10-Q 1 dtss-20161231_10q.htm FORM 10-Q FOR PERIOD ENDING DECEMBER 31, 2016

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 December 31, 2016

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

Commission file number 333-202071

DATASEA INC.

(Exact name of registrant as specified in its charter)

Nevada	**45-2019013**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Xinghuo Rd. Changning Building, Suite 11D2E Fengtai District, Beijing, P.R. China	**100070**
(Address of principal executive offices)	(Zip Code)

(86)10-58401996

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☒

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

Number of shares of issuer's common stock outstanding as of February 13, 2017 was 56,154,771.

DATASEA INC.

TABLE OF CONTENTS

Table of Contents

PART I – FINANCIAL INFORMATION

Table of Contents

Table of Contents

DATASEA INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2016 (Unaudited)	June 30, 2016 (Audited)
ASSETS		
Current Assets		
Cash	$ 325,144	$ 11,802
Inventory	10,463	—
Project in progress	8,308	229,495
Prepaid expenses and other current assets	75,213	94,757
Total Current Assets	419,128	336,054
Property and equipment, net	73,074	102,501
Intangible assets, net	11,206	12,379
Total Assets	$ 503,408	$ 450,934
LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)		
Current Liabilities		
Accounts payable	$ 44,533	$ 197,970
Accrued expenses and other payables	62,887	75,784
Loan payable-shareholder	104,288	176,621
Total Current Liabilities	211,708	450,375
Stockholders' Equity(Deficit)		
Common stock, $0.001 par value, 375,000,000 shares authorized, 55,952,271 and 20,000,000 shares issued and outstanding at December 31, 2016 and June 30, 2016, respectively (1)	55,952	55,387
Additional paid-in capital(1)	2,057,756	1,278,621
Accumulated comprehensive loss	(15,010)	(5,859)
Accumulated deficit	(1,806,998)	(1,327,590)
Total Stockholders' Equity(Deficit)	291,700	559
Total Liabilities and Stockholders' Equity(Deficit)	$ 503,408	$ 450,934

See accompanying notes to the condensed consolidated financial statements

(1) Giving retrospective effect to the exchange agreement (Note 1) and the effect of a 5-for-1 forward split (Note 11).

Table of Contents

DATASEA INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Revenues	$ 132,964	$ —	$ 132,964	$ —
Cost of Goods	139,018	—	139,018	—
Gross Loss	(6,054)	—	(6,054)	—
Operating expenses:				
Selling expenses	10,374	—	55,092	—
General and administrative expenses	207,542	397,589	432,718	559,924
Total operating expenses:	217,916	397,589	487,810	559,924
Loss from operation	(223,970)	(397,589)	(493,864)	(559,924)
Other income :				
Other (expense)income, net	11,226	—	14,254	—
Interest income	171	4	203	38
Total other income	11397	4	14,457	38
Loss before provision for income taxes	(212,573)	(397,585)	(479,408)	(559,886)
Income tax provision	—	—	—	—
Net loss	(212,573)	(397,585)	(479,408)	(559,886)
Other comprehensive loss				
Foreign currency translation adjustment	(48,083)	(2,867)	(9,151)	(3,900)
Total comprehensive loss	$ (260,656)	$ (400,452)	$ (488,559)	$ (563,786)
Net loss per share				
Basic and diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.02)
Weighted average shares outstanding(1)				
Basic and diluted	55,808,141	44,347,826	55,618,521	32,173,913

See accompanying notes to the condensed consolidated financial statements

Table of Contents

DATASEA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31, 2016	Six Months Ended December 31, 2015
Cash flows from operating activities:		
Net loss	$ (479,408)	$ (559,886)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	34,984	7,242
Changes in current assets and current liabilities:		
Project in progress	206,727	—
Prepaid expenses and other current assets	15,953	2,336
Accounts payable	(149,173)	—
Accrued expenses and other payables	(10,694)	20,259
Net cash used in operating activities	(381,611)	(530,049)
Cash flows from investing activities:		
Cash received from merger		12,618
Acquisition of office equipment and intangible assets	(8,540)	(21,134)
Net cash used in investing activities	(8,540)	(8,516)
Cash flows from financing activities:		
Payment to related party	(66,672)	(8,798)
Loan from shareholder		10,217
Issuance of common stock	779,700	—
Capital contribution	—	651,435
Net cash provided by financing activities	713,028	652,854
Effect of exchange rate changes on cash	(9,535)	(5,039)
Net increase in cash	313,342	109,250
Cash – beginning of period	11,802	5,904
Cash – ending of period	$ 325,144	$ 115,154
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ —	$ —
Cash paid for income tax	$ —	$ —
Non-cash operating activity:		
Reclassification of Project in progress to Inventory	$ 10,463	$ —

See accompanying notes to the condensed consolidated financial statements

Table of Contents

DATASEA INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Datasea Inc. (the "Company") was incorporated in the State of Nevada on September 26, 2014 under the name Rose Rock Inc. and changed its name to Datasea Inc. on May 27, 2015 by amending its articles of incorporation.

On May 26, 2015, the Company's founder, Xingzhong Sun, sold 20,000,000 shares of common stock, par value $0.001 per share, of the Company (the "Common Stock") to Zhixin Liu, one of the owners of Shuhai Skill (HK) as defined below. On October 27, 2016, Mr. Sun sold his remaining 5,000,000 shares of Common Stock of the Company to Ms. Liu.

On October 29, 2015, the Company entered into a share exchange agreement (the "Exchange Agreement") with the shareholders (the "Shareholders") of Shuhai Information Skill (HK) Limited ("Shuhai Skill (HK)"), a limited liability company incorporated on May 15, 2015 under the laws of the Hong Kong Special Administrative Region of the People's Republic of China (the "PRC"). Pursuant to the terms of the Exchange Agreement, the Shareholders, who together own 100% of the ownership rights in Shuhai Skill (HK), transferred all of the issued and outstanding ordinary shares of Shuhai Skill (HK) to the Company in exchange for the issuance of an aggregate of 4,000,000 (20,000,000 after the forward split described in Note 9) shares of Common Stock, thereby causing Shuhai Skill (HK) and its wholly owned subsidiaries, Tianjin Information Sea Information Technology Co., Ltd. ("Tianjin Information"), a limited liability company incorporated under the laws of the PRC, and Harbin Information Sea Information Technology Co., Ltd.("Harbin Information"), ', a limited liability company incorporated under the laws of the PRC, to become wholly-owned subsidiaries of the Company, and Shuhai Information Technology Co., Ltd., also a limited liability company incorporated under the laws of the PRC ("Shuhai Beijing"), to become a variable interest entity ("VIE") of the Company through a series of contractual agreements between Shuhai Beijing and Tianjin Information. The transaction was accounted for as a reverse merger, with Shuhai Skill (HK) and its subsidiaries being the accounting survivor. Accordingly, the historical financial statements presented are those of Shuhai Skill (HK).

Following the Share Exchange, the Shareholders, being Zhixin Liu and her father, Fu Liu, owned approximately 85.45% of the outstanding shares of Common Stock. As of October 29, 2015, there were 55,000,000 shares of Common Stock issued and outstanding, 47,000,000 of which were beneficially owned by Zhixin Liu and Fu Liu.

After the Share Exchange, the Company, through its wholly owned subsidiaries and VIE entities, is engaged in the business of providing Internet security products, new media advertising, micro-marketing, and data analysis services in the PRC.

NOTE 2 – GOING CONCERN

The accompanying unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the accompanying unaudited condensed consolidated financial statements, the Company generated revenue of $132,964 but had gross loss of $6,054 during three and six months ended December 31, 2016, has an accumulated deficit of $1,806,998 at December 31, 2016, and has incurred losses since inception. 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 Company's management recognizes that the Company must generate sales and additional resources to enable it to continue to develop its operations. Based on increased demand for internet services in China, including internet security and big data integration, the Company's management team expects a healthy growth in its business. The Company's management intends to raise additional financing through debt and equity financing or through other means that it deems necessary, with a view to moving forward and sustaining prolonged growth in its initial phases. However, no assurance can be given that the Company will be successful in raising additional capital.

Table of Contents

DATASEA INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements include the financial statements of the Company and its 100% owned subsidiaries of Shuhai Skill (HK), Tianjin Information, Harbin Information and VIE, Shuhai Beijing.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments and elimination of intercompany transactions upon consolidation) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in the annual condensed consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and notes for the year ended June 30, 2016. The results of the three and six month periods ended December 31, 2016 are not necessarily indicative of the results to be expected for the full year ending June 30, 2017.

USE OF ESTIMATES

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant areas requiring the use of management estimates include, but are not limited to, estimated useful life and residual value of property, plant and equipment, provision for staff benefit, recognition and measurement of deferred income taxes and valuation allowance for deferred tax assets. Although these estimates are based on management's knowledge of current events and actions management may undertake in the future, actual results may ultimately differ from those estimates and such differences may be material to our consolidated financial statements.

CONTINGENCIES

Certain conditions may exist as of the date the unaudited condensed 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's management and legal counsel assess 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 unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. 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, the estimated liability would be accrued in the Company's 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, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

START-UP COSTS

In accordance with ASC 720, "Start-up Costs," the Company expenses all costs incurred in connection with the start-up and organization of the Company.

Table of Contents

DATASEA INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits and short-term cash investments that are highly liquid in nature and have original maturities of three months or less. The Company has no cash equivalents as of December 31, 2016 and June 30, 2016.

INVENTORY

Inventory is stated at the lower of cost or market. Cost is determined using the weighted-average cost method. Provisions are made for excess, slow moving and obsolete inventory as well as inventory whose carrying value is in excess of net realizable values, if any. As of December 31, 2016. The Company reclassified $10,463 from project in progress to inventory since the Company purchased more materials for Daqing Project and the Project was completed in December 2016.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Major repairs and improvements that significantly extend original useful lives or improve productivity are capitalized and depreciated over the period benefited. Maintenance and repairs are expensed as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method over estimated useful lives as follows:

Furniture and fixtures	5-10 years
Office equipment	3-5 years

Leasehold improvements are depreciated on a straight-line method over the shorter of estimated useful lives or lease terms.

INTANGIBLE ASSETS

Intangible assets with finite lives are amortized using the straight-line method over their estimated period of benefit. Evaluation of the recoverability of intangible assets is made to take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of our intangible assets are subject to amortization. The Company acquired Value added telecommunications business license on September 28, 2015. No impairment of intangible assets has been identified as of the balance sheet dates.

Intangible assets include licenses and certificates and are amortized over their useful life of five years.

FAIR VALUE MEASUREMENTS AND DISCLOSURES

FASB ASC Topic 820, "Fair Value Measurements," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The three levels are defined as follows:

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

Certain of the Company's financial instruments, including cash, accrued expenses and other payables, are carried at costs, which approximate their fair values due to their short maturities.

Table of Contents

DATASEA INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2016, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at fair value on a recurring basis.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets such as property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, or it is reasonably possible that these assets could become impaired as a result of technological or other industrial changes. The determination of recoverability of assets to be held and used is made by comparing the carrying amount of an asset to future undiscounted cash flows to be generated by the assets.

If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. During the reporting periods there was no impairment loss recognized on long-lived assets.

REVENUE RECOGNITION

The Company recognizes revenues from professional services contracts. Customers are billed, according to individual agreements. Revenues from professional services are recognized on a completed-contract basis, in accordance with ASC Topic 605-35, "Construction-Type and Production-Type Contracts." Under the completed-contract basis, contract costs are recorded to projects in process and billings and/or cash received are recorded to a deferred revenue liability account during the periods of construction. Costs include direct material, direct labor and subcontract labor. All revenues, costs, and profits are recognized in operations upon completion of the contract. A contract is considered completed when all costs except insignificant items have been incurred and final acceptance has been received from the customer. Corporate general and administrative expenses are charged to the periods as incurred. However, in the event a loss on a contract is foreseen, the Company will recognize the loss as incurred. For uncompleted contracts, the deferred asset (accumulated contract costs) in excess of the deferred liability (billings and/or cash received) is classified under current assets as costs in excess of billings on uncompleted contracts. The deferred liability (billings and/or cash received) in excess of the deferred asset (accumulated contract costs) is classified under current liabilities as billings in excess of costs on uncompleted contracts. Contract retentions are included in accounts receivable.

In January 2016, the Company secured a government procurement contract with the Bureau of Public Security of Daqing City in Heilongjiang Province. As of December 31, 2016, the project has been completed.

INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates 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 the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available
positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods.

Table of Contents

DATASEA INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

disclosure, and transition. The Company has no material uncertain tax positions for any of the reporting periods presented.

CONCENTRATION OF CREDIT RISK

The Company maintains cash in accounts with state-owned banks within the PRC. Cash in state-owned banks is not covered by insurance. Should any of these institutions holding the Company's cash become insolvent, or if the Company is unable to withdraw funds for any reason, the Company could lose the cash on deposit with that institution. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in these bank accounts.

FOREIGN CURRENCY TRANSLATION AND COMPREHENSIVE INCOME (LOSS)

The accounts of the Company's Chinese subsidiary are maintained in RMB and the accounts of the U.S. parent company are maintained in USD. The accounts of the Chinese subsidiary were translated into USD in accordance with Accounting Standards Codification ("ASC") Topic 830 "Foreign Currency Matters." All assets and liabilities were translated at the exchange rate on the balance sheet date; stockholders' equity is translated at historical rates and statement of income items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC Topic 220, "Comprehensive Income." Gains and losses resulting from the foreign currency transactions are reflected in the statements of income.

The Company follows FASB ASC Topic 220-10, "Comprehensive Income." Comprehensive income comprises net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities be presented as noncurrent on the balance sheet. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2015 (fiscal year 2017 for the Company). The Company adopted this guidance, prospectively, as of November 30, 2015.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" to increase the transparency and comparability about leases among entities. The new guidance requires lessees to recognize a lease liability and a corresponding lease asset for virtually all lease contracts. It also requires additional disclosures about leasing arrangements. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, and requires a modified retrospective approach to adoption. Early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In April 2016, FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of this new standard on its unaudited condensed consolidated financial statements.

In May 2016, FASB issued ASU No. 2016-12—Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients, which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company is assessing the impact of the adoption of the ASU on its unaudited condensed consolidated financial statements, disclosure requirements and methods of adoption.

Table of Contents

DATASEA INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	December 31, 2016	June 30, 2016
Office furniture and fixtures	$ 56,668	59,191
Office equipment	36,778	33,270
Leasehold improvements	41,280	39,591
Subtotal	134,726	132,052
Less: Accumulated depreciation	61,652	29,551
Total	$ 73,074	$ 102,501

Depreciation expenses for the six months ended December 31, 2016 and 2015 were $34,320 and $6,778 respectively. Depreciation expenses for the three months ended December 31, 2016 and 2015 were $28,315 and $3,638, respectively.

NOTE 5 –INTANGIBLE ASSETS

Intangible assets are summarized as follows:

	December 31, 2016	June 30, 2016
Software registration right	$ 1,356	1,417
Value-added telecommunications business license	11,548	12,062
Subtotal	12,905	13,479
Less: Accumulated depreciation	1,698	1,100
Total	$ 11,206	12,379

The Company acquired intangible assets during September and December 2015, amortization expenses for the six months ended December 31, 2016 and 2015 were $663 and $427, respectively. Amortization expenses for the three months ended December 31, 2016 and 2015 were $327 and $318, respectively.

NOTE 6 –PROJECTS IN PROGRESS

Projects in progress represent costs accumulated on projects at various stages of completion. Projects in progress are classified as short-term because the projects are expected to be completed within one year.

NOTE 7 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following

	December 31, 2016	June 30, 2016
Security deposit	$ 31,251	$ 25,941
Prepaid expenses	41,064	37,305
Others	2,898	31,511
Total	$ 75,213	$ 94,757

Table of Contents

DATASEA INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 8 – ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payable consisted of the following:

	December 31, 2016	June 30, 2016
Deposit	$ 28,803	$ 15,043
Salary payable	33,777	31,850
Commission	—	9,869
Others	307	19,022
Total	$ 62,887	$ 75,784

NOTE 9 – RELATED PARTY TRANSACTIONS

The Company's President, Zhixin Liu, paid certain operating expenses on behalf of the Company. As of December 31, 2016 and June 30, 2016, the amounts due to Ms. Liu were $104,288 and $176,621, respectively. These amounts are interest-free, unsecured and due on demand. Ms. Liu expects this loan to be repaid. As of December 31, 2016, the Company has not received any demand for payments.

On January 1, 2016, Ms. Liu entered into a car rental agreement with the Company. Pursuant to the agreement, the Company rents a car from Ms. Liu for a monthly rent of approximately $750. The agreement expires on December 31, 2016. The agreement was renewed and the term was extended to December 31, 2018.

NOTE 10 – INCOME TAXES

The Company was incorporated in the United States of America, is subject to U.S. tax and files U.S. federal income tax returns. The Company conducts all of its businesses through its subsidiaries and affiliated entity. The Company's effective tax rate is 15% for income tax for the three and six months ended December 31, 2016. Based on the weight of available evidence, including cumulative losses since inception and expected future losses, the Company has determined that it is more likely than not that the deferred tax asset amount will not be realized and therefore a valuation allowance has been provided on net deferred tax assets.

The Company's offshore subsidiary, Shuhai Skill (HK), did not earn any income that was derived in Hong Kong for the three and six months ended December 31, 2016, and therefore did not incur any Hong Kong Profit tax.

Under the Corporate Income Tax Law of the People's Republic of China, the Company's offshore subsidiaries in PRC has effective tax rate of 25%.

NOTE 11 – SHAREHOLDERS' EQUITY

On November 17, 2015, the Company affected a five-for-one forward split of the Common Stock, increasing the number of authorized shares from 75,000,000 to 375,000,000 and the number of shares of issued and outstanding Common Stock from 11,000,000 to 55,000,000. The financial statements have been retroactively adjusted to reflect this forward split.

During the year ended June 30, 2016, the Company's President, Zhixin Liu, contributed RMB 4,256,300 ($683,485) to the Company.

In February and March 2016, the Company entered into subscription agreements with 42 individual investors and sold 207,000 shares of the Company's Common Stock at $0.92 and 40,000 shares of the Common Stock at $1.38 per share. The Company received the proceeds of $248,453 from sale of Common Stock.

On May 31, 2016, the Company entered into subscription agreements with 11 investors and sold 140,271 shares of the Company's Common Stock at $1.38 per share. The Company received the proceeds of $193,574 from sale of Common Stock.

Table of Contents

DATASEA INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 11 – SHAREHOLDERS’ EQUITY (Continued)

On August 14, 2016, the Company entered into subscription agreements with investors in China and sold 75,000 shares of Common Stock at $1.38 per share. The Company received the proceeds of $103,500 from sale of Common Stock.

On September 30, 2016, the Company entered into subscription agreements with investors in China and sold 230,000 shares of Common Stock at $1.38 per share. The Company received the proceeds of $317,400 from sale of Common Stock.

On November 20, 2016, the Company entered into subscription agreements with investors in China and sold 260,000 shares of Common Stock at $1.38 per share. The Company received the proceeds of $358,800 from sale of Common Stock.

NOTE 12 – COMMITMENTS

Lease Agreement

In February 2016, the Company leased another office in the same building under a one-year operating lease agreement. The lease will expire on February 28, 2017 and has a monthly rent of RMB 27,375 (or approximately U$4,056). Future rental payments due under the lease were RMB 54,750 (or approximately $8,112).

Rental expenses for the three and six months ended December 31, 2016 and 2015 were $12,168 and $24,335, respectively.

Warranty

In January 2016, the Company secured a government procurement contract with the Bureau of Public Security of Daqing City in Heilongjiang Province. Upon completion of such contract, the Company will be required to provide 5 years warranty for terminal features collection equipment and lifetime warranty for software updates. We estimated the cost will be RMB 393,000 (or approximately $58,227) with warranty period of 5 years.

NOTE 13 – SUBSEQUENT EVENTS

On January 20, 2017, the Company entered into subscription agreements with investors in China and sold 205,500 shares of Common Stock at $1.38 per share. The Company received the proceeds of $279,450 from sale of Common Stock.

Table of Contents

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions of performance; and statements of belief; and any statements of assumptions underlying any of the foregoing. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

In some cases, you can identify forward looking statements by terms such as "may," "intend," "might," "will," "should," "could," "would," "expect," "believe," "anticipate," "estimate," "predict," "potential," or the negative of these terms. These terms and similar expressions are intended to identify forward-looking statements. The forward-looking statements in this report are based upon management's current expectations and belief, which management believes are reasonable. However, we cannot assess the impact of each factor on our business or the extent to which any factor or combination of factors, or factors we are aware of, may cause actual results to differ materially from those contained in any forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements. These statements represent our estimates and assumptions only as of the date of this report. Except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including:

- uncertainties relating to our ability to establish and operate our business in China;
- uncertainties relating to general economic and business conditions;
- industry trends; changes in demand for our products and services;
- uncertainties relating to customer plans and commitments and the timing of orders received from customers;
- announcements or changes in our pricing policies or that of our competitors;
- unanticipated delays in the development, market acceptance or installation of our products and services;
- changes in Chinese government regulations;
- availability, terms and deployment of capital; relationships with third-party equipment suppliers; and
- political stability and economic growth in China.

Overview and Recent Developments

The Company was incorporated in the State of Nevada on September 26, 2014 under the name Rose Rock Inc. and changed its name to the current name on May 27, 2015 by amending its articles of incorporation.

Table of Contents

On October 29, 2015, the Company entered into an exchange agreement (the "Exchange Agreement") with Ms. Zhixin Liu and Mr. Fu Liu, the shareholders ("Shareholders") of Shuhai Information Skill (HK) Limited ("Shuhai Skill (HK)"). Pursuant to the terms of the Exchange Agreement, the Shareholders, who together owned 100% of the ordinary shares of Shuhai Skill (HK), transferred all of the issued and outstanding ordinary shares of Shuhai Skill (HK) to the Company in exchange for the issuance of an aggregate of 20,000,000 shares of the Company's Common Stock, thereby causing Shuhai Skill (HK) and its wholly foreign owned subsidiaries, Tianjin Information Sea Information Technology Co., Ltd., a limited liability company incorporated under the laws of the PRC ("Tianjin Information"), and Harbin Information Sea Information Technology Co., Ltd., a limited liability company incorporated under the laws of the PRC ("Harbin Information") became wholly-owned subsidiaries of the Company, and Shuahi Information Technology Co., Ltd., also a limited liability company incorporated under the laws of the PRC ("Shuhai Beijing"), became the Company's variable interest entity. The transaction was accounted for as a reverse merger, with Shuhai Skill (HK) and its subsidiaries being the accounting survivor. Accordingly, the historical financial statements presented are those of Shuhai Skill (HK).

On October 27, 2015, the Company's founder, Xingzhong Sun, sold all his 5,000,000 shares of Common Stock of the Company to Zhixin Liu. Following the transaction, Zhixin Liu and her father, Fu Liu, beneficially owned approximately 85.45% of the outstanding shares of Common Stock. As of October 29, 2015, there were 55,000,000 (post-split) shares of Common Stock issued and outstanding, 47,000,000 of which were owned by Zhixin Liu and Fu Liu.

On November 12, 2015, the Company effected a five-for-one forward split (the "Forward Split") of the Common Stock, pursuant to which each shareholder of the Company was issued five shares of Common Stock in exchange for each share of their then-issued Common Stock. In conjunction with the Forward Split, the Company's authorized shares of Common Stock increased from 75,000,000 shares to 375,000,000 shares. Immediately following the Forward Split, the Company had a total of 55,000,000 issued and outstanding shares of Common Stock.

Following the reverse merger, the Company, through its wholly owned subsidiaries and VIE, is in the business of providing Internet security products, new media advertising, micro-marketing, and data analysis services in the PRC.

The Company started to sell its products during the calendar year 2016. In January 2016, the Company secured a government procurement contract with the Bureau of Public Security of Daqing City in Heilongjiang Province. Pursuant to the contract, the Company installed wireless internet terminal collection equipment and 3G wireless network cards, as well as provided training services related to the use of the equipment for a total contract price of RMB1,050,000 (approximately $155,567). The project was accepted by the customer in the quarter ended December 31, 2016 and the Company recognized revenue of $132,964. The difference of $22,604 is the value added tax of 17%.

The Company believes that the increased demand for internet security equipment and related services in China, including internet security, micro marketing, new media advertising and big data integration, presents a great opportunity for the Company to establish and grow its business in the next twelve months.

During the quarter ended December 31, 2016, the Company focused on the development of its "Safe Campus" program that uses its Xin Platform to provide teachers, students and families with comprehensive campus information, student safety management and integrated education information. The Company is seeking to introduce this program to schools in Anhui Province and expects to execute sales contracts during the fourth quarter of fiscal year 2017.

Table of Contents

Results of Operations

Three and Six Months Ended December 31, 2016 and 2015

Revenue

The Company recognized its initial revenue of $132,964 during the quarter ended December 31, 2016 from the government procurement contract with the Bureau of Public Security of Daqing City in Heilongjiang Province.

Cost of Goods and Gross Loss

The Company recorded $139,018 of cost of goods for the three and six months ended December 31, 2016. The Company had gross loss of $6,054 for the three and six months ended December 31, 2016 since the project with the Bureau of Public Security of Daqing City is the first project completed and the cost of raw materials incurred is high.

Selling, General and Administrative Expenses

Selling expenses were $10,374 and $0 for the three months ended December 31, 2016 and 2015, respectively. Selling expense were $55,092 and $0 for the six months ended December 31, 2016 and 2015, respectively. The increase was primarily due to increase in salary since the Company hired additional employees to complete work under the procurement agreement with Bureau of Public Security of Daqing City.

For the three months ended December 31, 2016, we had general and administrative expenses of $207,542, as compared to those of $397,589 for the three months ended December 31, 3015, a decrease of approximately $190,047 or 47.8%. For the six months ended December 31, 2016, we had general and administrative expenses of $432,718, as compared to those of $599,924 for the six months ended December 31, 3015, a decrease of approximately $127,206 or 22.7%. The decreases in general and administrative expense were primarily attributable to decrease in professional fees related to reverse merger transactions in the year 2015.

Net Loss

As a result of the foregoing, net losses were $212,573 and $397,585 for the three months ended December 31, 2016 and 2015, respectively, and $479,408 and $559,886 for the six months ended December 31, 2016 and 2015, respectively.

Liquidity and Capital Resources

We have funded our operations to date primarily through the sale of equity securities, shareholder loans and capital contributions. Based on our current cash level and management's forecast of operating cash flows, management has determined that the Company will require additional funds to finance our planed operations for the next twelve months.

Due to our negative cash flow from operating activities since inception, there is substantial doubt about the Company's ability to continue as a going concern. The Company's management recognizes that the Company must generate sales and obtain additional financial resources to continue to develop its operations. Based on increased demand for internet services in China, including internet security and big data integration, the Company expects to continue to generate revenue during the fiscal year ending June 30, 2017, which will be used to fund its operations. In addition, the Company intends to raise additional funds through debt and equity financing or through other means that it deems necessary. However, there can be no assurance that financing will be available in amounts or terms acceptable to the Company, if at all.

As of December 31, 2016, we had a working capital of $207,420. Our current assets on December 31, 2016 were $419,128, primarily consisting of cash of $325,144, prepaid expenses and other current assets of $75,213. Our current liabilities were primarily composed of accounts payable of $44,533, accrued expenses and other payables of $62,887 and loans payable to a shareholder of $104,288.

Cash Flow in Operating Activities

Net cash used in operating activities was $381,611 during the six months ended December 31, 2016, which primarily consisted of our net loss of $497,408, offset by a noncash adjustment of $34,984, decrease in project in progress of $206,727 that included $117,243 from the return of defective products and a decrease in accounts payable of $149,173.

Net cash used in operating activities was $530,049 during the six months ended December 31, 2015, which previously consisted of our net loss of $559,886, offset by noncash adjustment of $7,242 and an increase of accrued expenses and other payables of $20,259.

Cash Flow in Investing Activities

Net cash used in investing activities totaled $8,540 for the six months ended December 31, 2016, which was primarily used for the acquisition of office equipment.

Net cash used in investing activities totaled $8,516 for the six months ended December 31, 2015 which primarily consisted of expenditure on the acquisition of office equipment and intangible assets of $21,134 partially offset by cash from the reverse merger of $12,618.

Cash Flow in Financing Activities

Net cash provided by financing activities was $713,028 during the six months ended December 31, 2016, which primarily consisted of the proceeds from sales of the Company’s common stock of $779,700 partially offset by the payment to related party of $66,672.

Net cash provided by financing activities was $652,854 during the six months ended December 31, 2015, which primarily consisted of capital contribution of $651,435 and proceeds from shareholder loan of $10,217, partially offset by payment on behalf of a related party in the amount of $8,798.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Contractual Obligations

In January 2016, the Company secured a government procurement contract with the Bureau of Public Security of Daqing City in Heilongjiang Province. Upon completion of such contract, the Company will be required to provide 5 years warranty for terminal features collection equipment and lifetime warranty for software updates. We estimated the cost will be RMB 393,000 (or approximately $58,227) with warranty period of 5 years.

Subsequent Event

On January 20, 2017, the Company entered into subscription agreements with investors in China and sold 205,500 shares of the Company’s Common Stock at $1.38 per share. The Company received the proceeds of $279,450 from sale of Common Stock.

Inflation

We do not believe our business and operations have been materially affected by inflation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable as we are currently considered a smaller reporting company.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15 of the Securities Exchange Act of 1934, our principal executive officer and principal financial officer evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of the end of the period covered by this report, these disclosure controls and procedures were not effective to ensure that the information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that such information is accumulated and communicated to our company's management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. The conclusion that our disclosure controls and procedures were not effective was due to the presence of the following material weaknesses in internal control over financial reporting which are indicative of many small companies with a small staff: (i) inadequate segregation of duties and effective risk assessment; (ii) lack of personnel adequately trained in U.S. GAAP; and (iii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both U.S. GAAP and SEC guidelines. Management anticipates that such disclosure controls and procedures will not be effective until the above material weaknesses are remediated.

We plan to take steps to enhance and improve the design of our internal controls over financial reporting. During the period covered by this report, we have not been able to remediate the material weaknesses identified above. To remediate such weaknesses, we plan to implement the following changes during our fiscal year ending June 30, 2017, subject to obtaining additional financing: (i) appoint additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopt sufficient written policies and procedures for accounting and financial reporting. The remediation efforts set out above are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any pending legal proceedings and no such proceedings are known to be contemplated.

No director, officer or affiliate of the issuer, and no owner of record or beneficiary of more than five percent of the securities of the issuer, or any security holder is a party adverse to the small business issuer or has a material interest adverse to the small business issuer.

ITEM 1A. RISK FACTORS

A smaller reporting company is not required to provide the information required by this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

On November 20, 2016 and January 20, 2017, the Company closed two private placement transactions pursuant to certain subscription agreements (the "Subscription Agreements") with a total of 45 investors (the "Investors"), all of whom are non-U.S. persons (as defined in Regulation S ("Regulation S") promulgated under the Securities Act of 1933, as amended (the "Securities Act")). The Investors are all individuals residing in the People's Republic of China.

Pursuant to the Subscription Agreements, the Company has issued and sold to the Investors, and the Investors have purchased from the Company, an aggregate of 462,500 shares (the "Shares") of common stock, par value $0.001 per share, of the Company, for a purchase price of $1.38 per share, for total cash proceeds of $638,250. Pursuant to the Subscription Agreements, the Company has no obligation to register the Shares for resale under the Securities Act.

The Shares were offered and sold in reliance upon Regulation S of the Securities Act and are exempt from the registration requirements of the Securities Act. The Shares have not been registered under the Securities Act or any other applicable securities laws and, unless so registered, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act. The Investors have acknowledged that the Shares issued have not been registered under the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit	Description
10.1	Form of Subscription Agreement, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 11, 2016.
31.1*	Certification by Chief Executive Officer and Chief Financial Officer pursuant to Sarbanes Oxley Section 302
32.1**	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS *	XBRL Instance Document
101.SCH *	XBRL Taxonomy Extension Schema Document
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document XBRL
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
** Furnished herewith.

Table of Contents

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATASEA INC.

Date: February 14, 2017

By:	/s/ Zhixin Liu
Name:	Zhixin Liu
Title:	Chief Executive Officer (principal executive officer) and Interim Chief Financial Officer (principal accounting and financial officer)