

**ADDENTAX GROUP CORP. AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)**

**1. ORGANIZATION AND BUSINESS ACQUISITIONS**

Addentax Group Corp. (“ATXG”) was incorporated in Nevada on October 28, 2014, and before the transaction described below, ATXG was 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. 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 beneficially owned approximately ninety-nine (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 in 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 unaudited condensed consolidated balance sheets, statements of operations and comprehensive loss, and statements of cash flows and the related notes thereto, have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. The financial statements reflect all adjustments, consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair presentation for the interim periods.

The accompanying financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended March 31, 2018.

The results of operations for the six-month period ended September 30, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

The accompanying unaudited condensed 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 income (loss) of \$136,297, \$138,793, \$(24,609) and \$19,957, during the three months and six months ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and March 31, 2018, the Company had a working capital deficit of \$2,216,644 and \$2,228,478, respectively, and a total deficit on equity of \$1,005,476 and \$1,104,934, 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. 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 adjustment to other comprehensive income, 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, 2018, 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. The Company had no cash equivalents at September 30, 2018 and March 31, 2018.

**(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 are 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, 2018 and 2017.

The following customers had an accounts receivable balance greater than 10% of total accounts receivable at September 30, 2018 and March 31, 2018.

	September 30, 2018	March 31, 2018
Customer A	13%	56%

Customer B	10%	21%
Customer C	nil%	12%
Customer D	14%	2%
Customer E	11%	nil%

**(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 was made for the three and six months ended September 30, 2018 and 2017, respectively.

During the three and six months ended September 30, 2018 and 2017, approximately 70%, 57%, 84% and 63% 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 on comparable terms.

**(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 year.

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, 2018 and it was determined that the recoverable amount of one of the Company’s reporting units was lower than the carrying amount of the goodwill recorded. Therefore it was concluded that the carrying amount of goodwill of \$454,659 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, 2018 and March 31, 2018.

**(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.

#### **(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 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 common stock shares outstanding. Diluted earnings per share reflects the amount of net income available to each common stock 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 common stock shares outstanding as of September 30, 2018 and March 31, 2018.

#### **(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 does not have any material unrecognized tax benefits.

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, 2018 and 2017. The Company's effective tax rate differs from the PRC federal statutory rate primarily due to non-deductible expenses, temporary differences and preferential tax treatment.

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 relating to the U.S. Tax Reform was needed for the three and six months ended September 30, 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.

### **Credit Risk**

Credit risk mainly arises from accounts receivables which represents 59% of total current assets. The carrying amount of the accounts receivables balance substantially represents the Company's maximum exposure to credit and counterparty risk in relation to financial assets. Account receivables are typically unsecured and are derived from revenue earned from customers. Credit risk is mitigated by credit evaluations the Company performs on its customers and ongoing monitoring on outstanding balances. The Company also closely reviews credit risk and provisioning periodically.

### **Interest Rate Risk**

In September 2018, we entered into a credit agreement that provides for an approximately \$218,000 (RMB1,500,000) credit facility. The pricing on the credit facility is based on LIBOR, as defined by the credit agreement. As of September 30, 2018, the Company has not drawn on the credit facility. The floating interest rate may affect the ability of repayment of existing debts and viability of securing future debt instruments within the PRC.

### **(o) Recently issued and adopted accounting pronouncements**

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 has been adopted by the Company effective 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 September 1, 2020. 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 statement.

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 will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

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. BUSINESS ACQUISITION**

On December 10, 2016, the Company entered into an equity transfer agreement relating to the acquisition of 100% of the equity of Yingxi Industrial Chain Investment Co., Ltd (“Yingxi HK”) and subsidiaries. The acquisition was financed with proceeds from the Company’s borrowings from a third party. The acquisition was closed on December 15, 2016. The results of operations of Yingxi HK are included in the Company’s consolidated financial statements beginning on December 15, 2016.

The following represents the purchase price allocation at the dates of the acquisition:

Cash and cash equivalents	\$	230,390
Other current assets		6,373,688
Plant and equipment		710,829
Goodwill		929,662
Current liabilities		(5,174,094)
Statutory reserves		(21,539)
Total purchase price	\$	<u>3,048,936</u>

## 5. ACCOUNTS RECEIVABLES

The receivables and allowance balances at September 30, 2018 and March 31, 2018 are as follows:

	September 30, 2018	March 31, 2018
Accounts receivable	\$ 1,913,720	\$ 3,416,618
Less: allowance for doubtful accounts	-	-
Accounts receivable, net	<u>\$ 1,913,720</u>	<u>\$ 3,416,618</u>

No allowance for doubtful accounts was made for the three and six months ended September 30, 2018 and 2017.

## 6. 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 and third-party entities. These advances are unsecured and due on demand.

## 7. RELATED PARTY TRANSACTIONS

Name of Related Parties	Relationship with the Company
Zhida Hong	President, CEO, CFO and a director of the Company
Zhongpeng Chen	A legal representative of HPF
Bihua Yang	A legal representative of XKJ
Dewu Huang	A legal representative of DT
Qiuying Chen	A spouse of legal representative of DT
Yingping Ding	A legal representative of HSW
Jinlong Huang	A spouse of legal representative of HSW
Shenzhen Qianhai Bitun Investment Fund Management Co., Ltd	Huizhu Ma is a legal representative and principal shareholder
Shenzhen Bitun Textile Co., Ltd.	Huizhu Ma is a legal representative and principal shareholder
Shenzhen Yingxi Investment & Development Co., Ltd.	Sister of Huizhu Ma is a legal representative
Shenzhen Bitun Yihao Fund Partnership (Limited Partnership)	Shenzhen Qianhai Bitun Investment Fund Management Co., Ltd is a legal representative and principal shareholder
Bitun Apparel (Shenzhen) Co., Ltd	Huijun Ma is a legal representative
Huizhu Ma	A director and principal shareholder of the Company's principal shareholder
Xijuan Huang	A spouse of legal representative of HPF

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

The Company had the following related party balances as of September 30, 2018 and March 31, 2018

Amounts due from related parties	September 30, 2018	March 31, 2018
Shenzhen Bitun Textile Co., Ltd.	-	39,883
Shenzhen Yingxi Investment & Development Co., Ltd.	-	162,543
	<u>\$ -</u>	<u>\$ 202,426</u>

Amounts due to related parties	September 30, 2018	March 31, 2018
Zhida Hong	\$ 3,591,554	38,196
Zhongpeng Chen	165,380	739,317
Dewu Huang	7,085	248,031
Yinping Ding	-	118,952
Jinlong Huang	351,956	338,115
Shenzhen Bitun Textile Co., Ltd.	14,542	-
Shenzhen Qianhai Bitun Investment Fund Management Co., Ltd.	-	3,665,347
Shenzhen Bitun Yihao Fund Partnership (Limited Partnership)	115,612	159,356
Huizhu Ma	11,060	12,104
	<u>\$ 4,257,190</u>	<u>\$ 5,319,418</u>

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

## 8. INVENTORIES

Inventories consist of the following as of September 30, 2018 and March 31, 2018:



	September 30, 2018	March 31, 2018
Raw materials	\$ 77,525	\$ 126,079
Work in progress	46,000	113,150
Total	123,525	239,229
Less: allowance for obsolete inventories	-	-
Inventories, net	\$ 123,525	\$ 239,229

## 9. 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.

## 10. PLANT AND EQUIPMENT

Plant and equipment consists of the following as of September 30, 2018 and March 31, 2018:

	September 30, 2018	March 31, 2018
Production plant	\$ 142,110	\$ 155,529
Motor vehicles	974,172	944,539
Office equipment	11,413	12,491

	1,127,695	1,112,559
Less: accumulated depreciation	(481,530)	(464,019)
Plant and equipment, net	<u>\$ 646,165</u>	<u>\$ 648,540</u>

Depreciation expense for the three and six months ended September 30, 2018 and 2017 was \$29,238, \$60,043, \$28,363 and \$55,889, respectively.

## 11. BANK LOANS

In September 2018, HSW entered into a bank loan agreement with Dongguan Agricultural Commercial Bank to borrow up to approximately \$160,168 (RMB1,100,000) for daily operations with an annual interest rate of 5.8% and a due date in September 2019.

In September 2018, HSW entered into a revolving line of credit agreement with Dongguan Agricultural Commercial Bank, which allows the company to borrow up to approximately \$218,000 (RMB1,500,000). The line of credit is guaranteed by Ding Yinping & Huang Jinlong. As of September 30, 2018, approximately \$218,000 was unused and available under this line of credit.

## 12. 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, 2018 and 2017.

YX was incorporated in the PRC and is subject to the PRC federal statutory 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, 2018 and 2017.

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 2018. XKJ enjoyed the preferential tax benefits and its EIT rate was 15% in 2018.

The Company is a 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 the Company had no United States taxable income for the three and six months ended September 30, 2018 and 2017.

No deferred taxes were recognized for the three and six months ended September 30, 2018 and 2017.

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,	
	2018	2017	2018	2017
PRC statutory tax rate	25%	25%	25%	25%
Computed expected expenses	35,044	36,072	(5,030)	6,923
Temporary differences	(84,214)	(25,124)	(86,163)	6,268
Tax losses not recognized	53,050	(5,454)	95,682	(5,454)
Income tax expense	<u>\$ 3,880</u>	<u>\$ 5,494</u>	<u>\$ 4,489</u>	<u>\$ 7,737</u>

(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 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 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.

### 13. 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, 2018 and 2017 are as follows:

	Three months ended September 30,	Six months ended September 30,
	<hr/>	<hr/>

<b>Revenues</b>	2018	2017	2018	2017
Manufacturing segment	887,165	1,755,090	2,029,655	3,061,977
Service segment	1,947,646	2,219,707	3,536,949	4,552,228
	<u>\$ 2,834,812</u>	<u>\$ 3,974,797</u>	<u>\$ 5,566,605</u>	<u>\$ 7,614,205</u>

Income from operations by segment for the three and six months ended September 30, 2018 and 2017 are as follows:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
<b>Operating income (loss)</b>				
Manufacturing segment	\$ 8,270	\$ 41,172	\$ 21,126	\$ 7,875
Service segment	351,334	161,213	292,791	128,704
Corporate and other	(222,713)	(58,131)	(351,027)	(107,302)
<b>Income (loss) from operations</b>	<u>\$ 136,891</u>	<u>\$ 144,254</u>	<u>\$ (37,110)</u>	<u>\$ 29,277</u>
Manufacturing segment	2,365	-	13,353	(1,595)
Service segment	533	-	654	(21)
Corporate and other	388	33	2,983	33
<b>Income (loss) before income tax</b>	<u>\$ 140,177</u>	<u>144,287</u>	<u>(20,120)</u>	<u>27,694</u>
Income tax expense	(3,880)	(5,494)	(4,489)	(7,737)
<b>Net income (loss)</b>	<u><u>\$ 136,297</u></u>	<u><u>\$ 138,793</u></u>	<u><u>\$ (24,609)</u></u>	<u><u>\$ 19,957</u></u>

Depreciation and amortization by segment for the three and six months ended September 30, 2018 and 2017 are as follows:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
<b>Depreciation</b>				
Manufacturing segment	6,504	7,930	14,750	15,624
Service segment	22,734	20,433	45,293	40,265
	<u>\$ 29,238</u>	<u>\$ 28,363</u>	<u>\$ 60,043</u>	<u>\$ 55,889</u>

Total assets by segment at September 30, 2018 and March 31, 2018 are as follows:

	September 30, 2018	March 31, 2018
<b>Total assets</b>		
Manufacturing segment	\$ 1,814,897	\$ 3,775,765
Service segment	2,419,382	3,391,945
Corporate and other	130,499	350,400
	<u>\$ 4,364,778</u>	<u>\$ 7,518,111</u>

Goodwill by segment at September 30, 2018 and March 31, 2018 is as follows:

	September 30, 2018	March 31, 2018
<b>Goodwill</b>		
Manufacturing segment	\$ 475,003	\$ 475,003
Service segment	-	-
	<u>\$ 475,003</u>	<u>\$ 475,003</u>

The recoverable amounts of reporting units are determined based on discounted cash flow calculations. The calculations use budget 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 its expectations on market development. Based on the impairment test of goodwill, the recoverable amount was lower than the carrying amount of the goodwill recorded and it was concluded that carrying amount of goodwill of \$454,659 was impaired as of March 31, 2018.

#### 14. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consist of the following as of September 30, 2018 and March 31, 2018:

	September 30, 2018	March 31, 2018
Loan from third parties (i)	\$ -	\$ 56,739
Employee advances	558	1,073
Accrued wages and welfare	91,005	66,972
Other payables	76,293	61,071
	<u>\$ 167,856</u>	<u>\$ 185,855</u>

- (i) Loan from third parties represent unsecured and non-interest bearing short-term advances that the Company makes from time-to-time from third-party entities. These advances are unsecured and due on demand.

#### 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. At September 30, 2018 and March 31, 2018, the paid-up statutory reserve was RMB148,418 or \$21,539.

(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. COMMITMENTS AND CONTINGENCIES

### Leases

The Company leased offices in various cities in the PRC and leases its headquarters in Shenzhen, the PRC, under operating leases expiring on various dates through the Company's year end of 2021. Rent expense for the three and six months ended September 30, 2018 and 2017 was approximately \$26,497, \$54,507, \$25,409 and \$44,336, respectively.

Future minimum lease payments for leases with initial or remaining non-cancelable lease terms in excess of one year are as follows:

2019	\$	150,834
2020		275,001
2021		136,288
		<u>562,123</u>

## 17. SUBSEQUENT EVENTS



In accordance with ASC 855, the Company evaluated all of its activity through the issue date of the financial statements and concluded that no other 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.**

### **Forward Looking Statements**

*The following discussion should be read in conjunction with the attached consolidated unaudited financial statements and notes thereto, and our consolidated audited financial statements and related notes for our fiscal year ended March 31, 2018 found in our Annual Report on Form 10-K (as amended). In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Where possible, we have tried to identify these forward-looking statements by using words such as “anticipate,” “believe,” “intends,” or similar expressions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors and risks including, but not limited to, those set forth in our Annual Report on Form 10-K (as amended), and amendments thereto.*

This Report contains statements that we believe are, or may be considered to be, “forward-looking statements”. All statements other than statements of historical fact included in this Report regarding the prospects of our industry or our prospects, plans, financial position or business strategy, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as “may,” “will,” “expect,” “intend,” “estimate,” “foresee,” “project,” “anticipate,” “believe,” “plans,” “forecasts,” “continue” or “could” or the negatives of these terms or variations of them or similar terms. Furthermore, such forward-looking statements may be included in various filings that we make with the Securities and Exchange Commission or press releases or oral statements made by or with the approval of one of our authorized executive officers. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which reflect management's opinions only as of the date hereof. Except as required by law, we undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements. You are advised, however, to consult any additional disclosures we make in our reports to the SEC. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this Report.

You should read the matters described in “ Risk Factors ” and the other cautionary statements made in this Report, and incorporated by reference herein, as being applicable to all related forward-looking statements wherever they appear in this Report. We cannot assure you that the forward-looking statements in this Report will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of the Company’s financial condition and results of operations are based upon its consolidated unaudited financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these unaudited financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an on-going basis, management evaluates past judgments and estimates, including those related to bad debts, accrued liabilities, convertible promissory notes and contingencies. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The accounting policies and related risks described in the Company’s annual report on Form 10-K/A as filed with the Securities and Exchange Commission on September 21, 2018 (as amended) are those that depend most heavily on these judgments and estimates. As of September 30, 2018, there had been no material changes to any of the critical accounting policies contained therein.

### **Definitions:**

Unless the context requires otherwise, references to the “ Company, ” “ we, ” “ us, ” “ our, ” “ Addentax ” and “ Addentax Group Corp. ” refer specifically to Addentax Group Corp. and its consolidated subsidiaries including Dongguan Heng Sheng Wei Garments Co., Ltd, which is wholly-owned; Shantou Chenghai Dai Tou Garments Co., Ltd, which is wholly-owned; Shenzhen Xin Kuai Jie Transportation Co., Ltd, which is wholly-owned; Shenzhen Hua Peng Fa Logistic Co., Ltd, which is wholly-owned; and ingxi Industrial Chain Group Co., Ltd., which is wholly-owned.

In addition, unless the context otherwise requires and for the purposes of this report only:

- “Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
- “SEC” or the “Commission” refers to the United States Securities and Exchange Commission; and
- “Securities Act” refers to the Securities Act of 1933, as amended.

This information should be read in conjunction with the interim unaudited financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the unaudited financial statements and notes thereto and Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended March 31, 2018 (as amended).

Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our consolidated financial statements included above under “Part I - Financial Information” - “Item 1. Financial Statements”.

## **Corporate History**

Addentax Group Corp., was incorporated in the State of Nevada on October 28, 2014. We were originally incorporated to produce images on multiple surfaces, such as glass, leather, plastic, ceramic, textile, and others using a 3D sublimation vacuum heat transfer machine. We no longer pursue opportunities related to 3D printing positioning.

We have a fiscal year-end of March 31.

On July 12, 2016, we filed an amendment to our articles of incorporation, which amendment was effectuated by our transfer agent on July 20, 2016. The certificate of amendment was filed in order to undertake a two for one forward stock split and increase our authorized shares of common stock, par value \$0.001 per share, to 150,000,000 shares, which forward stock split has been retroactively reflected throughout this Report.

## **Current Business**

Effective December 28, 2016, the Company executed a Sale & Purchase Agreement (“S&P”) for the acquisition of 100% of the shares of Yingxi Industrial Chain Group Co., Ltd., a company incorporated under the laws of the Republic of Seychelles. Yingxi Industrial Chain Group Co., Ltd. (“YICG”) is currently a garment manufacturer. Intending to diversify its service portfolio, the Company plans to develop another branch of business: international supply chain management consulting service, which will focus exclusively on the textile & garments industry. The Company plans to assist clients to open textile and garment sales outlets throughout China. The Company will also provide assistance services in plan implementation. Pursuant to the S&P, which closed on September 25, 2017, the Company issued five hundred million (500,000,000) restricted common shares of the Company to the owners of Yingxi Industrial Chain Group Co., Ltd. in consideration for the acquisition of YICG.

After the Share Exchange, YICG’s business became our business. We are a garment manufacturer and logistic service provider based in China. Our common stock is 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 wholesalers 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 meet the delivery requirements 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. In the future, we plan to develop our growth opportunities and continued investment initiatives to provide value-added consulting services to the apparel supply-chain companies and retailers in China.

#### 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, 2018, we provide logistic service to 30 cities in approximately 20 provinces. We expect to develop additional 20 logistic point in existing serving cities in the third quarter and fourth quarter of 2018 and improve company's profit in 2019 fiscal year.

#### 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 fiscal quarters. These trends primarily result from the timing of seasonal garment manufacturing shipments and holiday periods in the logistic segment.

#### 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 of our receipt of packages.

### ***Future Business***

In addition to our garment manufacturing business, we also want to kick start our supply chain management consulting service. Our supply chain management consulting service is still under development with no active clients. However, due to the uniqueness of our business model, we have attracted over 30 potential clients strongly interested in our proposed service. All of those potential clients are located in China. We plan to put our proposed service into operation in the third quarter of calendar 2018.

To help ensure the quality of our business, we conduct strict rules for our potential clients.

Client Qualifications: To sign a servicing contract with the Company, a potential client must:

1. Be established and validly existing pursuant to relevant laws and regulations;
2. Demonstrate that they have a good business reputation and operating performance, and comply with professional ethics; and
3. Have not breached any law or regulation, or have received any administrative penalty from a regulatory body or other department in the past twenty-four months.

Medium and small-sized enterprises all over the world can search for our service, but our current focus is on helping clients in China.

Many medium-small sized enterprises in China experience the problem of business maintenance or expansion in the textile and garments industry where increasing operational costs cause decreasing profit. Most seek to employ new business models that can increase a company's competitive advantage and increase sales. We have found that due to the limitation of resources and information, management of these enterprises find it hard to design a suitable plan for their company's sustainable development.

To assist these enterprises, we set up a research team to carry out extensive investigation and integrate necessary industry information and resources which can help us to work out the best plan for our clients.

The research will include:

1. Client diligence: To collect details on the client including its financial reports, management, planned business model, internal systems, operation flows and other important information;
2. Relevant business partner research: Focus on the raw material supplier and product buyer, and conduct comprehensive analysis;
3. Market research: To discover the actual market demands and market share; and
4. Environment research: Research and analyze the environment of policy, economy, technology and legal.

We developed a multi-task Industrial Chain Service System which we call “ Adden Chain ” not only for providing business solutions to clients, but also assisting the clients to fully realize their business plan and potential.

Our company’s service can be divided into three parts:

#### Consulting & Plan Design

There are four main services within this part:

##### **Promotion Service**

We will design a “ Promotion Plan ” for our clients depending on their requirements to improve their marketing plans.

### **Operation Assistance Service**

We can help clients to sort out all the individual parts (i.e., Raw Materials Supply, Manufacturing, Product Design and Marketing) within the whole operation chain, and assist them to fix weaknesses. We can also help clients to reallocate the resources they own and improve their operational efficiency.

### **Logistics and International Trading Service**

We develop and apply our “YX logistics system” to improve our client’s transportation efficiency. Our YX logistics system mainly provides three services to our clients: transportation service; storage & distribution service; and bulk purchasing service.

We also work with qualified international trading companies to help expand our clients’ global market share. Currently we build trading routes to various areas like America, Australia, and Africa which can help clients lower international trading costs.

### **Financial Services**

We will offer financial services to selected clients. These services include long term & short term loans which we provide to clients, financing services, and inventory pledge services. Also, we plan to build a third party payment center which can improve clients’ capital turnover. Clients will be able to employ the third party payment center to process transactions and accept the payment terms and payment period we set. As the third party guarantor, we could help our clients to pay or receive payments on time.

#### Plan implementation Assistance:

We have already built strategic cooperative relationships with over 40 textile and garments industry related entities. We are available to assist our clients to deal with various issues and problems.

#### Additional Services



**Team Establishment:**

We will assist clients to establish an organizational structure and a management team best suited for their business plan.

**Headhunting Services:**

We work with headhunting companies, i.e., companies that provide employment or recruiting services to find the most qualified managers and professionals to meet the specific needs of our clients.

**Follow-up Service:**

We provide clients with continuous consultancy and follow-up services throughout the entire startup and service period.

**Markets**

Currently, our market focuses on small and medium-sized enterprises in China who have business expansion plans.

**Sufficiency of Cash Flows**

Because current cash balances and our projected cash generated from operations are not sufficient to meet our cash needs for working capital and capital expenditures, management intends to seek additional equity or obtain additional credit facilities. However, we may be unable to raise additional capital upon terms acceptable to us. The sale of additional equity will result in additional dilution to our shareholders. A portion of our cash may be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time to time, in the ordinary course of business, we evaluate potential acquisitions of such businesses, products or technologies.

## **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***

We are generating our revenue from the sale of garments manufactured and the provision of logistic services to customers. We recognize our revenue, net of value-added taxes, upon customer acceptance, at such time title passes to the customer provided that (i) there are no uncertainties regarding customer acceptance, (ii) persuasive evidence of an arrangement exists, (iii) the sales price is fixed and determinable, and (iv) collectability is deemed probable.

### ***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.

### ***Recently issued and adopted accounting pronouncements***

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 September 1, 2020. 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 will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

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, 2018 and 2017

The following tables summarize our results of operations for the three months ended September 30, 2018 and 2017. The table and the discussion below should be read in conjunction with our condensed consolidated financial statements and the notes thereto appearing elsewhere in this report.

	Three Months Ended September 30,				Increase (decrease) in	
	2018		2017		2018 compared to 2017	
	(In U.S. dollars, except for percentages)					
Revenue	\$ 2,834,812	100%	\$ 3,974,797	100%	\$ (1,139,985)	(28.7%)
Cost of revenues	(2,153,235)	(76.0%)	(3,403,311)	(85.6)%	(1,250,076)	(36.7%)
Gross profit	681,577	24.0%	571,486	14.4%	110,091	19.3%
Operating expenses	(544,686)	(19.2%)	(427,232)	(10.8%)	117,454	27.5%
Income from operation	136,891	4.8%	144,254	(3.6%)	(7,363)	(5.1%)
Other income (expense), net	3,286	0.1%	33	0.0%	3,253	(9857.6%)
Income tax expense	(3,880)	(0.1%)	(5,494)	(0.1%)	1,614	29.4%
Net income	\$ 136,297	4.8%	\$ 138,793	3.5%	\$ (2,496)	(1.8%)

### Revenue

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 garment manufacturing business contributed \$1,755,090 or 44.2% of our total revenue for the three months ended September 30, 2017. The decrease was due to the fact that we terminated business with certain customers with low profit margin during the three months ended September 30, 2018. We have begun to implement control on reviewing and monitoring profit margin with each customer to increase profitability.

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. Revenue generated from our logistic business contributed \$2,219,707 or 55.8% of our total revenue for the three months ended September 30, 2017. The decrease was due to the fact that we terminated business with certain customers with low profit margin during the three months ended September 30, 2018. We have begun to implement control on reviewing and monitoring profit margin with each customer to increase profitability.

Total revenue for the three months ended September 30, 2018 was \$2,834,812, a 28.7% decrease compared with the three months ended September 30, 2017. The decrease was due to the fact that we terminated business with certain customers with low profit margin during the three months ended September 30, 2018. We have begun to implement control on reviewing and monitoring profit margin with each customer to increase profitability.

***Cost of revenue***

	Three Months Ended September 30,				Increase (decrease) in				
	2018		2017		2018 compared to 2017				
	(In U.S. dollars, except for percentages)								
Net revenue for garment manufacturing	\$	887,165	100%	\$	1,755,090	100.0%	\$	(867,925)	(49.4%)
Raw materials		725,756	81.9%		1,493,390	85.1%			
Labor		64,261	7.2%		116,208	6.6%			
Other and Overhead		16,883	1.9%		24,656	1.4%			
Total cost of revenue for garment manufacturing		806,900	91.0%		1,634,254	93.1%		(827,354)	(50.6%)
Gross profit for garment manufacturing		80,265	9.0%		120,836	6.9%		(40,571)	(33.6%)
Net revenue for logistic service		1,947,647	100%		2,219,707	100.0%		(272,060)	(12.3%)
Fuel and toll		607,088	31.1%		1,260,788	56.8%			
Subcontracting fees		739,247	38.0%		508,269	22.9%			
Total cost of revenue for logistic service		1,346,335	69.1%		1,769,057	79.7%		(422,722)	(23.9%)

<b>Gross Profit for logistic service</b>	601,312	30.9%	450,650	20.3%	150,662	33.4%
<b>Total cost of revenue</b>	\$ 2,153,235	76.0%	\$ 3,403,311	85.6%	\$ (1,250,076)	(36.7%)
<b>Gross profit</b>	<u>\$ 681,577</u>	<u>24.0%</u>	<u>\$ 571,486</u>	<u>14.4%</u>	<u>\$ 110,091</u>	<u>19.3%</u>

Cost of revenue for our manufacturing segment for the three months ended September 30, 2018 and 2017 was \$806,900 and \$1,634,254, 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, 2018 and 2017 was \$1,346,335 and \$1,769,057, respectively, which includes gasoline and diesel fuel, toll charges 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 70.2% and 84% of raw materials purchases for the three months ended September 30, 2018 and 2017, respectively. Two and three suppliers provided more than 10% of our raw materials purchases for the three months ended September 30, 2018 and 2017. 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 three subcontractors, in which the subcontracting fees to our largest contractor represented approximately 50.5% and 67% of total cost of revenues for our service segment for the three months ended September 30, 2018 and 2017, respectively. 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 81.9% of our total manufacturing business revenue in the three months ended September 30, 2018, compared with 85.1% in the three months ended September 30, 2017. The decrease was mainly due to our cost-cutting measures on materials cost have been in place and the decrease in raw materials purchase.

Labor costs for our manufacturing business were 7.2% of our total manufacturing business revenue in the three months ended September 30, 2018, compared with 6.6% in the three months ended September 30, 2017. The increase in percentage was mainly due to the rising wages in the PRC, the decreased amount of labor cost was due to the decrease in business.

Overhead and other expenses for our manufacturing business accounted for 1.9% of our total manufacturing business revenue for the three months ended September 30, 2018, compared with 1.4% of total manufacturing business revenue for the three months ended September 30, 2017.

Fuel and toll costs for our service business for the three months ended September 30, 2018 were \$607,088 compared with \$1,260,788 for the three months ended September 30, 2017. Fuel and toll costs for our service business accounted for 31.1% of our total service revenue for the three months ended September 30, 2018, compared with 56.8% for the three months ended September 30, 2017. The decrease was primarily attributable to we subcontracted more shipping orders to subcontractors in 2018 due to the increase in shipping orders with the destination that were not covered by the Company's own delivery and transportation networks.

Subcontracting fees for our service business for the three months ended September 30, 2018 increased 45.4% to \$739,247 from \$508,269 for the three months ended September 30, 2017. Subcontracting fees accounted for 38.0% and 22.9% of our total service business revenue in the three months ended September 30, 2018 and 2017, respectively. This increase was primarily attributable to we subcontracted more shipping orders to subcontractors in 2018 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, 2018 was \$2,153,235, a 36.7% decrease from \$3,403,311 for the three months ended September 30, 2017. Total cost of sales as a percentage of total sales for the three months ended September 30, 2018 was 76.0%, compared with 85.6% for the three months ended September 30, 2017. Gross margin for the three months ended September 30, 2018 was 24.0% compared with 14.4% for the three months ended September 30, 2017.

### ***Gross profit***

	Three Months Ended September 30,				Increase (decrease) in			
	2018		2017		2018 compared to 2017			
	(In U.S. dollars, except for percentages)							
Gross profit	\$	681,577	100%	\$	571,586	100%	109,991	19.2%
Operating expenses:								
Selling expenses		(4,990)	(0.7%)		(5,611)	(1.0%)	(621)	(11.1%)

General and administrative expenses	(539,696)	(79.2%)	(421,621)	(73.8%)	118,075	28.0%
Total	\$ (544,686)	(79.9%)	\$ (427,232)	(74.8%)	117,454	27.5%
Income from operations	\$ 136,891	20.1%	\$ 144,254	25.2%	(7,363)	(5.1%)

Manufacturing business gross profit for the three months ended September 30, 2018 was \$80,265 compared with \$120,836 for the three months ended September 30, 2017. Gross profit accounted for 9.0% of our total manufacturing business revenue for the three months ended September 30, 2018, compared with 6.9% for the three months ended September 30, 2017.

Gross profit in our service business for the three months ended September 30, 2018 was \$601,312 and gross margin was 30.9%. Gross profit in our service business for the three months ended September 30, 2017 was \$450,650 and gross margin was 20.3%.

The increase in gross margin was due to the implementation of cost-cutting measures and the effective control on our costs to increase profitability during the three months ended September 30, 2018.

#### ***Selling, General and administrative expenses***

Our selling expenses in our manufacturing segment for the three months ended September 30, 2018 and 2017 were \$4,990 and \$5,611, respectively. We had no selling expenses in our service segment for the three months ended September 30, 2018 and 2017. Selling expenses consist primarily of local transportation, unloading charges and product inspection charges.

Our general and administrative expenses in our manufacturing segment for the three months ended September 30, 2018 and 2017 were \$67,005 and \$104,194, respectively. Our general and administrative expenses in our service segment, for the three months ended September 30, 2018 and 2017 were \$249,977 and \$259,292, respectively. Our general and administrative expenses in our corporate and other segment for the three months ended September 30, 2018 and 2017 were \$222,713 and \$58,135, 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.



Selling expenses for the three months ended September 30, 2018 decreased 11.1% to \$4,990 from \$5,611 for the three months ended September 30, 2017.

General and administrative expenses for the three months ended September 30, 2018 increased 28.0% to \$539,696 from \$421,621 for the three months ended September 30, 2017. The increase was mainly due to the increase in legal and professional fees to comply with the SEC accounting, disclosure and reporting requirements.

### ***Income from operations***

Income from operations for the three months ended September 30, 2018 and 2017 was \$136,891 and \$144,254, respectively. Income from operations of \$8,270 and \$41,172 was attributed from our manufacturing segment for the three months ended September 30, 2018 and 2017, respectively. Income from operations of \$351,334 and \$161,213 was attributed from our service segment for the three months ended September 30, 2018 and 2017, respectively. We incurred a loss from operations in corporate segment of \$222,713 and \$58,131 for the three months ended September 30, 2018 and 2017, respectively. The loss from our corporate segment was mainly due to the 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, 2018 and 2017 was \$3,880 and \$5,494, respectively, a 29.4% decrease for the 2018 period compared to the same period of 2017. 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, 2018 and 2017.

QYTG and YX were incorporated in the PRC and are subject to the PRC statutory tax rate of 25%. No provision for income taxes in the PRC has been made as QYTG and YX had no taxable income for the three months ended September 30, 2018 and 2017.

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 2018 and 2017. XKJ enjoyed the preferential tax benefits and its EIT rate was 15% in 2018 and 2017.

The Company is a U.S. entity and is subject to United States federal income tax. No provision for income taxes in the United States has been made as the Company had no United States taxable income for the three months ended September 30, 2018 and 2017.

### ***Net Income***

We generated net income of \$136,297 and \$138,793 for the three months ended September 30, 2018 and 2017, respectively. Our basic and diluted earnings per share were \$0.0 and \$0.0 for the three months ended September 30, 2018 and 2017, respectively.

### **Results of Operations for the six months ended September 30, 2018 and 2017**

The following tables summarize our results of operations for the six months ended September 30, 2018 and 2017. The table and the discussion below should be read in conjunction with our condensed consolidated financial statements and the notes thereto appearing elsewhere in this report.

	Six Months Ended September 30,				Increase (decrease) in				
	2018		2017		2018 compared to 2017				
	(In U.S. dollars, except for percentages)								
Revenue	\$	5,566,605	100%	\$	7,614,205	100.0%	\$	(2,047,600)	(26.9%)
Cost of revenues		(4,590,409)	(82.5%)		(6,769,962)	(88.9%)		(2,179,553)	(32.2%)
Gross profit		976,196	17.5%		844,243	11.1%		131,953	15.6%
Operating expenses		(1,013,306)	(18.2%)		(814,966)	(10.7%)		198,340	24.3%
Income(loss) from operations		(37,110)	(0.6%)		29,277	0.4%		(66,387)	(226.8%)

Other income (expense), net	16,990	0.3%	(1,583)	(0.0%)	18,573	1173.3%
Income tax expense	(4,489)	(0.1%)	(7,737)	(0.1%)	(3,248)	(42.0%)
Net income (loss)	<u>\$ (24,609)</u>	<u>(0.4%)</u>	<u>\$ 19,957</u>	<u>0.3%</u>	<u>\$ (44,566)</u>	<u>(223.3%)</u>

### ***Revenue***

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 garment manufacturing business contributed \$3,061,977 or 40.2% of our total revenue for the six months ended September 30, 2017. The decrease was due to the fact that we terminated business with certain customers with low profit margin during the six months ended September 30, 2018. We have begun to implement control on reviewing and monitoring profit margin with each customer to increase profitability.

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. Revenue generated from our logistic business contributed \$4,552,228 or 59.8% of our total revenue for the six months ended September 30, 2017. The decrease was due to the fact that we terminated business with certain customers with low profit margin during the six months ended September 30, 2018. We have begun to implement control on reviewing and monitoring profit margin with each customer to increase profitability.

Total revenue for the six months ended September 30, 2018 was \$5,566,605, a 26.9% decrease compared with the six months ended September 30, 2017. The decrease was due to the fact that we terminated business with certain customers with low profit margin during the six months ended September 30, 2018. We have begun to implement control on reviewing and monitoring profit margin with each customer to increase profitability.

### ***Cost of revenue***

Six Months Ended September 30,		Increase (decrease) in
2018	2017	2018 compared to 2017
(In U.S. dollars, except for percentages)		

<b>Net revenue for garment manufacturing</b>	\$ 2,029,655	100%	\$ 3,061,977	100.0%	\$ (1,032,322)	(33.7%)
Raw materials	1,647,836	81.2%	2,550,364	83.3%		
Labor	181,447	8.9%	284,792	9.3%		
Other and Overhead	30,038	1.5%	64,365	2.1%		
<b>Total cost of revenue for garment manufacturing</b>	<b>1,859,321</b>	<b>91.6%</b>	<b>2,899,521</b>	<b>94.7%</b>	<b>(1,040,200)</b>	<b>(35.9%)</b>
<b>Gross profit for garment manufacturing</b>	<b>170,333</b>	<b>8.4%</b>	<b>162,456</b>	<b>5.3%</b>	<b>7,877</b>	<b>4.8%</b>
<b>Net revenue for logistic service</b>	<b>3,536,950</b>	<b>100%</b>	<b>4,552,228</b>	<b>100.0%</b>	<b>(1,015,278)</b>	<b>(22.3%)</b>
Fuel and toll	1,226,948	34.7%	3,040,980	66.8%		
Subcontracting fees	1,504,140	42.5%	829,461	18.2%		
<b>Total cost of revenue for logistic service</b>	<b>2,731,088</b>	<b>77.2%</b>	<b>3,870,441</b>	<b>85.0%</b>	<b>(1,139,353)</b>	<b>(29.4%)</b>
<b>Gross Profit for logistic service</b>	<b>805,863</b>	<b>22.8%</b>	<b>681,787</b>	<b>15.0%</b>	<b>124,076</b>	<b>18.2%</b>
<b>Total cost of revenue</b>	<b>\$ 4,590,409</b>	<b>82.5%</b>	<b>\$ 6,769,962</b>	<b>88.9%</b>	<b>\$ (2,179,553)</b>	<b>(32.2%)</b>
<b>Gross profit</b>	<b>\$ 976,196</b>	<b>17.5%</b>	<b>\$ 844,243</b>	<b>11.1%</b>	<b>\$ 131,953</b>	<b>15.6%</b>

Cost of revenue for our manufacturing segment for the six months ended September 30, 2018 and 2017 was \$1,859,322 and \$2,899,521, 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, 2018 and 2017 was \$2,731,087 and \$3,870,441, respectively, which includes gasoline and diesel fuel, toll charges 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 56.5% and 63% of raw materials purchases for the six months ended September 30, 2018 and 2017, respectively. Three suppliers provided more than 10% of our raw materials purchases for the six months ended September 30, 2018 and 2017. 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 three subcontractors, in which the subcontracting fees to our largest contractor represented approximately 31.5% and 75% of total cost of revenues for our service segment for the six months ended September 30, 2018 and 2017, respectively. 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 81.2% of our total manufacturing business revenue in the six months ended September 30, 2018, compared with 83.3% in the six months ended September 30, 2017. The decrease was mainly due to our cost-cutting measures on materials costs which have been put in place and the decrease in raw materials purchased.

Labor costs for our manufacturing business were 8.9% of our total manufacturing business revenue in the six months ended September 30, 2018, compared with 9.3% in the six months ended September 30, 2017.

Overhead and other expenses for our manufacturing business accounted for 1.5% of our total manufacturing business revenue for the six months ended September 30, 2018, compared with 2.1% of total manufacturing business revenue for the six months ended September 30, 2017.

Fuel and toll costs for our service business for the six months ended September 30, 2018 were \$1,226,948 compared with \$3,040,980 for the six months ended September 30, 2017. Fuel and toll costs for our service business accounted for 34.7% of our total service revenue for the six months ended September 30, 2018, compared with 66.8% for the six months ended September 30, 2017. The decrease was primarily attributable to we subcontracted more shipping orders to subcontractors in 2018 due to the increase in shipping orders with the destination that were not covered by the Company's own delivery and transportation networks.

Subcontracting fees for our service business for the six months ended September 30, 2018 increased 81.3% to \$1,504,140 from \$829,461 for the six months ended September 30, 2017. Subcontracting fees accounted for 42.5% and 18.2% of our total service business revenue in the six months ended September 30, 2018 and 2017, respectively. This increase was primarily attributable to we subcontracted more shipping orders to subcontractors in 2018 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, 2018 was \$4,590,409, a 32.2% decrease from \$6,769,962 for the six months ended September 30, 2017. Total cost of sales as a percentage of total sales for the six months ended September 30, 2018 was 82.5%, compared with 88.9% for the six months ended September 30, 2017. Gross margin for the six months ended September 30, 2018 was 17.5% compared with 11.1% for the six months ended September 30, 2017.

***Gross profit***

	Six Months Ended September 30,				Increase (decrease) in			
	2018		2017		2018 compared to 2017			
	(In U.S. dollars, except for percentages)							
Gross profit	\$	976,196	100%	\$	844,243	100%	131,953	15.6%
Operating expenses:								
Selling expenses		(9,710)	(1.0%)		(17,537)	(2.1%)	(7,827)	(44.6%)
General and administrative expenses		(1,003,596)	(102.8%)		(797,429)	(94.4%)	206,167	25.9%
Total	\$	(1,013,306)	(103.8%)	\$	(814,966)	(96.5%)	198,340	24.3%
Income (loss) from operations	\$	(37,110)	(3.8%)	\$	29,277	3.5%	(66,387)	(226.8%)

Manufacturing business gross profit for the six months ended September 30, 2018 was \$170,333 compared with \$162,456 for the six months ended September 30, 2017. Gross profit accounted for 8.4% of our total manufacturing business revenue for the six months ended September 30, 2018, compared with 5.3% for the six months ended September 30, 2017.

Gross profit in our service business for the six months ended September 30, 2018 was \$805,863 and gross margin was 22.8%. Gross profit in our service business for the six months ended September 30, 2017 was \$681,787 and gross margin was 15.0%.

The increase in gross margin was due to the implementation of cost-cutting measures and the effective control on our costs to increase profitability during the six months ended September 30, 2018.

### ***Selling, General and administrative expenses***

Our selling expenses in our manufacturing segment for the six months ended September 30, 2018 and 2017 were \$9,710 and \$17,537, respectively. We had no selling expenses in our service segment for the six months ended September 30, 2018 and 2017. Selling expenses consist primarily of local transportation, unloading charges and product inspection charges.

Our general and administrative expenses in our manufacturing segment for the six months ended September 30, 2018 and 2017 were \$139,497 and \$169,881, respectively. Our general and administrative expenses in our service segment, for the six months ended September 30, 2018 and 2017 were \$513,072 and \$520,241, respectively. Our general and administrative expenses in our corporate and other segment for the six months ended September 30, 2018 and 2017 were \$351,027 and \$107,307, 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.

Selling expenses for the six months ended September 30, 2018 decreased 44.6% to \$9,710 from \$17,537 for the six months ended September 30, 2017.

General and administrative expenses for the six months ended September 30, 2018 increased 25.9% to \$1,003,596 from \$797,429 for the six months ended September 30, 2017. The increase was mainly due to the increase in legal and professional fees to comply with the SEC accounting, disclosure and reporting requirements.

### ***Income from operations***

Income (loss) from operations for the six months ended September 30, 2018 and 2017 was (\$37,110) and \$29,277, respectively. Income from operations of \$21,126 and \$7,875 was attributed from our manufacturing segment for the six months ended September 30, 2018 and 2017, respectively. Income from operations of \$292,791 and \$128,704 was attributed from our service segment for the six months ended September 30, 2018 and 2017, respectively. We incurred a loss from operations in corporate segment of \$351,027 and \$107,302 for the six months ended September 30, 2018 and 2017, respectively. The loss from our corporate segment was mainly due to the 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, 2018 and 2017 was \$4,489 and \$7,737, respectively, a 42.0% decrease for the 2018 period compared to the same period of 2017. 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, 2018 and 2017.

QYTG and YX were incorporated in the PRC and are subject to the PRC statutory tax rate of 25%. No provision for income taxes in the PRC has been made as QYTG and YX had no taxable income for the six months ended September 30, 2018 and 2017.

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 2018 and 2017. XKJ enjoyed the preferential tax benefits and its EIT rate was 15% in 2018 and 2017.

The Company is a U.S. entity and is subject to United States federal income tax. No provision for income taxes in the United States has been made as the Company had no United States taxable income for the six months ended September 30, 2018 and 2017.

### ***Net Income***

We incurred net income (loss) of (\$24,609) and \$19,957 for the six months ended September 30, 2018 and 2017, respectively. Our basic and diluted earnings per share were \$0.0 and \$0.0 for the six months ended September 30, 2018 and 2017, respectively.



## Summary of cash flows

Summary cash flows information for the six months ended June 30, 2018 and 2017 is as follow:

	2018	2017
	(In U.S. dollars)	
Net cash provided by (used in) operating activities	\$ 933,504	\$ (109,846)
Net cash used in investing activities	\$ (57,668)	\$ (3,051,186)
Net cash (used in) provided by financing activities	\$ (751,801)	\$ 3,296,747

Net cash used in operating activities for the six months ended September 20, 2018, consisted of net loss of (\$24,609), increased by depreciation of \$60,043, and increased by net increase in change of operating assets and liabilities of \$898,070. We plan to 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 receipt of customers' orders.

Net cash used in investing activities for the six months ended September 20, 2018, consisted of purchase of plant and equipment of \$57,668.

Net cash provided by financing activities for the six months ended September 20, 2018, consisted of third party proceeds of \$75,948; related party proceeds of \$4,922,447; and proceeds from bank borrowings of \$160,168, offset by repayment of third party borrowings of \$127,395 and repayment of related party borrowings of \$5,782,249.

## Financial Condition, Liquidity and Capital Resources

As of September 30, 2018, we had cash on hand of \$376,963, total current assets of \$3,243,610 and current liabilities of \$5,370,254. 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.

We have very limited financial resources. We will need to raise substantial additional capital to support the on-going operation and increased market penetration of our services, until such time as we generate revenues sufficient to support our operations, if ever. Our failure to obtain additional capital to finance our working capital needs on acceptable terms, or at all, will negatively impact our business, financial condition and liquidity. As of September 30, 2018, we had approximately \$5,370,254 of current liabilities. We currently do not have the resources to satisfy these obligations, and our inability to do so could have a material adverse effect on our business, our ability to continue as a going concern, and the value of our securities.

#### **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, 2018 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.**

#### **Foreign Currency Translation Risk**

Our operations are located in 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, 2018, the market foreign exchange rate had increased to RMB 6.868 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 expense 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, 2018 was \$49,162 and \$124,067, respectively.

### **Item 4. Controls and Procedures.**

#### ***Disclosure Controls and Procedures***

The Company maintains a set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In accordance with Rule 13a-15(b) of the Exchange Act, as of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company’s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures, as of September 30, 2018, the end of the period covered by this Quarterly Report on Form 10-Q, were not effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

### ***Changes in Internal Control over Financial Reporting***

As of September 30, 2018, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our 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 various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm business.

We are currently not aware of any pending legal proceedings to which we are a party or of which any of our properties or assets is the subject, nor are we aware of any such proceedings that are contemplated by any civil entity, any regulatory agency or governmental authority.

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K/A for the year ended March 31, 2018, filed with the Commission on September 21, 2018 (as amended from time to time), under the heading “ Risk Factors ”, and investors should review the risks provided in the Form 10-K (as amended from time to time), prior to making an investment in the Company. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in the Form 10-K/A for the year ended March 31, 2018 (as amended from time to time), under “ Risk Factors ”, any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

**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.

