1. ORGANIZATION AND BUSINESS ACQUISITIONS

Addentax Group Corp. ("ATXG") was incorporated in Nevada on October 28, 2014, and before the transaction described below, ATXG is engaged in the field of producing images on multiple surfaces using heat transfer technology.

On December 28, 2016, ATXG acquired 250,000,000 shares of the issued and outstanding stock of Yingxi Industrial Chain Group Co., Ltd. ("Yingxi"). The 250,000,000 shares of Yingxi were acquired from the members of Yingxi in a share exchange transaction in return for the issuance of 500,000,000 shares of common stock of ATXG. The 250,000,000 shares of Yingxi constitute 100% of its issued and outstanding stock, and as a result of the transaction, Yingxi became a wholly-owned subsidiary of ATXG. And following the consummation of the reverse acquisition effective on September 25, 2017, and giving effect to the securities exchanged in the offering, the members of Yingxi will beneficially own approximately ninty-nine percent (99%) of the issued and outstanding common stock of ATXG. For accounting purposes, the Company was treated as an acquiree and Yingxi as an acquirer, as a result, the business and financial information contained in this report is that of the acquirer prior to the consummation date and that of the combined entity after that date.

Yingxi was incorporated in the Republic of Seychelles on August 4, 2016. ATXG, together with Yingxi and its subsidiaries (the "Company") operates primarily in the People's Republic of China ("PRC" or "China") and is engaged in the business of garments manufacturing and providing logistic services.

On December 15, 2016, Yingxi entered into an equity transfer agreement with the shareholder of Yingxi Industrial Chain Investment Co., Ltd ("Yingxi HK") under which Yingxi agreed to pay total consideration of RMB21,008,886 (approximately $3,048,936) in cash in exchange for a 100% ownership interest in Yingxi HK. Yingxi HK was incorporated in Hong Kong in 2016. Yingxi HK is a holding company with no assets other than a 100% equity interest of the following subsidiaries:

Qianhai Yingxi Textile & Garments Co., Ltd ("QYTG"), a wholly-owned subsidiary of Yingxi HK, was incorporated in the PRC in 2016.

Shenzhen Qianhai Yingxi Industrial Chain Services Co., Ltd ("YX"), a wholly-owned subsidiary of QYTG, was incorporated in the PRC in 2016.

Xin Kuai Jie Transport Co., Ltd ("XKJ"), a wholly-owned subsidiary of YX, was incorporated in the PRC in 2001. XKJ is engaged in the provision of logistic services.

Shenzhen Hua Peng Fa Logistics Co., Ltd ("HPF"), a wholly-owned subsidiary of YX, was incorporated in the PRC in 2006. HPF is engaged in the provision of logistic services.

Dongguan Heng Sheng Wei Garments Co., Ltd ("HSW"), a wholly-owned subsidiary of YX, was incorporated in the PRC in 2009. HSW is a garment manufacturer.

Shantou Chenghai Dai Tou Garments Co., Ltd ("DT"), a wholly-owned subsidiary of YX, was incorporated in the PRC in 2009. DT is a garment manufacturer.

2. BASIS OF PRESENTATION, LIQUIDITY

The accompanying consolidated financial statements of the Company and its subsidiaries are prepared pursuant to the rules and regulations of the U.S Securities and Exchanges Commission ("SEC") and in conformity with generally accepted accounting principles in the U.S. ("US GAAP"). All material inter-company accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements are presented on the basis that the Company is a going concern. The going concern assumption contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company incurred net (loss) income of $(321,925), $136,297 for the three months ended September 30, 2019 and 2018, respectively, and $(689,273), $(24,609) for the six months ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and March 31, 2019, the Company had net current liability of $3,890,595 and $2,871,981, respectively, and a deficit on total equity of $2,282,664 and $1,702,547, respectively.

The ability to continue as a going concern is dependent upon the Company's profit generating operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company expects to finance operations primarily through cash flow from revenue and capital contributions from the CEO. During the period, the CEO has provided financial support for the operations of the Company. In the event that the Company requires additional funding to finance the growth of the Company's current and expected future operations as well as to achieve our strategic objectives, the CEO has indicated the intent and ability to provide additional equity financing.

These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent on the Company's ability to meet obligations as they become due and to obtain additional equity or alternative financing required to fund operations until sufficient sources of recurring revenues can be generated. There can be no assurance that the Company will be successful in its plans described above or in attracting equity or alternative financing on acceptable terms, or if at all. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Economic and Political Risks

The Company's operations are conducted 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 economy.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation.

(b) Foreign Currency Translation

The Company's reporting currency 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 is the Chinese Renminbi ("RMB"). For the subsidiaries whose functional currencies are the RMB, all assets and liabilities are translated at exchange rates at the balance sheet date and revenue and expenses are translated at the average yearly exchange rates and equity is translated at historical exchange rates. Any translation adjustments resulting are not included in determining net income but are included in foreign exchange adjustments to other comprehensive loss, a component of equity.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made; however actual results could differ materially from those estimates.

(d) Fair Value Measurement

Accounting Standards Codification ("ASC") 820 " Fair Value Measurements and Disclosures ", which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and that market participant assumptions include assumptions about risk and effect of a restriction on the sale or use of an asset.

This ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

At September 30, 2019, the Company has no financial assets or liabilities subject to recurring fair value measurements.

The Company's financial instruments include cash, accounts receivable, advances to suppliers, other receivables, accounts payable, other payables, taxes payables and related party receivables or payables. Management estimates that the carrying amounts of financial instruments approximate their fair values due to their short-term nature. The fair value of amounts with related parties is not practicable to estimate due to the related party nature of the underlying transactions.

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. All cash and cash equivalents relate to cash on hand and cash at bank at September 30, 2019 and March 31, 2019.

The Renminbi is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Company is permitted to exchange Renminbi for foreign currencies through banks that are authorized to conduct foreign exchange business.

(f) Accounts Receivable

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company extends credit to its customers in the normal course of business and generally does not require collateral. The Company's credit terms are dependent upon the segment, and the customer. The Company assesses the probability of collection from each customer at the outset of the arrangement based on a number of factors, including the customer's payment history and its current creditworthiness. If in management's judgment collection is not probable, the Company does not record revenue until the uncertainty is removed.

Management performs ongoing credit evaluations, and the Company maintains an allowance for potential credit losses based upon its loss history and its aging analysis. The allowance for doubtful accounts is the Company's best estimate of the amount of credit losses in existing accounts receivable. Management reviews the allowance for doubtful accounts each reporting period based on a detailed analysis of trade receivables. In the analysis, management primarily considers the age of the customer's receivable, and also considers the creditworthiness of the customer, the economic conditions of the customer's industry, general economic conditions and trends, and the business relationship and history with its customers, among other factors. If any of these factors change, the Company may also change its original estimates, which could impact the level of the Company's future allowance for doubtful accounts. If judgments regarding the collectability of receivables were incorrect, adjustments to the allowance may be required, which would reduce profitability.

Accounts receivable are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful accounts receivable is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. No allowance for doubtful accounts was made for the three and six months ended September 30, 2019 and 2018.

The following customers had an accounts receivable balance greater than 10% of total accounts receivable at September 30, 2019 and March 31, 2019.

	September 30, 2019	March 31, 2019
Customer A	19%	18%
Customer B	16%	10%
Customer C	11%	12%
Customer D	11%	12%
Customer E	7%	0%

(g) Inventories

Manufacturing segment inventories consist of raw materials, work in progress and finished goods and are stated at the lower of cost, determined on a weighted average basis, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. When inventories are sold, their carrying amount is charged to expense in the period in which the revenue is recognized. Write-downs for declines in net realizable value or for losses of inventories are recognized as an expense in the period the impairment or loss occurs. No allowance for obsolete finished goods for both three and six months ended September 30, 2019 and 2018.

During the three and six months ended September 30, 2019 and 2018, approximately 88%, 75%, 70% and 57% of total inventory purchases were from the Company's five largest suppliers, respectively. Management believes that should the Company lose any one of its major suppliers, other suppliers are available that could provide similar products to the Company.

(h) Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the assets' estimated useful lives, using the straight-line method. Estimated useful lives of the plant and equipment are as follows:

Production plant	5-10 years
Motor vehicles	10-15 years
Office equipment	5-10 years

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income. The cost of maintenance and repairs is charged to the statement of income as incurred, whereas significant renewals and betterments are capitalized.

(i) Goodwill

Goodwill represents the excess of the purchase price over the net fair value of the identifiable tangible and intangible assets acquired and the fair value of liabilities assumed in acquisitions. ASC350-30-50 "Goodwill and Other Intangible Assets", requires the testing of goodwill and indefinite-lived intangible assets for impairment at least annually. The Company tests goodwill for impairment in the fourth quarter of each years.

Under applicable accounting guidance, the goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of each reporting unit with its carrying amount including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed to measure potential impairment.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of goodwill, an impairment charge is recorded for the excess.

The Company tested goodwill for impairment as of March 31, 2019 and it was determined that recoverable amount of one of the Company's reporting units was higher than the carrying amount of the goodwill recorded. Therefore it was concluded that no impairment for goodwill is required. As of September 30, 2019 and March 31, 2019, no carrying amount of goodwill was impaired.

(j) Accounting for the Impairment of Long-Lived Assets

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. It is reasonably possible that these assets could become impaired as a result of technology or other industry changes. Determination of recoverability of assets to be held and used is by comparing the carrying amount of an asset to future net undiscounted cash flows to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

There was no impairment of long-lived assets as of September 30, 2019 and March 31, 2019.

(k) Revenue Recognition

Revenue is generated through sale of goods and delivery services. Revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amount of revenue that is recorded reflects the consideration that the Company expects to receive in exchange for those goods and services. The Company applies the following five-step model in order to determine this amount:

(i) identification of the promised goods and services in the contract;

(ii) determination of whether the promised goods and services are performance obligations, including whether they are distinct in the context of the contract;

(iii) measurement of the transaction price, including the constraint on variable consideration;

(iv) allocation of the transaction price to the performance obligations; and

(v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. Once a contract is determined to be within the scope of ASC 606 at contract inception, the Company reviews the contract to determine which performance obligations the Company must deliver and which of these performance obligations are distinct. The Company recognizes as revenues the amount of the transaction price that is allocated to the respective performance obligation when the performance obligation is satisfied or as it is satisfied. Generally, the Company’s performance obligations are transferred to customers at a point in time, typically upon delivery.

For all reporting periods, the Company has not disclosed the value of unsatisfied performance obligations for all product and service revenue contracts with an original expected length of one year or less, which is an optional exemption that is permitted under the adopted rules

Cost of revenues for manufacturing segment includes the direct raw material cost, direct labor cost, manufacturing overheads including depreciation of production equipment and rent. Cost of for service segment includes gasoline and diesel fuel, toll charges and subcontracting fees.

(l) Earnings Per Share

The Company reports earnings per share in accordance with ASC 260 “Earnings Per Share”, which requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the reporting period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Further, if the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse stock split, the computations of a basic and diluted earnings per share shall be adjusted retroactively for all periods presented to reflect that change in capital structure.

The Company's basic earnings per share is computed by dividing the net income available to holders by the weighted average number of the Company's ordinary shares outstanding. Diluted earnings per share reflects the amount of net income available to each ordinary share outstanding during the period plus the number of additional shares that would have been outstanding if potentially dilutive securities had been issued. The Company had no potentially dilutive ordinary shares as of September 30, 2019 and March 31, 2019.

(m) Income Taxes

The Company accounts for income taxes using the asset and liability method prescribed by ASC 740 "Income Taxes". Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the years in which the differences are expected to reverse. The Company records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized as income or loss in the period that includes the enactment date.

The Company has a history of tax losses and there is no convincing evidence that sufficient taxable income will be available against which the deferred tax asset can be utilised, therefore, the Company does not recognize any tax benefits for the three and six months ended September 30, 2019 and 2018.

The Company is governed by the Income Tax Laws of the PRC. The PRC federal statutory tax rate is 25%. The Company files income tax returns with the relevant government authorities in the PRC. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company does not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the three and six months ended September 30, 2019 and 2018. The Company's effective tax rate differs from the PRC federal statutory rate primarily due to non-deductible expenses, temporary differences and preferential tax treatments.

New U.S. federal tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the "U.S. Tax Reform"), was signed into law on December 22, 2017. The U.S. Tax Reform modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transaction tax on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. Taxpayers may elect to pay the one-time transition tax over eight years, or in a single lump-sum payment. The Company measured the current and deferred taxes based on the provisions of the Tax legislation. After the Company's measurement, no deferred tax benefit nor expense were recorded relating to the Tax Act changes for the three and six months ended September 30, 2019 and 2018.

(n) Related party balances and transactions

A related party is generally defined as:

(i) any person that holds the Company's securities including such person's immediate families,

(ii) the Company's management,

(iii) someone that directly or indirectly controls, is controlled by or is under common control with the Company, or

(iv) anyone who can significantly influence the financial and operating decisions of the Company.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(o) Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest expenses on our outstanding bank borrowings and the interest income generated by cash invested in cash deposits and liquid investments. As of September 30, 2019, our total outstanding borrowings amounted to $349,706 (RMB2,500,000) with various interest rates from 4.84% to 6.96%. (Note 10)

(p) Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our consolidated balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in the consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, The Company generally use the incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

(q) Recently issued and adopted accounting pronouncements

In November 2016, the FASB issued ASU 2016-18: Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU on update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments in this Update should be applied using a retrospective transition method each period presented. The Company adopted this ASU on April 1, 2018 and determined it had no impact on its consolidated financial statements as of September 30, 2019.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement to ASC Topic 820, Fair Value Measurement ("ASC 820")*. ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, and/or adding certain disclosures. ASU 2018-13 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2019. An entity is permitted to early adopt by modifying existing disclosures and delay adoption of the additional disclosures until the effective date. The Company is evaluating the effect that adoption of this guidance will have on its consolidated financial statements and related disclosures.

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This standard was effective for the Company on September 1, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. This standard requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. This standard will be effective for the Company on December 15, 2019. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, " *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01")". The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company evaluated the impact of adopting the new standard and concluded that there was no material impact to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *"Lease (Topic 842)",* which amends recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. This standard takes effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. According to this new standard, the Company recorded both right-of-use asset and lease liability of $2.0 million on its consolidated financial statements for the period ended September 30, 2019.

The Company reviews new accounting standards as issued. Management has not identified any other new standards that it believes will have a significant impact on the Company's consolidated financial statements.

4. ACCOUNTS RECEIVABLES

The receivables and allowance balances at September 30, 2019 and March 31 2019 are as follows:

	September 30, 2019	March 31, 2019
	(unaudited)	(audited)
Accounts receivable	$ 1, 656,480	$ 1,798,489
Less: allowance for doubtful accounts	-	-
Accounts receivable, net	$ 1,656,480	$ 1,798,489

No allowance for doubtful accounts was made for the three and six months ended September 30, 2019 and 2018.

5. OTHER RECEIVABLES

Other receivables primarily represent rental deposit; refundable security deposits to customers for quality assurance on the provision of logistic service; and unsecured and non-interest bearing short-term advances that the Company makes from time-to-time to employees. These advances are unsecured and due on demand.

6. RELATED PARTY TRANSACTIONS

Name of Related Parties	Relationship with the Company
Zhida Hong	President, CEO and a director of the Company
Zhongpeng Chen	A legal representative of HPF
Dewu Huang	A legal representative of DT
Jinlong Huang	A spouse of legal representative of HSW

The Company leases Shenzhen XKJ office rent-free from Bihua Yang.

The Company had the following related party balances as of September 30, 2019 and March 31, 2019:

Amounts due to related parties	**September 30, 2019**	**March 31, 2019**
	(unaudited)	(audited)
Zhida Hong	$ 4,580,422	$ 3,989,382
Zhongpeng Chen	158,878	169,235
Jinlong Huang	129,475	45,513
Dewu, Huang	13,513	-
	$ 4,882,288	$ 4,204,130

The balances with related parties are unsecured, non-interest bearing and repayable on demand.

7. INVENTORIES

Inventories consist of the following as of September 30, 2019 and March 31, 2019:

	September 30, 2019	**March 31, 2019**
	(unaudited)	(audited)
Raw materials	$ 227,194	$ 157,382
Work in progress	62,321	160,665
Finished goods	49,484	-
Total inventories, net	$ 338,999	$ 318,047

There is no inventory allowance for the three and six months ended September30, 2019 and 2018.

8. ADVANCES TO SUPPLIERS

The Company has made advances to third-party suppliers in advance of receiving inventory parts. These advances are generally made to expedite the delivery of required inventory when needed and to help to ensure priority and preferential pricing on such inventory. The amounts advanced to suppliers are fully refundable on demand.

The Company reviews a supplier's credit history and background information before advancing a payment. If the financial condition of its suppliers were to deteriorate, resulting in an impairment of their ability to deliver goods or provide services, the Company would recognize bad debt expense in the period they are considered unlikely to be collected.

9. PLANT AND EQUIPMENT

Plant and equipment consists of the following as of September 30, 2019 and March 31, 2019:

	September 30, 2019	**March 31, 2019**
	(unaudited)	(audited)
Production plant	$ 66,598	$ 107,173

Motor vehicles	1,026,598	1,016,818
Office equipment	19,283	14,722
	1,112,479	1,138,713
Less: accumulated depreciation	(434,780)	(444,282)
Plant and equipment, net	$ 677,699	$ 694,431

Depreciation expense for the three and six months ended September 30, 2019 and 2018 was $27,931 and $56,630, $29,238 and $60,043, respectively.

10. SHORT-TERM BANK LOAN

In September 2018, HSW, a subsidiary of the Company entered into a facility agreement with Dongguan Agricultural Commercial Bank and obtained a line of credit, which allows the Company to borrow up to approximately $218,478 (RMB1,500,000) for daily operations. The loans are guaranteed at no cost by the legal representative of HSW. As of September 30, 2019, the Company has borrowed $218,478(RMB1,500,000) under this line of credit with fixed interest rate of 6.96% per annum. The line of credit is fully used. The outstanding loan balance will be due in September 2020.

In August 2019, HSW entered into a new facility agreement with Agricultural Bank of China and obtained a line of credit, which allows the Company to borrow up to approximately $142,560 (RMB1,000,000) for daily operations. The loans are guaranteed at no cost by the legal representative of HSW. As of September 30, 2019, the Company has borrowed $142,560 (RMB1,000,000) under this line of credit with various annual interest rates from 4.84% to 4.9%. The line of credit is fully used. The outstanding loan balance will be due in July 2020.

11. INCOME TAXES

(a) Enterprise Income Tax ("EIT")

The Company operates in the PRC and files tax returns in the PRC jurisdictions.

Yingxi Industrial Chain Group Co., Ltd was incorporated in the Republic of Seychelles and, under the current laws of the British Virgin Islands, is not subject to income taxes.

Yingxi HK was incorporated in Hong Kong and is subject to Hong Kong income tax at a tax rate of 16.5%. No provision for income taxes in Hong Kong has been made as Yingxi HK had no taxable income for the three and six months ended September 30, 2019 and 2018.

YX were incorporated in the PRC and is subject to the EIT tax rate of 25%. No provision for income taxes in the PRC has been made as YX had no taxable income for the three and six months ended September 30, 2019 and 2018.

The Company is governed by the Income Tax Laws of the PRC. Yingxi's operating companies, QYTG, HSW, HPF and DT were subject to an EIT rate of 25% in 2019 and 2018. XKJ enjoyed the preferential tax benefits and its EIT rate was 15% in 2019 and 2018.

The Company's parent entity, Addentax Group Corp. is an U.S entity and is subject to the United States federal income tax. No provision for income taxes in the United States has been made as Addentax Group Corp. had no United States taxable income for the three and six months ended September 30, 2019 and 2018.

No deferred taxes were recognized for the three and six months ended September 30, 2019 and 2018.

The reconciliation of income taxes computed at the PRC federal statutory tax rate applicable to the PRC, to income tax expenses are as follows:

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
PRC statutory tax rate	25%	25%	25%	25%
Computed expected expenses	(80,268)	35,044	(171,552)	(5,030)

Temporary differences not recognized	10,370	(84,214)	9,086	(86,163)
Tax losses not recognized	70,750	53,050	165,530	95,682
Income tax expense	$ 852	$ 3,880	$ 3,064	$ 4,489

(b) Value Added Tax ("VAT")

In accordance with the relevant taxation laws in the PRC, the normal VAT rate for domestic sales is 17%, which is levied on the invoiced value of sales and is payable by the purchaser. The subsidiary HSW enjoyed preferential VAT rate of 13%. The Company is required to remit the VAT it collects to the tax authority. A credit is available whereby VAT paid on purchases can be used to offset the VAT due on sales.

For services, the applicable VAT rate is 11% under the relevant tax category for logistic company, except the branch of HPF enjoyed the preferential VAT rate of 3% in 2019 and 2018. The Company is required to pay the full amount of VAT calculated at the applicable VAT rate of the invoiced value of sales as required. A credit is available whereby VAT paid on gasoline and toll charges can be used to offset the VAT due on service income.

12. CONSOLIDATED SEGMENT DATA

Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The segment data presented reflects this segment structure. The Company reports financial and operating information in the following two segments:

(a) Manufacturing of garments (the "Manufacturing segment"); and
(b) Providing logistic services (the "Service segment").

The Company also provides general corporate services to its segments and these costs are reported as "Corporate and others".

Selected information in the segment structure is presented in the following tables:

Revenues by segment for the three and six months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Revenues	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Manufacturing segment	322,131	887,165	873,448	2,029,656
Service segment	1,622,871	1,947,646	3,281,046	3,536,949
	$ 1,945,002	$ 2,834,812	$ 4,154,494	$ 5,566,605

Income from operations by segment for the three and six months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Operating income (loss)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Manufacturing segment	$ (16,682)	$ 8,270	$ 29,535	$ 21,126
Service segment	26,027	351,334	7,716	292,791

Corporate and other		(318,712)		(222,713)		(700,360)		(351,027)
Income (loss) from operations	$	(309,367)	$	136,891	$	(663,109)	$	(37,110)
Manufacturing segment		(12,102)		2,365		(19,284)		13,353
Service segment		420		533		(3,707)		654
Corporate and other		(24)		388		(109)		2,983
Income (loss) before income tax	$	(321,073)		140,177		(686,209)		(20,120)
Income tax expense		(852)		(3,880)		(3,064)		(4,489)
Net income (loss)	$	(321,925)	$	136,297	$	(689,273)	$	(24,609)

Depreciation and amortization by segment for the three and six months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Depreciation	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Manufacturing segment	2,763	6,504	5,790	14,750
Service segment	25,168	22,734	50,840	45,293
	$ 27,931	$ 29,238	$ 56,630	$ 60,043

Total assets by segment at September 30, 2019 and March 31, 2019 are as follows:

Total assets	September 30, 2019	March 31, 2019
	(unaudited)	(audited)
Manufacturing segment	$ 1,145,613	$ 1,242,335
Service segment	2,211,333	2,253,308
Corporate and other	2,521,914	476,203
	$ 5,878,860	$ 3,971,846

Goodwill by segment at September 30, 2019 and March 31, 2019 is as follows:

Goodwill	September 30, 2019	March 31, 2019
	(unaudited)	(audited)
Manufacturing segment	$ 475,003	$ 475,003
Service segment	-	-
	$ 475,003	$ 475,003

The recoverable amounts of reporting units are determined based on discounted cash flow calculations. The calculations use forecast for the first year and cash flow projections based on financial forecasts prepared by management covering the remaining 4-year operating period. The key assumptions include revenue, cost of sales and operating expenses which were determined by management based on the past performance and the implementation of the Company's strategy. Based on the impairment test of goodwill, the recoverable amount was higher than the carrying amount of the goodwill recorded and it was concluded that no impairment against the amount of goodwill as of September 30, 2019 is necessary.

13. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consist of the following as of September 30, 2019 and March 31, 2019:

	September 30, 2019	March 31, 2019
	(unaudited)	(audited)
Lease liabilities – current portion (i)	$ 455,229	$ -

Accrued wages and welfare	74,936	84,677
Other payables	201,132	175,160
	$ 731,297	$ 259,837

(i) Lease liabilities – current portion represents the operating lease liabilities due within next 12 months.

14. LEASE RIGHT-OF-USE ASSET AND LEASE LIABILITIES

The Company implemented new accounting policy according to the ASC 842, Leases, on April 1, 2019 on a modified retrospective basis and did not restate comparative periods. Under the new policy, the Company recognized approximately $0.06 million lease liability as well as right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. Lease liabilities are measured at present value of the sum of remaining rental payments as of September 30, 2019, with discounted rate of 4.35%. A single lease cost is recognized over the lease term on a generally straight-line basis. All cash payments of operating lease cost are classified within operating activities in the statement of cash flows.

As of September 30, 2019 and March 31, 2019, the right-of use asset and lease liabilities are as follows:

	September 30, 2019	March 31, 2019
	(unaudited)	(audited)
Right-of-use asset – operating leases	$ 1,989,172	$ -
Lease liabilities – current portion	455,229	-
Lease liabilities – non-current portion	1,533,943	-
	$ 1,989,172	$ -

Lease cost

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating lease cost	142,779	26,497	199,612	54,507
Short-term lease cost	6,278	-	63,785	-
	$ 149,057	$ 26,497	263,397	54,507

Other information

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flow from operating leases	$ 149,057	$ -	$ 263,397	$ -
Right-of-use assets obtained in exchange for new operating leases liabilities	1,633,055	-	1,901,008	-
Weighted average remaining lease term - Operating leases (years)	4.7	-	4.7	-
Weighted average discount rate - Operating leases	4.35%	-	4.35%	-

15. RESERVES

(a) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiary of the Company established in the PRC is required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulations of the PRC to the statutory reserve until the reserve balance reaches 50% of the subsidiary's paid-up capital. Such reserve may be used to offset accumulated losses or increase the registered capital of the subsidiary, subject to the approval from the PRC authorities, and are not available for dividend distribution to the shareholders. The paid-up statutory reserve was $21,779 as of September 30, 2019 and March 31, 2019.

(b) Currency translation reserve

The currency translation reserve represents translation differences arising from translation of foreign currency financial statements into the Company's functional currency.

16. REVERSE STOCK SPLIT

On January 24, 2019, the Board of Directors of the Company approved a reverse stock split of the Company's issued and outstanding shares of common stock, par value $0.001 per share (the "Common Stock"), at a ratio of 1-for-20 (the "Reverse Stock Split"). The Reverse Stock Split was effective on February 27, 2019 (the "Effective Date"). As a result of the filing of the Certificate, the number of shares of the Company's authorized Common Stock was reduced from 1,000,000,000 shares to 50,000,000 shares and the issued and outstanding number of shares of the Company's Common Stock was correspondingly decreased to 25,346,004. There was no change to the par value of the Company's Common Stock. The decrease of Share Capital was transferred to and increased the Additional Paid In Capital. The Company has adjusted all references to number of share and loss per share amounts in the accompanying consolidated financial statements and notes to reflect the reverse stock split.

17. SUBSEQUENT EVENTS

There is no subsequent events have occurred that would require recognition or disclosure in the financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations for the three and six months ended September 30, 2019 and 2018 should be read in conjunction with the attached consolidated unaudited Financial Statements and corresponding notes and our consolidated audited financial statements and related notes for the fiscal year ended March 31, 2019 found in our Annual Report on Form 10-K. 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, including those set forth under the Risk Factors and Special Note Regarding Forward-Looking Statements in this report. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," "target", "forecast" and similar expressions to identify forward-looking statements.

Overview

Our Business

We are a garment manufacturer and logistic service provider based in China. We are listed on the OTCQB under the symbol of "ATXG". We classify our businesses into two segments: Garment manufacturing and logistics services.

Our garment manufacturing business consists of sales made principally to wholesaler located in the People's Republic of China ("PRC"). We have our own manufacturing facilities, with sufficient production capacity and skilled workers on production lines to ensure that we meet our high quality control standards and timely delivery requirement for our customers. We conduct our garment manufacturing operations through two wholly owned subsidiaries, namely Dongguan Heng Sheng Wei Garments Co., Ltd ("HSW") and Shantou Chenghai Dai Tou Garments Co., Ltd ("DT"), which are located in the Guangdong province, China.

Our logistic business consists of delivery and courier services covering approximately 20 provinces in China. Although we have our own motor vehicles and drivers, we currently outsource some of the business to our contractors. We believe outsourcing allows us to maximize our capacity and maintain flexibility while reducing capital expenditures and the costs of keeping drivers during slow seasons. We conduct our logistic operations through two wholly owned subsidiaries, namely Shenzhen Xin Kuai Jie Transportation Co., Ltd ("XKJ") and Shenzhen Hua Peng Fa Logistic Co., Ltd ("HPF"), which are located in the Guangdong province, China.

Business Objectives

Garment Manufacturing Business

We believe the strength of our garment manufacturing business is mainly due to our consistent emphasis on exceptional quality and timely delivery. The primary business objective for our garment manufacturing segment is to expand our customer base and improve our profit.

Logistic Business

The business objective and future plan for our logistic service segment is to establish an efficient logistic system and to build a nationwide delivery and courier network in China. As of September 30, 2019, we provide logistic service to over 79 cities in approximately nine provinces and two municipalities. We expect to develop an additional 20 logistics points in existing serving cities and improve the Company's profit in the year of 2020.

Seasonality of Business

Our business is affected by seasonal trends, with higher levels of garment sales in our second and third quarters and higher logistic service revenue in our third and fourth quarters. These trends primarily result from the timing of seasonal garment manufacturing shipments and holiday periods in the logistic segment.

Collection Policy

Garment manufacturing business

For our new customers, we generally require orders placed to be backed by advances or deposits. For our long-term and established customers with good payment track records, we generally provide payment terms between 30 to 180 days following the delivery of finished goods.

Logistic business

For logistic service, we generally receive payments from the customers between 30 to 90 days following the date of the register receipt of packages.

Economic Uncertainty

Our business is dependent on consumer demand for our products and services. We believe that the significant uncertainty in the economy in China has increased our clients' sensitivity to the cost of our products and services. We have experienced continued pricing pressure. If the economic environment becomes weak, the economic conditions could have a negative impact on our sales growth and operating margins, cash position and collection of accounts receivable. Additionally, business credit and liquidity have tightened in China. Some of our suppliers and customers may face credit issues and could experience cash flow problems and other financial hardships. These factors currently have not had an impact on the timeliness of receivable collections from our customers. We cannot predict at this time how this situation will develop and whether accounts receivable may need to be allowed for or written off in the coming quarters.

Despite the various risks and uncertainties associated with the current economy in China, we believe our core strengths will continue to allow us to execute our strategy for long-term sustainable growth in revenue, net income and operating cash flow.

Summary of Critical Accounting Policies

We have identified critical accounting policies that, as a result of judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operation involved could result in material changes to our financial position or results of operations under different conditions or using different assumptions.

Estimates and Assumptions

We regularly evaluate the accounting estimates that we use to prepare our financial statements. In general, management's estimates are based on historical experience, on information from third party professionals, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

Revenue Recognition

Revenue is generated through sale of goods and delivery services. Revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amount of revenue that is recorded reflects the consideration that the Company expects to receive in exchange for those goods and services. The Company applies the following five-step model in order to determine this amount:

(i) identification of the promised goods and services in the contract;

(ii) determination of whether the promised goods and services are performance obligations, including whether they are distinct in the context of the contract;

(iii) measurement of the transaction price, including the constraint on variable consideration;

(iv) allocation of the transaction price to the performance obligations; and

(v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. Once a contract is determined to be within the scope of ASC 606 at contract inception, the Company reviews the contract to determine which performance obligations the Company must deliver and which of these performance obligations are distinct. The Company recognizes as revenues the amount of the transaction price that is allocated to the respective performance obligation when the performance obligation is satisfied or as it is satisfied. Generally, the Company's performance obligations are transferred to customers at a point in time, typically upon delivery.

For all reporting periods, the Company has not disclosed the value of unsatisfied performance obligations for all product and service revenue contracts with an original expected length of one year or less, which is an optional exemption that is permitted under the adopted rules.

Concentrations of Credit Risk

Cash held in banks: We maintain cash balances at the financial institutions in China. We have not experienced any losses in such accounts.

Accounts Receivable: Customer accounts typically are collected within a short period of time, and based on its assessment of current conditions and its experience collecting such receivables, management believes it has no significant risk related to its concentration within its accounts receivable.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities, and operating lease liabilities in our consolidated balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in the consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, The Company generally use the incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Recently issued and adopted accounting pronouncements

In November 2016, the FASB issued ASU 2016-18: Statement of Cash Flows (Topic 230): Restricted Cash. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU on update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments in this Update should be applied using a retrospective transition method each period presented. The Company adopted this ASU on April 1, 2018 and determined it had no impact on its consolidated financial statements as of September 30, 2019.

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement to ASC Topic 820, Fair Value Measurement ("ASC 820")*. ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, and/or adding certain disclosures. ASU 2018-13 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2019. An entity is permitted to early adopt by modifying existing disclosures and delay adoption of the additional disclosures until the effective date. The Company is evaluating the effect that adoption of this guidance will have on its consolidated financial statements and related disclosures.

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This standard was effective for the Company on September 1, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. This standard requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. This standard will be effective for the Company on December 15, 2019. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01")". The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company evaluated the impact of adopting the new standard and concluded that there was no material impact to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *"Lease (Topic 842)",* which amends recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. This standard takes effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. According to this new standard, the Company recorded both right-of-use asset and lease liability of $2.0 million on its consolidated financial statements for the period ended September 30, 2019.

The Company reviews new accounting standards as issued. Management has not identified any other new standards that it believes will have a significant impact on the Company's consolidated financial statements.

Results of Operations for the three months ended September 30, 2019 and 2018

The following tables summarize our results of operations for the three months ended September 30, 2019 and 2018. The table and the discussion below should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this report.

	Three Months Ended September 30,				**Increase (decrease) in 2019 compared to 2018**	
	2019		**2018**			
	(In U.S. dollars, except for percentages)					
Revenue	$ 1,945,002	100.0%	$ 2,834,812	100%	$ (889,810)	(31.4)%
Cost of revenues	(1,624,083)	(83.5)%	(2,153,235)	(76.0)%	529,152	24.6%
Gross profit	320,919	16.5%	681,577	24.0%	(360,658)	(52.9)%
Operating expenses	(630,286)	(32.4)%	(544,686)	(19.2)%	(85,600)	(15.7)%
(Loss) income from operations	(309,367)	(15.9)%	136,891	4.8%	(446,258)	(326.0)%
Other income, net	(3,814)	(0.2)%	3,286	0.1%	(7,100)	(216.1)%
Net finance cost	(7,892)	(0.4)%	-	-	(7,892)	
Income tax expense	(852)	(0.0)%	(3,880)	(0.1)%	(3,028)	(78.0)%
Net (loss) income	$ (321,925)	(16.6)%	$ 136,297	4.8%	$ (458,222)	336.2%

Revenue

Revenue generated from our garment manufacturing business contributed $322,131 or 16.6% of our total revenue for the three months ended September 30, 2019. Revenue generated from our garment manufacturing business contributed $887,165 or 31.3% of our total revenue for the three months ended September 30, 2018.

Revenue generated from our logistic business contributed $1,622,871 or 83.4% of our total revenue for the three months ended September 30, 2019. Revenue generated from our logistic business contributed $1, 947,647 or 68.7% of our total revenue for the three months ended September 30, 2018.

Total revenue for the three months ended September 30, 2019 and 2018 were $1,945,002 and $2,834,812, respectively, a 31.4% decrease compared with the three months ended September 30, 2018. The decrease was mainly because the orders were decrease due to combine of market decline in both garment business and logistic business. Holding companies, YX and QYTG did not have consulting service income in the three months ended September 30. 2019. One of the subsidiaries, HSW, was moving its factories which resulted in a decrease of order accepted.

Cost of revenue

	Three Months Ended September 30,				Increase (decrease) in	
	2019		2018		2019 compared to 2018	
	(In U.S. dollars, except for percentages)					
Net revenue for garment manufacturing	$ 322,131	100.0%	$ 887,165	100%	$ (565,034)	(63.7)%
Raw materials	228,567	71.0%	725,756	81.9%	(497,189)	(68.5)%
Labor	47,393	14.7%	64,261	7.2%	(16,868)	(26.2)%
Other and Overhead	12,462	3.9%	16,883	1.9%	(4,421)	(26.2)%
Total cost of revenue for garment manufacturing	288,422	89.5%	806,900	91.0%	(518,478)	(64.3)%
Gross profit for garment manufacturing	33,709	10.5%	80,265	9.0%	(46,556)	(58.0)%
Net revenue for logistic service	1,622,871	100.0%	1,947,647	100%	(324,776)	(16.7)%
Fuel, toll and other cost of logistic service	356,780	22.0%	607,088	31.1%	(250,308)	(41.2)%
Subcontracting fees	978,881	60.3%	739,247	38.0%	239,634	32.4%
Total cost of revenue for logistic service	1,335,661	82.3%	1,346,335	69.1%	(10,674)	(0.8)%
Gross Profit for logistic service	287,210	17.7%	601,312	30.9%	(314,102)	(52.2)%
Total cost of revenue	$ 1,624,083	83.5%	$ 2,153,235	76.0%	$ (529,152)	(24.6)%
Gross profit	$ 320,919	16.5%	$ 681,577	24.0%	$ (360,658)	(52.9)%

Cost of revenue for our manufacturing segment for the three months ended September 30, 2019 and 2018 was $288,422 and $806,900, respectively, which includes direct raw material cost, direct labor cost, manufacturing overheads including depreciation of production equipment and rent. Cost of revenue for our service segment for the three months ended September 30, 2019 and 2018 was $1,335,661 and $1,346,335, respectively, which includes gasoline and diesel fuel, toll charges, other cost of logistic service and subcontracting fees.

For our garment manufacturing business, we purchase the majority of our raw materials directly from numerous local fabric and accessories suppliers. Aggregate purchases from our five largest raw material suppliers represented approximately 88.4% and 70.2% of raw materials purchases for the three months ended September 30, 2019 and 2018, respectively. Three and two suppliers provided more than 10% of our raw materials purchases for the three months ended September 30, 2019 and 2018. We have not experienced difficulty in obtaining raw materials essential to our business, and we believe we maintain good relationships with our suppliers.

For our logistic business, we outsource some of the business to our contractors. The Company relied on a few subcontractors, in which the subcontracting fees to our largest contractor represented approximately 24.2% and 50.5% of total cost of revenues for our service segment for the three months ended September 30, 2019 and 2018, respectively. The percentage dropped as we used more subcontractors than last year. We have not experienced any disputes with our subcontractor and we believe we maintain good relationships with our contract logistic service provider.

Raw material costs for our manufacturing business were 71.0% of our total manufacturing business revenue in the three months ended September 30, 2019, compared with 81.9% in the three months ended September 30, 2018. The decrease in percentages was mainly because we reduced the raw material costs by introducing some new suppilers with lower raw material purchase costs.

Labor costs for our manufacturing business were 14.7% of our total manufacturing business revenue in the three months ended September 30, 2019, compared with 7.2% in the three months ended September 30, 2018. The increase in percentages was mainly because of the decrease of raw materials costs resulting in increase of percentage of labor costs.

Overhead and other expenses for our manufacturing business accounted for 3.9% of our total manufacturing business revenue for the three months ended September 30, 2019, compared with 1.9% of total manufacturing business revenue for the three months ended September 30, 2018.

Fuel, toll and other costs for our service business for the three months ended September 30, 2019 were $356,780 compared with $607,088 for the three months ended September 30, 2018. Fuel, toll and other costs for our service business accounted for 22.0% of our total service revenue for the three months ended September 30, 2019, compared with 31.1% for the three months ended September 30, 2018. The decrease in percentages was primarily attributable to increase of use of subcontractors.

Subcontracting fees for our service business for the three months ended September 30, 2019 increased 32.4% to $978,881 from $739,247 for the three months ended September 30, 2018. Subcontracting fees accounted for 60.3% and 38.0% of our total service business revenue in the three months ended September 30, 2019 and 2018, respectively. This increase in percentages was primarily because the Company subcontracted more shipping orders to subcontractors in 2019 due to the increase in shipping orders with the destination that were not covered by the Company's own delivery and transportation networks.

Total cost of revenue for the three months ended September 30, 2019 was $1,624,083, a 24.6% decrease from $2,153,235 for the three months ended September 30, 2018. Total cost of sales as a percentage of total sales for the three months ended September 30, 2019 was 83.5 %, compared with 76.0% for the three months ended September 30, 2018. Gross margin for the three months ended September 30, 2019 was 16.5 % compared with 24.0% for the three months ended September 30, 2018.

Gross profit

	2019		2018		Increase (decrease) in 2019 compared to 2018	
	(In U.S. dollars, except for percentages)					
Gross profit	$ 320,919	100%	$ 681,577	100%	(360,658)	(52.9)%
Operating expenses:						
Selling expenses	(3,639)	(1.1)%	(4,990)	(0.7)%	1,351	27.1%
General and administrative expenses	(626,647)	(195.3)%	(539,696)	(79.2)%	(86,951)	(16.1)%
Total	$ (630,286)	(196.4)%	$ (544,686)	(79.9)%	(85,600)	(15.7)%
Loss from operations	$ (309,367)	(96.4)%	$ 136,891	20.1%	(446,258)	(326.0)%

Manufacturing business gross profit for the three months ended September 30, 2019 was $33,709 compared with $80,265 for the three months ended September 30, 2018. Gross profit accounted for 10.5% of our total manufacturing business revenue for the three months ended September 30, 2019, compared with 9% for the three months ended September 30, 2018.

Gross profit in our service business for the three months ended September 30, 2019 was $287,210 and gross margin was 17.7%. Gross profit in our service business for the three months ended September 30, 2018 was $601,312 and gross margin was 30.9%.

The decrease in gross margin was mainly due to increase of unit fuel cost and subcontracting fee in the quarter while unit price of service revenue remained mostly the same. Moreover, the portion of fuel cost of empty return trucks and cost of containers were relatively high compared with the slowed down revenue, which made the gross margin decrease as well.

Selling, General and administrative expenses

Our selling expenses in our manufacturing segment for the three months ended September 30, 2019 and 2018 was $3,639 and $4,990, respectively. Our selling expenses in our service segment for the three months ended September 30, 2019 and 2018 was $nil and $nil, respectively. Selling expenses consist primarily of local transportation, unloading charges and product inspection charges. Total selling expenses for the three months ended September 30, 2019 decreased 27.1% to $3,639 from $4,990 for the three months ended September 30, 2018.

Our general and administrative expenses in our manufacturing segment for the three months ended September 30, 2019 and 2018 was $46,752 and $67,005, respectively. Our general and administrative expenses in our service segment, for the three months ended September 30, 2019 and 2018 was $261,183 and $249,978, respectively. Our general and administrative expenses in our corporate office for the three months ended September 30, 2019 and 2018 was $318,713 and $222,713, respectively. General and administrative expenses consist primarily of administrative salaries, office expense, certain depreciation and amortization charges, repairs and maintenance, legal and professional fees, warehousing costs and other expenses that are not directly attributable to our revenues.

Total general and administrative expenses for the three months ended September 30, 2019 increased 16.1% to $626,647 from $539,696 for the three months ended September 30, 2018. The increase was mainly due to the increase in legal and professional fees to comply with the SEC accounting, disclosure and reporting requirements, new office rental expense, overseas traveling expense and expense of General Meetings.

(Loss) income from operations

(Loss) income from operations for the three months ended September 30, 2019 and 2018 was $(309,367) and $136,891, respectively. (Loss) Income from operations of $(16,681) and $8,270 was attributed from our manufacturing segment for the three months ended September 30, 2019 and 2018, respectively. Income from operations of $26,027 and $351,334 was attributed from our service segment for the three months ended September 30, 2019 and 2018, respectively. We incurred a loss from operations in corporate office of $(318,712) and $(222,713) for the three months ended September 30, 2019 and 2018, respectively. The loss from our corporate office was mainly due to increase in legal and professional fees to comply with the SEC accounting, disclosure and reporting requirements.

Income Tax Expenses

Income tax expense for the three months ended September 30, 2019 and 2018 was $852 and $3,880, respectively, a 78% decrease compared to 2018. The Company operates in the PRC and files tax returns in the PRC jurisdictions.

Yingxi Industrial Chain Group Co., Ltd was incorporated in the Republic of Seychelles and, under the current laws of the British Virgin Islands, is not subject to income taxes.

Yingxi HK was incorporated in Hong Kong and is subject to Hong Kong income tax at a tax rate of 16.5%. No provision for income taxes in Hong Kong has been made as Yingxi HK had no taxable income for the three months ended September 30, 2019 and 2018.

QYTG and YX were incorporated in the PRC and is subject to the PRC Enterprise Income Tax (EIT) rate is 25%. No provision for income taxes in YX has been made it had no taxable income for the three months ended September 30, 2019 and 2018.

The Company is governed by the Income Tax Laws of the PRC. Yingxi's operating companies, HSW, HPF and DT were subject to an EIT rate of 25% in 2019. XKJ enjoyed the preferential tax benefits and its EIT rate was 15% in 2019.

The Company's parent entity, Addentax Group Corp. is an U.S entity and is subject to the United States federal income tax. No provision for income taxes in the United States has been made as Addentax Group Corp. had no United States taxable income for the three months ended September 30, 2019 and 2018.

Net Loss

We incurred a net loss of $321,925 and a net income of $136,297 for the three months ended September 30, 2019 and 2018, respectively. Our basic and diluted earnings per share were $0.00 and $0.00 for the three months ended September 30, 2019 and 2018, respectively.

Results of Operations for the six months ended September 30, 2019 and 2018

The following tables summarize our results of operations for the six months ended September 30, 2019 and 2018. The table and the discussion below should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this report.

	Six Months Ended September 30,				Increase (decrease) in	
	2019		2018		2019 compared to 2018	
	(In U.S. dollars, except for percentages)					
Revenue	$ 4,154,494	100.0%	$ 5,566,605	100%	$ (1,412,111)	(25.4)%
Cost of revenues	(3,475,643)	(83.7)%	(4,590,409)	(82.5)%	1,114,766	24.3%
Gross profit	678,851	16.3%	976,196	17.5%	(297,345)	(30.5)%
Operating expenses	(1,341,960)	(32.3)%	(1,013,306)	(18.2)%	(328,653)	(32.4)%
Loss from operations	(663,109)	(15.3)%	(37,110)	(0.7)%	(625,998)	(1,686.9)%
Other income, net	(10,820)	(0.3)%	16,990	0.3%	(27,810)	(163.7)%
Net finance cost	(12,280)	(0.3)%	-	-	(12,280)	
Income tax expense	(3,064)	(0.1)%	(4,489)	(0.1)%	1,425	31.7%
Net (loss) income	$ (689,273)	(16.6)%	$ (24,609)	(0.4)%	$ (689,273)	2700.9%

Revenue

Revenue generated from our garment manufacturing business contributed $873,448 or 21.0% of our total revenue for the six months ended September 30, 2019. Revenue generated from our garment manufacturing business contributed $2,029,655 or 36.5% of our total revenue for the six months ended September 30, 2018.

Revenue generated from our logistic business contributed $3,281,046 or 79.0% of our total revenue for the six months ended September 30, 2019. Revenue generated from our logistic business contributed $3,536,950 or 63.5% of our total revenue for the six months ended September 30, 2018.

Total revenue for the six months ended September 30, 2019 and 2018 were $4,154,494 and $5,566,605, respectively, a 25.4% decrease compared with the six months ended September 30, 2018. The decrease was mainly because the decrease of orders due to combine of market decline in both garment business and logistic business. Holding companies, YX and QYTG did not have consulting service income in the six months ended September 30. 2019. One of the subsidiaries, HSW, was moving its factories which resulted in a decrease of order accepted.

Cost of revenue

	Six Months Ended September 30,				Increase (decrease) in	
	2019		2018		2019 compared to 2018	
	(In U.S. dollars, except for percentages)					
Net revenue for garment manufacturing	$ 873,448	100%	$ 2,029,655	100%	$ (1,156,207)	(57.0)%
Raw materials	605,053	69.3%	1,647,836	81.2%	(1,042,783)	(63.3)%
Labor	100,913	11.6%	181,447	8.9%	(80,534)	(44.4)%
Other and Overhead	32,058	3.7%	30,038	1.5%	2,020	6.7%
Total cost of revenue for garment manufacturing	738,024	84.5%	1,859,321	91.6%	(1,121,297)	(60.3)%
Gross profit for garment manufacturing	135,424	15.5%	170,334	8.4%	(34,910)	(20.5)%
Net revenue for logistic service	3,281,046	100%	3,536,950	100%	(255,904)	(7.2)%
Fuel, toll and other cost of logistic service	921,287	28.1%	1,226,948	34.7%	(305,661)	(24.9)%
Subcontracting fees	1,816,332	55.4%	1,504,140	42.5%	312,192	20.8%
Total cost of revenue for logistic service	2,737,619	83.4%	2,731,088	77.2%	6,531	0.2%
Gross Profit for logistic service	543,427	16.6%	805,862	22.8%	(262,435)	(32.6)%
Total cost of revenue	$ 3,475,643	83.7%	$ 4,590,409	82.5%	$ (1,114,766)	(24.3)%
Gross profit	$ 678,851	16.3%	$ 976,196	17.5%	$ (297,345)	(30.5)%

Cost of revenue for our manufacturing segment for the six months ended September 30, 2019 and 2018 was $738,024 and $1,859,321, respectively, which includes direct raw material cost, direct labor cost, manufacturing overheads including depreciation of production equipment and rent. Cost of revenue for our service segment for the six months ended September 30, 2019 and 2018 was $2,737,619 and $2,731,088, respectively, which includes gasoline and diesel fuel, toll charges, other cost of logistic service and subcontracting fees.

For our garment manufacturing business, we purchase the majority of our raw materials directly from numerous local fabric and accessories suppliers. Aggregate purchases from our five largest raw material suppliers represented approximately 74.5% and 56.5% of raw materials purchases for the six months ended September 30, 2019 and 2018, respectively. Three suppliers provided more than 10% of our raw materials purchases for the six months ended September 30, 2019 and 2018. We have not experienced difficulty in obtaining raw materials essential to our business, and we believe we maintain good relationships with our suppliers.

For our logistic business, we outsource some of the business to our contractors. The Company relied on a few subcontractors, in which the subcontracting fees to our largest contractor represented approximately 17.0% and 31.5% of total cost of revenues for our service segment for the six months ended September 30, 2019 and 2018, respectively. The percentage dropped as we used more subcontractors than last year. We have not experienced any disputes with our subcontractor and we believe we maintain good relationships with our contract logistic service provider.

Raw material costs for our manufacturing business were 69.3% of our total manufacturing business revenue in the six months ended September 30, 2019, compared with 81.2% in the six months ended September 30, 2018. The decrease in percentages was mainly because we reduced the raw material costs by introducing some new suppilers with lower raw material purchase costs.

Labor costs for our manufacturing business were 11.6% of our total manufacturing business revenue in the six months ended September 30, 2019, compared with 8.9% in the six months ended September 30, 2018. The increase in percentages was mainly because of the decrease of raw materials costs resulting in increase of percentage of labor costs.

Overhead and other expenses for our manufacturing business accounted for 3.7% of our total manufacturing business revenue for the six months ended September 30, 2019, compared with 1.5% of total manufacturing business revenue for the six months ended September 30, 2018.

Fuel, toll and other costs for our service business for the six months ended September 30, 2019 were $921,287 compared with $1,226,948 for the six months ended September 30, 2018. Fuel, toll and other costs for our service business accounted for 28.1% of our total service revenue for the six months ended September 30, 2019, compared with 34.7% for the six months ended September 30, 2018. The decrease in percentages was primarily attributable to increase of use of subcontractors.

Subcontracting fees for our service business for the six months ended September 30, 2019 increased 20.8% to $1,816,332 from $1,504,140 for the six months ended September 30, 2018. Subcontracting fees accounted for 55.4% and 42.5% of our total service business revenue in the six months ended September 30, 2019 and 2018, respectively. This increase in percentages was primarily because the Company subcontracted more shipping orders to subcontractors in 2019 due to the increase in shipping orders with the destination that were not covered by the Company's own delivery and transportation networks.

Total cost of revenue for the six months ended September 30, 2019 was $3,475,643, a 24.3% decrease from $4,590,409 for the six months ended September 30, 2018. Total cost of sales as a percentage of total sales for the six months ended September 30, 2019 was 83.7%, compared with 82.5% for the six months ended September 30, 2018. Gross margin for the six months ended September 30, 2019 was 16.3% compared with 17.5% for the six months ended September 30, 2018.

Gross profit

	2019			2018			Increase (decrease) in 2019 compared to 2018	
	(In U.S. dollars, except for percentages)							
Gross profit	$	678,851	100%	$	976,196	100%	(297,345)	(30.5)%
Operating expenses:								
Selling expenses		(10,866)	(1.6)%		(9,710)	(1.0)%	(1,156)	(11.9)%
General and administrative expenses		(1,331,093)	(196.1)%		(1,003,596)	(102.8)%	(327,497)	(32.6)%
Total	$	(1,341,959)	(197.7)%	$	(1,013,306)	(103.8)%	(328,653)	(32.4)%
Loss from operations	$	(663,108)	(97.7)%	$	(37,110)	(3.8)%	(625,998)	(1686.9)%

Manufacturing business gross profit for the six months ended September 30, 2019 was $135,424 compared with $170,334 for the six months ended September 30, 2018. Gross profit accounted for 15.5% of our total manufacturing business revenue for the six months ended September 30, 2019, compared with 8.4% for the six months ended September 30, 2018.

Gross profit in our service business for the six months ended September 30, 2019 was $543,427 and gross margin was 16.6%. Gross profit in our service business for the six months ended September 30, 2018 was $805,862 and gross margin was 22.8%.

The decrease in gross margin was mainly due to increase of unit fuel cost and subcontracting fee in the second quarter while unit price of service revenue remained mostly the same. Moreover, the portion of fuel cost of empty return trucks and cost of containers were relatively high compared with the slowed down revenue, which made the gross margin decrease as well. In XKJ, cost increased faster than the increase of service revenue mainly due to the increase of fuel cost of long distance transportation and subcontractor fee.

Selling, General and administrative expenses

Our selling expenses in our manufacturing segment for the six months ended September 30, 2019 and 2018 was $10,866 and $9,710, respectively. Our selling expenses in our service segment for the six months ended September 30, 2019 and 2018 was $nil and $nil, respectively. Selling expenses consist primarily of local transportation, unloading charges and product inspection charges. Total selling expenses for the six months ended September 30, 2019 increased 11.9% to $10,866 from $9,710 for the six months ended September 30, 2018.

Our general and administrative expenses in our manufacturing segment for the six months ended September 30, 2019 and 2018 was $95,023 and $139,497, respectively. Our general and administrative expenses in our service segment, for the six months ended September 30, 2019 and 2018 was $535,711 and $513,072, respectively. Our general and administrative expenses in our corporate office for the six months ended September 30, 2019 and 2018 was $700,360 and $351,027, respectively. General and administrative expenses consist primarily of administrative salaries, office expense, certain depreciation and amortization charges, repairs and maintenance, legal and professional fees, warehousing costs and other expenses that are not directly attributable to our revenues.

Total general and administrative expenses for the six months ended September 30, 2019 increased 32.6% to $1,331,093 from $1,003,596 for the six months ended September 30, 2018. The increase was mainly due to the increase in legal and professional fees to comply with the SEC accounting, disclosure and reporting requirements, new office rental expense, overseas travelling expense and expense of General Meetings.

Loss from operations

Loss from operations for the six months ended September 30, 2019 and 2018 was $663,108 and $37,110, respectively. Income from operations of $29,535 and $21,126 was attributed from our manufacturing segment for the six months ended September 30, 2019 and 2018, respectively. Income from operations of $7,716 and $292,791 was attributed from our service segment for the six months ended September 30, 2019 and 2018, respectively. We incurred a loss from operations in corporate office of $700,360 and $351,027 for the six months ended September 30, 2019 and 2018, respectively. The loss from our corporate office was mainly due to increase in legal and professional fees to comply with the SEC accounting, disclosure and reporting requirements.

Income Tax Expenses

Income tax expense for the six months ended September 30, 2019 and 2018 was $3,064 and $4,489, respectively, a 31.7% decrease compared to 2018. The Company operates in the PRC and files tax returns in the PRC jurisdictions.

Yingxi Industrial Chain Group Co., Ltd was incorporated in the Republic of Seychelles and, under the current laws of the British Virgin Islands, is not subject to income taxes.

Yingxi HK was incorporated in Hong Kong and is subject to Hong Kong income tax at a tax rate of 16.5%. No provision for income taxes in Hong Kong has been made as Yingxi HK had no taxable income for the six months ended September 30, 2019 and 2018.

QYTG and YX were incorporated in the PRC and is subject to the PRC Enterprise Income Tax (EIT) rate is 25%. No provision for income taxes in YX has been made it had no taxable income for the six months ended September 30, 2019 and 2018.

The Company is governed by the Income Tax Laws of the PRC. Yingxi's operating companies, HSW, HPF and DT were subject to an EIT rate of 25% in 2019. XKJ enjoyed the preferential tax benefits and its EIT rate was 15% in 2019.

The Company's parent entity, Addentax Group Corp. is an U.S entity and is subject to the United States federal income tax. No provision for income taxes in the United States has been made as Addentax Group Corp. had no United States taxable income for the six months ended September 30, 2019 and 2018.

Net Loss

We incurred a net loss of $689,273 and $24,609 for the six months ended September 30, 2019 and 2018, respectively. Our basic and diluted earnings per share were $0.00 and $0.00 for the six months ended September 30, 2019 and 2018, respectively.

Summary of cash flows

Summary cash flows information for the six months ended September 30, 2019 and 2018 is as follow:

	2019	2018
	(In U.S. dollars)	
Net cash (used in) provided by operating activities	$ (881,868)	$ 933,504
Net cash used in investing activities	$ (95,445)	$ (57,668)
Net cash provided by (used in) financing activities	$ 969,330	$ (751,801)

Net cash used in operating activities consist of net loss of $689,273, increased by depreciation of $56,630, loss on disposal of property and equipment of $3,342 and reduced by increase in change of operating assets and liabilities of $252,567. We will improve our operating cash flow by closely monitoring the timely collection of accounts and other receivables. We generally do not hold any significant inventory for more than ninety days, as we typically manufacture upon customers' order.

Net cash used in investing activities consist of purchase of plant and equipment of $95,445.

Net cash provided by financing activities consist of proceeds from bank borrowing of $144,562, repayment of related party borrowings of $443,356 and we received related party proceeds of $1,268,124.

Financial Condition, Liquidity and Capital Resources

As of September 30, 2019, we had cash on hand of $268,391, total current assets of $2,736,987 and current liabilities of $6,627,582. We presently finance our operations primarily from cash flows from borrowings from related parties and third parties. We aim to improve our operating cash flows and anticipate that cash flows from our operations and borrowings from related parties and third parties will continue to be our primary source of funds to finance our short-term cash needs.

The growth and development of our business will require a significant amount of additional working capital. We currently have limited financial resources and based on our current operating plan, we will need to raise additional capital in order to continue as a going concern. We currently do not have adequate cash to meet our short or long-term objectives. In the event additional capital is raised, it may have a dilutive effect on our existing stockholders.

We are subject to all the substantial risks inherent in the development of a new business enterprise within an extremely competitive industry. Due to the absence of a long standing operating history and the emerging nature of the markets in which we compete, we anticipate operating losses until we can successfully implement our business strategy, which includes all associated revenue streams. Our revenue model is new and evolving, and we cannot be certain that it will be successful. The potential profitability of this business model is unproven. We may never ever achieve profitable operations. Our future operating results depend on many factors, including demand for our services, the level of competition, and the ability of our officers to manage our business and growth. As a result of the emerging nature of the market in which we compete, we may incur operating losses until such time as we can develop a substantial and stable revenue base. Additional development expenses may delay or negatively impact the ability of the Company to generate profits. Accordingly, we cannot assure you that our business model will be successful or that we can sustain revenue growth, achieve or sustain profitability, or continue as a going concern.

Foreign Currency Translation Risk

Our operations are located in the China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility in foreign exchange rates between the U.S. dollar and the Chinese Renminbi ("RMB"). All of our sales are in RMB. In the past years, RMB continued to appreciate against the U.S. dollar. As of September 30, 2019, the market foreign exchange rate had increased to RMB 7.149 to one U.S. dollar. Our financial statements are translated into U.S. dollars using the closing rate method. The balance sheet items are translated into U.S. dollars using the exchange rates at the respective balance sheet dates. The capital and various reserves are translated at historical exchange rates prevailing at the time of the transactions while income and expenses items are translated at the average exchange rate for the period. All translation adjustments are included in accumulated other comprehensive income in the statement of equity. The foreign currency translation gain for the three and six months ended September 30, 2019 and 2018 was $72,153, $109,156, $49,162 and $124,067, respectively.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) as of September 30, 2019 that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable to smaller reporting companies.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of September 30, 2019. Based on the evaluation of these disclosure controls and procedures, and in light of the material weaknesses found in our internal controls over financial reporting, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of September 30, 2019 using the criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment of the effectiveness of internal control over financial reporting as of September 30, 2019, the Company determined that there were control deficiencies that constituted material weaknesses, as described below.

We did not maintain a sufficient complement of personnel with an appropriate level of knowledge of accounting, experience, and training commensurate with its financial reporting requirements.

Accordingly, the Company concluded that these control deficiencies resulted in a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by the company's internal controls.

As a result of the material weaknesses described above, management has concluded that the Company did not maintain effective internal control over financial reporting as of September 30, 2019 based on criteria established in Internal Control- Integrated Framework issued by COSO.

Changes in Internal Controls over Financial Reporting

There was no change in the Company's internal control over financial reporting period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that in the opinion of our management, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition, or cash flows.

Item 1A. Risk Factors

As a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act), we are not required to provide the information called for by this Item 1A.

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.

Item 5. Other Information

There is no other information required to be disclosed under this item, which was not previously disclosed.

Item 6. Exhibits

Exhibit	