

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-33167

**KIWA BIO-TECH PRODUCTS GROUP CORPORATION**

(Exact name of registrant as specified in its charter)

<b>Nevada</b>	<b>77-0632186</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<b>3200 Guasti Road, Suite #100, Ontario, California</b>	<b>91761</b>
(Address of principal executive offices)	(Zip Code)

**(909) 456-8828**

(Registrant's telephone number, including area code)

3200 Guasti Road, Suite #100  
Ontario, CA 91761  
(Former address)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

As of August 19, 2019, the Company had 19,484,375 shares of common stock, \$0.001 par value, issued and outstanding.

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### KIWA BIO-TECH PRODUCTS GROUP CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2019	December 31, 2018
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 10,099	\$ 7,859
Accounts receivable, net	3,523,166	6,751,113
Prepaid expenses	1,839,940	2,259,565
Rent deposits and other receivables	366,460	323,362
Advance to suppliers	23,007,464	15,763,198
Due from related parties - non-trade	18,244	12,108
Inventories	114,618	1,643,033
Deferred cost of goods sold	2,517,777	4,929,855
<b>Total current assets</b>	<b>31,397,768</b>	<b>31,690,093</b>

Property, plant and equipment, net	117,785	93,181
Rent deposits-non current	-	613
Deposit for long-term investment	728,268	727,155
	<u>                    </u>	<u>                    </u>
<b>Total non-current assets</b>	846,053	820,949
<b>Total assets</b>	<u>\$ 32,243,821</u>	<u>\$ 32,511,042</u>

#### LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 2,551,161	\$ 1,611,273
Advances from customers	476,902	580,720
Due to related parties	291,311	570,921
Convertible notes payable, net of discount of \$631,050 and \$99,907 of June 30, 2019 and December 31, 2018, respectively	1,811,718	971,086
Derivative liabilities	68,591	6,621
Notes payable	138,000	360,000
Salary payable	1,259,675	1,024,959
Income taxes payable	4,170,911	2,946,926
Interest payable	2,158,422	2,020,821
Other payables and accruals	2,840,484	2,940,088
Deferred revenue	3,373,486	6,751,113
	<u>                    </u>	<u>                    </u>
<b>Total current liabilities</b>	19,140,661	19,784,528
	<u>                    </u>	<u>                    </u>
<b>Total liabilities</b>	19,140,661	19,784,528

#### STOCKHOLDERS' EQUITY

Preferred stock - \$0.001 par value, Authorized 20,000,000 shares.		
Series A - Issued and outstanding 500,000 and 500,000 shares (liquidation preference in \$1,000,000) at June 30, 2019 and December 31, 2018, respectively;		
Series B - Issued and outstanding 811,148 and 811,148 shares (liquidation preference in \$1,054,492) at June 30, 2019 and December 31, 2018, respectively.		
	1,311	1,311
Common stock - \$0.001 per value. Authorized 100,000,000 shares. Issued and outstanding 19,484,375 and 16,885,860 shares at June 30, 2019 and December 31, 2018, respectively.		
	19,485	16,886
Additional paid-in capital	29,283,029	27,047,457
Statutory Reserve	1,022,605	1,022,605
Accumulated deficit	(16,658,597)	(14,803,530)
Accumulated other comprehensive loss	(564,673)	(558,215)
	<u>                    </u>	<u>                    </u>
<b>Total stockholders' equity</b>	13,103,160	12,726,514
	<u>                    </u>	<u>                    </u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 32,243,821</u>	<u>\$ 32,511,042</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Revenue</b>	<b>\$ 10,924,978</b>	<b>\$ 5,334,830</b>	<b>\$ 20,467,976</b>	<b>\$ 14,086,221</b>
Cost of goods sold	(7,752,728)	(3,873,502)	(15,119,315)	(10,180,066)
Gross Profit	3,172,250	1,461,328	5,348,661	3,906,155
<b>Operating expenses</b>				
Provision for deferred cost of goods sold	2,448,764	-	2,448,764	
Selling expenses	63,501	161,256	101,307	345,567
Research and development expenses	-	39,230	-	78,543
General and administrative expenses	1,403,172	1,514,298	2,362,766	3,079,028
Total operating expenses	3,915,437	1,714,784	4,912,837	3,503,138
<b>Operating income (loss)</b>	<b>(743,187)</b>	<b>(253,456)</b>	<b>435,824</b>	<b>403,017</b>
<b>Other income/(expenses), net</b>				
Change in fair value of derivative liabilities	27,943	72,433	33,174	202,371
Interest expense	(835,545)	(152,564)	(1,139,513)	(307,927)
Other income/(expenses)	(2,920)	-	51,768	(905)
Exchange gain (loss)	22,021	56,285	(1,410)	18,253
<b>Total other income/(expenses), net</b>	<b>(788,501)</b>	<b>(23,846)</b>	<b>(1,055,981)</b>	<b>(88,208)</b>
Income (loss) from operations before income taxes	(1,531,688)	(277,302)	(620,157)	314,809
(Provision) benefit for income taxes				
Current	(714,002)	(358,066)	(1,234,910)	(897,209)
Deferred	-	-	-	-
Total provision for income taxes	(714,002)	(358,066)	(1,234,910)	(897,209)
<b>Net loss</b>	<b>(2,245,690)</b>	<b>(635,368)</b>	<b>(1,855,067)</b>	<b>(582,400)</b>
Other comprehensive loss				
Foreign currency translation adjustment	(418,670)	(781,013)	(6,458)	(281,707)
<b>Total comprehensive loss</b>	<b>\$ (2,664,360)</b>	<b>\$ (1,416,381)</b>	<b>\$ (1,861,525)</b>	<b>\$ (864,107)</b>
Earnings per share:				
Basic	\$ (0.12)	\$ (0.04)	\$ (0.10)	\$ (0.04)
Diluted	(0.12)	(0.04)	(0.10)	(0.04)
Weighted average number of common shares outstanding – basic and diluted	19,343,881	16,479,316	18,272,950	16,201,020

The accompanying notes are an integral part of these condensed consolidated financial statements.

**KIWA BIO-TECH PRODUCTS GROUP CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**Six-Month Period Ended June 30, 2018**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Statutory Reserve	Accumulated Deficit	Accumulated Other Comprehensive Gain/(Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
<b>Balance, January 1, 2018</b>	1,311,148	1,311	15,202,965	15,203	24,455,291	458,334	(14,583,080)	323,776	10,670,835
Issuance of common shares for consulting service	-	-	917,500	918	1,759,082	-	-	-	1,760,000
Net income							52,968		52,968
Foreign currency translation adjustments	-	-	-	-	-	-	-	499,306	499,306
<b>Balance, March 31, 2018</b>	1,311,148	1,311	16,120,465	16,121	26,214,373	458,334	(14,530,112)	823,082	12,983,109
Issuance of common shares for Cash			187,700	188	235,412				235,600
Issuance of common shares for consulting service	-	-	136,300	136	181,914	-	-	-	182,050
Issuance of common shares to employee			6,507	7	7,802				7,809
Conversion of convertible note			126,045	126	78,273				78,399
Net loss							(635,368)		(635,368)
Foreign currency translation adjustments	-	-	-	-	-	-	-	(781,013)	(781,013)
<b>Balance, June 30, 2018</b>	1,311,148	1,311	16,577,017	16,578	26,717,774	458,334	(15,165,480)	42,069	12,070,586

**Six-Month Period Ended June 30, 2019**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Statutory Reserve	Accumulated Deficit	Accumulated Other Comprehensive Gain/(Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
<b>Balance, January 1, 2019</b>	1,311,148	1,311	16,885,260	16,886	27,047,457	1,022,605	(14,803,530)	(558,215)	12,726,514
Issuance of common shares as convertible note issuance costs	-	-	57,500	58	46,917	-	-	-	46,975
Issuance of common shares for Liabilities settlement	-	-	300,000	300	221,700	-	-	-	222,000
Issuance of common shares for convertible notes	-	-	1,040,000	1,040	(1,040)	-	-	-	-
Issuance of common shares for consulting service	-	-	180,000	180	161,820	-	-	-	162,000
Issuance of common shares to employee	-	-	10,078	10	8,859	-	-	-	8,869
Fair value of beneficial conversion feature of convertible note	-	-	-	-	1,200,281	-	-	-	1,200,281
Conversion of convertible note	-	-	395,959	396	78,004	-	-	-	78,400

Net income							390,623		390,623
Foreign currency translation adjustments	-	-	-	-	-	-	-	412,212	412,212
	1,311,148	1,311	18,868,797	18,870	28,763,998	1,022,605	(14,412,907)	(146,003)	15,247,874
<b>Balance, March 31, 2019</b>									
Issuance of common shares for consulting service	-	-	604,999	605	510,244	-	-	-	510,849
Issuance of common shares to employee			10,579	10	8,787				8,797
Net loss							(2,245,690)		(2,245,690)
Foreign currency translation adjustments	-	-	-	-	-	-	-	(418,670)	(418,670)
	1,311,148	1,311	19,484,375	19,485	29,283,029	1,022,605	(16,658,597)	(564,673)	13,103,160
<b>Balance, June 30, 2019</b>									

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**KIWA BIO-TECH PRODUCTS GROUP CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
<b>Cash flows from continuing operating activities:</b>		
Net loss	\$ (1,855,067)	\$ (582,400)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	10,588	20,451
Bad debt expense	365,188	
Provision for deferred cost of goods sold	2,448,764	
Accrued interest	137,601	307,927
Stock compensation expense	1,122,712	1,276,269
Gain on derivative liabilities	(33,174)	(202,371)
Changes in continuing operating assets and liabilities:		
Accounts receivable	(151,482)	(7,241,877)
Prepaid expenses	419,569	36,793
Rent deposit and other receivables	(184,778)	(431,569)
Advance to suppliers	(7,535,571)	6,608,056
Due from related party – non-trade	(33,462)	(4,957)
Inventory	1,549,368	1,034,641
Deferred cost of goods sold	-	(5,294,537)
Accounts payable	948,712	(926,055)
Salary payable	235,244	203,670
Taxes payable	1,234,161	877,180
Advances from customers	(105,969)	64,943
Other payables and accruals	(103,367)	770,480
Deferred revenue	-	7,241,877
<b>Net cash provided by (used in) operating activities</b>	<u>(1,530,963)</u>	<u>3,758,521</u>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(38,890)	(3,488)
Payment of deposit for long-term investment	-	-

<b>Net cash used in investing activities</b>	(38,890)	(3,488)
<b>Cash flows from financing activities:</b>		
Borrowings from related parties, net	(252,733)	209,111
Proceeds from sale of common stock	-	235,600
Proceeds from convertible notes	1,247,256	-
<b>Net cash provided by financing activities</b>	<b>994,523</b>	<b>444,711</b>
<b>Effect of exchange rate change</b>	<b>577,570</b>	<b>(201,693)</b>
<b>Cash and cash equivalents:</b>		
Net increase	2,240	3,998,051
Balance at beginning of period	7,859	1,083,539
<b>Balance at end of period</b>	<b>\$ 10,099</b>	<b>\$ 5,081,590</b>
<b>Non-cash financing activities:</b>		
Issuance of common stock for consulting services	\$ 672,849	\$ 1,942,050
Issuance of common stock for financing related services	\$ 46,975	\$ -
Issuance of common stock for debts settlement	\$ 222,000	-
Conversion of convertible note	\$ 78,400	-
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ 3,803	\$ -

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## KIWA BIO-TECH PRODUCTS GROUP CORPORATION AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

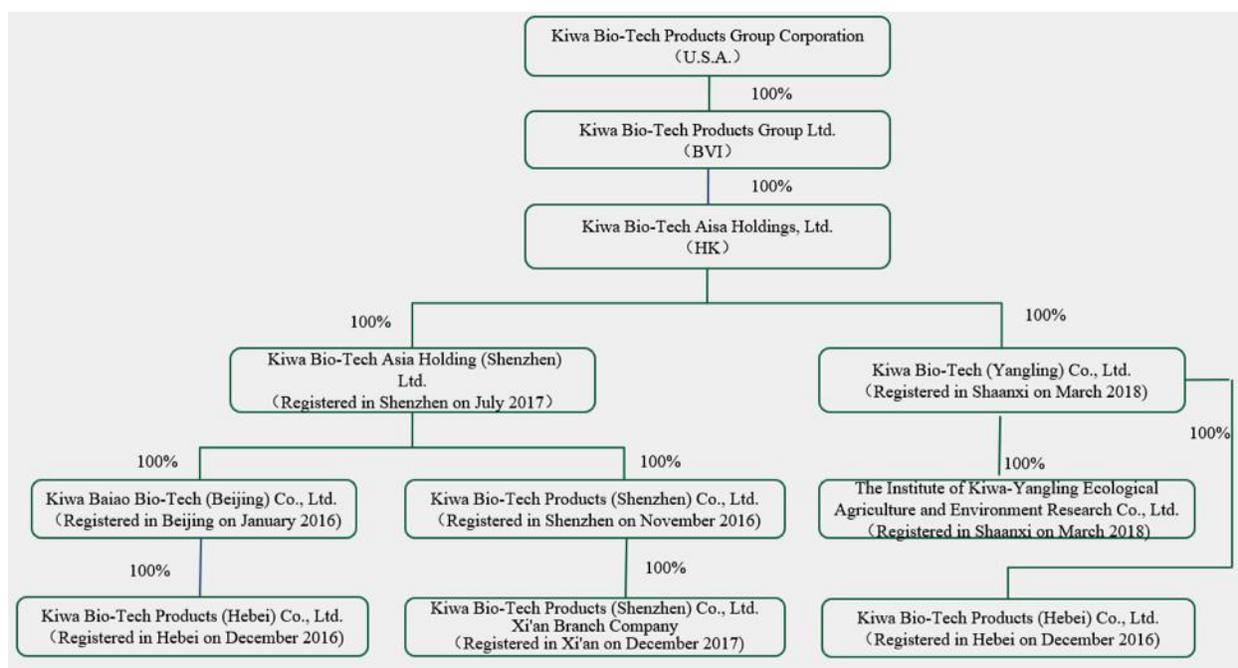
#### **1. Description of Business and Organization**

##### Organization

Kiwa Bio-Tech Products Group Corporation (“the Company”) is the result of a share exchange transaction accomplished on March 12, 2004 between the shareholders of Kiwa Bio-Tech Products Group Ltd. (“Kiwa BVI”), a company originally organized under the laws of the British Virgin Islands on June 5, 2002 and Tintic Gold Mining Company (“Tintic”), a corporation originally incorporated in the state of Utah on June 14, 1933 to perform mining operations in Utah. The share exchange resulted in a change of control of Tintic, with former Kiwa BVI stockholders owning approximately 89% of Tintic on a fully diluted basis and Kiwa BVI surviving as a wholly-owned subsidiary of Tintic. Subsequent to the share exchange transaction, Tintic changed its name to Kiwa Bio-Tech Products Group Corporation. On July 21, 2004, the Company completed its reincorporation in the State of Delaware. On March 8, 2017, the Company completed its reincorporation in the State of Nevada.

The Company operates through a series of subsidiaries in the Peoples Republic of China as detailed in the following Organizational Chart. The Company currently mainly operates its business through Kiwa Baiiao Bio-Tech (Beijing) Co., Ltd. (“Kiwa Beijing”), which was incorporated in China in January 2016, Kiwa Bio-Tech Products (Shenzhen) Co., Ltd. (“Kiwa Shenzhen”), which was incorporated in China in November 2016, Kiwa Bio-Tech Products (Hebei)

Co., Ltd. (“Kiwa Hebei”), which was incorporated in China in December 2016, Kiwa Bio-Tech Products (Shenzhen) Co., Ltd. Xian Branch Company, (“Kiwa Xian”), which was incorporated in China in December 2017, Kiwa Bio-Tech (Yangling) Co., Ltd. (“Kiwa Yangling”), which incorporated in March 2018, and The Institute of Kiwa-Yangling Ecological Agriculture and Environment Research Co., Ltd. (“Kiwa Institute”), which incorporated in March 2018. In July 2017, the Company established Kiwa Bio-Tech Asia Holding (Shenzhen) Ltd. (“Kiwa Asia”) to be the direct holding company of Kiwa Beijing, Kiwa Shenzhen, Kiwa Xian, Kiwa Institute and Kiwa Hebei.



## Business

The Company develops, manufactures, distributes and markets innovative, cost-effective and environmentally safe bio-technological products for agricultural use. The Company’s products are designed to enhance the quality of human life by increasing the value, quality and productivity of crops and decreasing the negative environmental impact of chemicals and other wastes.

## 2. Going concern

The Company’s unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As of June 30, 2019, and December 31, 2018, the Company had an accumulated deficit of \$16,658,597 and \$14,803,530, respectively, and the Company incurred net loss of \$1,855,067 and \$582,400 for the six months ended June 30, 2019 and 2018, respectively, and had negative operating cash flow of \$1,530,963 for the six months ended June 30, 2019. These circumstances, among others, raise substantial doubt about the Company’s ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The unaudited condensed financial statements also do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company has assessed its ability to continue as a going concern for a period of one year from the date of the issuance of these unaudited condensed financial statements. In assessing the Company's liquidity, the Company monitors and analyzes its cash on-hand and its operating and capital expenditure commitments. The Company's liquidity needs are to meet its working capital requirements, operating expenses and capital expenditure obligations. As of June 30, 2019, Kiwa Hebei is committed to pay a RMB10,000,000 based on the payment milestone in an equity purchase agreement.

The Company engages in the business for organically bio-fertilizer and its customers are mainly agricultural cooperative company and distributors who then resell its products to individual farmers. Because the crop growing cycle usually takes approximately 3 to 9 months in the agricultural industry, it will take approximately similar time frame of 3 to 9 months for farmers to harvest crops and to realize profits to repay the Company's distributors. The Company's current payment terms on these customers are ranging from 60 days to 9 months after receipts of the goods depending on the creditworthiness of these customers. As a result, the Company's accounts receivable turnover ratio is normally low due to the nature of the Company's business. In addition, the Company's business is capital intensive as the Company needs to make advance payment to its suppliers to secure timely delivery and current market price of raw materials. Debt financing in the form of notes payable and loans from related parties have been utilized to finance the working capital requirements of the Company.

The Company sold Convertible Promissory Notes ("Notes") in the aggregate principal amount of \$1,665,000 in February and March 2019. As of June 30, 2019, the Company's working capital was approximately \$12.3 million and the Company had only cash of approximately \$10,000, with remaining current assets mainly composed of advance to suppliers, accounts receivable, prepaid expenses, and deferred cost of goods sold.

Although the Company believes that it can realize its current assets in the normal course of business, the Company's ability to repay its current obligations will depend on the future realization of its current assets and the future operating revenues generated from its products. Because the Chinese Government is continuously to promote green environment and implement quality standards and environmentally sensitive policies in the Agricultural industry, the Company expects its revenues from its innovated and highly effective products, Compound Microbial Fertilizer and Bio-Water Soluble Fertilizer, will continue to grow in its business. In addition, the Company's marketing team is expanding to the Western areas of China and Hainan province and it expects its revenues will continue to grow in 2019. Meanwhile, the Company expects to continue to gain market shares in its existing sales channel bases in the Northern and the Southern areas of China due to the good quality of the products and better reputation in the industry.

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Management has considered its historical experience, the economic environment, trends in the Agricultural industry, the realization of the accounts receivables and advance to suppliers as of June 30, 2019. The Company expects to realize the balance of its current assets within the normal operating cycle of a twelve-month period. If the Company is unable to realize its current assets within the normal operating cycle of a twelve-month period, the Company may have to consider supplementing its available sources of funds through the following sources:

- the Company will continuously seek additional equity financing to support its working capital;
- other available sources of financing from PRC banks and other financial institutions;
- financial support and credit guarantee commitments from the Company's major shareholder.

Based on the above considerations, management is of the opinion that it does not have sufficient funds to meet its working capital requirements and debt obligations as they become due one year from the date of this report. If the Company can't raise enough funds, it might be unable to fund its future cash requirement on a timely basis and under acceptable terms and conditions and may not have sufficient liquidity to maintain operations and repay its liabilities for the next twelve months. As a result, the Company may be unable to implement its current plans for expansion, repay its debt obligations or respond to competitive pressures, any of which would have a material adverse effect on its business, prospects, financial condition and results of operations.

### 3. Summaries of Significant Accounting Policies

### Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for information pursuant to the rules and regulations of the Securities Exchange Commission (“SEC”).

In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary to give a fair presentation have been included. Interim results are not necessarily indicative of results of a full year. The information in this Form 10-Q should be read in conjunction with information included in the annual report for the fiscal year ended December 31, 2018 on Form 10-K filed with the SEC on April 12, 2019.

### Principle of Consolidation

These consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Kiwa BVI, Kiwa Asia Holdings Company, Kiwa Beijing, Kiwa Shenzhen, Kiwa Hebei, Kiwa Asia, Kiwa Yangling, and Kiwa Institute. All significant inter-company balances or transactions are eliminated on consolidation.

### Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 period. Actual results could differ from those estimates. Significant accounting estimates include the valuation of securities issued, derivative liabilities, deferred tax assets and related valuation allowance.

Certain of the Company’s estimates, including evaluating the collectability of accounts receivable and the fair market value of long-lived assets, could be affected by external conditions, including those unique to the Company’s industry, and general economic conditions. It is possible that these external factors could have an effect on the Company’s estimates that could cause actual results to differ from its estimates. The Company re-evaluates all of the Company’s accounting estimates annually based on these conditions and record adjustments when necessary.

### Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances and highly liquid investments with an original maturity of three months or less. Because of the short maturity of these investments, the carrying amounts approximate their fair value. Restricted cash is excluded from cash and cash equivalents.

### Accounts receivable and allowance for doubtful accounts

Accounts receivable represent customer accounts receivables. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company’s estimate is based on historical collection experience, the economic environment, trends in the microbial fertilizer industry, and a review of the current status of trade accounts receivable. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. Such allowances, if any, would be recorded in the period the impairment is identified. It is reasonably possible that the Company’s estimate of the allowance for doubtful accounts will change. Uncollectible accounts receivable are charged against the allowance for doubtful accounts when all reasonable efforts to collect the amounts due have been exhausted.

### Inventory

Inventories are stated at the lower of cost, determined on the weighted average method, and net realizable value. Work in progress and finished goods are composed of direct materials, direct labor and a portion of manufacturing overhead. Net realizable value is the estimated based on selling price in the ordinary course of business, less estimated costs to complete and dispose.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Gains or losses on disposals are reflected as gain or loss in the year of disposal. The cost of improvements that extend the life of property, plant and equipment are capitalized. These capitalized costs may include structural improvements, equipment and fixtures. All ordinary repair and maintenance costs are expensed as incurred. Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Life (In years)
Buildings	30 - 35
Machinery and equipment	5 - 10
Automobiles	8
Office equipment	2 - 5
Computer software	3
Leasehold improvement	The shorter of the lease term and useful life

Lease

The Company adopted ASU 2016-02 on January 1, 2019 and determined that the effect of recognizing additional right of use (“ROU”) assets and operating liabilities under current leasing standards for existing operating leases with a term longer than 12 months are immaterial to its consolidated financial statements for the period beginning January 1, 2019. As a result, no such recognition ROU and operating liabilities has been made on January 1, 2019.

As of June 30, 2019, future lease payments are summarized below:

Twelve months ending June 30, 2020	\$	18,556
Twelve months ending June 30, 2021		23,891
Twelve months ending June 30, 2022		18,582
Thereafter		-
Total minimum lease payment	\$	<u>61,029</u>

Impairment of Long-Lived Assets

The Company’s long-lived assets consist of property, plant and equipment. The Company evaluates its investment in long-lived assets, including property and equipment, for recoverability whenever events or changes in circumstances indicate the net carrying amount may not be recoverable. It is possible that these assets could become impaired as a result of legal factors, market conditions, operational performance indicators, technological or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

### Financial Instruments

The Company analyzes all financial instruments with features of both liabilities and equity under FASB Accounting Standards Codification (“ASC”) Topic 480 “Distinguishing Liabilities from Equity” and FASB ASC Topic 815 “Derivatives and Hedging”.

#### *Embedded conversion features of convertible debentures not considered to be derivative instruments*

The embedded conversion features of convertible debentures not considered to be derivative instruments provide for a rate of conversion that is below market value. Such feature is normally characterized as a “beneficial conversion feature” (“BCF”). The relative fair values of the BCF were recorded as discounts from the face amount of the respective debt instrument. The Company amortized the discount using the straight-line method which approximates the effective interest method through maturity of such instruments.

#### *Embedded conversion features of convertible debentures that are classified as derivative liabilities*

The embedded conversion features of convertible debentures that are classified as derivative liabilities are recorded at fair value as a discount from the face amount of the respective debt instrument. The discount is being amortized to interest expense over the life of the note using the straight-line method, which approximates the effective interest method. These instruments are accounted for as derivative liabilities and marked-to-market each reporting period. The change in the value of the derivative liabilities is charged against or credited to income in the captioned “change in fair value of derivative liabilities” in the accompanying consolidated statements of operations and comprehensive income.

### Fair Value of Financial Instruments

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and paragraph 820-10-35-37 of the FASB Accounting Standards Codification (“Paragraph 820-10-35-37”) to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value with U.S. GAAP and expands disclosures about fair value measurements.

To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three (3) levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

- Level 1: quoted market prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2: pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
- Level 3: Pricing inputs that are generally observable inputs and not corroborated by market data.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The carrying amount of the Company's financial assets and liabilities, such as cash and cash equivalent, prepaid expenses, accounts payable and accrued expenses, approximate their fair value because of the short maturity of those instruments. Derivative instruments are carried at fair value, estimated using the Black Scholes Merton model.

Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated.

It is not however practical to determine the fair value of advances from stockholders, if any, due to their related party nature.

### Revenue Recognition

On January 1, 2018 we adopted Accounting Standards Update ("ASU") 2014-09 Revenue from Contracts with Customers (FASB ASC Topic 606) using the modified retrospective method for contracts that were not completed as of January 1, 2018. This did not result in an adjustment to the retained earnings upon adoption of this new guidance as the Company's revenue was recognized based on the amount of consideration we expect to receive in exchange for satisfying the performance obligations.

The core principle underlying the revenue recognition ASU is that the Company will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This will require the Company to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The Company's revenue streams are recognized at a point in time.

The ASU requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that the Company (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation. The application of the five-step model to the revenue streams compared to the prior guidance did not result in significant changes in the way the Company records its revenue. Upon adoption, the Company evaluated its revenue recognition policy for all revenue streams within the scope of the ASU under previous standards and using the five-step model under the new guidance and confirmed that there were no differences in the pattern of revenue recognition.

The Company continues to derive its revenues from sales contracts with its customers with revenues being recognized upon delivery of products. Persuasive evidence of an arrangement is demonstrated via sales contract and invoice; and the sales price to the customer is fixed upon acceptance of the sales contract and there is no separate sales rebate, discount, or volume incentive. The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer by the Company to consider control of goods are transferred to its customer and collectability of payment is reasonably assured. The Company's revenues are recognized at a point in time after all performance obligations are satisfied.

The Company's customers are mainly agricultural cooperative company and distributors who then resell the Company's products to individual farmers. Because the crop growing cycle usually takes approximately 3 to 9 months in the agricultural industry, for some co-ops and distributors, it will take approximately similar time frame of 3 to 9 months for farmers to harvest crops and to realize profits to repay them. As a result, for the sales contracts with these customers, the collectability of payment is highly dependent on the successful harvest of crops and the customers' ability to collect money from farmers. The Company deemed the collectability of payment may not be

reasonably assured until after the Company get paid. Collectability is a necessary condition for the contract to be accounted for to meet the criteria of the first step “identifying the contract with the customer” under the new revenue guidance in ASC 606. As a result, these sales contracts are not considered a contract under ASC 606, thus the shipments under these contracts are not recognized as revenue until all criteria for “identifying the contract with the customer” and revenue recognition are met using the five-step model.

#### Deferred Revenue and Deferred Cost of Goods Sold

Deferred revenue and deferred cost of goods sold result from transactions where the Company has shipped product for which all revenue recognition criteria under the five-step model have not yet been met. Though these contracts are not considered a contract under ASC 606, they are legally enforceable, and the Company has an unconditional and immediate right to payment after the Company has shipped products, therefore, the Company recognizes a receivable and a corresponding deferred revenue upon shipment. Deferred cost of goods sold includes direct inventory costs. Once all revenue recognition criteria under the five-step model have been met, the deferred revenues and associated cost of goods sold are recognized. The Company’s provision for deferred cost of goods sold is made based on historical collection experience on such related accounts receivable and realizability of deferred revenue. The Company made provision of \$2,448,764 and nil for deferred cost of goods sold for the six months ended June 30, 2019 and 2018, respectively.

#### Income Taxes

The Company accounts for income taxes under the provisions of FASB ASC Topic 740, “Income Tax,” which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are measured using the enacted tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company establishes a valuation allowance when it is more likely than not that the assets will not be recovered.

FASB ASC Topic 740-10, “Accounting for Uncertainty in Income Taxes,” defines uncertainty in income taxes and the evaluation of a tax position as a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred. United States federal, state and local income tax returns prior to 2015 are not subject to examination by any applicable tax authorities. PRC tax returns filed for 2015, 2016 and 2017 are subject to examination by any applicable tax authorities.

#### Stock Based Compensation

The Company accounts for share-based compensation awards to employees in accordance with FASB ASC Topic 718, “Compensation – Stock Compensation”, which requires that share-based payment transactions with employees be measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expense over the requisite service period. The Company records stock-based compensation expense at fair value on the grant date and recognizes the expense over the employee’s requisite service period. The Company’s expected volatility assumption is based on the historical volatility of Company’s stock. The expected life assumption is

primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is based on the Company's current and expected dividend policy.

The Company accounts for share-based compensation awards to non-employees in accordance with FASB ASC Topic 718 and FASB ASC Subtopic 505-50, "Equity-Based Payments to Non-employees". Under FASB ASC Topic 718 and FASB ASC Subtopic 505-50, stock compensation granted to non-employees has been determined as the fair value of the consideration received or the fair value of equity instrument issued, whichever is more reliably measured and is recognized as an expense as the goods or services are received.

*Foreign Currency Translation and Other Comprehensive Income*

The Company uses United States dollars ("US Dollar" or "US\$" or "\$") for financial reporting purposes. However, the Company maintains the books and records in its functional currency, Chinese Renminbi ("RMB") and Hong Kong Dollar ("HKD"), being the functional currency of the economic environment in which its operations are conducted. In general, the Company translates its assets and liabilities into U.S. dollars using the applicable exchange rates prevailing at the balance sheet date, and the statement of comprehensive loss and the statement of cash flow are translated at average exchange rates during the reporting period. Equity accounts are translated at historical rates. Adjustments resulting from the translation of the Company's financial statements are recorded as accumulated other comprehensive income.

Other comprehensive income for the three and six months ended June 30, 2019 and 2018 represented foreign currency translation adjustments and were included in the unaudited condensed consolidated statements of operations and comprehensive income.

The exchange rates used to translate amounts in RMB into U.S. Dollars for the purposes of preparing the unaudited condensed consolidated financial statements were as follows:

	As of June 30, 2019	As of December 31, 2018
Balance sheet items, except for equity accounts	6.8656	6.8761
	Three months ended June 30,	
	2019	2018
Items in the statements of comprehensive income	6.8210	6.3726
	Six months ended June 30,	
	2019	2018
Items in the statements of comprehensive income	6.7839	6.3659

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The exchange rates used to translate amounts in HKD into U.S. Dollars for the purposes of preparing the consolidated financial statements were as follows:

	As of June 30, 2019	As of December 31, 2018
Balance sheet items, except for equity accounts	7.8121	7.8297
	Three months ended June 30,	
	2019	2018
Items in the statements of comprehensive income	7.8396	7.8476

	Six months ended June 30,	
	2019	2018
Items in the statements of comprehensive income	7.8426	7.8372

### Earnings Per Common Share

Net income per common share is computed pursuant to section 260-10-45 of the FASB Accounting Standards Codification. Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period.

Diluted net income per common share is computed by dividing net income by the weighted average number of shares of common stock and potentially outstanding shares of common stock during the period to reflect the potential dilution that could occur from common shares issuable through contingent shares issuance arrangement, stock options or warrants. Common stock equivalents having an anti-dilutive effect on earnings per share are excluded from the calculation of diluted earnings per share.

### Commitments and Contingencies

The Company follows subtopic 450-20 of the FASB Accounting Standards Codification to report accounting for contingencies. Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unassured claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unassured claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Management does not believe, based upon information available at this time that these matters will have a material adverse effect on the Company's financial position, results of operations or cash flows.

### Cash Flow Reporting

The Company adopted paragraph 230-10-45-24 of the FASB Accounting Standards Codification for cash flows reporting, classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities and provides definitions of each category, and uses the indirect or reconciliation method ("Indirect method") as defined by paragraph 230-10-45-25 of the FASB Accounting Standards Codification to report net cash flow from operating activities by adjusting net income to reconcile it to net cash flow from operating activities by removing the effects of :

- (a) all deferrals of past operating cash receipts and payments and all accruals of expected future operating cash receipts and payments;
- (b) all items that are included in net income that do not affect operating cash receipts and payments.

The Company reports the reporting currency equivalent of foreign currency cash flows, using the current exchange rate at the time of the cash flows and the effect of exchange rate changes on cash held in foreign currencies is reported as a separate item in the reconciliation of beginning and ending balances of cash and cash equivalents and separately provides information about investing and financing activities not resulting in cash receipts or payments in the period pursuant to paragraph 830-230-45-1 of the FASB Accounting Standards Codification.

Recent Accounting Pronouncements

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this Update affect any entity that is required to apply the provisions of Topic 220, Income Statement – Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company does not believe the adoption of this ASU would have a material effect on the Company’s consolidated financial statements.

In August 2018, the FASB Accounting Standards Board issued ASU No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). ASU 2018-13 modifies the disclosure requirements on fair value measurements. ASU 2018-13 is effective for public entities for fiscal years beginning after December 15, 2019, with early adoption permitted for any removed or modified disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company does not expect this guidance will have a material impact on its condensed consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective, authoritative guidance, if currently adopted, would have a material impact on the Company’s consolidated financial statement presentation or disclosures.

**4. Accounts Receivable, net**

As of June 30, 2019 and December 31, 2018, we had \$3.5 million and \$6.8 million, respectively, of accounts receivable from the Company’s customers. The Company’s current payment terms on these customers are ranging typically from 60 days to 9 months after receipts of the goods depending on the creditworthiness of these customers. These customers are either agricultural cooperative company or distributors who then resell the Company’s products to individual farmers.

The Company’s provision on allowance for doubtful accounts is based on historical collection experience, the economic environment, trends in the microbial fertilizer industry, and a review of the current status of trade accounts receivable and come up with an aging allowance method. The Company’s management has continued to evaluate the reasonableness of the valuation allowance policy and update it if necessary.

Accounts receivable consisted of the following:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Accounts receivable	\$ 3,523,166	\$ 6,751,113
Less: Allowance for doubtful accounts	-	-

Accounts receivable, net	\$	3,523,166	\$	6,751,113
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## 5. Prepaid Expense

Prepaid expenses consisted of the following:

	Notes	June 30, 2019	December 31, 2018
Prepaid office rent		\$ 2,457	\$ 4,921
Prepaid Packaging Expense		10,009	
Prepaid government filing expense		12,000	7,000
Prepaid consulting expenses	(1)	1,798,356	2,230,553
Others		17,118	17,091
Total		<u>\$ 1,839,940</u>	<u>\$ 2,259,565</u>

(1) Prepaid consulting expenses represent issuance of common stock for prepaid services. As of June 30, 2019, the Company evaluated the performance of the consultants and concluded all the contracts were on schedule of delivery. The company amortized the consulting fee over the service periods per agreements based on the progress of services delivered. For the three months ended June 30, 2019 and 2018, the amortization of consulting expense was \$591,377 and \$679,925, respectively. For the six months ended June 30, 2019 and 2018, the amortization of consulting expense was \$1,105,046 and \$1,268,460, respectively.

## 6. Advance to suppliers

Advance to suppliers are mainly funds deposited for future raw material and finished goods purchases. The Company's major vendors require deposits with them as a guarantee that the Company will complete its purchases on a timely basis as well as securing the current agreed upon purchase price. Since the Company anticipated the price of raw materials continues to be on the rise, the Company agreed to make large amount of advances to suppliers.

As of June 30, 2019 and December 31, 2018, advance to suppliers consisted of the following:

	June 30, 2019	December 31, 2018
Advance to suppliers	\$ 23,233,227	\$ 6,751,113
Less: provisions for advance to suppliers	(225,763)	-
Advance to suppliers, net	<u>\$ 23,007,464</u>	<u>\$ 6,751,113</u>

## 7. Inventory

Inventory consisted of the following:

	June 30, 2019	December 31, 2018
Raw materials	\$ -	\$ 1,358,384
Finished goods	83,252	253,331
Packing materials	31,366	31,318
Total	<u>\$ 114,618</u>	<u>\$ 1,643,033</u>

## 8. Property, Plant and Equipment

Property, plant and equipment, net consisted of the following:

	<b>June 30, 2018</b>	<b>December 31, 2018</b>
Property, Plant and Equipment		
Office equipment	\$ 17,470	\$ 17,451
Furniture	31,335	27,312
Leasehold improvement	165,012	130,357
Construction in progress	25,344	25,305
Others	292	1,047
Property, plant and equipment - total	\$ 239,453	\$ 201,472
Less: accumulated depreciation	(121,668)	(108,291)
Property, plant and equipment - net	<u>\$ 117,785</u>	<u>\$ 93,181</u>

Depreciation expense was \$4,904 and \$4,817 for the three months ended June 30, 2019 and 2018, and \$10,588 and \$20,451 for the six months ended June 30, 2019 and 2018, respectively.

### 9. Deposit for Long-Term Investment

On June 8, 2017, Kiwa Hebei entered an equity purchase agreement with the shareholders of Yantai Peng Hao New Materials Technology Co. Ltd. (“Peng Hao”) to acquire 100% interest in Peng Hao for approximately RMB 15,000,000 (approximately US\$ 2.2 million). As of June 30, 2019, Kiwa Hebei has made deposit payment of RMB 5,000,000 (approximately \$0.7 million). Due to certain administrative approval process from the Chinese government and the establishment of Yangling base in October 2018, the closing of the equity purchase agreement has been delayed. RMB 6,500,000 (approximately \$0.9 million) will be paid upon completion of the land use rights ownership transfer and RMB 3,500,000 (approximately \$0.5 million) will be paid upon completion of the business licenses transfer. The Company estimated the completion of the transfer will be in December 2019.

### 10. Salaries payable

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Ms. Yvonne Wang (“Ms. Wang”)	\$ 301,000	\$ 259,000
Hon Man Yun (“Mr. Yun”)	119,589	60,702
Other Employees	839,086	705,257
Total	<u>\$ 1,259,675</u>	<u>\$ 1,024,959</u>

Ms. Wang served as Chairman of the Board since November 2015 and served as CEO since August 2016. No salary was paid to Ms. Wang since December 2015. Mr. Yun was the Chief Financial Officer of the Company since April 2018. The Company expects to be in negotiations with Mr. Yun and Ms. Wang to settle these obligations.

### 11. Related Party Transactions

#### Due from related parties – non-trade

Amounts due from related parties consisted of the following as of June 30, 2019 and December 31, 2018:

<u>Item</u>	<u>Nature</u>	<u>Notes</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Mr. Xiaoqiang Yu	Non-trade	(1)	18,244	12,108
Total			<u>\$ 18,244</u>	<u>\$ 12,108</u>

#### (1) Mr. Xiaoqiang Yu

During the year ended December 31, 2018, Mr. Xiaoqiang Yu, the COO of the Company, obtained a cash advance from the Company for operational purpose. As of June 30, 2019, and December 31, 2018, the amount due from Mr. Xiaoqiang Yu was \$18,244 and \$12,108, respectively.

#### Due to related parties– non-trade

Amounts due to related parties consisted of the following as of June 30, 2019 and December 31, 2018:

Item	Nature	Notes	June 30, 2019	December 31, 2018
Ms. Wang	Non-trade	(1)	281,844	534,563
Ms. Feng Li (“Ms. Li”)	Non-trade	(2)	9,467	36,358
<i>Total amount due to related parties</i>			<b>\$ 291,311</b>	<b>\$ 570,921</b>

#### **(1) Ms. Wang**

Effective November 20, 2015, the Company appointed Ms. Wang as the Chairman of the Board and effective August 11, 2016, the Company’s Board of Directors has assigned Ms. Wang the additional titles of Acting President, Acting Chief Executive Officer and Acting Chief Financial Officer. On April 15, 2018, Ms. Wang turned over the Acting Chief Financial Officer to her successor.

During the six months ended June 30, 2019 and 2018, Ms. Wang paid various expenses on behalf of the Company. As of June 30, 2019 and December 31, 2018, the amount due to Ms. Wang was \$281,844 and \$534,563, respectively.

#### **(2) Ms. Feng Li**

Ms. Feng Li is a member of the Company’s board of directors and shareholder of the Company. Ms. Li held approximately 11% of the Company’s Common Stock and 50% of the Company’s Series A Preferred Stock. Ms. Feng Li paid various expenses on behalf of the Company. As of June 30, 2019 and December 31, 2018, the amount due to Ms. Feng Li was \$9,467 and \$36,358, respectively.

## **12. Convertible Notes Payable**

Convertible notes payable consisted of the following:

	June 30, 2019	December 31, 2018
6% secured convertible notes – FirsTrust Group Inc. (1)	\$ 132,762	\$ 125,692
15% convertible notes- Mr. Geng Liu (2)	145,655	145,431
15% convertible notes- Mr. Junwei Zheng (3)	801,101	799,870
12% convertible notes- Labrys (4)	1,213,250	-
12% convertible notes- TFK (5)	150,000	-
Less: notes discount	(631,050)	(99,907)
Convertible notes payable - total	<b>\$ 1,811,718</b>	<b>\$ 971,086</b>

Convertible notes payable consists of \$132,762 of 6% secured convertible notes issued to FirsTrust Group Inc. on June 29, 2006, \$145,655 of 15% convertible note issued to Mr. Geng Liu on January 17, 2017, \$801,101 of 15% convertible note issued to Mr. Junwei Zheng on May 9, 2017, \$1,213,250 of 12% convertible note issued to Labrys on February 27, 2019, and \$150,000 of 12% convertible note issued to TFK on March 21, 2019.

*(1) 6% secured convertible notes – FirsTrust Group Inc.*

On June 29, 2006, the Company entered into a securities purchase agreement (the “Purchase Agreement”) with six institutional investors (collectively, the “Purchasers”) for the issuance and sale of 6% secured convertible notes, due three years from the date of issuance, in the aggregate principal amount of \$2,450,000 (the “6% Convertible Notes”), convertible into shares of the Company’s common stock.

On June 29, 2009, the 6% Notes were due. The Company informed the Purchasers of its inability to repay the outstanding balance on the due date. Therefore, the 6% Notes are in default and the default interest rate of 15% per annum is being charged on the 6% Notes.

On August 12, 2013, the Company, entered into a Settlement Agreement and Release (the “Release”) with the holders (the “Holders”) of the “6% Convertible Notes” in the aggregate principal amount of \$2,000,000. Pursuant to the terms of the Release, the Company paid the Holders \$75,000 for a full release, including the forgiveness of past defaults of unpaid principal amounts, interests and penalties. On March 18, 2008, FirsTrust Group, Inc. (“FirsTrust”) purchased the three remaining 6% Convertible Notes, totaling \$168,000 (\$59,100, \$50,400 and \$59,100 respectively), from Nite Capital, one of the six institutional investors which purchased a total of \$300,000 of the Note in three tranches (\$105,000, \$90,000, \$105,000 respectively), for a cash payment of \$100,000. After the Release and conversion, FirsTrust is the only holder of the outstanding 6% Convertible Note with outstanding principal amount of \$150,250.

The Company also incurs a financial liquidated damages in cash or shares at the option of the Company (equal to 2% of the outstanding amount of the Notes per month plus accrued and unpaid interest on the Notes, prorated for partial months) if it breaches any affirmative covenants in the Purchase Agreement, including a covenant to maintain a sufficient number of authorized shares under its Certificate of Incorporation to cover at least 110% of the stock issuable upon full conversion of the Notes. Pursuant to the relevant provisions for liquidated damages in Purchase Agreement, the Company has accrued the amounts of \$17,759 and \$16,801 for liquidated damages for the three months ended June 30, 2019 and 2018, respectively, and the Company has accrued the amounts of \$42,120 and \$35,246 for liquidated damages for the six months ended June 30, 2019 and 2018, respectively. The Company also accrued \$4,965 and \$4,092 for interest at the rate of 15% per annum for the three months ended June 30, 2019 and 2018, respectively, and the Company accrued \$9,900 and \$8,588 for interest at the rate of 15% per annum for the six months ended June 30, 2019 and 2018, respectively. The total 15% accrued interests were \$164,872 and \$177,179 at June 30, 2019 and December 31, 2018, respectively. The total accrued liquidated damages were \$555,658 and \$555,538 at June 30, 2019 and December 31, 2018, respectively.

The Company’s obligations under the Notes are secured by a first priority security interest in the Company’s intellectual property pursuant to an Intellectual Property Security Agreement with the Holders. In addition, Mr. Li, the Company’s former Chief Executive Officer, has pledged all of his common stock of the Company as collateral for the Company’s obligations under the 6% Convertible Notes.

On October 19, 2017, the Company issued total 14,151 common shares at \$1.04 per share price to FirsTrust Group, Inc. for the conversion of convertible note. According to the convertible note agreement, the conversion price is based on a 40% discount to the average of the lowest three days trading price of the Company’s common stock on the OTC Bulletin Board over a 20-day trading period per the convertible notes agreement. As the carrying value of the notes and the intrinsic value of that conversion feature equaled to the fair value of the 14,151 common shares at \$2.25 per share, no gain or loss were recognized upon this conversion.

On December 13, 2017, the Company issued total 105,095 common shares at \$0.75 per share price to FirsTrust Group, Inc. for the conversion of convertible note. According to the convertible note agreement, the conversion price is based on a 40% discount to the average of the lowest three days trading price of the Company’s common stock on the OTC Bulletin Board over a 20-day trading period per the convertible notes agreement. As the carrying value of the notes and the intrinsic value of that conversion feature equaled to the fair value of the 105,095 common shares at \$2.3 per share, no gain or loss were recognized upon this conversion.

On April 27, 2018, the Company issued total 126,045 common shares to FirsTrust Group, Inc. for the conversion of convertible note. According to the convertible note agreement, the conversion price is based on a 40% discount to the average of the lowest three days trading price of the Company's common stock on the OTC Bulletin Board over a 20-day trading period per the convertible notes agreement.

On September 19, 2018, the Company has entered a Settlement Agreement and Release ("Settlement Agreement") with FirsTrust to settle the 6% secured convertible notes and interest and penalties. The Company has agreed to allow FirsTrust to effect a conversion in accordance with the terms of the 6% Note by October 18, 2018, and to make a cash payment of \$500,000 by December 17, 2018. If the payment is not timely made, then FirsTrust shall be permitted to immediately effect further conversion in accordance with the terms of the 6% Notes into the Company's shares, and the Company shall make a final cash payment of \$340,000 by February 28, 2019. The Settlement Agreement has not been carried out by the Company as agreed as of December 31, 2018. The interest and penalties on this Note are continuously accrued in accordance with the original terms.

On October 18, 2018, FirsTrust requested a conversion in accordance with the terms of the 6% Notes into the Company's shares. The Company had failed to convert and thus incurred a financial liquidated damage at \$245 per day for a total of \$18,130 as of December 31, 2018, which had been added to the principle amount of the Note. On March 26, 2019, the Company issued 395,959 shares to FirsTrust for the conversion. According to the convertible note agreement, the conversion price is based on a 40% discount to the average of the lowest three days trading price of the Company's common stock on the OTC Bulletin Board over a 20-day trading period per the convertible notes agreement.

On March 26, 2019, the Company has entered into a First Amendment to Settlement Agreement and Release ("First Amendment Agreement") with FirsTrust to settle the 6% secured convertible notes together with the promissory notes as disclosed under Note 12 plus interest and penalties with a total payable of approximately \$2.3 million as of the date of the First Amendment Agreement was entered. The Company has agreed to make a payment of approximately \$29,789 (RMB200,000), which has been paid on April 1, 2019, to enter into this Amendment and settled with the total outstanding balance of \$1.3 million to be due under the terms of the First Amendment Agreement by June 30, 2019. If such settled outstanding balance was not made by June 30, 2019, it will deem the First Amendment Agreement to be ineffective and the Company will need to continue to pay FirsTrust the amount set forth in the Settlement Agreement.

As of this date, the Company remains in default of the Settlement Agreement and Release and is in the process of raising funds to retire these obligations. Notwithstanding, there is no guarantee that the Company will be successful in these efforts and that FirsTrust will not exercise all rights available to it under the applicable agreements between the parties.

On July 30, 2019, the Company received a notice of default and formal demand for payment and performance, which was followed by correspondence from FirsTrust's lawyers that the commencement of legal action was imminent. As of this date, the Company has not received the service of any formal legal papers related to the matter. Since this matter is in its early stages, the final outcome cannot be predicted at this time and is largely dependent on the Company's ability to raise funding to retire these obligations. If FirsTrust is successful in pursuing its legal action, the result could have a material adverse impact on the Company and its operations.

#### (2) 15% convertible notes- Mr. Geng Liu

On January 17, 2017, the Company entered a Convertible Note Agreement with Mr. Geng Liu and received principal of RMB 1 million, approximately \$146,000. The note bears interest at 15% per annum and matured on January 16, 2018. Before the maturity date, the Note holder has an option to convert partial or all of the outstanding principal to the Company's common shares with a conversion price of \$0.90 per share. The maturity date of the note has been extended to June 30, 2020.

The notes are convertible into shares of the common stock, at conversion price is \$0.90 which is lower than the price of the Company's common stock on the date of issue. Therefore, the conversion feature embedded in the convertible note meet the definition of beneficial conversion feature ("BCF"). The Company evaluated the intrinsic value of the BCF as \$45,094 at the issue date. The relative fair values of the BCF were recorded into additional paid in capital,

and the remainder proceeds of \$99,850 from issuance of the convertible note was allocated to convertible notes payable.

For the six months ended June 30, 2019 and 2018, the Company recorded interest expense of \$10,965 and \$13,661 on the note, including the amortization of the debt discount resulting from the value of beneficial conversion feature, and the carrying value of the note as at June 30, 2019 was \$145,655.

*(3) 15% convertible notes- Mr. Junwei Zheng*

On May 9, 2017, the Company entered a Convertible Note Agreement with Mr. Junwei Zheng with principal of RMB 30 million. The note bears interest at 15% per annum and will mature on May 8, 2019. Before the maturity date, the Note holder has an option to convert partial or all of the outstanding principal and accrued interest to the Company's common shares with a conversion price of \$3.5 per share. On August 17, 2018, the Company does not expect that the remaining funds will ever be so advanced. As of June 30, 2019, the Company has received principal totaled RMB 5.5 million (\$801,101 equivalent USD at June 30, 2019) out of the RMB 30 million Convertible Note Agreement. On May 7, 2019, the Company reached an agreement with Mr. Junwei Zheng that the maturity date will be extended to June 30, 2020.

The notes are convertible into shares of the common stock, at conversion price is \$3.5 which is higher than the price of the Company's common stock on the date of issue, therefore the conversion feature embedded in the note did not meet the definition of BCF. The Company determined that conversion option embedded in the note meet the definition of a derivative instrument. Since the embedded conversion price of the conversion feature is denominated in U.S. dollar, a currency other than the convertible note payable currency. As a result, the embedded conversion feature is not considered indexed to the Company's own stock due to the variable exchange rate between U.S. Dollar and RMB, and as such, the Company determined that the embedded conversion feature to be carried as a liability and re-measured at fair value at each financial reporting date until such time as the conversion feature is exercised or expired. The Company evaluated the fair value of the embedded conversion feature at the issue date and recorded the amount into as discount to convertible note payable. The discount to convertible note payable is being amortized to interest expense over the life of the note using the straight-line method, which approximates the effective interest method.

On May 7, 2019, due to the extension of the convertible notes and embedded conversion feature continued to be considered as a derivative instrument, the Company determined that the embedded conversion feature to be carried as a liability and re-measured at fair value at each financial reporting date until such time as the conversion feature is exercised or expired. The Company evaluated the fair value of the embedded conversion feature at the renewal date and recorded the amount into as discount to convertible note payable. The discount to convertible note payable is being amortized to interest expense over the life of the note using the straight-line method, which approximates the effective interest method.

The fair value of embedded conversion feature were calculated using the BlackScholesMerton model based on the following variables at inception on May 9, 2017:

- Strike price of \$3.5, for the conversion options
- Expected volatility of 260.8% calculated using the Company's historical price of its common stock
- Expected dividend yield of 0%
- Risk-free interest rate of 1.37%, for the conversion options
- Expected lives of 2.0 years
- Market price at issuance date of \$2.7

The fair value of embedded conversion feature was calculated using the BlackScholesMerton model based on the following variables on December 31, 2018:

- Strike price of \$3.5, for the conversion options
- Expected volatility of 204.73% calculated using the Company's historical price of its common stock
- Expected dividend yield of 0%
- Risk-free interest rate of 2.49%, for the conversion options
- Expected lives of 0.33 years
- Market price at re-measurement date of \$0.50

The fair value of embedded conversion feature were calculated using the BlackScholesMerton model based on the following variables on May 7, 2019:

- Strike price of \$3.5, for the conversion options
- Expected volatility of 192.48% calculated using the Company's historical price of its common stock
- Expected dividend yield of 0%
- Risk-free interest rate of 2.37%, for the conversion options
- Expected lives of 1.00 years
- Market price at re-measurement date of \$0.95

The fair value of embedded conversion feature were calculated using the BlackScholesMerton model based on the following variables on June 30, 2019:

- Strike price of \$3.5, for the conversion options
- Expected volatility of 214.79% calculated using the Company's historical price of its common stock
- Expected dividend yield of 0%
- Risk-free interest rate of 1.95%, for the conversion options
- Expected lives of 0.83 years
- Market price at re-measurement date of \$0.75

For the three months ended June 30, 2019 and 2018, the Company recorded interest expense of \$74,074 and \$103,304, respectively, and for the six months ended June 30, 2019 and 2018, the Company recorded interest expense of \$174,474 and \$205,540, respectively, on the note, including the amortization of the debt discount resulting from the value of the embedded conversion feature, and the carrying value of the note was \$720,215 and \$699,963 as of June 30, 2019 and December 31, 2018, respectively.

#### (4) 12% convertible notes- Labrys

On February 27, 2019, the Company entered into a Convertible Note Agreement with Labrys Fund, LP (“Labrys”), for the principal amount of \$1,365,000 (the “Note”). The Note carries an Original Issue Discount of \$102,375, bears interest at the rate of 12% per annum and must be repaid on or before 180 calendar days after the funding date of the respective tranche. The amounts advanced under the Note may be converted by Labrys at any time after 180 days from the date of the Note into shares of Company common stock at a conversion price equal to 70% of the lowest trading price during the 20 trading day period prior to the date of any notice of conversion. As of June 30, 2019, the Company has received principal totaled \$1,213,250 out of the \$1,365,000 Convertible Note Agreement.

In addition, the Company issued 50,000 shares of the Company’s common stock with a fair value of \$40,000, determined using the closing price of the issuance date of \$0.80 per shares in connection with these issuances along with the original issue discount of \$90,994 were recognized as discounts from the principal amount to be amortized over 180 days.

Furthermore, the notes are convertible into shares of the common stock, at conversion price equal to 70% of the lowest trading price during the 20 trading day period prior to the date of any notice of conversion, which is lower than the price of the Company’s common stock on the date of issue. Therefore, the conversion feature embedded in the convertible note meet the definition of beneficial conversion feature (“BCF”). The Company evaluated the intrinsic value of the BCF as \$1,071,506 at the issue date. The relative fair values of the BCF were recorded into additional paid in capital.

For the three and six months ended June 30, 2019, the Company recorded interest expense of \$644,229 and \$764,203 on the note, including the amortization of the debt discount of \$607,931 and \$721,503 resulting from the value of beneficial conversion feature, and the carrying value of the note as at June 30, 2019 was \$732,253.

#### (5) 12% convertible notes- TFK

On March 21, 2019, the Company entered into a Convertible Note Agreement with TFK Investments Inc. (“TFK”), for the principal amount of \$300,000 (the “Note”). The Note carries an Original Issue Discount of 28,500, bears interest at the rate of 12% per annum and must be repaid on or before 180 calendar days after the funding date of the respective tranche. The amounts advanced under the Note may be converted by TFK at any time after 180 days from the date of the Note into shares of Company common stock at a conversion price equal to 70% of the lowest trading price during the 20 trading day period prior to the date of any notice of conversion. As of June 30, 2019, the Company has received principal totaled \$150,000 out of the \$300,000 Convertible Note Agreement.

In addition, the Company issued 7,500 shares of the Company’s common stock with a fair value of \$6,975, determined using the closing price of the issuance date of \$0.93 per shares in connection with these issuances along with the original issue discount of \$14,250 were recognized as discounts from the principal amount to be amortized over 180 days.

Furthermore, the notes are convertible into shares of the common stock, at conversion price equal to 70% of the lowest trading price during the 20 trading day period prior to the date of any notice of conversion, which is lower than the price of the Company’s common stock on the date of issue. Therefore, the conversion feature embedded in the convertible note meet the definition of beneficial conversion feature (“BCF”). The Company evaluated the intrinsic value of the BCF as \$128,775 at the issue date. The relative fair values of the BCF were recorded into additional paid in capital.

For the three and six months ended June 30, 2019, the Company recorded interest expense of \$80,321 and \$85,568 on the note, including the amortization of the debt discount of \$75,833 and \$80,833 resulting from the value of beneficial conversion feature, and the carrying value of the note as at June 30, 2019 was \$80,833.

### **13. Note Payable**

On May 29, 2007, the Company issued a \$360,000 promissory note (the “Promissory Note”) to an unrelated individual (the “Original Note holder”). This note bears interest at 18% per annum and was due on July 27, 2007. This note is currently in default and bears interest of 25% per annum (the “Default rate”) until paid in full. This note is secured by a pledge of shares of the Company’s common stock owned by Investlink (China) Limited (the “Pledged Shares”). In 2016, the Original Note holder informed the Company that all right, title and interests in the Promissory Note has been assigned and transferred to FirsTrust.

On September 19, 2018, the Company has entered a Settlement Agreement and Release with Firs Trust to settle the Notes and interest. The Company has agreed to make a cash payment of \$200,000 and to issue 300,000 Shares to FirsTrust by October 18, 2018 and to make a final cash payment of \$260,000 by February 28, 2019. However, the Company has not performed its obligations in the Settlement Agreement as of December 31, 2018, and considered the payment terms as default and continued to accrue its interest after September 19, 2018.

On March 21, 2019, the Company issued 300,000 shares of common stock with fair value of \$222,000, determined using the closing prices of \$0.74 on March 21, 2018, to repay \$222,000 of the note payable. As a result, no gain or loss were recognized upon this conversion.

On March 26, 2019, the Company has entered into the First Amendment Agreement with FirsTrust to settle the promissory notes together with the 6% secured convertible notes as disclosed under Note 11 plus interest and penalties with a total payable of approximately \$2.3 million as of the date of the First Amendment Agreement was entered. The Company has agreed to make a payment of \$29,789 (RMB200,000) , which has been paid on April 1, 2019, to enter into this Amendment, and settled with the total outstanding balance of \$1.3 million to be due under the terms of the First Amendment Agreement by June 30, 2019. If such settled outstanding balance was not made by June 30, 2019, it will deem the First Amendment Agreement to be ineffective and the Company will need to continue to pay FirsTrust the amount set forth in the Settlement Agreement.

As of June 30, 2019 and December 31, 2018, \$138,000 and \$360,000 of Promissory Note to FirsTrust is still outstanding. The Company accrued \$8,625 and \$22,500 interest expense on note payable for the three months ended June 30, 2019 and 2018, respectively. The Company accrued \$31,125 and \$45,000 interest expense on note payable for the six months ended June 30, 2019 and 2018, respectively.

As of this date, the Company remains in default of the Settlement Agreement and Release and is in the process of raising funds to retire these obligations. Notwithstanding, there is no guarantee that the Company will be successful in these efforts and that FirsTrust will not exercise all rights available to it under the applicable agreements between the parties.

On July 30, 2019, the Company received a notice of default and formal demand for payment and performance, which was followed by correspondence from FirsTrust’s lawyers that the commencement of legal action was imminent. As of this date, the Company has not received the service of any formal legal papers related to the matter. Since this matter is in its early stages, the final outcome cannot be predicted at this time and is largely dependent on the Company’s ability to raise funding to retire these obligations. If FirsTrust is successful in pursuing its legal action, the result could have a material adverse impact on the Company and its operations.

#### 14. Other Payables and accruals

Other payable consisted of the following:

	Notes	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Stock subscription proceeds received in advance	(1)	\$ 1,693,167	\$ 1,692,454
Accrued expenses		289,002	219,033
R&D expense payable		431,009	431,009
Others		427,306	597,592

	\$	2,840,484	\$	2,940,088
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(1). The Company received RMB 3.2 million (\$466,092 equivalent as at June 30, 2019) in 2016 from two unrelated potential investors, and additionally received RMB 8 million (\$1,227,075 equivalent as at June 30, 2019) in 2017 from one unrelated potential investor pending for stock issuances. The Company is in the process of negotiating the issuance price per shares of these stock subscriptions with the investors.

## 15. Stockholders' Equity

### Preferred stock

On December 14, 2015, the Company issued 500,000 shares of preferred stock series A for the aggregate amount of \$1,000,000 as debt cancellation owed to two related party individuals.

These shares of Series A Preferred Stock shall have voting rights equal to aggregate of 75% of total shares entitled to vote by both (i) the holders of all of the then outstanding shares of Common Stock (whether or not such holders vote) and (ii) the holders of all of the then outstanding shares of the Company. The holders of preferred stock are entitled to receive noncumulative dividends, when and if declared by the board of directors. Dividends are not mandatory and shall not accrue. The Company shall have the right to redeem the Series A Preferred Stock, plus any accrued and unpaid dividends at a cash redemption price equal to the aggregate issuance price of \$2.0 per share.

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On December 28, 2017, the Company issued 811,148 shares of preferred stock series B for the aggregate amount of \$1,054,492 as debt cancellation owed to one related party individual.

These shares of Series B Preferred Stock have a liquidation preference which is same with the Company's Series A Preferred Stock, and is entitled to vote on an as-converted basis as the holder of common stock, and is convertible into the Company's common stock on a one-for-one basis at any time at the option of the holder. The holders of preferred stock are entitled to receive noncumulative dividends, when and if declared by the board of directors. Dividends are not mandatory and shall not accrue. The Company shall have the right to redeem the Series B Preferred Stock, plus any accrued and unpaid dividends at a cash redemption price equal to the aggregate issuance price of \$1.3 per share.

### Common stock

During the six months ended June 30, 2019, the Company entered into three consulting agreements and issued 784,999 shares of common stocks to consultants for IR and business development services based on market price of the shares at the transaction dates. The valuation of the shares is amounted to an average issuance price of \$0.86 per share.

During the six months ended June 30, 2018, the Company issued 20,657 common shares to one officer for salary payment based on the average stock price of his service period which valued at \$17,665.

### Conversion of convertible note

As disclosed in Note 12(1), on April 27, 2018, the Company issued total 126,045 common shares at \$0.62 per share price to FirsTrust Group, Inc. for the conversion of convertible note.

As disclosed in Note 12(1), on March 26, 2019, the Company issued total 395,959 common shares at \$0.20 per share price to FirsTrust Group, Inc. for the conversion of convertible note.

### Additional paid-in-capital

As disclosed in Note 12, in February and March 2019, the Company issued in the principal amount of \$1,363,250 convertible notes with BCF embedded. The Company evaluated the intrinsic value of the BCF as \$1,200,281, at the issue date and recorded the amount into additional paid in capital. All other amounts recorded in additional paid in capital are derived from issuance of preferred shares or common shares as disclosed in the above.

## 16. Stock-based Compensation

On March 15, 2017, the Board of Directors approved a new stock option plan with ten years' term. As of June 30, 2019, the Company has not granted any incentive compensation under this plan.

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## 17. Fair Value Measurements

The following table sets forth by level within the fair value hierarchy the Company's financial assets and liabilities recorded at fair value on recurring basis that were accounted for at fair value as of:

June 30, 2019

Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Derivative liabilities	—	—	\$ 68,591	\$ 68,591
Total	—	—	\$ 68,591	\$ 68,591

December 31, 2018

Recurring Fair Value Measures	Level 1	Level 2	Level 3	Total
Derivative liabilities	—	—	\$ 6,621	\$ 6,621
Total	—	—	\$ 6,621	\$ 6,621

The following is a reconciliation of the beginning and ending balance of the assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2018 and for the year ended December 31, 2017:

	Six months ended June 30, 2019	Year ended December 31, 2018
Beginning balance	\$ 6,621	\$ 247,933
Fair value of derivative liabilities at inception	95,144	-
Change in fair value of derivative liabilities	(33,174)	(241,312)
Ending balance	\$ 68,591	\$ 6,621

## 18. Earnings per share

The following table set forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2019 and 2018.

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net loss	\$ (2,245,690)	\$ (635,368)	\$ (1,855,067)	\$ (582,400)

Denominator:				
Denominator for basic earnings per share (weighted-average shares)	19,343,881	16,479,316	18,272,950	16,201,020
Diluted effect of stocks – convertible note	-	-	-	-
Denominator for diluted earnings per share (adjusted weighted-average shares)	19,343,881	16,479,316	18,272,950	16,201,020
Basic earnings per share	(0.12)	(0.04)	(0.10)	(0.04)
Diluted earnings per share	(0.12)	(0.04)	(0.10)	(0.04)

## 19. Income Tax

In accordance with the current tax laws in the U.S., the Company is subject to a corporate tax rate of 21% on its taxable income. No provision for taxes is made for U.S. income tax for the three and six months ended June 30, 2019 and 2018 as it has no taxable income in the U.S.

On December 22, 2017, the “Tax Cuts and Jobs Act” (“The 2017 Tax Act”) was enacted in the United States. Under the provisions of the Act, the U.S. corporate tax rate decreased from 34% to 21%. Accordingly, the Company has re-measured its deferred tax assets on net operating loss carry forwards in the U.S at the lower enacted cooperated tax rate of 21%. However, this re-measurement has no effect on the Company’s income tax expenses as the Company has provided a 100% valuation allowance on its deferred tax assets previously.

Additionally, the 2017 Tax Act implemented a modified territorial tax system and imposing a tax on previously untaxed accumulated earnings and profits (“E&P”) of foreign subsidiaries (the “Toll Charge”). The Toll Charge is based in part on the amount of E&P held in cash and other specific assets as of December 31, 2017. The Toll Charge can be paid over an eight year period, starting in 2018, and will not accrue interest. The 2017 Tax Act also imposed a global intangible low-taxed income tax (“GILTI”), which is a new tax on certain off-shore earnings at an effective rate of 10.5% for tax years beginning after December 31, 2017 (increasing to 13.125% for tax years beginning after December 31, 2025) with a partial offset for foreign tax credits.

The Company has determined that this one-time Toll Charge has no effect on the Company’s income tax expenses for the three months ended June 30, 2018 as the Company has no undistributed foreign earnings at either of the two testing dates of November 2, 2017 and December 31, 2017.

For purposes of the inclusion of GILTI, the Company has determined the taxable off-shore earnings in the amount of \$3.5 million in the year ended December 31, 2018, which has been fully offset by the current year loss of \$3.2 million and NOL carryforwards of \$0.3 million of Kiwa US. Therefore, this is no accrual of US income tax for GILTI as of December 31, 2018. The Company will evaluate the GILTI tax effect at the year end for the year ended 31, 2019.

In accordance with the current tax laws in China, Kiwa Beijing, Kiwa Shenzhen, Kiwa Xian, Kiwa Hebei, Kiwa Yangling, and Kiwa Institute are subject to a corporate income tax rate of 25% on its taxable income. Kiwa Shenzhen, Kiwa Baiao, Kiwa Hebei, and Kiwa Institute have not provided for any corporate income taxes since each had no taxable income for the year ended June 30, 2019. For the three and six months ended June 30, 2019, Kiwa Yangling recorded income tax provision for approximately \$716,352 and \$1,225,023 respectively, and Kiwa Xian recorded income tax provision for approximately \$(2,350) and \$9,887, respectively.

In accordance with the relevant tax laws in the British Virgin Islands, Kiwa BVI, as an International Business Company, is exempt from income taxes in the BVI.

A reconciliation of the provision for income taxes from continuing operation determined at the local income tax rate to the Company's effective income tax rate is as follows:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Pre-tax income (loss) from continuing operation	\$ (1,531,688)	\$ (277,302)	\$ (620,157)	\$ 314,809
U.S. federal corporate income tax rate	21%	21%	21%	21%
Income tax expense (benefit) computed at U.S. federal corporation income tax rate	(321,654)	(58,233)	(130,233)	66,110
Reconciling items:				
Rate differential for PRC earnings	1,020	24,563	83,265	80,270
Change of valuation allowance	1,029,334	385,686	1,256,980	740,369
Effect of tax exempted income in BVI	5,302	6,050	24,898	10,460
Deferred tax used to offset tax liability	-	-	-	-
Effective tax expenses	<u>\$ 714,002</u>	<u>\$ 385,066</u>	<u>\$ 1,234,910</u>	<u>\$ 897,209</u>

The Company had deferred tax assets from continuing operation as follows:

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Net operating losses carried forward by parent Company in the US	\$ 2,218,830	\$ 1,676,335
Net operating losses carried forward by China Subsidiaries	832,067	821,089
Provision for Deferred COGS	612,191	
Allowance for Bad Debt	91,296	
Less: Valuation allowance	<u>(3,754,384)</u>	<u>(2,497,424)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2019 and December 31, 2018, the Company had approximately \$13.9 million and \$11.3 million net operating loss carryforwards available to reduce future taxable income. Net operating loss of the parent Company could be carried forward and taken against any taxable income for a period of not more than twenty years from the year of the initial loss pursuant to Section 172 of the Internal Revenue Code of 1986, as amended. The net operating loss of Kiwa Baiao, Kiwa Shenzhen, Kiwa Xian, Kiwa Hebei, and Kiwa Institute could be carried forward for a period of not more than five years from the year of the initial loss pursuant to relevant PRC tax laws and regulations. It is more likely than not that the deferred tax assets cannot be utilized in the future because there will not be significant future earnings from the entity which generated the net operating loss. Therefore, the Company recorded a full valuation allowance on its deferred tax assets.

As of June 30, 2019 and December 31, 2018, the Company has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future periods and does not believe that there will be any significant increases or decreases of unrecognized tax benefits within the next twelve months. No interest or penalties relating to income tax matters have been imposed on the Company during the three months ended June 30, 2019 and 2018, and no provision for interest and penalties is deemed necessary as of June 30, 2019 and December 31, 2018.

## 20. Commitments and Contingencies

As disclosed in Note 9, on June 8, 2017, Kiwa Hebei entered an equity purchase agreement with the shareholders of Yantai Peng Hao New Materials Technology Co. Ltd. (“Peng Hao”) to acquire 100% interest in Peng Hao for approximately RMB 15,000,000 (approximately US\$ 2.3 million). As of June 30, 2019, Kiwa Hebei has made deposit payment of RMB 5,000,000 (approximately \$0.7 million) and is committed to pay the remaining RMB10,000,000 based on the payment milestone in the equity purchase agreement. RMB 6,500,000 (approximately \$1.0 million) will be paid upon completion of the land use rights ownership transfer and RMB 3,500,000 (approximately \$0.5 million) will be paid upon completion of the business licenses transfer.

## **21. Concentration of Risk**

### Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and accounts receivable. As of June 30, 2019, and December 31, 2018, \$10,099, and \$7,859 were deposited with various major financial institutions located in the PRC, respectively. While management believes that these financial institutions are of high credit quality, it also continually monitors their credit worthiness.

Accounts receivable are typically unsecured and derived from revenue earned from customers, thereby exposed to credit risk. The risk is mitigated by the Company’s assessment of its customers’ creditworthiness and its ongoing monitoring of outstanding balances.

### Customer and vendor concentration risk

For the three months ended June 30, 2019, three customers accounted for 57%, 26%, and 17% for the Company’s total sales. For the six months ended June 30, 2019, three customers accounted for 48%, 26%, and 23% for the Company’s total sales.

For the three months ended June 30, 2018, one customer accounted for 98% for the Company’s total sales. For the six months ended June 30, 2018, three customers accounted for 51%, 32%, and 15% for the Company’s total sales.

As of June 30, 2019, three customers accounted for 40%, 29% and 26% of the Company’s accounts receivable. As of December 31, 2018, three customers accounted for 42%, 30%, and 27% of the Company’s accounts receivable.

For the three months ended June 30, 2019, one supplier accounted for 94% of the Company’s total purchases. For the six months ended June 30, 2019, one supplier accounted for 94% of the Company’s total purchases.

For the three months ended June 30, 2018, one supplier accounted for 95% of the Company’s total purchases. For the six months ended June 30, 2018, one supplier accounted for 95% of the Company’s total purchases.

As of June 30, 2019, one supplier accounted for 89% of the Company’s accounts payable. As of December 31, 2018, one supplier accounted for 84% of the Company’s accounts payable.

## **22. Subsequent Events**

On July 8, 2019, the Board of Directors removed Yongling Song as a member of the Board of Directors of Kiwa Bio-Tech Products Group Corp.

On July 8, 2019, the Board of Directors appointed Xiaoqiang Yu as a member of the Board of Directors of Kiwa Bio-Tech Products Group Corp.

*This Quarterly Report on Form 10-Q for the three and six months ended June 30, 2019 contains “forward-looking statements” within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, including statements that include the words “believes,” “expects,” “anticipates,” or similar expressions. These forward-looking statements include, among others, statements concerning our expectations regarding our working capital requirements, financing requirements, business, growth prospects, competition and results of operations, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2019 involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by the forward-looking statements contained herein.*

## **Overview**

The Company took its present corporate form in March 2004 when shareholders of Kiwa Bio-Tech Products Group Ltd. (“Kiwa BVI”), a company originally organized under the laws of the British Virgin Islands on June 5, 2002 and Tintic Gold Mining Company (“Tintic”), a corporation originally incorporated in the state of Utah on June 14, 1933 to perform mining operations in Utah, entered into a share exchange transaction. The share exchange transaction left the shareholders of Kiwa BVI owning a majority of Tintic and Kiwa BVI a wholly-owned subsidiary of Tintic. For accounting purposes this transaction was treated as an acquisition of Tintic by Kiwa BVI in the form of a reverse triangular merger and a recapitalization of Kiwa BVI and its wholly owned subsidiary, Kiwa Bio-Tech Products (Shandong) Co., Ltd. (“Kiwa Shandong”). On July 21, 2004, we completed our reincorporation in the State of Delaware. On March 8, 2017, we completed our reincorporation in the State of Nevada.

The Company develops, manufactures, distributes and markets innovative, cost-effective and environmentally safe bio-technological products for agricultural use. Our products are designed to enhance the quality of human life by increasing the value, quality and productivity of crops and decreasing the negative environmental impact of chemicals and other wastes.

The Company currently mainly operates its business through Kiwa Baiiao Bio-Tech (Beijing) Co., Ltd. (“Kiwa Beijing”), which was incorporated in China in January 2016, Kiwa Bio-Tech Products (Shenzhen) Co., Ltd. (“Kiwa Shenzhen”), which was incorporated in China in November 2016, Kiwa Bio-Tech Products (Hebei) Co., Ltd. (“Kiwa Hebei”), which was incorporated in China in December 2016, Kiwa Bio-Tech Products (Shenzhen) Co., Ltd. Xian Branch Company, (“Kiwa Xian”), which was incorporated in China in December 2017, Kiwa Bio-Tech (Yangling) Co., Ltd. (“Kiwa Yangling”), which incorporated in March 2018, and The Institute of Kiwa-Yangling Ecological Agriculture and Environment Research Co., Ltd. (“Kiwa Institute”), which incorporated in March 2018. In July 2017, the Company established Kiwa Bio-Tech Asia Holding (Shenzhen) Ltd. (“Kiwa Asia”) to be the direct holding company of Kiwa Beijing, Kiwa Shenzhen, Kiwa Xian, Kiwa Institue and Kiwa Hebei.

## **Principal Factors Affecting Our Financial Performance**

We believe that the following factors could affect our financial performance:

- *Change in the Chinese Government Policy on agricultural industry.* The Chinese Government is continuously to promote green environment and implement quality standards and environmentally sensitive policies in the Agricultural industry. Below is a list of government policies issued by the Chinese Government to promote green environment and these policies are either directly or indirectly to encourage the end users of the bio-fertilizer to use more organic related products. Unfavorable changes to these policies could affect demand of our products that we produce and could materially and adversely affect the results of operations. Although we have generally benefited from these policies by using our bio-fertilizer to enhances the capacity of plants to transform inorganic materials to organic products, to boost overall plant health and productivity and not to deteriorate landfall soil.

- In April 2008, the Ministry of Finance of PRC issued Circular No. 2008-56 to tax-exempt

value-added taxes on all organically fertilizer related products effectively from June 1, 2008.

- In June 2016, the PRC State Council issued Circular No. 2016-31 to prevent further deterioration of landfall soil action plan.
- In February 2017, the Ministry of Agriculture of PRC issued Circular No. 2017-02 to carry out replacement of chemical bio-fertilizers by organically bio-fertilizers action plan or vegetables, fruits and teas planting.
- In April 2018, at the second meeting of the 13th National People's Congress meeting, the Minister of the Agriculture and Rural Affairs has pronoun that the Chinese government will continue to promote green environment, to ensure food safety and food qualify for the people in the PRC, and to provide more education and training cause to the farmer in the Agriculture industry. Follow up with the second meeting, in July 2018, the Chinese government is in the process of setting up some government grants to these companies or individuals, including but not limited, organic fertilizer production companies, organic fertilizer raw materials (livestock and poultry excrement) storage and transportation companies, users of organic fertilizer, and users of organic fertilizer production machinery.
- In February 2019, the Ministry of Agriculture and Rural Affairs of the People's Republic of China, National Development and Reform Commission, Ministry of Science and Technology of the People's Republic of China, Ministry of Science and Technology of the People's Republic of China, Ministry of Commerce of the People's Republic of China, State Administration for Market Regulation and National Food and Strategic Reserves Administration jointly issued the National Strategic Plan For Promoting Agriculture By Quality (2018-2022) to clarify the overall thinking, aims and main tasks for implementing the strategy for promoting agriculture by quality in the coming period. The Plan points out that it is necessary to take the supply-side structural reform of agriculture as the main task, and work hard for better quality, higher efficiency, and more robust drivers of agriculture growth through reform and vigorously promote the greening, high-quality, specialization and branding of agriculture. This will steadily strengthen the quality efficiency and competitiveness of agriculture.
- Innovation Efforts. We strive to produce the most technically and scientifically advanced products for our customers and maintained close relationships with institutes in the PRC.
  - In March 2018, Kiwa Bio-Tech has established a Research Institute of Ecological Agriculture and Environmental Research. Based on cooperation with various Universities including the China Agriculture University, Northwest University, Northwest A&F University, Harbin Institute of Technology and Tsinghua University, we believe that it can secure a leading position in the KETS technology in the next thirty years. In comparison to our existing technology, Ecology Technological Sustainability ("KETS") technology is comprised of microorganisms with a larger scale of micro-flora. The micro-flora could significantly increase the beneficial microorganism in the soil that enhances the yield of the plant crops and prevents soil ecological problems. The newly upgraded technology will be applied to the main crop planting areas and presently-polluted arable areas for soil restoration.

On October 12, 2018, Kiwa Bio-Tech got the approval from the Administrative Committee of Yangling Agricultural High-tech Industry Demonstration Zone to obtain land use rights to construct a new manufacturing facility to help meet the growing demand in China for bio-fertilizers. Yangling Free Trade Zone has agreed to offer Kiwa Bio-Tech approximately US\$432,975 (3,000,000 RMB) in incentives and provide tax preferences for the first three years of production.

The manufacturing facility will specialize in developing and producing Kiwa Bio-Tech's core microbes, the fundamental components for making high-quality bio-fertilizers. The total facility construction area is approximately 8.77 acres, and will include fermentation and production terminals, agricultural produce sorting facilities and storage, a research and development institute and corresponding ancillary facilities. The construction of the manufacturing facility is expected to be completed in 2020 and have a production capacity of 60,000 tons of Kiwa Bio-Tech's core microbes. The annual production value is expected to be over US\$65 million (approximately RMB 462 million).

- **Experienced Management.** Management's technical knowledge and business relationships give us the ability to secure more sales orders with our customers. If there were to be any significant turnover in our senior management, it could deplete the institutional knowledge held by our existing senior management team.
- **Large Scale Customer Relationship.** We have contracts with major customers that are distributors of our products. Our sales efforts focus on these distributors which place large recurring orders. For the three months ended June 30, 2019, three customers accounted for 57%, 26%, and 17% for the Company's total sales. Should we lose any large-scale customer in the future and are unable to obtain additional customers, our revenues will suffer.
- **Competition.** Our competition includes a number of publicly traded companies in the PRC and privately-held PRC-based companies that produce and sell products similar to ours. We compete primarily on the basis of quality, technological innovation and price. Some of our competitors have achieved greater market penetration but with less sophisticated technological innovation than our products as there were in the transition period from being the chemical bio-fertilizer producers to the organically bio-fertilizer producers. We believe that we have a better competitive advantage over them as we are the pioneer within our markets. Some of our competitors competed within our markets have lesser financial and other resources than us as they have established their companies a few years behind us. If we are unable to compete successfully in our markets, our relative market share and profits could be reduced.

## **Results of Operations**

### ***Results of Operations for three months ended June 30, 2019 and June 30, 2018***

The following table summarizes the results of our operations during the three months periods ended June 30, 2019 and 2018, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such periods.

<b>Statement of Operations Data:</b>	<b>Three months Ended</b>		<b>Change</b>	<b>Change</b>
	<b>June 30,</b>			
	<b>2019</b>	<b>2018</b>	<b>(Amount)</b>	<b>(Percentage)</b>
Revenues	\$ 10,924,978	\$ 5,334,830	\$ 5,590,148	105%
Cost of goods sold	(7,752,728)	(3,873,502)	(3,879,226)	100%
Gross profit	3,172,250	1,461,328	1,710,922	117%
Operating expenses				
Provision for deferred cost of goods sold	2,448,764		2,448,764	100%
Research and development expenses	-	39,230	(39,230)	(100%)
Selling expenses	63,501	161,256	(97,755)	(61%)
General and administrative expenses	1,403,172	1,514,298	(111,126)	(7)

				%
Total operating expenses	3,915,437	1,714,784	2,200,653	128%
Operating Loss	(743,187)	(253,456)	(489,731)	193%
Other income/(expenses), net				
Change in fair value of derivative liabilities	27,943	72,433	(44,490)	(61%)
Interest expense	(835,545)	(152,564)	(682,981)	448%
Other expense	(2,920)	-	(2,920)	100%
Exchange gain	22,021	56,285	(34,264)	(61%)
Total other income/(expenses), net	(788,501)	(23,846)	(764,655)	3,207%
Loss before income taxes	(1,531,688)	(277,302)	(1,254,386)	452%
(Provision) benefit for income taxes				
Current	(714,002)	(358,066)	(355,936)	99%
Deferred	-	-	-	-%
Total (provision) benefit for income taxes	(714,002)	(358,066)	(355,936)	99%
Net Loss	\$ (2,245,690)	\$ (635,368)	\$ (1,610,322)	253%

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### Revenue

Revenue increased by approximately \$5.6 million or 105%, to approximately \$10.9 million in the three months ended June 30, 2019 from \$5.3 million in the three months ended June 30, 2018. More sales are achieved for all of our three product lines are due to the good quality of our products and more reputation gained in different regions of the PRC, such as Hainan Province, Guangdong Province and Shanxi Province upon establishment of our sales office in different regions.

We currently realized revenue in three major product categories of Biological Organic Fertilizer, Compound Microbial Fertilizer, and Bio-Water Soluble Fertilizer. Our revenues from our major product category are summarized as follows:

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	Change	Change (%)
<b>Biological Organic Fertilizer</b>				
Revenue in USD	\$ 4,405,120	\$ 2,900,817	\$ 1,504,303	52%
Quantity sold in tons	25,000	15,334	9,666	63%
Average selling price	\$ 176.20	\$ 189.18	\$ (12.98)	(7%)
<b>Compound Microbial Fertilizer</b>				
Revenue in USD	\$ 5,160,534	\$ 2,426,561	\$ 2,733,973	113%
Quantity sold in tons	16,000	7,026	8,974	128%
Average selling price	\$ 322.53	\$ 345.37	\$ (22.84)	(7%)
<b>Bio-Water Soluble Fertilizer</b>				
Revenue in USD	\$ 1,359,324	\$ 7,452	\$ 1,351,872	18,141%

Quantity sold in tons		2,032		10		2,022		20,220%
Average selling price	\$	668.96	\$	745.22	\$	(76.26)		(10%)
<b>Total</b>								
Revenue in USD	\$	10,924,978	\$	5,334,830	\$	5,590,148		105%
Quantity sold in tons		43,032		22,370		20,662		92%
Average selling price	\$	253.88	\$	238.48	\$	15.40		6%

Average selling prices of Biological Organic Fertilizers, Compound Microbial Fertilizer and Bio-Water Soluble Fertilizer decreased by \$12.98 or 7%, \$22.84 or 7% and 76.26 or 10%, respectively in the three months ended June 30, 2019 as compared with the same period of 2018. The decrease in average selling price is due to the fluctuation of exchange rate as Chinese Yuan depreciated against U.S. dollars by approximately 7.0% during the three months ended June 30, 2019 as compared to the same period in 2018.

Because the Chinese Government is continuously to promote green environment and implement quality standards and environmentally sensitive policies in the Agricultural industry, we expect our revenues from our innovated and highly effective products, Compound Microbial Fertilizer, Bio-Water Soluble Fertilizer, and Microbial Inoculum Fertilizer will continue to grow in a higher rate than that from Biological Organic Fertilizer. Our Compound Microbial Fertilizer, and Bio-Water Soluble Fertilizer generally have a higher effectiveness on the productivity of crops that are suitable for promoting green environment. In addition, our marketing team is expanding to the Western areas of China and Hainan province and we expect our revenues will continue to grow in 2019. Meanwhile, we expect to continue to gain more market shares in our existing sales channel bases in the Northern and the Southern areas of China due to the good quality of the products and better reputation in the industry.

### *Cost of Revenue*

Our cost of revenues from our major product category are summarized as follows:

		For the three months ended June 30, 2019		For the three months ended June 30, 2018		Change		Change (%)
<b>Biological Organic Fertilizer</b>								
Cost of revenue in USD	\$	3,086,183	\$	1,968,584	\$	1,117,599		57%
Quantity sold and shipped in tons		25,000		15,334		9,666		62%
Average unit cost	\$	123.45	\$	128.38	\$	(4.93)		(4%)
<b>Compound Microbial Fertilizer</b>								
Cost of revenue in USD	\$	3,760,519	\$	1,900,474	\$	1,860,045		98%
Quantity sold and shipped in tons		16,000		7,026		8,974		128%
Average unit cost	\$	235.03	\$	270.49	\$	(35.46)		(13%)
<b>Bio-Water Soluble Fertilizer</b>								
Cost of revenue in USD	\$	906,026	\$	4,444	\$	901,582		20,288%
Quantity sold in tons		2,032		10		2,022		20,220%
Average unit cost	\$	445.88	\$	444.40	\$	1.48		0%
<b>Total</b>								
Cost of revenue in USD	\$	7,752,728	\$	3,873,502	\$	3,879,226		100%
Quantity sold in tons		43,032		22,370		20,662		92%

Average unit cost	\$	180.16	\$	173.16	\$	7.00	4%
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Cost of revenue from Biological Organic Fertilizer, Compound Microbial Fertilizer and Bio-Water Soluble Fertilizer increased by approximately \$1.1 million, \$1.9 million and \$0.9 million or 57%, 98% and 20,288% to approximately \$3.1 million, \$3.8 million and \$0.9 million in the three months ended June 30, 2019 from approximately \$2.0 million, \$1.9 million, and \$4,444 in the three months ended June 30, 2018. The increase is mainly due to the total quantity of product sold increased due to the good quality of our products and more reputation gained in the agricultural industry, which offset by the fluctuation of exchange rate as Chinese Yuan depreciated against U.S. dollars by approximately 7.0% during the three months ended June 30, 2019 as compared to the same period in 2018, which in turn decrease our overall cost of revenue. As a result, our cost of revenue increased accordingly along with our sales.

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### ***Gross Profit***

Our gross profit from our major product category are summarized as follows:

		<u>For the three months ended June 30, 2019</u>	<u>For the three months ended June 30, 2018</u>	<u>Change</u>	<u>Change (%)</u>		
<b>Biological Organic Fertilizer</b>							
Gross Profit	\$	1,318,937	\$	932,233	\$	386,704	41%
Gross Profit Percentage		29.9%		32.1%	(2.2%)	(7%)	
<b>Compound Microbial Fertilizer</b>							
Gross Profit	\$	1,400,015	\$	526,087	\$	873,928	166%
Gross Profit Percentage		27.1%		21.7%	5.4%	25%	
<b>Bio-Water Soluble Fertilizer</b>							
Gross Profit	\$	453,298	\$	3,008	\$	450,290	14,970%
Gross Profit Percentage		33.3%		40.4%	(7.0%)	(17%)	
<b>Total</b>							
Gross Profit	\$	3,172,250	\$	1,461,328	\$	1,710,922	117%
Gross Profit Percentage		29.0%		27.4%	1.6%	6%	

Gross profit percentage for Biological Organic Fertilizer decreased from 32.1% for the three months ended June 30, 2018 to 29.9% for the three months ended June 30, 2019 mainly due to the decrease in average selling price is more than the decrease in average unit cost.

Gross profit percentage for Compound Microbial increased from 21.7% for the three months ended June 30, 2018 to 27.1% for the three months ended June 30, 2019 mainly due to the decrease in average unit cost is more than the decrease in average selling price.

Gross profit percentage for Bio-Water Soluble Fertilizer decrease from 40.4% for the three months ended June 30, 2018 to 33.3% for the three months ended June 30, 2019 mainly due to the average selling price decreased while the average unit costs remains unchanged.

### ***Provision for Deferred Cost of Goods Sold***

Provision on deferred cost of goods sold was \$2.4 million for the three months ended June 30, 2019, increased by approximately \$2.4 million or 100% from \$0 for the three months ended June 30, 2018. The provision for deferred cost of goods sold is made based on historical collection experience on related accounts receivable and realizability of deferred revenue. Because part of the shipments to several clients, for which revenue have already been deferred, have been assessed to be uncollectible, \$2.4 million of provision for deferred cost of goods sold were made during the three months ended June 30, 2019.

### ***Research and Development Expenses***

Research and development expenses was \$0 for the three months ended June 30, 2019, decreased by approximately \$39,000 or 100% from approximately \$39,000 (RMB 250,000) for the three months ended June 30, 2018. On November 20, 2015, the Company signed a strategic cooperation agreement (the “Agreement”) with China Academy of Agricultural Science (“CAAS”)’s Institute of Agricultural Resources & Regional Planning (“IARRP”) and Institute of Agricultural Economy & Development (“IAED”). Pursuant to the Agreement, the Company will form a strategic partnership with the two institutes and establish an “International Cooperation Platform for Internet and Safe Agricultural Products”. To fund the cooperation platform’s R&D activities, the Company will provide RMB 1 million (approximately \$148,000) per year to the Spatial Agriculture Planning Method & Applications Innovation Team that belongs to the Institutes. The term of the Agreement is for three years beginning November 20, 2015 and has expired on November 19, 2018. We did not have such expenses during the three months ended June 30, 2019.

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### ***Selling Expenses***

Selling expenses include salaries of sales personnel, sales commission, travel and entertainment as well as freight out expenses. Selling expenses for the three months ended June 30, 2019 and 2018 were approximately \$63,501 and \$161,256, respectively. The decrease in selling expenses is mainly due to a decrease of approximately \$97,000 of sales personnel salary in our Shenzhen and Beijing offices as we have moved our headquarter to Yangling with cheaper labor cost and other costs in general as the living standards in Yangling is much cheaper than in the Shenzhen and Beijing, a decrease of approximately \$25,000 freight out expense, offset by an increase of approximately \$20,000 advertising, and increase of office, insurance, travel, entertainment expenses and other selling expenses of approximately \$3,000.

### ***General and Administration Expenses***

G&A expenses include professional fees, officers’ compensation, depreciation and amortization, insurance, salaries, employee benefits, travel, auto expense, meal and entertainment, rent, office expense and telephone expense and other miscellaneous G&A expenses. G&A expenses decreased by approximately \$0.1 million or 7% from approximately \$1.5 million in the three months ended June 30, 2018 to approximately \$1.4 million in the same period in 2019. The decrease in G&A expenses is mainly due to a decrease of approximately \$170,000 in rent, utilities, insurance and other related expense as we moved our headquarter to Yangling, where the government offered us free rent; a decrease of salaries and employee benefits of approximately \$169,000 as we moved our headquarter to Yangling; a decrease of approximately \$102,000 in travel and meal and entertainment expense; a decrease of approximately \$25,000 in office and other miscellaneous expenses; and a decrease of approximately \$11,000 in professional and legal fees. This decrease was offset by the increase of approximately \$363,000 provision for advance to suppliers and other receivables for which the management assessed the Company cannot receive the goods to be delivered.

### ***Interest Expense***

Net interest expense was \$835,545 and \$152,564 for the three months ended June 30, 2019 and 2018, respectively, representing an increase of \$682,981 or 448%. Interest expense included accrued interest on convertible note and other notes payable, and the amortization of the convertible note discount for the three months ended June 30, 2019

and 2018. The increase in interest expenses is mainly attributed to newly issuance two 12% convertible note issued in the March 2019 where we did not have it in the three months ended June 30, 2018.

### *Net Loss*

Net loss for the three months ended June 30, 2019 increased by approximately 253% \$635,368 to \$2,245,690. Such change was the result of the combination of the changes as discussed above.

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### *Results of Operations for Six months ended June 30, 2019 and June 30, 2018*

The following table summarizes the results of our operations during the six months periods ended June 30, 2019 and 2018, respectively, and provides information regarding the dollar and percentage increase or (decrease) during such periods.

<b>Statement of Operations Data:</b>	<b>Six months Ended June 30,</b>		<b>Change (Amount)</b>	<b>Change (Percentage)</b>
	<b>2019</b>	<b>2018</b> (As Restated)		
Revenues	\$ 20,467,976	\$ 14,086,221	\$ 6,381,755	45%
Cost of goods sold	(15,119,315)	(10,180,066)	(4,939,249)	49%
Gross profit	<u>5,348,661</u>	<u>3,906,155</u>	<u>1,442,506</u>	37%
Operating expenses				
Provision for deferred cost of goods sold	2,448,764		2,448,764	100%
Research and development expenses	-	78,543	(78,543)	(100%)
Selling expenses	101,307	345,567	(244,260)	(71%)
General and administrative expenses	2,362,766	3,079,028	(716,262)	(23%)
Total operating expenses	<u>4,912,837</u>	<u>3,503,138</u>	<u>1,409,699</u>	40%
Operating Income	<u>435,824</u>	<u>403,017</u>	<u>32,807</u>	8%
Other income/(expenses), net				
Change in fair value of derivative liabilities	33,174	202,371	(169,197)	(84%)
Interest expense	(1,139,513)	(307,927)	(831,586)	270%
Other income/ (expenses)	51,768	(905)	52,673	5,820%
Exchange gain (loss)	(1,410)	18,253	(19,663)	(108%)
Total other income/(expenses), net	<u>(1,055,981)</u>	<u>(88,208)</u>	<u>(967,773)</u>	1,097%
Income (loss) before income taxes	(620,157)	314,809	(934,966)	(297%)
(Provision) benefit for income taxes				
Current	(1,234,910)	(897,209)	(337,701)	38%
Deferred	-	-	-	-%
Total provision for income taxes	<u>(1,234,910)</u>	<u>(897,209)</u>	<u>(337,701)</u>	38%
Net Loss	<u>\$ (1,855,067)</u>	<u>\$ (582,400)</u>	<u>\$ (1,272,667)</u>	219%

## Revenue

Revenue increased by approximately \$6.4 million or 45%, to approximately \$20.5 million in six months ended June 30, 2019 from \$14.1 million in the six months ended June 30, 2018. The increase is mainly due to: 1) a \$4.9 million increase in sales of compound microbial fertilizer and bio-water soluble fertilizer revenues due to more sales are achieved due to the good quality of our products and more reputation gained in different regions of the PRC, such as Hainan Province, Guangdong Province and Shanxi Province upon establishment of our sales office in different regions) a \$1.5 million increase in revenues of biological organic fertilizer due to a increase in average price and sale volume as this type of new product became more popular in the market.

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We currently realized revenue in three major product categories of Biological Organic Fertilizer, Compound Microbial Fertilizer, and Bio-Water Soluble Fertilizer. Our revenues from our major product category are summarized as follows:

	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Change	Change (%)
<b>Biological Organic Fertilizer</b>				
Revenue in USD	\$ 8,418,098	\$ 7,126,132	\$ 1,291,966	18%
Quantity sold in tons	47,520	37,702	9,818	26%
Average selling price	\$ 177.15	\$ 189.01	\$ (11.86)	(6%)
<b>Compound Microbial Fertilizer</b>				
Revenue in USD	\$ 10,560,861	\$ 6,929,867	\$ 3,630,994	52%
Quantity sold in tons	32,437	20,049	12,388	62%
Average selling price	\$ 325.58	\$ 345.65	\$ (20.06)	(6%)
<b>Bio-Water Soluble Fertilizer</b>				
Revenue in USD	\$ 1,489,017	\$ 30,222	\$ 1,458,795	4,827%
Quantity sold in tons	2,159	72	2,087	2,899%
Average selling price	\$ 689.68	\$ 419.75	\$ 269.93	64%
<b>Total</b>				
Revenue in USD	\$ 20,467,976	\$ 14,086,221	\$ 6,381,755	45%
Quantity sold in tons	82,116	57,823	24,293	42%
Average selling price	\$ 249.26	243.61	5.65	2%

Average selling prices of Biological Organic Fertilizers and Compound Microbial Fertilizer decreased by \$11.86 or 6% and \$20.06 or 6%, respectively in the six months ended June 30, 2019 as compared with the same period of 2018. The decrease in average selling price is due to the fluctuation of exchange rate as Chinese Yuan depreciated against U.S. dollars by approximately 6.6% during the six months ended June 30, 2019 as compared to the same period in 2018.

Average selling prices of Bio-Water Soluble Fertilizer increased by \$269.93 or 64% in the six months ended June 30, 2019 as compared with same period of 2018. This increase is mainly because we sold at a much lower price to attract the market when we first introduced Bio-Water Soluble Fertilizer in the first quarter of 2018.

Because the Chinese Government is continuously to promote green environment and implement quality standards and environmentally sensitive policies in the Agricultural industry, we expect our revenues from our innovated and

highly effective products, Compound Microbial Fertilizer, Bio-Water Soluble Fertilizer, and Microbial Inoculum Fertilizer will continue to grow in a higher rate than that from Biological Organic Fertilizer. Our Compound Microbial Fertilizer, and Bio-Water Soluble Fertilizer generally have a higher effectiveness on the productivity of crops that are suitable for promoting green environment. In addition, our marketing team is expanding to the Western areas of China and Hainan province and we expect our revenues will continue to grow in 2019. Meanwhile, we expect to continue to gain more market shares in our existing sales channel bases in the Northern and the Southern areas of China due to the good quality of the products and better reputation in the industry.

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### ***Cost of Revenue***

Our cost of revenues from our major product category are summarized as follows:

	<u>For the six months ended June 30, 2019</u>	<u>For the six months ended June 30, 2018</u>	<u>Change</u>	<u>Change (%)</u>
<b>Biological Organic Fertilizer</b>				
Cost of revenue in USD	\$ 5,994,023	\$ 4,834,082	\$ 1,159,941	24%
Quantity sold and shipped in tons	47,520	37,702	9,818	26%
Average unit cost	\$ 126.14	\$ 128.22	\$ (2.08)	(2%)
<b>Compound Microbial Fertilizer</b>				
Cost of revenue in USD	\$ 8,156,129	\$ 5,325,880	\$ 2,830,249	53%
Quantity sold and shipped in tons	32,437	20,049	12,388	62%
Average unit cost	\$ 251.45	\$ 265.64	\$ (14.19)	(5%)
<b>Bio-Water Soluble Fertilizer</b>				
Cost of revenue in USD	\$ 969,163	\$ 20,104	\$ 949,059	4,721%
Quantity sold in tons	2,159	72	2,087	2,899%
Average unit cost	\$ 448.89	\$ 279.22	\$ 169.67	61%
<b>Total</b>				
Cost of revenue in USD	\$ 15,119,315	\$ 10,180,066	\$ 4,939,249	49%
Quantity sold in tons	82,116	57,823	24,293	42%
Average unit cost	184.12	176.06	8.07	5%

Cost of revenue from Biological Organic Fertilizer, Compound Microbial Fertilizer and Bio-Water Soluble Fertilizer increased by approximately \$1.2 million, \$2.8 million and \$0.9 million or 24%, 53% and 4,721% to approximately \$6.0 million, \$8.2 million and \$1.0 million in the six months ended June 30, 2019 from approximately \$4.8 million, \$5.3 million, and \$20,000 in the six months ended June 30, 2018. The increase is mainly due to the total quantity of products sold increased due to the good quality of our products and more reputation gained in the agricultural industry, which offset by the fluctuation of exchange rate as Chinese Yuan depreciated against U.S. dollars by approximately 6.6% during the six months ended June 30, 2019 as compared to the same period in 2018, which in turn decrease our overall cost of revenue. As a result, our cost of revenue increased accordingly along with our sales.

### ***Gross Profit***

Our gross profit from our major product category are summarized as follows:

	<u>For the six</u>	<u>For the six</u>	<u>Change</u>	<u>Change (%)</u>
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	months ended June 30, 2019	months ended June 30, 2018	_____	_____
<b>Biological Organic Fertilizer</b>				
Gross Profit	\$ 2,424,075	\$ 2,292,050	\$ 132,025	6%
Gross Profit Percentage	28.8%	32.2%	(3.4%)	(11%)
<b>Compound Microbial Fertilizer</b>				
Gross Profit	\$ 2,404,732	\$ 1,603,987	\$ 800,745	50%
Gross Profit Percentage	22.8%	23.1%	(0.4%)	(2%)
<b>Bio-Water Soluble Fertilizer</b>				
Gross Profit	\$ 519,854	\$ 10,118	\$ 509,736	5,038%
Gross Profit Percentage	34.9%	33.5%	1.4%	4%
<b>Total</b>				
Gross Profit	\$ 5,348,661	\$ 3,906,155	\$ 1,442,506	37%
Gross Profit Percentage	26.1%	27.7%	(1.6%)	(6%)

Gross profit percentage for Biological Organic Fertilizer decreased from 32.2% for the six months ended June 30, 2018 to 28.8% for the six months ended June 30, 2019 mainly due to the decrease in average selling price more than decrease in average cost per unit as discussed above

Gross profit percentage for Compound Microbial decreased from 23.1% for the six months ended June 30, 2018 to 22.8% for the six months ended June 30, 2019 mainly due to the decrease in average selling price more than the decrease in average cost per unit as discussed above.

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Gross profit percentage for Bio-Water Soluble Fertilizer increased from 33.5% for the six months ended June 30, 2018 to 34.9% for the six months ended June 30, 2019 mainly due to the increase in popularity of this product in fertilizer market and the increase in selling price is higher than the increase in unit cost as discussed above.

#### ***Provision on Deferred Cost of Goods Sold***

Provision on deferred cost of goods sold was \$2.4 million for the six months ended June 30, 2019, increased by approximately \$2.4 million or 100% from \$0 for the six months ended June 30, 2018. The increase in provision on deferred cost of goods sold is made based on historical collection experience on related accounts receivable and realizability of deferred revenue. Because part of the shipments to several clients, for which revenue have already been deferred, have been assessed to be uncollectible, \$2.4 million of provision for deferred cost of goods sold were made during the six months ended June 30, 2019.

#### ***Research and Development Expenses***

Research and development expenses was \$0 for the six months ended June 30, 2019, decreased by approximately \$79,000 or 100% from approximately \$79,000 (RMB 500,000) for the six months ended June 30, 2018. On November 20, 2015, the Company signed a strategic cooperation agreement (the "Agreement") with China Academy of Agricultural Science ("CAAS")'s Institute of Agricultural Resources & Regional Planning ("IARRP") and Institute of Agricultural Economy & Development ("IAED"). Pursuant to the Agreement, the Company will form a strategic partnership with the two institutes and establish an "International Cooperation Platform for Internet and Safe Agricultural Products". To fund the cooperation platform's R&D activities, the Company will provide RMB 1 million (approximately \$148,000) per year to the Spatial Agriculture Planning Method & Applications

Innovation Team that belongs to the Institutes. The term of the Agreement is for three years beginning November 20, 2015 and has expired on November 19, 2018. We did not have such expenses during the six months ended June 30, 2019.

### ***Selling Expenses***

Selling expenses include salaries of sales personnel, sales commission, travel and entertainment as well as freight out expenses. Selling expenses for the six months ended June 30, 2019 and 2018 were approximately \$101,000 and \$346,000, respectively. The decrease in selling expenses is mainly due to a decrease of approximately \$197,000 of sales personnel salary in our Shenzhen and Beijing offices as we have moved our headquarter to Yangling with cheaper labor cost and other costs in general as the living standards in Yangling is much cheaper than in the Shenzhen and Beijing, a decrease of approximately \$65,000 freight out expense because we optimized our selling procedures and our customers paid for shipping cost. This decrease was offset by an increase of approximately \$21,000 in advertising expenses.

### ***General and Administration Expenses***

G&A expenses include professional fees, officers' compensation, depreciation and amortization, insurance, salaries, employee benefits, travel, auto expense, meal and entertainment, rent, office expense and telephone expense and other miscellaneous G&A expenses. G&A expenses decreased by approximately \$0.7 million or 23% from approximately \$3.1 million in the six months period ended June 30, 2018 to approximately \$2.4 million in the same period in 2019. The decrease in G&A expenses is mainly due to a decrease of salaries and employee benefits of approximately \$362,000 as we moved our headquarter to Yangling; a decrease of approximately \$335,000 in rent, utilities, insurance and other related expense due to the moving of our offices to Yangling, where the government offered us free rent; a decrease of approximately \$251,000 in travel and meal and entertainment expense; and a decrease of approximately \$167,000 in office and other miscellaneous expenses. The decrease was offset by the increase of approximately \$365,000 provision for advance to suppliers and other receivables for which the management assessed the Company cannot receive the goods to be delivered, and increase of approximately \$36,000 in professional and legal fees.

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### ***Interest Expense***

Net interest expense was \$1,139,513 and \$307,927 for the six months ended June 30, 2019 and 2018, respectively, representing an increase of \$831,586 or 270%. Interest expense included accrued interest on convertible note and other notes payable, and the amortization of the convertible note discount for the six months ended June 30, 2019 and 2018. The increase in interest expenses is mainly attributed to newly issuance two 12% convertible note issued in the March 2019 where we did not have it in the six months ended June 30, 2018.

### ***Net Loss***

Net loss for the six months ended June 30, 2019 increased by approximately 219% from \$582,400 to \$1,855,067. Such change was the result of the combination of the changes as discussed above.

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

We prepared our unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under current circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. In addition, you should refer to our accompanying unaudited condensed consolidated balance sheets as of June 30, 2019, and the unaudited condensed consolidated statements of operations and comprehensive income, and cash flows for the three and six months ended June 30, 2019, and the related notes thereto, for further discussion of our accounting policies.

### Revenue Recognition

On January 1, 2018 we adopted Accounting Standards Update (“ASU”) 2014-09 Revenue from Contracts with Customers (FASB ASC Topic 606) using the modified retrospective method for contracts that were not completed as of January 1, 2018. We did not result in an adjustment to the retained earnings upon adoption of this new guidance as the Company’s revenue was recognized based on the amount of consideration we expect to receive in exchange for satisfying the performance obligations.

The core principle underlying the revenue recognition ASU is that the Company will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This will require the Company to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. The Company’s revenue streams are recognized at a point in time.

The ASU requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that the Company (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation. The application of the five-step model to the revenue streams compared to the prior guidance did not result in significant changes in the way the Company records its revenue. Upon adoption, the Company evaluated its revenue recognition policy for all revenue streams within the scope of the ASU under previous standards and using the five-step model under the new guidance and confirmed that there were no differences in the pattern of revenue recognition.

The Company continues to derive its revenues from sales contracts with its customers with revenues being recognized upon delivery of products. Persuasive evidence of an arrangement is demonstrated via sales contract and invoice; and the sales price to the customer is fixed upon acceptance of the sales contract and there is no separate sales rebate, discount, or volume incentive. The Company recognizes revenue when title and ownership of the goods are transferred upon shipment to the customer by the Company to consider control of goods are transferred to its customer and collectability of payment is reasonably assured. The Company’s revenues are recognized at a point in time after all performance obligations are satisfied.

The Company’s customers are mainly agricultural cooperative company and distributors who then resell the Company’s products to individual farmers. Because the crop growing cycle usually takes approximately 3 to 9 months in the agricultural industry for some of these Co-ops and distributors, will take approximately similar time frame of 3 to 9 months for farmers to harvest crops and to realize profits to repay the resellers. As a result, for the sales contracts with these customers, the collectability of payment is highly dependent on the successful harvest of crops and the customers’ ability to collect money from farmers. The Company deemed the collectability of payment may not be reasonably assured until after the Company get paid. Collectability is a necessary condition for the contract to be accounted for to meet the criteria of the first step “identifying the contract with the customer” under the new revenue guidance in ASC 606. As a result, the sales contracts with these customers are not considered a contract under ASC 606, thus the shipments under these contracts are not recognized as revenue until all criteria for “identifying the contract with the customer” and revenue recognition are met using the five-step model.

### Deferred Revenue and Deferred Cost of Goods Sold

Deferred revenue and deferred cost of goods sold result from transactions where the Company has shipped product for which all revenue recognition criteria under the five-step model have not yet been met. Though these contracts are not considered a contract under ASC 606, they are legally enforceable, and the Company has an unconditional and immediate right to payment after the Company has shipped products, therefore, the Company recognizes a receivable and a corresponding deferred revenue upon shipment. Deferred cost of goods sold related to deferred product revenues includes direct inventory costs. Once all revenue recognition criteria under the five-step model have been met, the deferred revenues and associated cost of goods sold are recognized. The Company's provision for deferred cost of goods sold is made based on historical collection experience on such related accounts receivable and realizability of deferred revenue.

### Accounts receivable and allowance for doubtful accounts

Accounts receivable represent customer accounts receivables. The Company provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The Company's estimate is based on historical collection experience, the economic environment trends in the microbial fertilizer industry, and a review of the current status of trade accounts receivable. Management reviews its accounts receivable each reporting period to determine if the allowance for doubtful accounts is adequate. Such allowances, if any, would be recorded in the period the impairment is identified. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. Uncollectible accounts receivables are charged against the allowance for doubtful accounts when all reasonable efforts to collect the amounts due have been exhausted.

### Impairment of Long-Lived Assets

The Company's long-lived assets consist of property and equipment. The Company evaluates its investment in long-lived assets for recoverability whenever events or changes in circumstances indicate the net carrying amount may not be recoverable. It is possible that these assets could become impaired as a result of legal factors, market conditions, operational performance indicators, technological or other industry changes. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

### Income Taxes

The Company accounts for income taxes under the provisions of FASB ASC Topic 740, "Income Tax," which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax assets and liabilities are recognized for the future tax consequence attributable to the difference between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are measured using the enacted tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company establishes a valuation when it is more likely than not that the assets will not be recovered.

ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes," defines uncertainty in income taxes and the evaluation of a tax position as a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax

position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred.

### **Liquidity and Capital Resources**

In assessing our liquidity, we monitor and analyze our cash on-hand and our operating and capital expenditure commitments. Our liquidity needs is to meet our working capital requirements, operating expenses and capital expenditure obligations. As of June 30, 2019, Kiwa Hebei is committed to pay a RMB10,000,000 based on the payment milestone in the equity purchase agreement.

Our business is capital intensive as we need to make advance payment to our suppliers to secure timely delivery and current market price of raw materials. Debt financing in the form of notes payable and loans from related parties have been utilized to finance our working capital requirements. As of June 30, 2019, our working capital was approximately \$12.3 million and we had cash of \$10,099, with remaining current assets mainly composed of advance to suppliers, account receivable, prepaid expense, inventory and deferred cost of goods sold. In addition, we sold Convertible Promissory Notes (“Notes”) in the aggregate principal amount of \$1,665,000.00 in February and March 2019.

We may have to consider supplementing our available sources of funds for operations through the following sources:

- We will continuously seek additional equity financing to support our working capital;
- other available sources of financing from PRC banks and other financial institutions; and
- financial support and credit guarantee commitments from our major shareholder.

Based on the above considerations, our management is of the opinion that it does not have sufficient funds to meet our working capital requirements and debt obligations as they become due one year from the date of this report. If the Company can’t raise enough funds, it might be unable to fund our future cash requirement on a timely basis and under acceptable terms and conditions and may not have sufficient liquidity to maintain operations and repay our liabilities for the next twelve months. As a result, we may be unable to implement our current plans for expansion, repay our debt obligations or respond to competitive pressures, any of which would have a material adverse effect on our business, prospects, financial condition and results of operations.

The following table set forth summary of our cash flows for the periods indicated:

	<b>For the six months ended</b>	
	<b>June 30,</b>	
	<b>2019</b>	<b>2018</b>
Net cash provided by (used in) operating activities	\$ (1,530,963)	\$ 3,758,521
Net cash used in investing activities	(38,890)	(3,488)
Net cash provided by financing activities	994,523	444,711
Effect of exchange rate changes on cash	577,570	(201,693)
Net increase in cash	2,240	3,998,051
Cash, beginning of period	7,859	1,083,539
Cash, end of period	<u>\$ 10,099</u>	<u>\$ 5,081,590</u>

#### *Operating Activities*

Net cash used in operating activities was approximately \$1.5 million for the six months ended June 30, 2019, compare to cash provided in operating activities of approximately \$3.8 million for the same period in 2018. Net cash used in operating activities for the six months ended June 30, 2019 was primarily attributable to 1) a net loss of approximately \$1.9 million, 2) increase of approximately \$7.5 million advance to suppliers as we want to secure the current market price of raw materials purchases, 3) increase of approximately \$0.2 million account receivable as we increased on our credit sales, 4) decrease of approximately \$0.1 million advance from customers and 5) decrease of approximately \$0.1 million other payables and accruals. This cash outflow is offset by 6) approximately \$2.4 million provision for deferred cost of goods sold as the collectability of our previously deferred revenues are exhausted, 7) decrease approximately \$1.5 million inventory as we utilized our existing inventories for production instead of purchasing new raw materials, 8) increase of approximately \$1.2 million tax payables, 9) an approximately \$1.1 million of non-cash stock compensation issued for consulting fees and officer salaries, 10) increase of approximately \$1.0 million account payables, 11) decrease approximately 0.4 million on prepaid expenses, 12) increase approximately \$0.2 million salary payables, 13) an approximately 0.4 million bad debt expense as allowance on advance to suppliers and other receivables, and 14) an approximately \$0.1 million accrued interest and penalties due to two new issued convertible notes in March 2019.

#### Investing Activities

Net cash used in investing activities was \$38,890 in the six months ended June 30, 2019, which was mainly attributable to purchase of office equipment. Net cash used in investing activities was \$3,488 for the six months ended June 30, 2018.

#### Financing Activities

Net cash provided by financing activities was approximately \$1.0 million for the six months ended June 30, 2019 and net cash provided by financing activities was approximately \$0.4 million for the six months ended June 30, 2018. The cash inflow for the six months ended June 30, 2019 was mainly due to an approximately \$1.2 million proceed from two new issued convertible notes, which offset by an approximately \$0.3 million net payment to related parties.

### **Trends and Uncertainties in Regulation and Government Policy in China**

#### **Foreign Exchange Policy Changes**

China is considering allowing its currency to be freely exchangeable for other major currencies. This change will result in greater liquidity for revenues generated in Renminbi (“RMB”). We would benefit by having easier access to and greater flexibility with capital generated in and held in the form of RMB. The majority of our assets are located in China and most of our earnings are currently generated in China and are therefore denominated in RMB. Changes in the RMB-U.S. Dollar exchange rate will impact our reported results of operations and financial condition. In the event that RMB appreciates over the next year as compared to the U.S. Dollar, our earnings will benefit from the appreciation of the RMB. However, if we have to use U.S. Dollars to invest in our Chinese operations, we will suffer from the depreciation of U.S. Dollars against the RMB. On the other hand, if the value of the RMB were to depreciate compared to the U.S. Dollar, then our reported earnings and financial condition would be adversely affected when converted to U.S. Dollars.

From the end of 2018 through June 30, 2019, the value of the RMB depreciated by approximately 0.2% against the U.S. Dollar. With the development of the foreign exchange market and progress towards interest rate liberalization and RMB internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the RMB will not appreciate or depreciate significantly in value against the U.S. Dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. Dollar in the future. The exchange rate of U.S. Dollar against RMB on June 30, 2019 was US\$1.00 = RMB 6.8656.

## **Commitments and Contingencies**

See Note 19 to the Unaudited Condensed Consolidated Financial Statements under Item 1 in Part I.

## **Off-Balance Sheet Arrangements**

At June 30, 2019, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **(a) Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of the end of the quarterly period covered by this report, have concluded that our disclosure controls and procedures are not effective as of June 30, 2019 to reasonably ensure that material information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's Rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The principal basis for this conclusion is due to (i) failure to engage sufficient resources in regard to our accounting and reporting obligations and (ii) failure to fully document our internal control policies and procedures.

### **(b) Changes in Internal Control over Financial Reporting**

On January 1, 2019, we adopted Accounting Standards Update ("ASU") 2016-02 Leases (FASB ASC Topic 842). There have not been any other changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) under the Exchange Act) during the current quarter ended June 30, 2019 to have materially affected the Company's internal control over financial reporting.

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## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 1A. RISK FACTORS**

Smaller reporting companies are not required to provide the information required by this item.

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

The following is a list of shares of Company Common Stock issued for cash, the conversion of convertible debentures or as stock compensation to consultants during the period from January 1, 2019 through August 19, 2019, which were not registered under the Securities Act:

Commitment shares	1,097,500 shares
Consultant Fees	784,999 shares
Conversion of Convertible Note	395,959 shares
Salary Compensation	20,657 shares
Debt Settlement	300,000 shares
Total	2,494,116 shares

There were no other sales of unregistered securities not already reported on the Company's quarterly filings on Form 10-Q or on a Current Report on Form 8-K.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

<b>Exhibit No.</b>	<b>Description</b>
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<a href="#">31.1/31.2</a>	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
<a href="#">32.1/32.2</a>	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

### SIGNATURES

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

Date: August 19, 2019

**KIWA BIO-TECH PRODUCTS GROUP  
CORPORATION.**

By */s/ Yvonne Wang*

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Yvonne Wang  
Chief Executive Officer  
(Principal Executive Officer)

By */s/ Hon Man Yun*

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Hon Man Yun  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Yvonne Wang, certify that:

1. I have reviewed this Form 10-Q for the period ended June 30, 2019 of Kiwa Bio-Tech Products Group Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2019

/s/ Yvonne Wang

Yvonne Wang  
Principal Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Hon Man Yun, certify that:

1. I have reviewed this Form 10-Q for the period ended June 30, 2019 of Kiwa Bio-Tech Products Group Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure

controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2019

/s/ Hon Man Yun

Hon Man Yun  
Principal Financial Officer

**EXHIBIT 32.1**

**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Kiwa Bio-Tech Products Group Corporation, a Nevada corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The quarterly report on Form 10-Q for the period ended June 30, 2019 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 19, 2019

/s/ Yvonne Wang

Yvonne Wang  
Principal Executive Officer

A signed original of this written statement required by Section 906 has been provided to KIWA BIO-TECH PRODUCTS GROUP CORPORATION and will be retained by KIWA BIO-TECH PRODUCTS GROUP CORPORATION and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**CERTIFICATIONS PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Kiwa Bio-Tech Products Group Corporation, a Nevada corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The quarterly report on Form 10-Q for the period ended June 30, 2019 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 19, 2019

/s/ Hon Man Yun

Hon Man Yun  
Principal Financial and Accounting Officer

A signed original of this written statement required by Section 906 has been provided to KIWA BIO-TECH PRODUCTS GROUP CORPORATION and will be retained by KIWA BIO-TECH PRODUCTS GROUP CORPORATION and furnished to the Securities and Exchange Commission or its staff upon request.