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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 March 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.)
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 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 May 15, 2019, 20,943,846 shares of common stock, $0.001 par value per share, were outstanding.

DATASEA INC.

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PART I – FINANCIAL INFORMATION

DATASEA INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

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DATASEA INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2019	June 30, 2018
	(Unaudited)	
ASSETS		
Current Assets		
Cash	$ 5,341,969	$ 1,031,486
Inventory	74,983	75,910
Prepaid expenses and other current assets	114,491	127,880
Total Current Assets	5,531,443	1,235,276
Property and equipment, net	46,952	55,270
Intangible assets, net	58,486	13,887
Deferred registration costs	—	72,532
Escrow	600,000	—
Total Assets	$ 6,236,881	$ 1,376,965
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 13,389	$ 13,503
Accrued expenses and other payables	103,463	150,283
Loan payable-shareholder	11,174	27,058
Total Current Liabilities	128,026	190,844
Stockholders' Equity		
Common stock, $0.001 par value, 375,000,000 shares authorized, 20,943,846 and 19,170,846 shares issued and outstanding at March 31, 2019 and June 30, 2018, respectively	20,945	19,171
Additional paid-in capital	11,104,666	5,121,102
Accumulated comprehensive income	393,127	170,795
Deficit	(5,409,883)	(4,124,947)
Total Stockholders' Equity	6,108,855	1,186,121
Total Liabilities and Stockholders' Equity	$ 6,236,881	$ 1,376,965

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended		Nine Months Ended	
	March 31, 2019	March 31, 2018	March 31, 2019	March 31, 2018
Revenues	$ —	$ 6,468	$ —	$ 15,502
Cost of goods sold	—	70	—	91
Gross (deficit)profit	—	6,398	—	15,411
Operating expenses:				
Selling expenses	34,388	82,946	183,240	148,607
General and administrative expenses	510,983	290,560	1,013,136	891,335
R&D expenses	29,218	77,867	133,103	251,882
Total operating expenses:	574,589	451,373	1,329,479	1,291,824
Loss from operations	(574,589)	(444,975)	(1,329,479)	(1,276,413)
Other income :				
Other (expense) income, net	894	6,038	(2,571)	37,478
Interest income	32,696	—	47,114	—
Total other income(expense)	33,590	6,038	44,543	37,478
Net loss	(540,999)	(438,937)	(1,284,936)	(1,238,935)
Other comprehensive loss				
Foreign currency translation adjustment	198,209	55,862	222,332	311,020
Total comprehensive loss	$ (342,790)	$ (383,075)	$ (1,062,604)	$ (927,915)
Net loss per share				
Basic and diluted	$ (0.03)	$ (0.02)	$ (0.06)	$ (0.06)
Weighted average shares outstanding				
Basic and diluted	20,943,846	19,170,827	19,845,627	19,116,571

See accompanying notes to the condensed consolidated financial statements

DATASEA INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares	Par Value	Additional Paid in Capital	Deficit	Accumulated Other Comprehensive (Loss)Income	Total Stockholders' Equity
Balance at June 30, 2017	18,870,346	$ 18,870	$ 3,002,878	$ (2,520,806)	$ 57,692	$ 558,634
Issuance of common stock	300,500	301	2,118,224	—	—	2,118,525
Net loss	—	—	—	(1,604,141)	—	(1,604,141)
Foreign currency translation gain	—	—	—	—	113,103	113,103
Balance at June 30, 2018	19,170,846	19,171	5,121,102	(4,124,947)	170,795	1,186,121
Sale of common stock	105,500	106	307,340	—	—	307,446
Sale of common stock-offering	1,667,500	1,668	5,676,224	—	—	5,677,892
Net loss	—	—	—	(1,284,936)	—	(1,284,936)
Foreign currency translation gain	—	—	—	—	222,332	222,332
Balance at March 31, 2019 (Unaudited)	20,943,846	$ 20,945	$ 11,104,666	$ (5,409,883)	$ 393,127	$ 6,108,855

See accompanying notes to the condensed consolidated financial statements

DATASEA INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Cash flows from operating activities:		
Net loss	$ (1,284,936)	$ (1,238,935)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	28,285	22,655
Changes in current assets and current liabilities:		
Accounts receivable	—	229
Inventory	279	22,910
Prepaid expenses and other current assets	12,099	(65,303)
Accrued expenses and other payables	(44,790)	2,233
Net cash used in operating activities	(1,289,063)	(1,256,211)
Cash flows from investing activities:		
Acquisition of office equipment and intangible assets	(64,531)	(14,288)
Net cash used in investing activities	(64,531)	(14,288)
Cash flows from financing activities:		
Payment of loan payable - shareholder, net	(15,392)	(25,972)
Net proceeds from sale of common stock-offering	5,240,889	—
Deferred financing costs	—	(73,721)
Net proceeds from sale of common stock	308,858	1,419,686
Net cash provided by financing activities	5,534,355	1,319,993
Effect of exchange rate changes on cash	129,722	324,284
Net increase in cash	4,310,483	373,778
Cash – beginning of period	1,031,486	1,174,950
Cash – end of period	$ 5,341,969	$ 1,548,728
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ —	$ —
Cash paid for income tax	$ —	$ —

See accompanying notes to the condensed 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 of the Company, par value $0.001 per share (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.

After the Share Exchange, the Company, through its consolidated subsidiaries and VIE, is a technology company in the PRC engaged in the development of information technology ("IT") systems and network security solutions. The Company primarily focuses on IT systems security and leverages its proprietary technologies, intellectual property and market intelligence as it seeks to provide comprehensive and optimized security as well as new media advertising, micro-marketing, and data analysis solutions to its clients.

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 has generated no revenues during three and nine months ended March 31, 2019, has a deficit of approximately $5,410,000 at March 31, 2019, and continues to incur significant losses since inception. Management believes that these circumstances, among others, raise substantial doubt about the Company's ability to continue as a going concern. The 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 healthy growth in its business. On December 21, 2018, the company completed an underwritten initial public offering of Common Stock with net proceeds $5.2 million, after deducing placement agent' commissions and other offering costs and $600,000 of offering net proceeds held in escrow, which provides the Company with working capital for its operations for calendar year 2019. The Company plans to transfer the offering net proceeds to China during the fourth quarter of fiscal year 2018. The Company expects to generate its revenue through continuing establishment and ultimate potential expansion its business and product innovation and development. If revenue is not generated or does not reach the level anticipated in the Company's plans, in order to maintain working capital sufficient to support the Company's operation and finance the future growth of it business, the Company expects to fund any cash flow shortfall through financial support commitment from the Company's major stockholder and public or private issuance of securities. Additional cash resources may not be available to the Company on desirable terms, or at all, if and when needed by the Company, and if the Company is faced with a lack of financial resources, its prospects, business and results of operations will be adversely affected.

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 and its 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 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, 2018. The results for the three and nine months ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year ending June 30, 2019.

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. Accordingly, the results of Shuhai Beijing 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 3 — 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.

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.

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 March 31, 2019 and June 30, 2018, 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.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 March 31, 2019 and June 30, 2018**.**

DEFERRED REGISTRATION COSTS

The Company had capitalized certain legal, accounting and other third-party fees that are directly associated with in-process equity financings as deferred registration cost until such financings are consummated. After consummation of the Company's initial public offering on December 21, 2018, these costs were recorded in stockholders' equity as a reduction of additional paid-in capital generated as a result of the offering. The Company incurred and deferred registration costs of $72,532 as of June 30, 2018 that were subsequently reclassified to additional paid-in capital after the Company successfully completed its initial public offering.

ESCROW

Escrow represents cash held in an indemnification escrow account related to requirements of 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

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 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 that enhances disclosure requirements for fair value measures. The three levels are defined as follows:

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 cash, inventory, prepaid expenses and other current assets, accounts payable, accrued expenses and other payables, and loan payable-shareholder, approximate their fair values due to their short maturities.

As of March 31, 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.

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.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are expensed in the period when they are incurred. For the three months ended March 31, 2019 and 2018, the Company incurred research and development expenses of $29,218 and $77,867, respectively. For the nine months ended March 31, 2018 and 2017, the Company incurred research and development expenses of $133,103 and $251,882, 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 (or approximately $73,238) 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.

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

	March 31,	
	2019	**2018**
Period end USD:RMB exchange rate	6.7121	6.2802
Average USD:RMB exchange rate	6.8271	6.5480

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 asset 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. With a twelve-month or less initial 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. In transition, this update will be effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not currently expect the adoption of ASU 2016-02 to have a material impact on the Company's financial statements unless it enters into a new long-term lease.

In September 2017, the FASB issued ASU 2017-13, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842). The main objective of this pronouncement is to clarify the effective date of the adoption of ASC Topic 606 and ASC Topic 842 and the definition of public business entity as stipulated in ASU 2014-09 and ASU 2016-02. ASU 2014-09 provides that a public business entity and certain other specified entities adopt ASC Topic 606 for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities are required to adopt ASC Topic 606 for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. ASU 2016-12 requires that "a public business entity and certain other specified entities adopt ASC Topic 842 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. All other entities are required to adopt ASC Topic 842 for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 ASU 2017-13 clarifies that the SEC would not object to certain public business entities electing to use the non-public business entities effective dates for applying ASC 606 and ASC 842. ASU 2017-13, however, limits such election to certain public business entities that "otherwise would not meet the definition of a public business entity except for a requirement to include or inclusion of its financial statements or financial information in another entity's filings with the SEC".

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. The amendments in this update address diversity in practice that exists in the classification and presentation of changes in restricted cash and require that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for the Company beginning July1, 2019 and is required to be applied using a retrospective transition method to each period presented. The Company does not expect the adoption of the amendment in this ASU to have a significant impact on the Company's condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for the Company for its fiscal year beginning July 1, 2019. The Company does not expect the adoption of the amendment in this ASU to have a significant impact on the Company's condensed consolidated financial statements.

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 unaudited condensed consolidated financial statements.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	March 31, 2019 (Unaudited)	**June 30, 2018**
Office furniture and fixtures	$ 57,807	$ 71,027
Vehicle	2,980	3,005
Office equipment	81,576	52,036
Subtotal	142,363	126,068
Less: accumulated depreciation	95,411	70,798
Total	$ 46,952	$ 55,270

Depreciation expense for the three months ended March 31, 2019 and 2018 was $7,156 and $7,748 respectively. Depreciation expense for the nine months ended March 31, 2019 and 2018 was $24,787 and $21,386 respectively.

NOTE 5 –INTANGIBLE ASSETS

Intangible assets are summarized as follows:

	March 31, 2019 (Unaudited)	June 30, 2018
Software registration right	$ 38,715	$ 4,929
Patent	15,639	1,203
Value-added telecommunications business license	11,947	12,049
Subtotal	66,301	18,181
Less: Accumulated amortization	7,815	4,294
Total	$ 58,486	$ 13,887

Amortization expense for the three months ended March 31, 2019 and 2018 were $1,880 and $434, respectively.

Amortization expense for the nine months ended March 31, 2019 and 2018 were $3,498 and $1,268 respectively

NOTE 6 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	March 31, 2019 (Unaudited)	June 30, 2018
Security deposit	$ 47,240	$ 55,156
Prepaid expenses and advances	53,911	65,769
Others	13,340	6,955
Total	$ 114,491	$ 127,880

NOTE 7 – ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payable consisted of the following:

	March 31, 2019 (Unaudited)	June 30, 2018
Deposit	$ 31,227	$ 31,493
Salary and other payables	69,256	115,785
Advances from customers	2,980	3,005
Total	$ 103,463	$ 150,283

NOTE 8 – RELATED PARTY TRANSACTIONS

The Company’s President, Zhixin Liu, has paid certain operating expenses on behalf of the Company. As of March 31, 2019 and June 30, 2018, the amounts due to the President were $11,174 and $27,058, respectively. These amounts are interest-free, unsecured and due on demand. The Company has not received any demand for payment.

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 $750. The agreement was renewed and expires on December 31, 2020.

The rent paid under this agreement was $2,197 and $2,291 for the three months ended March 31, 2019 and 2018, respectively. The rent paid under this agreement was $6,591 and $6,872 for the nine months ended March 31, 2019 and 2018, respectively.

On November 11, 2017, the Company bought a used car for $2,916 from Harbin Jinfenglvyuan Biotechnology Co., Ltd, a related entity owned by Mr. Fu Liu, a director and significant shareholder of the Company.

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 $2,930. The agreement was renewed and the term was extended to April 30, 2020. Rent expense for the three and nine months ended March 31, 2019 was $733 and $2,197, respectively. Rent expense for the three and nine months ended March 31, 2018 was $764 and $2,290, respectively.

In March and April 2018, the Company entered into six membership service agreements with five entities and one individual, three of which are stockholders of the Company, and eleven agency agreements with eleven individuals, nine of which are stockholders of the Company. Pursuant to the membership service agreements, the Company offers member management services through the Company's Xin Platform APP and charges the entering parties a service fee of RMB1,000 (approximately $150) per member. Pursuant to the agency agreements, the agents are authorized as agents to market Xin Platform APP in specific areas of China. Each agent is required to pay a Xin Platform APP usage fee of $750 and deposit $750 in financial products offered by China Minsheng Bank via the Xin Platform APP. Each agent will receive $8 for each customer that applies for a credit card of China Minsheng Bank via the Xin Platform APP. This project was suspended due to the change of product policy with China Minsheng Bank.

NOTE 9 – COMMON STOCK

On May 1, 2018, the Company affected the 1 for 3 reverse stock split of the Company's issued and outstanding Common Stock, decreasing the number of outstanding shares from 57,511,771 to 19,170,846 These financial statements have been retroactively adjusted to reflect this reverse split.

On August 22, 2018, the Company's Board of Directors and majority stockholders adopted the 2018 Equity Incentive Plan (the "2018 Plan") for the Company to award up to a maximum of 4,000,000 shares of its Common Stock, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of its business. No awards have been granted under the 2018 Plan as of the date of this report, but the Company's Board of Directors 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 its officers and directors of the Company.

During September, 2018, the Company sold 84,000 shares of Common Stock to third party investors at RMB 20 (approximately $2.94) per share and received proceeds of RMB 1,680,000 (approximately $244,666).

During November, 2018, the Company sold 21,500 shares of Common Stock to third party investors at $2.92 per share and received proceeds of $62,780.

On December 21, 2018, the Company successfully completed a registered, underwritten initial public offering and concurrent listing of the Company's 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 the Company and the underwriter of the offering. $400,000 of the escrow fund was disbursed to the Company in February 2019when the underwriter confirmed receipt of a written legal opinion from PRC legal counsel in connection with such offering. The Company 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, the Company's Common Stock began trading on the NASDAQ Capital Market beginning on December 19, 2018 under the symbol "DTSS."

In addition, the Company has agreed to issue warrants to the representative of the underwriters to purchase 101,500 shares of Common Stock at an exercise price of $6. These warrants may be purchased in cash or via cashless exercise, will be exercisable for five years from the effective date of the Registration Statement for the offering and will terminate on the fifth anniversary of such effective date.

NOTE 10 – 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 nine months ended March 31, 2019 and 2018 as the US entity incurred losses.

The Company's offshore subsidiary, Shuhai Skill (HK), did not earn any income that was derived in Hong Kong for the nine months ended March 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 had net operating losses ("NOL") of $540,999 and $438,937 during three months ended March 31, 2019 and 2018, respectively, $1,284,936 and $1,238,935 during nine months ended March 31, 2019 and 2018 respectively. Management believes that it is more likely than not that the benefit from the NOL carryforwards will not be realized. In recognition of this risk, the Company has provided a 100% valuation as of March 31, 2019 and 2018 and no deferred tax asset has been recorded.

The provisions for income taxes is summarized as follows:

	Nine months ended March 31, 2019 (Unaudited)	Nine months ended March 31, 2018 (Unaudited)
Current	$ —	$ —
Deferred	321,234	309,734
Increase in valuation allowance	(321,234)	(309,734)
Total	$ —	$ —

	Three months ended March 31, 2019 (Unaudited)	Three months ended March 31, 2018 (Unaudited)
Current	$ —	$ —
Deferred	135,250	109,734
Increase in valuation allowance	(135,250)	(109,734)
Total	$ —	$ —

The Company's net deferred tax asset as of March 31, 2019 and June 30, 2018 is as follows:

	March 31, 2019 (Unaudited)	June 30, 2018
Deferred tax asset – Net Operating Loss	$ 1,307,329	$ 986,095
Valuation allowance	(1,307,329)	(986,095)
Net deferred tax asset	$ —	$ —

NOTE 11 – COMMIMENTS

Lease Agreement

In December 2017, the Company renewed the one-year operating lease agreement for its office in Beijing. The lease has a monthly rent of RMB 35,192 (or approximately $5,000). The lease was renewed and extended to August 31, 2019. Future rental payment due under the lease is RMB 175,960(or approximately $26,000).

Rent expense for the three months ended March 31, 2019 and 2018 was $19,635 and $19,963 respectively. Rent expense for the nine months ended March 31, 2019 and 2018 was $61,834 and $60,906, respectively.

In December 2017, the Company renewed the one-year office property management contract. The contract will expire on February 28, 2019 and has a monthly management fee of RMB 70,384 (or approximately $10,000). The lease was renewed and extended to August 31, 2019. Future management fee due under the contract is RMB351,920 (or approximately $52,000).

On March 20, 2019, the Company entered into an one-year operating lease agreement for renting an apartment for a senior manager. Pursuant to the lease agreement, the lease will expire in March 2020 and has monthly rent of RMB 5,200 (or approximately $760). Future rental payment due under the lease is RMB60,861 (or approximately $8,900). The Company should pay the commission of RMB 4,550 (or approximately $670).

On April 19, 2018, the Company renewed the one-year operating lease for the office rented in Beijing, China for Ms. Zhixin Liu, President of the Company. The lease has a monthly rent of RMB9,500 (or approximately $1,392). Rent expense for the three months ended March 31, 2019 and 2018 was $4,175 and $4,352, respectively. Rent expense for the nine months ended March 31, 2019 and 2018 was $12,524 and $13,057, respectively. The lease was renewed on April 20, 2019 and will expire in October 2019 with a monthly rent of RMB10,500 (or approximately $1,538). Future rental payment due under the lease is RMB73,500 (or approximately $10,766).

NOTE 12 – SUBSEQUENT EVENTS

The Company has reviewed its subsequent events through May 15, 2019, the date these financial statements were issued and has determined that no material subsequent events have occurred that require recognition in or disclosure to 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 (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 owned 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.

After the Share Exchange, the Company, through its consolidated subsidiaries and VIE, is a technology company in the PRC engaged in the development of information technology (“IT”) systems and network security solutions. The Company primarily focuses on IT systems security and leverages its proprietary technologies, intellectual property and market intelligence as it seeks to provide comprehensive and optimized security as well as new media advertising, micro-marketing, and data analysis solutions to its clients

On March 15, 2018, we entered into a banking services direct sales cooperation agreement (the “Minsheng Agreement”) with China Minsheng Banking Co., Ltd, Tianjin Branch (“China Minsheng Bank”). Pursuant to the Minsheng Agreement, we establish a portal on our “Xin Platform” through which the platform users may purchase financial products offered by China Minsheng Bank. In consideration, China Minsheng Bank agreed to pay us service fees based on the amount of the financial products the platform users purchase and hold. For each specific product, the service fee will be calculated according to the following formula: T-days service fee = annual rate (0.12%) × the amount of the financial products the platform users maintain as of day (T-1) × net value of the financial product ÷ 365

The Minsheng Agreement has a term of two years and will be automatically extended one more year if neither party terminates the Minsheng Agreement within the last month of the initial two-year term.

In March and April 2018, we entered into six membership service agreements with five entities and one individual, three of which are stockholders of our company, and eleven agency agreements with eleven individuals, nine of which are stockholders of our company. Pursuant to the membership service agreements, we offer member management services through our Xin Platform APP and charge the entering parties a service fee of RMB1,000 (approximately $150) per member. Pursuant to the agency agreements, the agents are authorized as agents to market our Xin Platform APP in specific areas of China. Each agent is required to pay a Xin Platform APP usage fee of $750 and deposit $750 in financial products offered by China Minsheng Bank via the Xin Platform APP. Each agent will receive $8 for each customer that applies for a credit card of China Minsheng Bank via the Xin Platform APP. As of the date of this report, this project was suspended due to the change of product policy with China Minsheng Bank.

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 19,170,846. 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 the Company’s 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 public offering of our shares with gross proceeds of $6.7 million before deducting underwriter's commission and other offering costs, resulting in net proceeds to us of approximately $5.7 million, of which $1,000,000 was placed in an escrow account. $600,000 of the escrowed funds to be held and disbursed by the escrow agent pursuant to the terms and conditions of certain indemnification escrow agreement. $400,000 of the escrowed fund were disbursed in February 2019 following the underwriter's confirmation of receipt of a written legal opinion from PRC legal counsel. We sold 1,667, 500 shares of Common Stock (including exercise of the underwriter's over-allotment option) with an offering price of $4 per share. In connection with the offering, the Company's Common Stock began trading on the NASDAQ Capital Market beginning on December 19, 2018 under the symbol "DTSS."

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

Results of Operations

Three and Nine Months Ended March 31, 2019 and 2018

Revenue

We did not generate any revenue during three and nine months ended March 31, 2019, as compared to $6,468 and $15,502 of revenue from the services rendered under a government procurement contract with the Bureau of Public Security of Daqing City in Heilongjiang Province, China for the three and nine months ended March 31, 2018. During 2017, we suspended our marketing efforts on the cybersecurity program in order to focus our resources on the "Safe Campus" and "Smart Elevator" programs. The "Smart Elevator" program is still in the research and development stage. We expect to generate the revenue from "Safe Campus" program during 2019.

Cost of Goods and Gross Profit

We recorded $70 and $91 of cost of goods sold and $6,398 and $15,411 of gross profit for the three and nine months ended March 31, 2018.

Selling, General and Administrative Expenses:

Selling expenses were $34,388 and $82,946 for the three months ended March 31, 2019 and 2018, respectively. Selling expenses were $183,240 and $148,607 for the nine months ended March 31, 2019 and 2018, respectively. The increase in selling expense for the nine-month ended March 31, 2019 was primarily due to increase in salaries since we hired more employees to commerce marketing the Company's Safe Campus products.

For the three months ended March 31, 2019 and 2018, general and administrative expenses were $510,983 and $290,560, respectively. For the nine months ended March 31, 2019 and 2018, general and administrative expenses were $1,013,136 and $891,335, respectively. The increase in general administrative expenses was primarily due to the increase in professional fees, marketing expenses and salary expense.

We incurred research and development expenses of $29,218 and $77,867 during three months ended March 31, 2019 and 2018, respectively. We incurred research and development expenses of $133,103 and $251,882 during nine months ended March 31, 2019 and 2018. Research and development expenses are mainly related to our "Safe Campus" and "Smart Elevator" programs.

Net Loss

Due to our lack of revenue, we generated net losses of $540,999 and $438,937 for the three months ended March 31, 2019 and 2018, respectively, and we generated net losses of $1,284,936 and $1,238,935 for the nine months ended March 31, 2019 and 2018, respectively.

Liquidity and Capital Resources

We have funded our operations to date primarily through the sale of our Common Stock and shareholder loans. 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 March 2020.

Our management recognizes that we must generate sales and additional cash resources to enable us to continue to develop and grow our operations. Based on increased demand for internet services in China, including internet security and big data integration, our management team expects growth in our business. On December 18, 2018, we completed a registered, underwritten Common Stock offering with net proceeds $5.7 million after deducing the underwriter's commission and other offering costs, which will help our cash flow during 2019.

While we did not generate revenue during the quarter ended March 31, 2019, we seek to generate revenues through product innovation and development. If revenues are not generated or do not reach the level anticipated in our plan, we expect to fund any cash flow shortfall through financial support from our majority stockholders (who are also our board members and/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. If we are faced with a lack of financial resources, our business, prospects and results of operations will be adversely affected.

As of March 31, 2019, we had a working capital of $5,403,418. Our current assets on March 31, 2019 were $5,531,443 primarily consisting of cash of $5,341,969, inventory of $74,983 and prepaid expenses and other current assets of $114,491. Our current liabilities were primarily composed of accounts payable of $13,389, accrued expenses and other payables of 103,462 and a loan payable to a shareholder of $11,174.

As of June 30, 2018, we had a working capital of $1,044,432. Our current assets on June 30, 2018 were $1,235,276 primarily consisting of cash of $1,031,486, inventory of $75,910 and prepaid expenses and other current assets of $127,880. Our current liabilities were primarily composed of accounts payable of $13,503, accrued expenses and other payables of $150,283 and loans payable to a shareholder of $27,058.

Cash Flow from Operating Activities

Net cash used in operating activities was $1,289,063 during the nine months ended March 31, 2019, which consisted of our net loss of $1,284,936, offset by depreciation and amortization of $28,285, a change of prepaid expenses and other current assets of $12,099, and a change of accrued expenses and other payables of $44,790.

Net cash used in operating activities was $1,256,211during the nine months ended March 31, 2018, which consisted of our net loss of $1,238,935, offset by depreciation and amortization of $22,655, a change of accounts receivable of $229, a change of inventory of $22,910, a change of prepaid expenses and other current assets of $65,303, and a change of accrued expenses and other payables of $2,233.

Cash Flow from Investing Activities

Net cash used in investing activities totaled $64,531 for the nine months ended March 31, 2019, which primarily related to cash paid for the acquisition of office furniture, equipment and patents.

Net cash used in investing activities totaled $14,288 for the nine months ended March 31, 2018, which primarily related to cash paid for the acquisition of office furniture and equipment.

Cash Flow from Financing Activities

Net cash provided by financing activities was $5,534,355 during the nine months ended March 31, 2019, which primarily consisted of payment of a shareholder loan, net of $15,392, the net proceeds from issuance of our Common Stock of $308,858 and the net proceeds from our public offering of $5,840,889, which is offset by $600,000 which is currently held in escrow.

Net cash provided by financing activities was $1,319,993 during the nine months ended March 31, 2018, which primarily consisted of payment of related party loans, net of $25,972, the net proceeds from sales of our Common Stock of $2,118,525 offset by advance for sale of Common Stock of 698,839 given in the previous period and deferred registration cost of $73,721.

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 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.

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. 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, 2019 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 March 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 pursuant to 18 U.S.C. Section 1350
32.2**	Certification by 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.

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: May 15, 2019	By: /s/ Zhixin Liu
	Name: Zhixin Liu
	Title: Chief Executive Officer *(principal executive officer)*
Date: May 15, 2019	By: /s/ Jijin Zhang
	Name: Jijin Zhang
	Title: Chief Financial Officer *(principal accounting officer)*