be completed and the land use right certificate will be issued by end of calendar year 2012.

NOTE 7 – ACCRUED LIABILITIES

At March 31, 2012 and June 30, 2011, accrued liabilities consist of the following:

		March 31, 2012		June 30, 2011
Accrued interest payable	$	387,144	$	331,090
Accrued payroll and employees benefit		42,839		62,395
Others		43,629		9,645
	$	473,612	$	403,130

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 8 – LOANS PAYABLE

Loans payable consisted of the following at March 31, 2012 and June 30, 2011:

	March 31, 2012	June 30, 2011
Loans from various unrelated parties, due in April 2012 with annual interest of 18% and unsecured	$ 205,746	$ 201,114
Loans from various unrelated parties, due and repaid in August 2011 with annual interest of 18% and unsecured	-	38,676
Loans from various unrelated parties, due in September 2012 with annual interest of 18% and unsecured	126,613	123,762
Loan from one unrelated individual, due in March 2013 with annual interest of 24% and unsecured	158,265	154,703
Loan from a local bank, due on various dates until June 2014 with annual interest of 16.32% and secured by assets of Jin Ma Hotel	4,747,961	4,641,090
	5,238,585	5,159,345
Less: current portion	(648,888)	(549,196)
Loans payable, non-current portion	$ 4,589,697	$ 4,610,149

For the three months ended March 31, 2012 and 2011, interest expense related to these loans amounted to $249,439 and $125,722, respectively. For the nine months ended March 31, 2012 and 2011, interest expense related to these loans amounted to $669,351 and $377,728, respectively.

At March 31, 2012, future maturities of loans payable are as follows:

Due in 12-month periods ending March 31,	
2012 (current liability)	$ 648,888
2013	633,062
2014	3,956,635
	$ 5,238,585

NOTE 9 – RELATED PARTY TRANSACTIONS

Due to related parties

From time to time, companies related through common ownership advanced funds to the Company for working capital purposes. These advances are non interest bearing, unsecured and payable on demand. At March 31, 2012 and June 30, 2011, due to related parties consisted of the following:

Name	Relationship	March 31, 2012	June 30, 2011

Inner Mongolia Jin Ma Group Ltd and its subsidiaries	Owned by Yang Liankuan	$	629,222	$	13,518

Other

During the three months ended March 31, 2012 and 2011, the Company paid rent of $14,135 and $13,253 to Inner Mongolia Jin Ma Group Ltd., respectively. During the nine months ended March 31, 2012 and 2011, the Company paid rent of $41,488 and $39,245 to Inner Mongolia Jin Ma Group Ltd., respectively.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 10 – DERIVATIVE LIABILITY

Under the terms of a Securities Purchase Agreement, on the closing date which occurred on November 30, 2007, the Company issued $2,183,000 principal amount 10% Secured Convertible Debentures to the purchasers together with the common stock purchase warrants to purchase an aggregate of 238,009 shares of the Company's common stock. The Company paid Next Generation Equity Research, LLC ("Next"), a broker dealer and member of FINRA, a commission of $174,640 and issued Next common stock purchase warrants to purchase an aggregate of 12,692 shares of the Company's common stock at $20.00 per share. Additionally, the Company reimbursed one of the investors $30,000 to defer its legal fees in connection with the financing. The Company used the balance of the proceeds for general working capital.

During 2009, the exercise price per share of common stock for the original 250,701 warrants issued pursuant to the Securities Purchase Agreement was lowered from $20.00 to $4.00.

On May 14, 2010, the Company entered into a further Debenture and Warrant Amendment Agreement with the remaining debenture holders which, among others, reduced the exercise price of 238,009 warrants to $3.20 per share.

During the year ended June 30, 2010, Company repaid all of its convertible debt by issuing 325,467 shares of its common stock for the principal balance of $1,199,450 and repaid the remaining principal balance of $983,550 using cash.

The warrants issued to the investors in November 2007 contain reset exercise price provisions. The exercise price of the warrants does not have fixed settlement provision because it can be lowered if the Company issues securities at lower prices in the future. In accordance with the FASB authoritative guidance, the Company had determined to classify these warrants as derivative liabilities. The reset exercise provisions of the warrants issued to the investors were recorded at their relative fair values at issuance and will continue to be recorded at fair value at each subsequent balance sheet date. Any change in value between reporting periods will be recorded as other income (expense). These warrants will continue to be reported as a liability until such time when they are exercised or expire. The common stock purchase warrants do not trade in an active securities market, and as such, the Company estimates the fair value of the warrants as of March 31, 2012 and June 30, 2011 using a probability-weighted Black-Scholes-Merton option-pricing model using the following assumptions:

	March 31, 2012	June 30, 2011
Warrants:		
Risk-free interest rate	0.19 %	0.19 %
Expected volatility	156.68 %	147.73 %
Expected life	0.67 years	1.42 years
Expected dividend yield	-	-
Fair Value:	$ 42,340	$ 84,713

Expected volatility is based primarily on historical volatility. Historical volatility was computed using weekly pricing observations for recent periods that correspond to the term of the warrants. The Company's management believes this method produces an estimate that is representative of the expectations of future volatility over the expected term of these warrants. The Company has no reason to believe future volatility over the expected remaining life of these warrants will likely differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the financial instruments.

As of March 31, 2012 and June 30, 2011, the outstanding warrants related to the convertible debentures were 196,195. At March 31, 2012 and June 30, 2011, the Company recorded a derivative liability of $42,340 and $84,713, respectively, related to the warrants. For the three months ended March 31, 2012 and 2011, gains from the change in fair value of derivative liabilities were $10,154 and $304,837, respectively. For the nine months ended March 31, 2012 and 2011, gains from the change in fair value of derivative liabilities were $42,373 and $461,929, respectively. For the three and nine months ended March 31, 2012 and 2011, no gain or loss from the extinguishment of derivative liabilities was earned or incurred as no warrants were exercised.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 11 – INCOME TAXES

The Company accounts for income taxes under ASC Topic 740. ASC Topic 740 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carryforwards. ASC Topic 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Realization of deferred tax assets, including those related to the U.S. net operating loss carryforwards, are dependent upon future earnings, if any, of which the timing and amount are uncertain. Accordingly, the net deferred tax asset related to the U.S. net operating loss carryforward has been fully offset by a valuation allowance. The Company is governed by the Income Tax Law of the PRC and the United States.

The operations of the Company are in China and are governed by the Income Tax Law of the People's Republic of China and local income tax laws (the "PRC Income Tax Law"). The Company is subject to income tax at a rate of 25%.

At March 31, 2012 and June 30, 2011, taxes payable (prepaid) are as follows:

	March 31, 2012	June 30, 2011
Income taxes payable	$ 255,367	$ (34,636)
Other taxes payable		
- land appreciation tax	113,643	111,085
- business tax	172,443	9,755
- others	148,325	28,571
	$ 689,778	$ 114,775

As of March 31, 2012 and June 30, 2011, the Company has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future periods and does not believe that there will be any significant increases or decreases of unrecognized tax benefits within the next twelve months. No interest or penalties relating to income tax matters have been imposed on the Company during the three and nine months ended March 31, 2012 and 2011, and no provision for interest and penalties is deemed necessary as of March 31, 2012 and June 30, 2011.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or its withholding agent. The statute of limitations extends to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion.

NOTE 12 – STOCKHOLDERS' EQUITY

Common stock

During the three months and the nine months ended March 31, 2012, the Company issued nil and a total of 22,727 shares of its common stock to the Company's ex-CFO for the services rendered by him. The shares were valued at $0.55 per share based on the fair value on the date of grant. In connection with the issuance of these shares, the Company reduced accrued expenses of $12,501.

Restricted shares granted to CFO

On July 1, 2011, the Company entered into an employment agreement with Mr. Li Xiaodong, who was later appointed as the Company's CFO effective September 30, 2011. Pursuant to the terms of the employment agreement, the Company granted to Mr. Li $22,500 worth of restricted shares (the "Restricted Shares") of the Company's common stock subject to the vesting schedule therein. Up to March 31, 2012, the Company issued 14,062 Restricted Shares to the CFO.

The Restricted Shares will be vested in accordance with the share price as of the pay day:

- $5,625 worth of Restricted Shares to be vested on July 1, 2011;
- $5,625 worth of Restricted Shares to be vested on October 1, 2011;
- $5,625 worth of Restricted Shares to be vested on January 1, 2012; and
- $5,625 worth of Restricted Shares to be vested on April 1, 2012.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 12 – STOCKHOLDERS' EQUITY (CONTINUED)

The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award, provided that the compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. No compensation cost is recognized for instruments that are forfeited by the Company because a service condition or a performance condition is not satisfied.

Accordingly, the Company recognized compensation expense of nil and $11,250 related to the restricted shares granted to Mr. Li for the three and nine months ended March 31, 2012, respectively, based on the estimated grant-date fair value of the Company's common stock of $0.8.

Warrants

On August 18, 2010, the Company entered into a six-month consulting agreement with Rodman & Renshaw, LLC ("Rodman") for financial advisor services. In connection with the consulting agreement, the Company issued to Rodman warrants to purchase 8,750 shares on the Company's common stock at a price per share of $6.00. The warrants are exercisable at any time in whole or in part during the four year period commencing one year from the date of this agreement. The Company valued these warrants utilizing the Black-Scholes options pricing model using the following assumptions at approximately $3.56 per warrant or $31,188 in total and recorded this as stock-based professional fees.

Warrants:	At grant date	
Risk-free interest rate	0.18	%
Expected volatility	175.4	%
Expected life	5 years	
Expected dividend yield	-	
Fair Value:	$ 31,188	

Warrant activities for the nine months ended March 31, 2012 are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at June 30, 2011	204,945	$ 3.37
Granted	-	-
Exercised	-	-
Forfeited	-	-
Balance at March 31, 2012	204,945	$ 3.37
Warrants exercisable at March 31, 2012	204,945	$ 3.37

The following table summarizes the Company's stock warrants outstanding at March 31, 2012:

Warrants Outstanding Warrants Exercisable

Range of Exercise Price	Number Outstanding at March 31, 2012	Weighted Average Exercise Price	Aggregate Intrinsic Value (1)	Weighted Average Remaining Contractual Life	Number Exercisable at March 31, 2012	Weighted Average Exercise Price
$ 3.20	183,503	$ 3.20	$ -	0.67 Years	183,503	$ 3.20
$ 4.00	12,692	$ 4.00	$ -	0.67 Years	12,692	$ 4.00
$ 6.00	8,750	$ 6.00	$ -	3.38 Years	8,750	$ 6.00
	204,945	$ 3.37	$ -	0.78 Years	204,945	$ 3.37

(1) The intrinsic value of warrants at March 31, 2012 is zero since the market value of the Company’s common stock of $1.00 as of March 31, 2012 is lower than the exercise price of the warrants.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 13 – SEGMENT INFORMATION

ASC Topic 280 requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. During the nine months ended March 31, 2012 and 2011, the Company operated in three reportable business segments - (1) the Construction segment (2) Hotel segment and (3) Real estate development segment. The Company's reportable segments are strategic business units that offer different products. The Company's reportable segments, although integral to the success of the others, offer distinctly different products and services and require different types of management focus. As such, these segments are managed separately.

Condensed information with respect to these reportable business segments for the three and nine months ended March 31, 2012 and 2011 is as follows:

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
Revenues:				
Construction	$ 10,183,420	$ 7,994,860	$ 35,777,658	$ 32,986,009
Real Estate	612,507	739,027	1,658,044	2,304,502
Hotel	-	193,661	192,429	907,030
	10,795,927	8,927,548	37,628,131	36,197,541
Depreciation:				
Construction	123,228	117,830	366,631	348,700
Real Estate	11,832	11,232	35,204	33,239
Hotel	84,923	71,162	252,665	210,722
	219,983	200,224	654,500	592,661
Interest expense:				
Construction	249,439	125,722	669,351	377,728
Net income (loss):				
Construction	797,862	595,024	2,942,405	2,947,949
Real Estate	(69,246)	29,842	270,513	512,437
Hotel	44,353	48,806	153,189	265,704
Other (a)	7,206	197,761	(8,287)	(44,562)
	$ 780,175	$ 871,433	$ 3,357,820	$ 3,681,528

	March 31, 2012	June 30, 2011
Identifiable long-lived tangible assets		
Construction	$ 5,958,758	$ 6,184,382
Real Estate	293,189	321,241
Hotel	1,828,851	2,036,387
	$ 8,080,798	$ 8,542,010
Construction in progress		
Real Estate	$ 26,150,006	$ 25,148,978

(a) The Company does not allocate its general and administrative expenses of its U.S. activities and the fair value changes of its derivative liabilities to its reportable segments, because these activities are managed at a corporate level.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 14 - STATUTORY RESERVES

The Company is required to make appropriations to reserve funds, comprising the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC (“PRC GAAP”). Appropriation to the statutory surplus reserve should be at least 10% of the after tax net income determined in accordance with the PRC GAAP until the reserve reaches 50% of the entities’ registered capital or members’ equity. For the nine months ended March 31, 2012, statutory reserve activity is as follows:

	Statutory Reserve
Balance – June 30, 2011	$ 3,066,583
Addition to statutory reserves	49,437
Balance – March 31, 2012	$ 3,116,020

NOTE 15 – MAJOR CUSTOMERS AND VENDORS

The nature of the Company’s construction segment is that at any given time, the Company will have a concentration of significant customers depending upon the number and scope of construction projects. These significant customers may not be the same from period to period depending upon the percentage of completion of the specific projects. For the three months ended March 31, 2012, three construction projects accounted for 93.9% of the Company’s total revenues. For the three months ended March 31, 2011, two construction projects accounted for 88.4% of the Company’s total revenues.

For the nine months ended March 31, 2012, four construction projects accounted for 95.0% of the Company’s total revenues. For the nine months ended March 31, 2011, three construction projects accounted for 91.1% of the Company’s total revenues.

Major customers are summarized as follows:

Project Name	For the Three Months Ended March 31, 2012	%	For the Three Months Ended March 31, 2011	%
Haitianshengdi project	$ 6,064,765	56.2	-	-
Xinyuan residential project	3,118,606	28.9	-	-
Fuhengyuan residential No. 1 – No. 19 project	950,998	8.8	2,995,806	33.6
Tiantixingyuan No. 1 - No. 7 project	-	-	4,894,300	54.8

Project Name	For the Nine Months Ended March 31, 2012	%	For the Nine Months Ended March 31, 2011	%
Fuhengyuan residential No. 1 - No. 19 project	$ 10,831,365	28.8	$ 5,791,319	16.0
Tiantixingyuan No. 1 - No. 7 project	10,817,844	28.7	11,223,429	31.0

Haitianshengdi project	8,462,271	22.5	-	-
Xinyuan residential project	5,662,966	15.0	-	-
Jianhe Garden residential project	-	-	15,973,782	44.1

At March 31, 2012, the Company had $15,580,755 of accounts receivable due from its major customers listed above.

Any disruption in the relationships between the Company's construction segment and one or more of these customers, or any significant variance in the magnitude or the timing of construction projects from any one of these customers, may result in decreases in our results of operations, liquidity and cash flows.

The Company uses five to seven subcontractors to perform its construction services and to develop its real estate projects. Management is aware of similar subcontractors that are available to perform construction services if required and management has plans to engage their services.

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 16 – RESTRICTED NET ASSETS

Schedule I of Article 5-04 of Regulation S-X requires the condensed financial information of a registrant shall be filed when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. For purposes of the above test, restricted net assets of consolidated subsidiaries shall mean that amount of the registrant's proportionate share of net assets of consolidated subsidiaries (after intercompany eliminations) which as of the end of the most recent fiscal year may not be transferred to the parent company by subsidiaries in the form of loans, advances or cash dividends without the consent of a third party (i.e., lender, regulatory agency, foreign government, etc.).

The parent company financial statements have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X as the restricted net assets of the subsidiaries of Gold Horse International, Inc. exceed 25% of the consolidated net assets of Gold Horse International, Inc. The ability of our Chinese operating affiliates to pay dividends may be restricted due to the foreign exchange control policies and availability of cash balances of the Chinese operating subsidiaries. Because a significant portion of all of our operations and revenues are conducted and generated in China through the Jin Ma Companies, all of our revenues being earned and currency received are denominated in RMB. RMB is subject to the exchange control regulation in China, and, as a result, we may be unable to distribute any dividends outside of China due to PRC exchange control regulations that restrict our ability to convert RMB into U.S. dollars.

The following condensed parent company financial statements have been prepared using the same accounting principles and policies described in the notes to the consolidated financial statements, with the only exception being that the parent company accounts for its subsidiaries using the equity method. Refer to the consolidated financial statements and notes presented above for additional information and disclosures with respect to these financial statements.

GOLD HORSE INTERNATIONAL, INC.
CONDENSED PARENT COMPANY BALANCE SHEETS (UNAUDITED)

		As of March 31, 2012		As of June 30, 2011
ASSETS				
Cash and cash equivalents	$	1,372	$	1,886
Prepaid expenses		58		1,000
Total Current Assets		1,430		2,886
Investments in subsidiaries at equity		54,329,370		49,776,712
Due from subsidiaries		695,056		749,638
Total Assets	$	55,025,856	$	50,529,236
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	12,875	$	21,171
Derivative liabilities		42,340		84,713
Accrued liabilities		-		20,833
Total Current Liabilities		55,215		126,717
Stockholders' equity:				
		220		216

Common stock ($0.0001 par value; 300,000,000 shares authorized; 2,195,033 and 2,158,244 shares issued and outstanding at March 31, 2012 and June 30, 2011, respectively)				
Additional paid-in capital		7,488,664		7,464,917
Non-controlling interest in variable interest entities		7,642,344		7,642,344
Retained earnings		30,651,780		27,343,397
Statutory reserve		3,116,020		3,066,583
Other comprehensive income		6,071,613		4,885,062
Total Stockholders' Equity		54,970,641		50,402,519
Total Liabilities and Stockholders' Equity	$	55,025,856	$	50,529,236

GOLD HORSE INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

NOTE 16 – RESTRICTED NET ASSETS (CONTINUED)

GOLD HORSE INTERNATIONAL, INC.
CONDENSED PARENT COMPANY STATEMENTS OF INCOME (UNAUDITED)

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
REVENUES	$ -	$ -	$ -	$ -
OPERATING EXPENSES:				
Salaries and employee benefits	-	72,422	36,250	217,633
General and administrative	2,948	34,654	14,410	288,858
Total Operating Expenses	2,948	107,076	50,660	506,491
LOSS FROM OPERATIONS	(2,948)	(107,076)	(50,660)	(506,491)
OTHER INCOME:				
Gain on change in fair value of derivative liabilities	10,154	304,837	42,373	461,929
INCOME (LOSS) ATTRIBUTABLE TO PARENT ONLY	7,206	197,761	(8,287)	(44,562)
EQUITY INCOME EARNINGS OF SUBSIDIARIES	772,969	673,672	3,366,107	3,726,090
NET INCOME	$ 780,175	$ 871,433	$ 3,357,820	$ 3,681,528

GOLD HORSE INTERNATIONAL, INC.
CONDENSED PARENT COMPANY STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended March 31, 2012	For the Three Months Ended March 31, 2011	For the Nine Months Ended March 31, 2012	For the Nine Months Ended March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 780,175	$ 871,433	$ 3,357,820	$ 3,681,528
Adjustments to reconcile net income to net cash used in operating activities:				
	(772,969)	(673,672)	(3,366,107)	(3,726,090)

Equity in earnings of subsidiary				
Stock-based compensation	-	622	11,250	116,716
Warrants issued for services	-	-	-	31,188
Gain on change in fair value of derivative liabilities	(10,154)	(304,837)	(42,373)	(461,929)
Changes in assets and liabilities:				
Prepaid expenses	-	29,999	942	210,000
Accounts payable	-	(12,306)	4,205	(31,889)
Accrued expenses	-	42,634	(20,833)	84,251
NET CASH USED IN OPERATING ACTIVITIES	(2,948)	(46,127)	(55,096)	(96,225)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Repayment from subsidiaries	2,948	50,000	54,582	100,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,948	50,000	54,582	100,000
CASH FLOWS FROM FINANCING ACTIVITIES:	-	-	-	-
NET INCREASE (DECREASE) IN CASH	-	3,873	(514)	3,775
CASH - beginning of period	1,372	945	1,886	1,043
CASH - end of period	$ 1,372	$ 4,818	$ 1,372	$ 4,818

NOTE 17 – COMMITMENTS

Other than in the normal course of business, the Company did not have significant capital and other commitments, or significant guarantees as of March 31, 2012.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our financial condition and results of operation should be read in conjunction with the financial statements and the notes to those statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” expressions to identify forward-looking statements.

Overview

We are not engaged in any business or operations other than pursuant to the terms of the various Contractual Arrangements with the Jin Ma Companies as described elsewhere in this report. As such, we are completely dependent on the Contractual Arrangements. We do not generate any revenues. Pursuant to generally accepted accounting principles, the Jin Ma Companies are deemed to be variable interest entities (“VIEs”) and we are required to consolidate the financial statements of the Jin Ma Companies with our financial statements. Accordingly, and as described elsewhere in this report, the assets and liabilities at March 31, 2012 and June 30, 2011 and the results of operations for the three and nine months ended March 31, 2012 and 2011 are primarily those of the Jin Ma Companies. All of those assets and operations are located in the PRC and the Contractual Arrangements are subject to enforcement under the laws of the PRC. There are no assurances we will be able to enforce these agreements if necessary. If we are unable to enforce any legal rights we may have under these contracts or otherwise, our ability to continue as a going concern is in jeopardy. In addition, the terms of these contracts expire in August 2016 and there are no assurances these agreements will be renewed. If the Contractual Arrangements are not renewed or are significantly modified, unless we have developed business and operations which are independent of the Jin Ma Companies, of which there are no assurances, we will in all likelihood be forced to cease our operations.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, net revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including the allowance for doubtful accounts, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets and valuation of deferred tax assets, the calculation of costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings, provisions for estimated losses on uncompleted contracts, the fair value of conversion options embedded in convertible debt, and the fair values of warrants granted in connection with the issuance of the convertible debt. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of net revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. These critical accounting policies are discussed in more detail in the Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended June 30, 2011 and in note 1 to the unaudited consolidated financial statements contained herein.

Recent Accounting Pronouncements

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position, or cash flow.

RESULTS OF OPERATIONS

Comparison of Nine Months Ended March 31, 2012 and Nine Months Ended March 31, 2011.

	For the Nine Months Ended March 31,					
	2012	% of Total Net Revenues		2011	% of Total Net Revenues	
NET REVENUES						
Construction	$ 35,777,658	95.1		$ 32,986,009	91.1	
Hotel	1,658,044	4.4		2,304,502	6.4	
Real estate	192,429	0.5		907,030	2.5	
Total Revenues	37,628,131	100.0		36,197,541	100.0	
COST OF SALES						
Construction	30,654,157	85.7	*	28,289,607	85.8	*
Hotel	834,191	50.3	*	1,323,695	57.4	*
Real estate	202,291	105.1	*	670,548	73.9	*
Total Cost of Sales	31,690,639	84.2		30,283,850	83.7	
GROSS PROFIT						
Construction	5,123,501	14.3	*	4,696,402	14.2	*
Hotel	823,853	49.7	*	980,807	42.6	*
Real estate	(9,862)	(5.1)	*	236,482	26.1	*
Total Gross Profit	$ 5,937,492	15.8		$ 5,913,691	16.3	

* Represents percentage of respective segments total net revenues

Net Revenues. For the nine months ended March 31, 2012, our overall net revenues increased slightly from the nine months ended March 31, 2011. The slight increase in revenues was due to the net effect of increased activity in Jin Ma's Construction operation offset by a drop in real estate operations in the third quarter of 2012 as a result of a lack of real estate units available for sale and a decrease in hotel business caused by maintenance of a city road in front of Jin Ma Hotel as well as stronger competition in Hohhot hotels operation.

Net revenues related to Jin Ma Construction by construction project are summarized as follows:

Project Name	For the Nine Months Ended March 31, 2012	% (*)	For the Nine Months Ended March 31, 2011	% (*)
Tiantixingyuan No. 1 – No. 7 project	$ 10,817,844	30.2	$ 11,223,429	34.0
Fuhengyuan residential No. 1 – No. 10 project	8,188,330	22.9	5,791,319	17.6
Fuhengyuan residential No. 11 – No. 19 project	2,643,035	7.4	-	-
Haitianshengdi project	8,462,271	23.7	-	-

Xinyuan residential project		5,662,966	15.8		-		-
Jianhe Garden residential project		-	-		15,973,782		48.4
Others		3,212	-		(2,521	)	0.0
Total construction segment net revenues	$	35,777,658	100.0	$	32,986,009		100.0

* Represents percentage of construction segment net revenues.

At March 31, 2012, the percentage completed for each respective job is as follows:

	% Complete
Tiantixingyuan No. 1 – No. 7 project	100.0
Fuhengyuan residential No. 1 – No. 10 project	100.0
Fuhengyuan residential No. 11 – No. 19 project	17.2
Xinyuan residential project	39.5
Haitianshengdi project	56.1

As of March 31, 2012, the percentage completed for each respective third party construction job is as follows::

- the Tiantixingyuan No. 1 – No. 7 project, a project consisting of seven residential buildings with a total construction area of 90,607 square meters that began construction in September 2010 and was completed at March 31, 2012 and will be subject to final acceptance examination,
- the Fuhengyuan residential No. 1 – No. 10 project, a project consisting of ten residential buildings with a total construction area of 110,129 square meters that began construction in October 2010 and was completed at March 31, 2012 and will be subject to final acceptance examination,
- the Fuhengyuan residential No. 11 – No. 19 project, a project consisting of nine residential buildings with a total construction area of 97,368 square meters that began construction in October 2011 with an expected completion date of December 2012 and was 17.2% complete at March 31, 2012,
- the Xinyuan residential project, a project consisting of twelve residential buildings with a total construction area of 91,669 square meters that began construction in October 2011 with an expected completion date of August 2012 and was 39.5% complete at March 31, 2012, and
- the Haitianshengdi project, a project consisting of ten residential buildings with a total construction area of 110,129 square meters that began construction in October 2011 with an expected completion date of June 2012 and was 56.1% complete at March 31, 2012.

The increase in Jan Ma Construction's revenue for the nine months ended March 31, 2012 as compared to the nine months ended March 31, 2011 was attributable to the timing of construction work performed. As of March 31, 2012, Jin Ma Construction had five construction projects in process compared to three projects as of March 31, 2011. At any given time Jin Ma Construction will have a concentration of significant customers depending upon the number and scope of construction projects. These significant customers may not be the same from period to period depending upon the percentage of completion of the specific projects. Any disruption in the relationships between Jin Ma Construction and one or more of these customers, or any significant variance in the magnitude or the timing of construction projects from any one of these customers, may result in decreases in our results of operations, liquidity and cash flows. In addition, if Jin Ma Construction does not successfully manage its business so that it has new projects ready to start as current projects are completed its revenues will decline which will materially adversely impact our liquidity and operations in future periods. In addition to the third party construction projects outlined above, Jin Ma Construction has been acting as general contractor for Jin Ma Real Estate to construct residential real estate development projects such as the Procuratorate Housing Estates project in order to vertically integrate all development processes from construction management to the sale of real estate units to final customers.

Net revenues for Jin Ma Hotel's operations decreased by $646,458, or 28% for the nine months ended March 31, 2012 from the nine months ended March 31, 2011 primarily due to maintenance of a city road out of the front gate of Jin Ma Hotel in July and August 2011. As a result of fewer customers served, banquet and catering business decreased. The maintenance was completed in August 2011 and the access to Jin Ma Hotel was restored in September 2011. Meanwhile, the competition in the hotel, banquet and catering business continued to be keen in the second and third quarters of 2012, with more hotels commencing operations in the city of Hohhot. We continue to focus our marketing efforts to attract more tour groups to stay in our hotel and more local customers to our banquet facilities.

For the nine months ended March 31, 2012 and 2011, net revenues from real estate operations are summarized as follows:

Project Name	For the Nine Months Ended March 31, 2012	2011
Building 1 to 4 of Procuratorate Housing Estates	$ -	$ 417,342
Vocational School	192,429	172,726
Chemistry School	-	316,962

	$ 192,429	$ 907,030

Net revenues for Jin Ma Real Estate's operations decreased by $714,601, or 79% for the nine months ended March 31, 2012 from the nine months ended March 31, 2011. Jin Ma Real Estate's development operation did not generate any revenue from unit sales for the nine months ended March 31, 2012 due to a lack of inventory of apartment units available for sale. During the fourth quarter of fiscal 2011, Jin Ma Real Estate sold its remaining inventory of apartment units available for sale, in particular, the bulk sale of units at Shuian Renjia Project. Meanwhile, Jin Ma Real Estate has not yet completed any units so far during fiscal 2012. Management expects that the earliest time when Jin Ma Real Estate sells new real estate units will be approximately August 2013 upon the completion of the Building Number 6 of the Procuratorate Housing Estates, a one-residential building project with a total construction area of 38,000 square meters. The construction of this project commenced in September 2011 and the estimated revenue is about $27.8 million.

The annual installment payment was due and collected from the Vocational School during the second quarter of fiscal 2012 and revenue of $192,429 was recognized for the nine months ended March 31, 2012. Out of the annual installment payment due from the Chemistry School, RMB4,500,234, equivalent to $712,231 was received in June 2011 and remaining RMB6,119,766, equivalent to $968,547 was overdue during the second quarter of fiscal 2012 and remained outstanding at March 31, 2012. In accordance with the lease agreement, the title to the leasehold buildings will not be transferred to the Chemistry School until all the lease payments fully settled in the lease period of 20 years. Since no payment was collected, no revenue was recognized on this project during the nine months ended March 31, 2012. Jin Ma Real Estate is confident that the annual installment from the Chemistry School will be collected during fiscal 2012.

Cost of Revenues. Overall, cost of revenues increased slightly from 83.7% of net revenues for the nine months ended March 31, 2011 to 84.2% of net revenues for the nine months ended March 31, 2012. Cost of revenues as a percentage of net revenues from Jin Ma Construction's operation fluctuated slightly from 85.8% for the nine months ended March 31, 2011 to 85.7% for the nine months ended March 31, 2012. Cost of revenues as a percentage of net revenues for Jin Ma Hotel's operations for the nine months ended March 31, 2012 decreased to 50.3% from 57.4% for the nine months ended March 31, 2011. The decrease in the percentage was primarily attributable to the better management of raw material costs. Jin Ma Hotel expects that the cost of revenues as a percentage of sales for its hotel operation will remain at its current level in the current year. Cost of sales for Jin Ma Real Estate development operation as a percentage of net revenues increased to approximately 105.1% from approximately 73.9% for the nine months ended March 31, 2011 as we have only recognized revenues on Vocational School in fiscal 2012, which was a loss making project.

Gross Profit. Gross profit increased slightly by 0.4% for the nine months ended March 31, 2012 from the nine months ended March 31, 2011. Gross profit margin decreased from 16.3% for the nine months ended March 31, 2011 to 15.8% for the nine months ended March 31, 2012. The fluctuation in gross profit was attributable to a net effect of an increase in revenues and profit generated from Jin Ma Construction and a decrease in revenues and profit derived from Jin Ma Real Estate and Jin Ma Hotel.

Total Operating Expenses. For the nine months ended March 31, 2012, overall operating expenses decreased by 23.6% from the nine months ended March 31, 2011. This decrease was mainly due to a decrease in selling, general and administrative expenses as well as in salaries and employee benefits, as described below. We expect that operating expenses will maintain at their current level with minimal increases in the current year.

Other Hotel Operating Expenses. Other hotel operating expenses represent costs and expenses associated with operating Jin Ma Hotel's restaurant and banquet facilities and hotel operating expenses except for food and beverage costs which have been included in cost of revenues. Other hotel operating expenses decreased by 12.1% for the nine months ended March 31, 2012 from the nine months ended March 31, 2011. Other hotel operating expenses were 2.5% of hotel revenues for the nine months ended March 31, 2012 as compared to 2.0% for the nine months ended March 31, 2011. The decrease in other hotel operating expenses for the nine months ended March 31, 2012 is primarily attributable to the decreased business in Jin Ma Hotel.

Bad Debt Recovery. For the nine months ended March 31, 2012, bad debt recovery income amounted to $175,510 as compared to bad debt recovery income of $196,903 for the nine months ended March 31, 2011, a decrease of $21,393 or 10.9% and relates to the collection of receivable balances previously written off. We have a policy of reserving for uncollectible accounts based on our best estimate of the amount of probable credit losses in the Jin Ma Companies existing accounts and other receivables. We periodically review the Jin Ma Companies' accounts receivable and other receivables to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Salaries and Employee Benefits. For the nine months ended March 31, 2012, salaries and employee benefits amounted to $521,294 as compared to $711,807 for the nine months ended March 31, 2011, a decrease by $190,513 or 26.8%. Compensation paid to our directors decreased as a result of the resignations of two directors in the first quarter of 2012. The substitution of the Company's ex-CFO, an American with Mr. Li Xiaodong, a local Chinese citizen, also contributed to the decrease of salaries expenses. We expect that salaries and employee benefits will fluctuate with business in the current year.

Depreciation. For the nine months ended March 31, 2012, depreciation increased by 10.4% as compared to the nine months ended March 31, 2011. This increase was primarily due to an update of the Company's fixed assets for which additional depreciation began in the first quarter of 2012.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of selling, office expenses and supplies, utilities, insurance, telephone and communications, maintenance and automobile expense incurred by the Jin Ma Companies as well as expenses incurred by us which primarily consist of professional and other fees. Selling, general and administrative expenses decreased 51.8% for the nine months ended March 31, 2012 compared to the nine months ended March 31, 2011. The decrease was primarily attributable to the decrease in professional fees as a result of our decreased activities in the U.S. capital markets.

Total Other (Expenses) Income. For the nine months ended March 31, 2012, we recorded other expenses of $64,680 as compared to other income of $796,327 for the nine months ended March 31, 2011. For the nine months ended March 31, 2012 and 2011, other (expenses) income mainly consisted of the following:

- for the nine months ended March 31, 2012, we recorded a gain of $42,373 as compared to $461,929 for the nine months ended March 31, 2011 related to the change in fair value of derivative liabilities associated with warrants;

- for the nine months ended March 31, 2012, we recorded interest income of $562,298 as compared to interest income of $705,322 for the nine months ended March 31, 2011, a decrease of $143,024 attributable to the recording of interest income of $159,220 from the collection of the payments from the Chemistry School for the nine months ended March 31, 2011 and no such interest income collected for the nine months ended March 31, 2012; and

- for the nine months ended March 31, 2012, we recorded interest expense of $669,351 as compared to $377,728 for the nine months ended March 31, 2011, a 77.2% increase which was attributable to an increase in the average loans payable balance during the nine months ended March 31, 2012 and an increase of interest rates compared to the nine months ended March 31, 2011.

Provision for Income Taxes. Provision for income taxes decreased by 8.2% for the nine months ended March 31, 2012 (26.3% of income before income taxes) from for the nine months ended March 31, 2011 (26.2% of income before income taxes). The decrease in the provision for income taxes was attributable to a decrease in the income before income taxes related to our Chinese subsidiaries and the VIEs.

Net Income. Net income decreased 8.8% for the nine months ended March 31, 2012 from the nine months ended March 31, 2011. This decrease was primarily attributable to the decrease in other (expenses) income offset by a decrease in operating expenses and provision for income taxes as described above. This translates to basic net income per common share of $1.54 and $1.88 respectively, and diluted net income per common share of $1.54 and $1.86 for the nine months ended March 31, 2012 and 2011, respectively.

Comprehensive Income. For the nine months ended March 31, 2012, we reported unrealized gain on foreign currency translation of $1,186,550 as compared to $1,407,022 for the nine months ended March 31, 2011 which reflects the effect of the declining value of the U.S. dollar. These gains are non-cash items. As described elsewhere herein, the functional currency of our China subsidiaries and variable interest entities is the RMB. The accompanying consolidated financial statements have been translated and presented in U.S. dollars using period end rates of exchange for assets and liabilities, and average rates of exchange for the period for net revenues, costs, and expenses. Net gains and losses resulting from foreign exchange transactions, if any, are included in the consolidated statements of income and do not have a significant effect on our consolidated financial statements. As a result of this non-cash foreign currency translation gain, we reported comprehensive income of $4,544,370 for the nine months ended March 31, 2012 as compared to comprehensive income of $5,088,550 for the nine months ended March 31, 2011.

Comparison of Three Months Ended March 31, 2012 and Three Months Ended March 31, 2011.

	For the Three Months Ended March 31,						
		2012	% of Total Net Revenues			2011	% of Total Net Revenues	
NET REVENUES								
Construction	$	10,183,420	94.3		$	7,994,860	89.6	
Hotel		612,507	5.7			739,027	8.3	
Real estate		-	-			193,661	2.1	
Total Revenues		10,795,927	100.0			8,927,548	100.0	
COST OF SALES								
Construction		8,725,881	85.7	*		6,851,787	85.7	*
Hotel		327,722	53.5	*		414,640	56.1	*
Real estate		-	-	*		130,334	67.3	*
Total Cost of Sales		9,053,603	83.9			7,396,761	82.9	
GROSS PROFIT								
Construction		1,457,539	14.3	*		1,143,073	14.3	*
Hotel		284,785	46.5	*		324,387	43.9	*
Real estate		-	-	*		63,327	32.7	*
Total Gross Profit	$	1,742,324	16.1		$	1,530,787	17.1	

* Represents percentage of respective segments total net revenues

Net Revenues. For the third quarter of 2012, our overall net revenues increased 20.9% from the third quarter of 2011. The increase in revenues was mainly due to the net effect of increased business in our construction operations and decreased business in our hotel and real estate operations.

Net revenues related to Jin Ma Construction by construction project are summarized as follows:

Project Name	For the Three Months Ended March 31, 2012		% (*)	For the Three Months Ended March 31, 2011		% (*)
Haitianshengdi project	$	6,064,765	59.6	$	-	-
Xinyuan residential project		3,118,606	30.6		-	-
Fuhengyuan residential No. 11 – No. 19 project		996,836	9.8		-	-
Tiantixingyuan No. 1 – No. 7 project		-	-		4,894,300	61.2
Fuhengyuan residential No. 1 – No. 10 project		-	-		2,995,806	37.5
Jianhe Garden residential project		-	-		104,771	1.3
Others		3,213	-		(17)	-
Total construction segment net revenues	$	10,183,420	100.0	$	7,994,860	100.0

* Represents percentage of construction segment net revenues.

The increase in Jin Ma Construction's revenue for the third quarter of 2012 as compared to the third quarter of 2012 was attributable to the timing of Jin Ma Construction's business as well as a turnaround in the real estate market in Hohhot which occurred in the second quarter of 2011.

Net revenues for Jin Ma Hotel's operations decreased 17.1% for the third quarter of 2012 from the third quarter of 2011 primarily due to keen competition in the hotel, banquet and catering business as a result of more hotels commencing operation in the city of Hohhot in the second quarter of 2012. We continue to focus our marketing efforts to attract more tour groups to stay in our hotel and more local customers to our banquet facilities.

For the three months ended March 31, 2012 and 2011, net revenues from real estate operations are summarized as follows:

Project Name	For the three months ended March 31, 2012	2011
Building 1 to 4 of Procuratorate Housing Estates	$ -	$ 91,451
Vocational School	-	1,132
Chemistry College	-	101,078
	$ -	$ 193,661

Net revenues for Jin Ma Real Estate's operations decreased 100.0%, for the third quarter of 2012 from the third quarter of 2011. The decrease was attributable to a lack of inventory of apartment units available for sale and the overdue payment from the Chemistry School.

Cost of Revenues. Overall, cost of revenues as a percentage of net revenues increased slightly from 82.9% for the third quarter of 2011 to 83.9% of net revenues for the third quarter of 2012. This overall change included the following segment changes:

- Cost of revenues as a percentage of net revenues from Jin Ma Construction's operation for the third quarter of 2012 had no movement and remained at 85.7% for the third quarter of 2012 and 2011. The percentage had no fluctuation because Jin Ma Construction usually enters into project contracts with a stable gross profit margin rate.
    - Cost of revenues as a percentage of net revenues for Jin Ma Hotel's operations for the third quarter of 2012 decreased to 53.5% from 56.1% for the third quarter of 2011. Since the Company has to spend large amount of fixed cost in hotel operation, the decreased business in Jin Ma Hotel lead the decrease of this percentage.
- With nil in net revenue for Jin Ma Real Estate's operations for the third quarter of 2012, there were no costs of revenues for Jin Ma Real Estate's operation incurred for the third quarter of 2012.

Gross Profit. Gross profit increased by 13.8% for the third quarter of 2012 from the third quarter of 2011. Gross profit margin decreased slightly from 17.1% for the third quarter of 2011 to 16.1% for the third quarter of 2012. The increase in gross profit was mainly attributable to increased business in our construction operation.

Total Operating Expenses. For the third quarter of 2012, overall operating expenses decreased 24.9% from the third quarter of 2011. This decrease was mainly due to a decrease in salaries and employee benefits as well as a decrease in selling, general and administrative expenses, offset by an increase in depreciation, as described below.

Other Hotel Operating Expenses. Other hotel operating expenses represent costs and expenses associated with operating Jin Ma Hotel's restaurant and banquet facilities and hotel operating expenses except for food and beverage costs which have been included in cost of revenues. Other hotel operating expenses decreased 4.8% for the third quarter of 2012 from the third quarter of 2011. Other hotel operating expenses were 2.4% of hotel revenues for the third quarter of 2012 as compared to 2.1% for the third quarter of 2011 due to the decreased business in Jin Ma Hotel.

Bad Debt Recovery. For the third quarter of 2012, bad debt recovery income amounted to $3,455 as compared to bad debt recovery income of $1,291 for the third quarter of 2011which related to the collection of aged receivable balances previously written off.

Salaries and Employee Benefits. For the third quarter of 2012, salaries and employee benefits decreased 38.2% as compared to the third quarter of 2011. Compensation paid to our directors decreased as a result of the resignations of two directors in first quarter of 2012 and the salary expenses of Jin Ma Hotel and Jin Ma Real Estate decreased as a result of a decline in salary resulting from decreased business. We expect that salaries and employee benefits will fluctuate with business in the current year.

Depreciation. For the third quarter of 2012, depreciation increased 9.9% as compared to the third quarter of 2011. This increase was primarily due to our newly purchased fixed assets for which additional depreciation began in the first quarter of 2012.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 57.2% for the third quarter of 2012 compared to the third quarter of 2011. The decrease was primarily attributable to the decrease in professional fees as a result of our decreased activities in the U.S. capital markets.

Total Other (Expenses) Income. In the third quarter of 2012, we recorded other expenses of $236,881 as compared to other income of $233,539 in the third quarter of 2011. In the third quarter of 2012 and 2011, other (expenses) income primarily consisted of the following:

- in the third quarter of 2012, we recorded a gain of $10,154 compared to $304,837 in the third quarter of 2011 related to the change in fair value of derivative liabilities associated with warrants;

- in the third quarter of 2012, we recorded interest income of $2,404 as compared to interest income of $54,462 in the third quarter of 2011, a decrease of $52,058. The 2011 annual installment payment from the Chemistry School was collected in the first, third and fourth quarter of 2011 and the related interest income was split between the three quarters of 2011 accordingly, whereas the 2012 annual installment payment from the Chemistry School is overdue and no payment was collected up to March 31, 2012. Thus, the interest income decreased sharply; and

- in the third quarter of 2012, we recorded interest expense of $249,439 as compared to $125,722 in the third quarter of 2011, an increase by $123,717 or 98.4% which was attributable to an increase in the average loans payable balance and an increase of interest rates compared to the third quarter of 2011.

Provision for Income Taxes. Total provision for income taxes decreased 5.8% in the third quarter of 2012 (25.8% of income before income taxes) from the third quarter of 2011 (24.8% of income before income taxes). The decrease in the provision for income taxes was attributable to a decrease in income before income taxes related to our Chinese subsidiaries and the VIEs.

Net Income. Net income decreased 10.5% for the third quarter of 2012 from the third quarter of 2011. This decrease was primarily attributable to the decrease in other income offset by a decrease in operating expenses and provision for income taxes as well as an increase in gross profit, as described above. This translates to basic net income per common share of $0.36 and $0.44, and diluted net income per common share of $0.36 and $0.44, for the three months ended March 31, 2012 and 2011, respectively.

Comprehensive Income. For the third quarter of 2012, we reported unrealized gain on foreign currency translation of $335,815 as compared to $252,349 for the third quarter of 2011 which reflects the effect of the declining value of the U.S. dollar. As a result of this non-cash foreign currency translation gain, we reported comprehensive income of $1,115,990 for the third quarter of 2012 as compared to comprehensive income of $1,123,782 for the third quarter of 2011.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate adequate amounts of cash to meet its needs. Our principal liquidity demands are based on the capital needs of the Jin Ma Companies related to the development of new properties, land use right acquisitions, and our general corporate purposes. The Jin Ma Companies have historically relied on bank loans and advances from related parties to supplement their working capital.

At March 31, 2012, we had a cash balance of $376,686, 99.6% of which is located in financial institutions in China under the control of the Jin Ma Companies.

Our working capital increased by $4,569,135 to $10,046,556 at March 31, 2012 from a working capital balance of $5,477,421 at June 30, 2011. This increase in working capital is primarily attributable to:

- An increase in accounts receivable, net of allowance for doubtful accounts, of $8,423,599 due to timing of construction projects revenues billed to customers, and
- An increase in notes receivable on sales type lease - current portion of $746,652 due to collection falling due from the Chemistry School,

Offset by:

- An increase in loans payable – current portion of $99,692 due to more loan principal falling due within one year,
- An increase in accounts payable of $3,388,983 due to construction projects payables to subcontractors,
- An increase in due to related parties of $615,704 due to proceeds from related parties,
- An increase in taxes payable of $575,003, and
- A decrease in cost and estimated earnings in excess of billings of $64,013.

Our balance sheets at March 31, 2012 reflect loans payable of $5,238,585 due through June 2014 which were working capital loans made to the Jin Ma Companies by third parties. These loans bear annual interest rates ranging from 16.32% to 24% and will fall due between April 2012 and June 2014. Of this amount, approximately $4,747,961 is secured by the assets of Jin Ma Hotel and the remaining balances are unsecured. Additionally, approximately $648,888 of these loans mature within the next 12 months. The Jin Ma Companies expect to renew these loans as they become due.

The Jin Ma Companies intend to meet their liquidity requirements, including capital expenditures related to the purchase of land for the development of future projects, through cash flow provided by operations and from the collection of outstanding accounts and notes receivable balances. We are confident that we will collect all outstanding accounts receivable and notes receivable balances . Additionally, for the nine months ended March 31, 2012, the Jin Ma Companies received advances from related parties owned by our chief executive officer of $611,127 which was used for working capital purposes. The terms of these advances are non interest bearing, unsecured and payable on demand. Upon acquiring land for future development, the Jin Ma Companies intend to raise funds to develop its projects by obtaining financing mainly from local banking institutions with which it has done business in the past. It also expects to fund projects through related party advances, from the collection of previous accounts receivable and from progress billings.
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We believe that the relationships with these banks are in good standing and that the Jin Ma Companies' real estate will secure the loans needed.

We believe that the Jin Ma Companies will have sufficient cash flow from operations to satisfy their working capital needs and to fund their operations for the next 12 months from the collection of their outstanding accounts and notes receivable. However, any delay in the collection of the receivables would have an adverse effect on their ability to fund their working capital requirements. In addition, from October 2010 to July 2011 the PRC central bank continuously raised the bench mark interest rate in an effort to address the rapidly growing real estate market and housing price inflation. While the rise in interest rates will raise the Jin Ma Companies' borrowing costs, the Jin Ma Companies are unable to anticipate at this time what additional impact, if any, the PRC government's monetary policies will have on its business.

We require working capital to pay general and administrative expense, including audit, legal and related fees, associated with our reporting obligations under the Securities Exchange Act of 1934. Other than the management fees which are due us by the Jin Ma Companies, we do not presently have any other source of working capital. At March 31, 2012, we were owed approximately $34.6 million by the Jin Ma Companies. This amount is eliminated in the consolidation of our financial statements with those of the Jin Ma Companies. We continue to be reliant on the Jin Ma Companies to pay the service fees due us and/or to repay all or a portion of the funds advanced to the Jin Ma Companies. Even if the Jin Ma Companies pay all the past due amounts to us, it is possible that the Jin Ma Companies will continue to fail to timely pay our management fees. Although we have received funds from the Jin Ma Companies to fund our operation during fiscal 2012, if the quarterly service fees due under the Contractual Arrangement are not paid to us on a timely basis, it is possible that we will not have sufficient funds to pay our operating expenses in future periods, our ability to continue as a going concern is in jeopardy and investors could lose their entire investment in our company.

Operating Activities

Net cash flow used in operating activities was $442,612 for the nine months ended March 31, 2012 as compared to net cash used in operating activities of $351,505 for the nine months ended March 31, 2011, an increase of $91,107.

For the nine months ended March 31, 2012, net cash flow used in operating activities was primarily attributable to:

- net income of $3,357,820 adjusted for the add-back of non-cash items such as depreciation of $654,500, stock-based compensation of $11,250 as well as the reduction of net income for non-cash items such as bad debt recovery of $175,510 and a gain on changes in fair value of derivative liability of $42,373;
- the receipt of cash from operations from changes in operating assets and liabilities such as:

§ a decrease in notes receivable on sales type lease of $191,322 due to collection of payment;

§ a decrease in costs and estimated earnings in excess of billings of $66,563 attributable to the progress billing of projects;

§ an increase in accounts payable and accrued liabilities of $3,377,708 related to an increase in amounts due to subcontractors; and

§ an increase in taxes payable of $612,271 primarily related to a time lag in payment.

- offset by the use of cash from changes in operating assets and liabilities such as:

§ an increase in accounts receivable of $8,008,158 due to timing of construction projects revenues billed to customers; and

§ an increase in construction in progress of $418,983 due to development of real estate projects.

For the nine months ended March 31, 2011, net cash flow provided by operating activities was primarily attributable to:

- net income of $3,681,528 adjusted for the add-back of non-cash items such as depreciation of $592,661, stock-based compensation of $116,716, warrants issued for service of $31,188, and the reduction of net income for non-cash items such as bad debt recovery of $196,903, and a gain on changes in fair value of derivative liabilities of $461,929 and;
- the receipt of cash from operations from changes in operating assets and liabilities such as:
  - § a decrease in notes receivable of $388,573 due to the collections of annual payments due;
  - § a decrease in prepaid expenses of $208,882;
  - § a decrease in real estate held for sale of $223,351 attributable to the sale of units;
  - § an increase in accounts payable and accrued expenses of $18,121,600 related to an increase in amounts due to subcontractors which will be paid upon the collection of the related accounts receivable; and
  - § an increase in advances from customers of $50,901.
- offset by the use of cash from changes in operating assets and liabilities such as:
  - § an increase in accounts receivable of $2,638,012;
  - § an increase in other receivable of $77,655;
  - § an increase in construction in progress of $19,447,318 due to development of real estate projects;
  - § a decrease in taxes payable of $854,777 primarily related to payments made; and
  - § a decrease in billings in excess of costs and estimated earnings of $91,225.

Investing Activities

Net cash flow used in investing activities was $1,147 for the nine months ended March 31, 2012 as compared to cash used in investing activities of $41,304 for the nine months ended March 31, 2011 for acquisition of equipment.

Financing Activities

Net cash flow provided by financing activities was $571,835 for the nine months ended March 31, 2012 which was attributable to proceeds from related parties of $611,127 offset by repayment of loan principal of $39,292. Net cash flow provided by financing activities was $435,548 for the nine months ended March 31, 2011 which was attributable to proceeds from related parties of $472,976 offset by repayment of loans payable of $37,428.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

Jin Ma Real Estate guarantees a customer's mortgage until the home and the title of ownership are delivered to the customer. If a property buyer defaults under the loan, Jin Ma Real Estate is required, during the guarantee period, to repay all debt owed by the defaulting property buyer to the mortgage bank. Jin Ma Real Estate's liability for guarantor's obligation is valued based on the actual outstanding mortgage amount at each reporting period. For the nine months ended March 31, 2012 and 2011, the liability for guarantor's obligation was not material and Jin Ma Real Estate has not suffered any losses.

The Jin Ma Companies have certain fixed contractual obligations and commitments that include future estimated payments. In according to footnote 46 to Release 33-8350 "Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 303(a)(5) of Regulation S-K, the Company estimated the cash requirements for interest based on the terms, principal and interests rates of the contractual obligations as of March 31, 2012. Changes in its business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide with certainty regarding the timing and amounts of payments.

The following table summarizes the Jin Ma Companies' contractual obligations as of March 31, 2012 and the estimated interest to be recorded and paid in the future under the contractual obligations as well as the effect these obligations are expected to have on our liquidity and cash flows in future periods.

	Payments Due by Period				
	Total	Less than 1 year	1-3 Years	4-5 Years	5 Years +
Bank and other third party indebtedness	$5,238,585	$648,888	$4,589,697	--	--
Estimated interest	1,576,893	203,593	1,373,300	--	--
Total	$6,815,478	$852,481	$5,962,997	--	--

Off-balance Sheet Arrangements

Neither we nor the Jin Ma Companies have entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties other than the guarantee of mortgages for Jin Ma Real Estate's customers in the normal course of business. For the nine months ended March 31, 2012 and 2011, the liability for guarantor's obligation was not material and Jin Ma Real Estate has not incurred any losses related to the guarantee of mortgages. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder’s equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging services with us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of March 31, 2012, the end of the period covered by this report, our management concluded its evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management conducted its evaluation of disclosure controls and procedures at March 31, 2012 under the supervision of our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation, Messrs. Yang and Li concluded that because of the continuing material weaknesses in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of March 31, 2012. These material weaknesses, as described in our Annual Report on Form 10-K for the year ended June 30, 2011, included:

- the lack of U.S. GAAP expertise of the Jin Ma Companies' internal accounting staff,
- the lack of our internal audit functions,
- the absence of an effective audit committee, and
- the lack of segregation of duties within accounting functions.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness; yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

In order to correct these material weaknesses, we have committed to the establishment of effective internal audit functions, an effective audit committee and the addition of accounting staff in the Company as a whole with the proper expertise. We began our search for additional accounting staff during the nine months ended March 31, 2012, however, due to the scarcity of qualified candidates with extensive experience in U.S. GAAP reporting and accounting in the region in which the Jin Ma Companies conduct operations, we were not able to hire sufficient internal audit resources and U.S. GAAP expertise before the end of the third quarter of 2012. However, during fiscal 2012 we will increase our search for qualified candidates with assistance from recruiters and through referrals.

Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, we will implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals.

We believe that the foregoing steps will remediate the material weaknesses identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate. Until we are able to hire the proper accounting staff it is unlikely we will be able to remediate these material weaknesses in our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our third fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

Not applicable to a smaller reporting company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable to our operations.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS

31.1	Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) certificate of Chief Financial Officer
32.1	Section 1350 certification of Chief Executive Officer
32.2	Section 1350 certification of Chief Financial Officer
101	Interactive Data Files
101.INS	XBRL Instance Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.LAE	XBRL Taxonomy Extension Label Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.SCH	XBRL Taxonomy Extension Schema

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Gold Horse International, Inc.

Date: May 10, 2012	By:	/s/ Liankuan Yang Liankuan Yang Chief Executive Officer, principal executive officer
Date: May 10, 2012	By:	/s/ Xiaodong Li Xiaodong Li Chief Financial Officer, principal financial and accounting officer