10-Q 1 f10q1219_dataseainc.htm QUARTERLY REPORT

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, 2019

☐ **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.)
20th Floor, Tower B, Guorui Plaza **1 Ronghua South Road, Technological Development Zone** **Beijing, People's Republic of China**	**100176**
(Address of principal executive offices)	(Zip Code)

+86 10-56145240
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value	**DTSS**	**NASDAQ Capital Market**

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

☐	Large accelerated filer	☐	Accelerated filer
☒	Non-accelerated filer	☒	Smaller reporting company
		☒	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

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

Securities registered pursuant to Section 12(b) of the Act: **None.**

As of February 14, 2020, 20,943,846 shares of common stock, $0.001 par value per share, were outstanding.

DATASEA INC.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

DATASEA INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2019

Table of Contents

DATASEA INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2019 (Unaudited)	June 30, 2019 (Audited)
ASSETS		
Current Assets		
Cash	$ 2,804,740	$ 6,072,637
Inventory	74,432	73,294
Prepaid expenses and other current assets	253,621	105,932
Total Current Assets	3,132,793	6,251,863
Property and equipment, net	242,458	41,116
Intangible assets, net	1,951,504	555,811
Prepaid expense - non current	126,396	-
Escrow	600,000	600,000
Right-of-use assets	1,114,892	-
Total Assets	$ 7,168,043	$ 7,448,790
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 52,771	$ 13,088
Accrued expenses and other payables	93,996	264,684
Advances from customer	1,300,638	1,318,897
Loan payable-shareholder	-	86,733
Operating lease liabilities	579,475	-
Total Current Liabilities	2,026,880	1,683,402
Other liability		
Operating lease liabilities	535,417	-
Total Other Liability	535,417	-
Total Liabilities	2,562,297	1,683,402.0
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $0.001 par value, 375,000,000 shares authorized, 20,943,846 shares issued and outstanding at December 31, 2019 and June 30, 2019, respectively	20,944	20,944
Additional paid-in capital	11,104,666	11,104,666
Accumulated comprehensive income	178,281	189,906
Deficit	(6,698,145)	(5,550,128)
Total Stockholders' Equity	4,605,746	5,765,388
Total Liabilities and Stockholders' Equity	$ 7,168,043	$ 7,448,790

See accompanying notes to the consolidated financial statements

DATASEA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenues	$ -	$ -	$ -	$ -
Cost of goods sold	194	-	194	-
Gross deficit	(194)	-	(194)	-
Operating expenses:				
Selling expenses	58,146	71,973	109,321	148,852
General and administrative expenses	638,157	275,582	945,416	502,153
Research and development expenses	69,158	41,114	120,365	103,885
Total operating expenses:	765,460	388,669	1,175,102	754,890
Loss from operations	(765,654)	(388,669)	(1,175,296)	(754,890)
Other income (expense) :				
Other (expense) income, net	3,088	460	(6,416)	(3,465)
Interest income	11,534	8,497	33,694	14,418
Total other income	14,622	8,957	27,278	10,953
Net loss	(751,032)	(379,712)	(1,148,018)	(743,937)
Other comprehensive loss				
Foreign currency translation adjustment	(18,238)	(7,450)	(11,625)	24,123
Total comprehensive loss	$ (769,270)	$ (387,162)	$ (1,159,643)	$ (719,814)
Net loss per share				
Basic and diluted	$ (0.04)	$ (0.02)	$ (0.05)	$ (0.04)
Weighted average shares outstanding				
Basic and diluted	20,943,846	19,445,150	20,943,846	19,308,455

See accompanying notes to the consolidated financial statements

DATASEA INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares	Par Value	Additional Paid in Capital	Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at June 30, 2018(audited)	19,170,846	$ 19,171	$ 5,121,102	(4,124,947)	$ 170,795	$ 1,186,121
Sale of common stock	84,000	84	244,581	-	-	244,665
Net loss	-	-	-	(371,659)	-	(371,659)
Foreign currency translation gain	-	-	-	-	31,573	31,573
Balance at September 30, 2018(unaudited)	19,254,846	19,255	5,365,683	(4,496,606)	202,368	1,090,700
Sale of common stock	21,500	22	62,759	-	-	62,781
Sale of common stock-offering	1,667,500	1,668	5,676,022			5,677,690
Net loss	-	-	-	(372,278)	-	(372,278)
Foreign currency translation gain	-	-	-		(7,450)	(7,450)
Balance at December 31, 2018(unaudited)	20,943,846	$ 20,945	$11,104,464	$(4,868,884)	$ 194,918	$ 6,451,443
Balance at June 30, 2019(audited)	20,943,846	$ 20,944	$11,104,666	$(5,550,128)	$ 189,906	$ 5,765,388
Net loss	-	-	-	(396,985)	-	(396,985)
Foreign currency translation gain	-	-	-	-	6,613	6,613
Balance at September 30, 2019(unaudited)	20,943,846	20,944	11,104,666	(5,947,113)	196,519	5,375,016
Net loss	-	-	-	(751,032)	-	(751,032)
Foreign currency translation gain	-	-	-	-	(18,238)	(18,238)
Balance at December 31, 2019(unaudited)	20,943,846	$ 20,944	$11,104,666	$(6,698,145)	$ 178,281	$ 4,605,746

See accompanying notes to the consolidated financial statements

DATASEA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	December 31, 2019	December 31, 2018
Cash flows from operating activities:		
Net loss	$ (1,148,018)	$ (743,937)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	13,186	19,319
Changes in current assets and current liabilities:		
Inventory	(2,121)	278
Prepaid expenses and other assets	(271,654)	1,409
Right-of-use assets	(1,097,886)	-
Accrued expenses and other payables	(163,636)	(71,915)
Operating lease liabilities	1,097,886	-
Net cash used in operating activities	(1,572,243)	(794,846)
Cash flows from investing activities:		
Acquisition of office equipment	(208,538)	(15,754)
Acquisition of intangible assets	(1,400,000)	(14,583)
Net cash used in investing activities	(1,608,538)	(30,337)
Cash flows from financing activities:		
Payment of loan payable - shareholder, net	(84,227)	(17,508)
Net proceeds from sale of common stock	-	4,748,422
Net proceeds from issuance of common stock	-	307,724
Net cash provided by financing activities	(84,227.00)	5,038,638
Effect of exchange rate changes on cash	(2,890)	28,567
Net (decrease) increase in cash	(3,267,897)	4,242,022
Cash – beginning of period	6,072,637	1,031,486
Cash – end of period	$ 2,804,740	$ 5,273,508
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ -	$ -
Cash paid for income tax	$ -	$ -

See accompanying notes to the consolidated financial statements

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Datasea Inc. (the "Company", or "we", "us", "our" or similar terminology) 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 6,666,667 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 1,666,667 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 6,666,667 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., 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) and its consolidated subsidiaries and VIE.

Following the Share Exchange, the Shareholders, being Zhixin Liu and her father, Fu Liu, owned approximately 82% of the outstanding shares of Common Stock. As of October 29, 2015, there were 18,333,333 shares of Common Stock issued and outstanding, 15,000,000 of which were beneficially owned by Zhixin Liu and Fu Liu.

On May 1, 2018, the Company implemented a 1 for 3 reverse stock split decreasing the shares outstanding from 57,511,711 to 19,170,846. The unaudited condensed consolidated financial statements have been retroactively adjusted to reflect the reverse split.

After the Share Exchange, the Company, through its consolidated subsidiaries and VIE is engaged in providing smart security solutions primarily to schools, tourist or scenic attractions and public communities in China.

On October 16, 2019, Shuhai Bejing incorporated a wholly owned subsidiary, Heilongjiang Xunrui Technology Co. Ltd., which is engaged in developing and marketing the Company's smart security system products.

On December 3, 2019, Shuhai Beijing formed Nanjing Shuhai Equity Investment Fund Management Co. Ltd. ("Shuhai Nanjing"), a joint venture in PRC, in which Shuhai Beijing holds a 99% ownership interest with the remaining 1% ownership held by Nanjing Fanhan Zhineng Technology Institute Co. Ltd, an unrelated party that was supported by both Nanjing Municipal Government and Beijing University of Posts and Telecommunications. Shuhai Nanjing was formed for purposes of easy access of government funding and private financing in new technology development and project incubation.

NOTE 2 – 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 and its VIE, Shuhai Beijing, and its subsidiaries.

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 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 consolidated financial statements and notes for the year ended June 30, 2019. The results for the three and six months ended December 31, 2019 are not necessarily indicative of the results to be expected for the full year ending June 30, 2020.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

VARIABLE INTEREST ENTITY

Pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Section 810, "Consolidation" ("ASC 810"), the Company is required to include in its consolidated financial statements, the financial statements of Shuhai Beijing, its VIE. ASC 810 requires a VIE to be consolidated if the company is subject to a majority of the risk of loss for the VIE or is entitled to receive a majority of the VIE's residual returns. A VIE is an entity in which a company, through contractual arrangements, bears the risk of, and enjoys the rewards normally associated with ownership of the entity, and therefore the company is the primary beneficiary of the entity.

Under ASC 810, a reporting entity has a controlling financial interest in a VIE, and must consolidate that VIE, if the reporting entity has both of the following characteristics: (a) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance; and (b) the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE. The reporting entity's determination of whether it has this power is not affected by the existence of kick-out rights or participating rights, unless a single enterprise, including its related parties and de - facto agents, have the unilateral ability to exercise those rights. Shuhai Beijing's actual stockholders do not hold any kick-out rights that affect the consolidation determination.

Through the VIE agreements, the Company is deemed the primary beneficiary of Shuhai Beijing and its subsidiaries. Accordingly, the results of Shuhai Beijing and its subsidiaries have been included in the accompanying unaudited condensed consolidated financial statements. Shuhai Beijing has no assets that are collateral for or restricted solely to settle their obligations. The creditors of Shuhai Beijing do not have recourse to the Company's general credit.

VIE Agreements

Operation and Intellectual Property Service Agreement – This agreement allows Tianjin Information to manage and operate Shuhai Beijing and collect 100% of their net profits. Under the terms of the Operation and Intellectual Property Service Agreement, Shuhai Beijing entrusts Tianjin Information to manage its operations, manage and control its assets and financial matters, and provide intellectual property services, purchasing management services, marketing management services and inventory management services to Shuhai Beijing. Shuhai Beijing and its shareholders shall not make any decisions nor direct the activities of Shuhai Beijing without Tianjin Information's consent.

Shareholders' Voting Rights Entrustment Agreement – Tianjin Information has entered into a shareholders' voting rights entrustment agreement (the "Entrustment Agreement") under which Zhixin Liu and Fu Liu (collectively the "Shuhai Beijing Shareholders") have vested their voting power in Shuhai Beijing to Tianjin Information or its designee(s). The Entrustment Agreement does not have an expiration date.

Equity Option Agreement –the Shuhai Beijing Shareholders and Tianjin Information entered into an equity option agreement (the "Option Agreement"), pursuant to which the Shuhai Beijing Shareholders have granted Tianjin.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Information or its designee(s) the irrevocable right and option to acquire all or a portion of Shuhai Beijing Shareholders' equity interests in Shuhai Beijing for an option price of RMB 0.001 for each capital contribution of RMB1.00. Pursuant to the terms of the Option Agreement, Tianjin Information and the Shuhai Beijing shareholders have agreed to certain restrictive covenants to safeguard the rights of Tianjin Information under the option Agreement. Tianjin Information agreed to pay RMB1.00 annually to Shuhai Beijing Shareholders to maintain the option rights. Tianjin Information may terminate the Option Agreement upon prior written notice. The Option Agreement is valid for a period of 10 years from the effective date and renewable at Tianjin Information's option.

Equity Pledge Agreement – Tianjin Information and the Shuhai Beijing Shareholders entered into an equity pledge agreement on October 27, 2015 (the "Equity Pledge Agreement"). The Equity Pledge Agreement serves to guarantee the performance by Shuhai Beijing of its obligations under the Operation and Intellectual Property Service Agreement and the Option Agreement. Pursuant to the Equity Pledge Agreement, Shuhai Beijing Shareholders have agreed to pledge all of their equity interests in Shuhai Beijing to Tianjin Information. Tianjin Information has the right to collect any and all dividends paid on the pledged equity interests during the pledge period. Pursuant to the terms of the Equity Pledge Agreement, the Shuhai Beijing Shareholders have agreed to certain restrictive covenants to safeguard the rights of Tianjin Information. Upon an event of default or certain other agreed events under the Operation and Intellectual Property Service Agreement, the Option Agreement and the Equity Pledge Agreement, Tianjin Information may exercise the right to enforce the pledge.

The following financial statement amounts and balances of the VIE were included in the accompanying consolidated financial statements as of December 31, 2019 and June 30, 2019 and for the three and six months ended December 31, 2019 and 2018, respectively:

	December 31, 2019 (Unaudited)	June 30, 2019
Current assets	$ 209,493	$ 1,573,413
Non-current assets	306,270	96,927
Total assets	$ 515,764	$ 1,670,340
Current liabilities	$ 5,940,253	$ 6,232,836
Non-current liabilities	-	-
Total liabilities	$ 5,940,253	$ 6,232,836

	For the Three Months Ended December 31, 2019	For the Three Months Ended December 31, 2018	For the Six Months Ended December 31, 2019	For the Six Months Ended December 31, 2018
Revenues	$ -	$ -	$ -	$ -
Gross profit (loss)	$ (194)	$ -	$ (194)	$ -
Net loss	$ (512,996)	$ (456,966)	$ (709,076)	$ (823,581)

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 periods. Actual results could differ from those estimates. The significant areas requiring the use of management estimates include, but are not limited to, the estimated useful life and residual value of property, plant and equipment, provision for staff benefits, recognition and measurement of deferred income taxes and the 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 unaudited condensed consolidated financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 unaudited condensed 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, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. As of December 31, 2019 and June 30, 2019, the Company has no such contingencies.

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.

INVENTORY

Inventory, comprised principally of smart student identification cards related to the Company's "Safe Campus" security product, as well as products associated therewith comprised of routers to be used in installations, is valued at the lower of cost or net realizable value. The value of inventory is determined using the first-in, first-out method. The Company periodically estimates an inventory allowance for estimated unmarketable inventories when necessary.

Inventory amounts are reported net of such allowances. There were no allowances for inventory as of December 31, 2019 and June 30, 2019**.**

ESCROW

Escrow represents cash held in an indemnification escrow account related to requirements of the financing agreement signed with the underwriter of the Company's initial public offering for a period of 18 months or longer subsequent to the closing of the initial public offering on December 21, 2018.

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
Vehicles	5 years
Lease improvement	3 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold improvements are depreciated utilizing the straight-line method over the shorter of their estimated useful lives or remaining lease term.

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 the Company's intangible assets are subject to amortization. No impairment of intangible assets has been identified as of the balance sheet dates.

Intangible assets include licenses, certificates, patents and other technology and are amortized over their useful life of five to ten 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 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 other than those in level 1 quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The carrying value of the Company's short-term financial instruments, such as accounts payable, approximate their fair values due to their short maturities.

As of December 31, 2019 and June 30, 2019, 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 FASB ASC 360-10, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets such as property 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 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 asset.

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 asset exceeds its fair value. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

On July 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09 Revenue from Contracts with Customers (ASC 606) using the modified retrospective method for contracts that were not completed as of July 1, 2018. This did not result in an adjustment to 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 ASC 606 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, based on when control of goods and services transfers to a customer.

ASC 606 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 each 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 ASC 606 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 is seeking to derive its revenues from professional service contracts with its customers, with revenues being recognized upon delivery of services and products. Persuasive evidence of an arrangement is demonstrated via professional service contracts and invoices; and the service price to the customer is fixed upon acceptance of the professional services contract. The Company will recognize revenue when professional service is rendered to the customer by the Company and collectability of payment is reasonably assured. These revenues will be recognized at a point in time after all performance obligations are satisfied.

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 period 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 also include the prior years' net operating losses carried forward. 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, disclosure, and transition. The Company has no material uncertain tax positions for any of the reporting periods presented.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed in the period when they are incurred. For the three and six months ended December 31, 2019, the Company incurred research and development expenses of $69,158 and $120,365, respectively. For the three and six months ended December 31, 2018, the Company incurred research and development expenses of $41,114 and $103,885, respectively.

CONCENTRATION OF CREDIT RISK

The Company maintains cash in accounts with state-owned banks within the PRC. Cash in state-owned banks less than RMB500,000 ($71,806) is 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.

Cash denominated in RMB with a U.S. dollar equivalent of $67,806 and $1,395,104 at December 31 and June 30, 2019, respectively, were held in accounts at financial institutions located in the PRC, which is not freely convertible into foreign currencies. The Company, its subsidiaries and VIE have not experienced any losses in such accounts and do not believe the cash is exposed to any significant risk. Cash held in accounts at U.S. financial institutions are insured by the Federal Deposit Insurance Corporation or other programs subject to certain limitations up to $250,000 per depositor. As of December 31, 2019, the cash balance of approximately $529,493 was maintained at U.S. financial institutions, of which approximately $279,500 was not insured. Cash was maintained at financial institutions in Hong Kong, and were insured by the Hong Kong Deposit Protection Board up to a limit of HK $500,000 (approximately $64,000). As of December 31, 2019, the cash balance of approximately $2,207,400 was maintained at financial institutions in Hong Kong, of which approximately $2,143,000 of cash balance was not insured.

FOREIGN CURRENCY TRANSLATION AND COMPREHENSIVE INCOME (LOSS)

The accounts of the Company's Chinese entities are maintained in RMB and the accounts of the U.S. parent company are maintained in United States dollars("USD") The accounts of the Chinese entities were translated into USD in accordance with 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 the statements of operations and cash flows are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income (loss) in accordance with ASC Topic 220, "Comprehensive Income." Gains and losses resulting from foreign currency transactions are reflected in the statements of operations.

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

The exchange rates used to translate amounts in RMB to USD for the purposes of preparing the consolidated financial statements were as follows

	December 31, 2019	December 31, 2018	June 30, 2019
Period end USD: RMB exchange rate	6.9632	6.8764	6.8668
Average USD: RMB exchange rate	7.0711	6.8587	6.8263

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02 Amendments to the ASC 842 Leases. This update requires a lessee to recognize the assets and liability (the lease liability) arising from operating leases on the balance sheet for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Within a twelve-month or less lease term, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. If a lessee makes this election, it should recognize lease expense on a straight-line basis over the lease term. The Company adopted ASU 2016-02 on July 1, 2019. The Company adopted the practical expedient that allows lessees to treat the lease and non-lease components a lease as single lease component. On July 1, 2019, the Company adopted the Topic 842, as of July 1, 2019, the adoption of this standard resulted in the recording of right-of use assets and operating lease liabilities, (see Note 10).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 ASU 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 ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Management 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 issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 removes, modifies and adds certain disclosure requirements in Topic 820 "Fair Value Measurement". ASU 2018-13 eliminates certain disclosures related to transfers and the valuations process, modifies disclosures for investments that are valued based on net asset value, clarifies the measurement uncertainty disclosure, and requires additional disclosures for Level 3 fair value measurements. ASU 2018-13 is effective for the Company for annual and interim reporting periods beginning August 1, 2020. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

In May 2019, the FASB issued ASU 2019-05, which is an update to ASU Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. The amendments in Update 2016-13 added Topic 326, Financial Instruments—Credit Losses, and made several consequential amendments to the Codification. Update 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis, in accordance with Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities. The amendments in this Update address those stakeholders' concerns by providing an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For those entities, the targeted transition relief will increase comparability of financial statement information by providing an option to align measurement methodologies for similar financial assets. Furthermore, the targeted transition relief also may reduce the costs for some entities to comply with the amendments in Update 2016-13 while still providing financial statement users with decision-useful information. ASU 2019-05 is effective for the Company for annual and interim reporting periods beginning August 1, 2020. The Company is currently evaluating the impact of this new standard on its consolidated financial statements and related disclosures.

Management does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying consolidated financial statements.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	December 31, 2019 (Unaudited)	June 30, 2019
Furniture and fixtures	$ 91,534	$ 83,437
Vehicle	2,872	2,913
Lease improvement	126,607	-
Office equipment	129,795	54,641
Subtotal	350,808	140,991
Less: accumulated depreciation	108,350	99,875
Total	$ 242,458	$ 41,116

Depreciation expense for the three months ended December 31, 2019 and 2018 was $4,490 and $6,186 respectively.

Depreciation expense for the six months ended December 31, 2019 and 2018 was $9,707 and $17,631 respectively.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets are summarized as follows:

	December 31, 2019 (Unaudited)	June 30, 2019
Software registration right	$ 37,319	$ 37,843
Patent	15,075	15,286
Technology development	1,900,000	500,000
Value-added telecommunications business license	11,516	11,678
Subtotal	1,963,910	564,807
Less: Accumulated amortization	12,406	8,996
Total	$ 1,951,504	$ 555,811

On May 28, 2019, the Company entered into an agreement with SDT Trade Co., Ltd., an unaffiliated party ("SDT"). SDT will assist the Company with technical development work related to the Company's security-related software and systems. Pursuant to the agreement, SDT will complete certain development work within twelve months and thereafter maintain the system for thirty-six months. The total amount to be paid under the agreement is $1,200,000. As of December 31, 2019, the Company paid SDT $1,000,000 recorded as prepayment. However, the development has not commenced yet since the Company has not finalized the technology specifications.

On July 2, 2019, the Company entered into a technology development service agreement with HW (HK) Limited, an unaffiliated party. Pursuant to the agreement, the Company appointed HW (HK) Limited to develop an eye protection technical system for a two period ending July 1, 2021. The total payments to made under the agreement is $1,200,000. As of December 31, 2019, the Company paid HW (HK) Limited $900,000 and the technology development is in process.

Amortization expense for the three months ended December 31, 2019 and 2018 were $1,726 and $806, respectively.

Amortization expense for the six months ended December 31, 2019 and 2018 were $3,479 and $1,618, respectively.

NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	December 31, 2019 (Unaudited)	June 30, 2019
Security deposit	$ 44,997	$ 46,933
Prepaid expenses and advances	194,027	34,181
Others	14,597	24,818
Total	$ 253,621	$ 105,932

NOTE 6 – ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payable consisted of the following:

	December 31, 2019 (Unaudited)	June 30, 2019
Deposit	$ -	$ 30,525
Salary and other payables	93,996	234,159
Total	$ 93,996	$ 264,684

NOTE 7 – ADVANCES FROM CUSTOMERS

On March 5, 2018, the Company entered into separate agreements with two sales agents. Pursuant to the agreements, the Company authorized the agents to market the Company's Safe Campus Management System. The term of the agreements is for five years and will expire on March 6, 2023 and July 1, 2023, respectively. In accordance with ASU 2016-08, Principal versus Agent Considerations (ASC 606), the Company determined that it was the principal in these two contracts and as such, the Company recorded the payments received from the two sales agents as advances. The Company will recognize revenue from these contracts as the sales agents sell the products and services to third parties.

As of December 31 and June 30, 2019, the Company recorded $1,300,638 and $1,318,897 of advances from the sales agents, respectively.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Company's President, Zhixin Liu, paid certain operating expenses on behalf of the Company. As of December 31 and June 30, 2019, the amounts due to the President were $0 and $86,733 respectively. These amounts were interest-free, unsecured and due on demand.

On January 1, 2016, the Company's President entered into a car rental agreement with the Company. Pursuant to the agreement, the Company rents a car from the Company's President for a monthly rent of approximately $707. The agreement expired on December 31, 2016. The agreement was renewed and the term was extended to December 31, 2020. The rent paid under this agreement was $2,121 and $2,205 for the three months ended December 31, 2019 and 2018, respectively. The rent paid under this agreement was $4,242 and $4,410 for the six months ended December 31, 2019 and 2018, respectively.

In April 2017, the Company's President entered into an apartment rental agreement with the Company. Pursuant to the agreement, the Company rents an apartment from the Company's President with an annual rent of approximately $2,828. The agreement was renewed and the term was extended to April 30, 2020. The rent paid under this agreement was $707 and $729 for the three months ended December, 2019 and 2018, respectively. The rent paid under this agreement was $1,414 and $1,458 for the six months ended December, 2019 and 2018, respectively.

On April 22, 2019, the Company borrowed RMB400,000 (or approximately $57,000) with no interest from the Company's President to pay operating expenses. The loan was repaid on July 8, 2019.

NOTE 9 – INCOME TAXES

The Company was incorporated in the United States of America, is subject to U.S. tax and plans to file U.S. federal income tax returns. The Company conducts all of its businesses through its subsidiaries and affiliated entities, principally in the PRC. No provision for US federal income tax was made for the three and six months ended December 31, 2018 as the US entity incurred losses. For the three and six months ended December 31, 2019, US entity had $52,522 and $125,395 of net loss.

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, 2019 and 2018 and therefore did not incur any Hong Kong Profits tax. Under the Corporate Income Tax Law of the PRC, the corporate income tax rate is 25%. The Company received a tax holiday with a 15% corporate income tax rate since it qualified as a high-tech company.

The Company has generated net operating losses ("NOL") of $751,032 and $379,712 during three months ended December 31, 2019 and 2018, respectively, $1,148,018 and $743,937 during six months ended December 31, 2019 and 2018, respectively. As of December 31, 2019, the Company has approximately $860,820 of NOL related to its PRC subsidiaries and VIEs that expire in years 2019 through 2023. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the Company's future generation of taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all the information available, management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance as of December 31, 2019 and 2018.

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the three and six months ended December 31, 2019 and 2018

	Three Months Ended December 31 (Unaudited),		Six Months Ended December 31 (Unaudited),	
	2019	2018	2019	2018
Statutory U.S. tax rate	21%	21%	21%	21%
Effect of PRC statutory tax rate	-6%	-6%	-6%	-6%
Valuation allowance	-15%	-15%	-15%	-15%
Effective tax rate	-	-	-	-

The provisions for income taxes is summarized as follows:

	Three Months Ended December 31 (Unaudited),		Six Months Ended December 31 (Unaudited),	
	2019	2018	2019	2018
Current	$ -	$ -	$ -	$ -
Deferred	131,109	208,007	179,726	200,000
Increase in valuation allowance	(131,109)	(208,007)	(179,726)	(200,000)
Provision for income tax	$ -	$ -	$ -	$ -

NOTE 9 – INCOME TAXES (Continued)

The Company's net deferred tax asset as of December 31, 2019 and June 30, 2019 is as follows:

	December 31, 2019 (Unaudited)	June 30, 2019
Deferred tax asset – net operating loss	$ 1,379,598	$ 1,199,872
Valuation allowance	(1,379,598)	(1,199,872)
Net deferred tax asset	$ -	$ -

The valuation allowance increased by $131,109 and $208,007 for the three months ended December 31, 2019 and 2018, respectively. The valuation allowance increased by $179,726 and $200,000 for the six months ended December 31, 2019 and 2018, respectively.

NOTE 10 – COMMIMENTS

Lease Agreement

On March 20, 2019, the Company entered into the one-year operating lease agreement for a senior management's dormitory. Pursuant to the lease agreement, the lease expires on March 22, 2020 and has a monthly rent of RMB 5,200 (or approximately $735). Future rental payment due under the lease is RMB 15,600 (or approximately $2,200).

On July 30, 2019, the Company entered into an operating lease agreement for its office in Beijing. Pursuant to the lease agreement, the lease will start on October 8, 2019 and expire on October 7, 2022 and has a monthly rent of RMB 225,923 (or approximately $32,000). The lease required a security deposit of three months' rent of RMB677,769 (or approximately $96,000) The Company will receive a six-month rent abatement. Future rental payment due under the lease is RMB6,099,918 (or approximately $863,000).

On July 30, 2019, the Company entered into a property service agreement for its office in Beijing. Pursuant to the property service agreement, the agreement commenced on August 9, 2019 and will expire on October 8, 2022, and has a quarterly fee of RMB 202,352 (or approximately $29,000). The deposit was RMB202,352 (or approximately $29,000). Future payment due under the agreement is RMB2,023,520 (or approximately $286,200).

The following table summarizes the impact of our operating leasing on our consolidated unaudited financial statements:

Consolidated statement of Operations

	Three Months Ended December 31, 2019 (Unaudited)	Six Months Ended December 31, 2019 (Unaudited)
Operating lease expense	$ 126,674	$ 147,958

Consolidated Balance Sheet

	December 31, 2019 (Unaudited)
Right-of-use assets	$ 1,114,892
Lease liabilities	$ 579,475
Lease liabilities-non current	$ 535,417
Weighted average remaining lease term	2.33 years
Weighted average discount rate	4.75%

NOTE 10 – COMMIMENTS (Continued)

Consolidated Statement of Cash Flows

	Six Months Ended December 31, 2019 (Unaudited)
Cash flow from operating activities	
Right-of-use assets recognized in exchange for operating lease liabilities	$ 1,097,886

The total future minimum lease payment and management fee as of December 31, 2019 are payable as follows:

Twelve months ending December 31,	Minimum Lease Payment
2020	$ 465,868
2021	485,669
2022	163,355
2023	-
2024	-
Thereafter	-
Total minimum payments required	$ 1,114,892

NOTE 11 – SUBSEQUENT EVENTS

The Company evaluated subsequent events and transactions that occurred after the balance sheet date up to the date that the financial statements were issued. Based upon this review, the Company did not identify any subsequent events that would have required adjustment or disclosure in the financial statements.

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

Cautionary Note Regarding 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 and generate revenue;
- uncertainties relating to general economic, political and business conditions in China;
- industry trends and 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 advertising model and related 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; and
- availability, terms and deployment of capital; relationships with third-party equipment suppliers;

Overview

We were 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 6,666,667 shares of common stock of the Company to Zhixin Liu, one of the owners of Shuhai Skill (HK) as defined below. On October 27, 2016, Mr. Sun sold his remaining 1,666,667 shares of common stock of the Company to Ms. Liu.

On October 29, 2015, Rose Rock Inc. 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 owned 100% of the ownership rights in Shuhai Skill (HK), transferred all of the issued and outstanding ordinary shares of Shuhai Skill (HK) to Rose Rock Inc. in exchange for the issuance of an aggregate of 6,666,667 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., a limited liability company incorporated under the laws of the PRC, to become our wholly-owned subsidiaries, and Shuhai Information Technology Co., Ltd., also a limited liability company incorporated under the laws of the PRC ("Shuhai Beijing"), to become our variable interest entity ("VIE") 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) and its consolidated subsidiaries and VIE.

Following the Share Exchange, the Shareholders, being Zhixin Liu and her father, Fu Liu, owned approximately 82% of the outstanding shares of common stock. As of October 29, 2015, there were 18,333,333 shares of common stock issued and outstanding, 15,000,000 of which were beneficially owned by Zhixin Liu and Fu Liu.

After the Share Exchange, we, through our consolidated subsidiaries and VIE, is engaged in the business of providing Internet security products and equipment, new media advertising, micro-marketing, and data analysis services in the PRCs.

On April 12, 2018, our board of directors and stockholders approved a one-for-three reverse stock split of our issued and outstanding shares of common stock, which became effective on May 1, 2018, decreasing the number of outstanding shares from 57,511,771 to 19,170,827. Subsequent to the split, the number of our outstanding shares increased from to 19,170,827 to 19,170,846 to accommodate certain shareholders' positions due to rounding elections payable at the beneficial owner level. Unless otherwise stated, all shares and per share amounts in this Report have been retroactively adjusted to give effect to this stock split.

On August 22, 2018, our board of directors and majority stockholders adopted our 2018 Equity Incentive Plan (the "2018 Plan") under which we may award up to a maximum of 4,000,000 shares of common stock to attract and retain personnel, provide additional incentives to employees, directors and consultants and promote the success of our business. No awards have been granted under the 2018 Plan as of the date of this Report, but our Board or a designated committee thereof will have the ability in its discretion from time to time to make awards under the 2018 Plan, including to our officers and directors.

On December 21, 2018, we successfully completed a registered, underwritten initial public offering and concurrent listing of our common stock on the NASDAQ Capital Market, which offering generated gross proceeds of $6.7 million before deducting underwriter's commissions and other offering costs, resulting in net proceeds of approximately $5.7 million, of which $1,000,000 was placed in an escrow account. $600,000 of the escrow fund was held and disbursed by the escrow agent pursuant to the terms and conditions of a certain Indemnification Escrow Agreement between us and the underwriter of the offering. $400,000 of the escrow fund was disbursed to us in February 2019 when the underwriter confirmed receipt of a written legal opinion from PRC legal counsel in connection with such offering. We sold 1,667,500 shares of common stock (including shares issued pursuant to the underwriter's over-allotment option) at an offering price of $4 per share. In connection with the offering, Our common stock began trading on the NASDAQ Capital Market beginning on December 19, 2018 under the symbol "DTSS."

In addition, we issued warrants to the representative of the underwriters to purchase 101,500 shares of common stock at an exercise price of $6.00 per share. These warrants may be purchased in cash or via cashless exercise, will be exercisable for five years from December 21, 2018 through December 17, 2023.

We believe that the increased demand for security equipment and related products in China presents an attractive opportunity for us to establish and grow its business in the next twelve months.

Recent Developments

On October 16, 2019, Shuahi Information Technology Co., Ltd. ("Shuhai Beijing"), our variable interest entity, incorporated a wholly owned subsidiary, Heilongjiang Xunrui Technology Co. Ltd., which is expected to focus on research and development of new technologies and products.

On December 3, 2019, Shuhai Beijing formed Nanjing Shuhai Equity Investment Fund Management Co. Ltd. ("Shuhai Nanjing"), a joint venture in PRC, in which Shuhai Beijing holds a 99% ownership interest with the remaining 1% ownership held by Nanjing Fanhan Zhineng Technology Institute Co. Ltd, an unrelated party that was supported by both Nanjing Municipal Government and Beijing University of Posts and Telecommunications. Shuhai Nanjing was formed for purposes of easy access of government funding and private financing in new technology development and project incubation.

In January 2020, as described below, to expeditiously establish new subsidiaries to further expand our business operation, we acquired ownerships in three entities for no consideration from our management who set up such entities on the Company's behalf.

On January 3, 2020, Shunhai Beijing entered into two equity transfer agreements (the "Transfer Agreements") with Zhixin Liu, President of the Company, and Fu Liu, a Director of the Company (Fu Liu is the father of Zhixin Liu). Pursuant to the Transfer Agreements, Fu Liu and Zhixin Liu, each agreed, for no consideration, to (i) transfer their 51% and 49% ownership interest, respectively, in Guozhong Times (Beijing) Technology Ltd. ("Guozhong Times") to Shunhai Beijing; and (ii) transfer their 51% and 49% ownership interest, respectively, in Guohao Century (Beijing) Technology Ltd. ("Guohao Century") to Shunhai Beijing.

On January 7, 2020, Shunhai Beijing entered into another equity transfer agreement with Zhixin Liu, Fu Liu and Ze Liu, who is an unrelated third party. Pursuant to this equity transfer agreement, Fu Liu, Zhixin Liu and Ze Liu each agreed to transfer their 51%, 16%, 33% ownership interests, respectively, in Guozhong Hoze (Beijing) Technology Ltd. ("Guozhong Hoze") to Shunhai Beijing for no consideration.

Guozhong Times was formed to focus on collaborating with third parties as a means of expanding our business. Guohao Century was formed to explore potential business targets that we could acquire to improve our business model and product offerings. Guozhong Hoze was formed to further develop and market our smart security system products.

Starting in December 2019, a strain of novel coronavirus causing respiratory illness emerged in the city of Wuhan in Hubei Province. The Chinese government has taken certain emergency measures to combat the spread of the virus, including extending the Chinese Lunar New Year holiday, postponing the spring semesters of schools and universities, and adopting transport restrictions in various areas. While we recently announced that we are seeking to modify our products and software to assist schools and communities in addressing the coronavirus outbreak, we may be unable to successfully do so. Moreover, a prolonged slowdown in the Chinese economy and our target markets as a result of the virus could have a material adverse effect on our business, including an inability to market and sell our products. As a consequence, we may be unable to generate revenue, could face shortfalls in liquidity and may be required to reduce or refocus our operations, which may raise substantial doubts about our ability to continue as a going concern.

Results of Operations

Three and six Months Ended December 31, 2019 and 2018

Revenue

We did not generate any revenue during three and six months ended December 31, 2019 and 2018.

Cost of Goods and Gross Profit

We recorded $194 and $0 of cost of goods sold and $194 and $0 of gross deficit for the three and six months ended December 31, 2019 and 2018, respectively.

Selling, General and Administrative Expenses:

Selling expenses were $58,146 and $71,973 for the three months December 31, 2019 and 2018, respectively. Selling expenses were $109,321 and $148,852 for the six months December 31, 2019 and 2018, respectively. The decrease in selling expenses was primarily attributed to a decrease in salary expenses.

General and administration expenses increased $362,575, or 131.6% from $275,582 during the three months ended December 31, 2018 to $638,157 during the same period in 2019. The increases were attributed to increases in rent expenses and approximately $285,000 of capitalized technology was expensed during three months ended December 31, 2019.

General and administration expenses increased $443,263, or 88.2% from $502,153 during the six months ended December 31, 2018 to $945,416 during the same period in 2019. The increases were attributed to increases in rent expenses, meal and entertainment and approximately $285,000 of capitalized technology was expensed during three months ended December 31, 2019.

We incurred research and development expenses of $69,158 and $120,365 during the three and six months ended December 31, 2019, respectively, comparing $41,114 and $103,885 during the same period in 2018. The increase was attributed to the increase in salary expense since we hired more staff in research and development department.

Net Loss

Due to our lack of recurring revenue, we generated net losses of $751,032 and $1,148,018 for the three and six months ended December 31, 2019, respectively, $379,712 and $743,937 for the same period in 2018.

Liquidity and Capital Resources

We have funded our operations to date primarily through the sale of our common stock and shareholder loans. During the six months period ended December 31, 2019, we paid $1.9 million to two third-party agencies for research and development of our new product, which reduced our liquidity position. However, based on our current cash level and management's forecast of operating cash flows, we believe we have sufficient resources to fund our operations through December 2020.

Our management recognizes that we must generate sales and additional cash resources in order for our Company to continue our operations. Based on increased demand for security services in China, our management believes in the potential for growth in our business. On December 18, 2018, we completed a registered underwritten common stock offering with net proceeds $5.7 million after deducting underwriter's commission and other offering costs, which will help our cash flow during fiscal 2020.

We expect to generate revenue through expanding our current Safe Campus business and through product innovation and development, which is expected to lead to the introduction of new products such as the scenic area and public community security products. If revenues are not generated or do not reach the level anticipated in the our plan, in order to maintain working capital sufficient to support our operations and finance the future growth of its business, we expect to fund any cash flow shortfall through financial support from our majority stockholders (who are also our board members or officers) and public or private issuance of securities. However, readers are cautioned that additional cash resources may not be available to us on desirable terms, or at all, if and when needed by us.

As of December 31, 2019, we had a working capital of $1,105,913. Our current assets on December 31, 2019 were $3,132,793 primarily consisting of cash of $2,804,740, inventory of $74,432 and prepaid expenses and other current assets of $253,621. Our current liabilities were primarily composed of accounts payable of $52,771, accrued expenses and other payables of $93,996, operating lease liabilities of $579,475 and advances from customer of $1,300,638.

As of June 30, 2019, we had a working capital of $4,568,461. Our current assets on June 30, 2019 were $6,251,863 primarily consisting of cash of $6,072,637, inventory of $73,294 and prepaid expenses and other current assets of $105,932. Our current liabilities were primarily composed of accounts payable of $13,088, accrued expenses and other payables of $264,684, loan payable to shareholder of $86,733 and advances from customer of $1,318,897.

Cash Flow from Operating Activities

Net cash used in operating activities was $1,572,243 during the six months ended December 31, 2019, which consisted of our net loss of $1,148,018, offset by depreciation and amortization of $13,186, a change of prepaid expenses and other current assets of $271,654, and a change of accrued expenses and other payables of $163,636.

Net cash used in operating activities was $794,846 during the six months ended December 31, 2018, which consisted of our net loss of $743,937, offset by depreciation and amortization of $19,319, a change of prepaid expenses and other current assets of $1,409, and a change of accrued expenses and other payables of $71,915.

Cash Flow from Investing Activities

Net cash used in investing activities totaled $1,608,538 for the six months ended December 31, 2019, which primarily related to cash paid for the acquisition of office furniture and equipment of $208,538, and for intangible assets of $1,400,000.

Cash used in investing activities totaled $30,337 for the six months ended December 31, 2018, which primarily related to cash paid for the acquisition of office furniture, equipment of $15,754 and for intangible assets of $14,583.

Cash Flow from Financing Activities

Net cash used in financing activities was $84,227 during the six months ended December 31, 2019, which primarily consisted of payment of a shareholder loan, net of $84,227.

Net cash provided by financing activities was $5,038,638 during the six months ended December 31, 2018, which primarily consisted of payment of a shareholder loan, net of $17,508, the net proceeds from issuance of our common stock of $307,724 and the net proceeds from sale of common stock $5,748,422, which is offset by $1,000,000 which was placed in escrow ($400,000 of which was released to us from escrow subsequent to December 31, 2018).

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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 us 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.

Upon the closing of our registered underwritten offering in December 2018, we appointed Jijin Zhang as our chief financial officer to lead our accounting and financial reporting effort. We also established an audit committee of our board of directors to oversee all aspects of our internal accounting control and corporate governance functions. In addition, we have adopted internal control policies, including but not limited to a cash flow control policy, review of the accounting professional's duties and responsibilities handbook, a travel allowance policy, a budget approval process, a reimbursement policy, a receivable policies, an asset control policy, an internal auditing policy and a cost accounting policy. Besides, we established an internal audit department led by the director of internal audit and a legal team to ensure proper compliance and risk management. We plan to take steps to enhance and improve the design of our internal controls over financial reporting. We expect to further implement the following measures in the fiscal year ending June 30, 2020 to remediate the material weaknesses identified, subject to obtaining additional financing, including: (i) appointing additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopting sufficient written policies and procedures for accounting and financial reporting. The remediation efforts set out above are largely dependent upon our generating more revenue to cover the costs of implementing the changes required.

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, 2019 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS.

Exhibit	Description
31.1*	Certification by Chief Executive Officer pursuant to Sarbanes Oxley Section 302
31.2*	Certification by 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.

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, 2020	By:	/s/ Zhixin Liu
	Name:	Zhixin Liu
	Title:	Chief Executive Officer *(principal executive officer)*
Date: February 14, 2020	By:	/s/ Jijin Zhang
	Name:	Jijin Zhang
	Title:	Chief Financial Officer *(principal accounting officer)*